

Great Lakes Dredge & Dock CORP  
Form 10-Q  
August 05, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 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: 001-33225

**Great Lakes Dredge & Dock Corporation**

(Exact name of registrant as specified in its charter)

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>20-5336063</b> (I.R.S. Employer Identification No.)
<b>2122 York Road, Oak Brook, IL</b> (Address of principal executive offices)	<b>60523</b> (Zip Code)
<b>(630) 574-3000</b> (Registrant's telephone number, including area code)	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 August 1, 2011, 58,915,249 shares of the Registrant's Common Stock, par value \$.0001 per share, were outstanding.

**Table of Contents**

**Great Lakes Dredge & Dock Corporation and Subsidiaries**

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

**Securities Exchange Act of 1934**

**For the Quarterly Period ended June 30, 2011**

**INDEX**

	<b>Page</b>
<b>Part I Financial Information (Unaudited)</b>	
Item 1 Financial Statements	
<u>Condensed Consolidated Balance Sheets at June 30, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months and Six Months ended June 30, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Equity for the Six Months ended June 30, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months ended June 30, 2011 and 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4 <u>Controls and Procedures</u>	29
<b>Part II Other Information</b>	
Item 1 <u>Legal Proceedings</u>	30
Item 1A <u>Risk Factors</u>	30
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3 <u>Defaults Upon Senior Securities</u>	30
Item 4 <u>Reserved</u>	30
Item 5 <u>Other Information</u>	30
Item 6 <u>Exhibits</u>	30
<b><u>Signature</u></b>	31
<b><u>Exhibit Index</u></b>	32

**Table of Contents****GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(Unaudited)****(in thousands, except share and per share amounts)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 95,997	\$ 48,478
Accounts receivable net	108,152	95,548
Contract revenues in excess of billings	27,120	24,842
Inventories	31,464	31,734
Prepaid expenses	2,787	3,448
Other current assets	30,580	18,919
<b>Total current assets</b>	<b>296,100</b>	<b>222,969</b>
PROPERTY AND EQUIPMENT Net	309,296	323,231
GOODWILL	98,049	98,049
OTHER INTANGIBLE ASSETS Net	1,987	3,280
INVENTORIES Noncurrent	27,760	27,128
INVESTMENTS IN JOINT VENTURES	6,615	7,329
OTHER	17,527	11,839
<b>TOTAL</b>	<b>\$ 757,334</b>	<b>\$ 693,825</b>
<b>LIABILITIES AND EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 70,237	\$ 82,721
Accrued expenses	33,911	32,809
Billings in excess of contract revenues	12,319	14,484
Current portion of note payable	2,500	2,500
Current portion of equipment debt	111	303
<b>Total current liabilities</b>	<b>119,078</b>	<b>132,817</b>
LONG TERM NOTE PAYABLE	5,000	5,000
7 3/8% SENIOR NOTES	250,000	
7 3/4% SENIOR SUBORDINATED NOTES		175,000
DEFERRED INCOME TAXES	92,239	92,466
OTHER	9,516	11,717
<b>Total liabilities</b>	<b>475,833</b>	<b>417,000</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>		
EQUITY:		

**COMMITMENTS AND CONTINGENCIES (Note 9)**

EQUITY:

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

Common stock \$.0001 par value; 90,000,000 authorized, 58,915,249 and 58,770,369 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively.	6	6
Additional paid-in capital	266,961	266,329
Accumulated earnings	14,112	12,261
Accumulated other comprehensive income	109	357
Total Great Lakes Dredge & Dock Corporation Equity	281,188	278,953
NONCONTROLLING INTERESTS	313	(2,128)
Total equity	281,501	276,825
TOTAL	\$ 757,334	\$ 693,825

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****Great Lakes Dredge & Dock Corporation and Subsidiaries****Condensed Consolidated Statements of Operations****(Unaudited)****(in thousands, except per share data)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Contract revenues	\$ 154,959	\$ 180,135	\$ 310,297	\$ 341,535
Costs of contract revenues	135,193	145,546	263,089	276,462
Gross profit	19,766	34,589	47,208	65,073
General and administrative expenses	13,622	14,374	25,711	25,444
Gain on sale of assets, net	(2,513)		(2,771)	
Operating income	8,657	20,215	24,268	39,629
Interest expense, net	(4,911)	(2,995)	(10,861)	(6,215)
Equity in loss of joint ventures	(123)	(131)	(714)	(853)
Loss on extinguishment of debt			(5,145)	
Income before income taxes	3,623	17,089	7,548	32,561
Income tax provision	(1,455)	(6,755)	(2,982)	(12,994)
Net income	2,168	10,334	4,566	19,567
Net (income) loss attributable to noncontrolling interests	(462)	474	(468)	567
Net income attributable to Great Lakes Dredge & Dock Corporation	\$ 1,706	\$ 10,808	\$ 4,098	\$ 20,134
Basic earnings per share attributable to Great Lakes Dredge & Dock Corporation	\$ 0.03	\$ 0.18	\$ 0.07	\$ 0.34
Basic weighted average shares	58,875	58,602	58,830	58,575
Diluted earnings per share attributable to Great Lakes Dredge & Dock Corporation	\$ 0.03	\$ 0.18	\$ 0.07	\$ 0.34
Diluted weighted average shares	59,184	58,781	59,228	58,748
Dividends declared per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.03

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****Great Lakes Dredge & Dock Corporation and Subsidiaries****Condensed Consolidated Statements of Equity****(Unaudited)****(in thousands, except share amounts)**

		Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
BALANCE	January 1, 2011	58,770,369	\$ 6	\$ 266,329	\$ 12,261	\$ 357	\$ (2,128)	\$ 276,825
Share-based compensation		57,215		843				843
Vesting of restricted stock units, including impact of shares withheld for taxes		81,387		(250)				(250)
Exercise of stock options		6,278		27				27
Excess income tax benefit from share based compensation				52				52
Acquisition of noncontrolling interest in NASDI, LLC				(40)			1,973	1,933
Dividends declared and paid					(2,236)			(2,236)
Dividend equivalents paid on restricted stock units					(11)			(11)
Comprehensive income (loss):								
Net income					4,098		468	4,566
Reclassification of derivative gains to earnings (net of tax of \$709)						(1,067)		(1,067)
Change in fair value of derivatives (net of tax of \$544)						819		819
<b>Total comprehensive income</b>							468	4,318
BALANCE	June 30, 2011	58,915,249	\$ 6	\$ 266,961	\$ 14,112	\$ 109	\$ 313	\$ 281,501

		Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
BALANCE	January 1, 2010	58,542,038	\$ 6	\$ 263,579	\$ (18,336)	\$ 539	\$ (1,239)	\$ 244,549
Share-based compensation		33,480		861				861
Vesting of restricted stock units, including impact of shares withheld for taxes		13,202						
Exercise of stock options		83,236		414				414
Dividends declared and paid					(1,992)			(1,992)
Dividend equivalents paid on restricted stock units					(12)			(12)
Comprehensive income (loss):								

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

Net income (loss)			20,134			(567)		19,567
Reclassification of derivative gains to earnings (net of tax of \$143)					(216)			(216)
Change in fair value of derivatives (net of tax of \$239)					(359)			(359)
<b>Total comprehensive income (loss)</b>						<b>(567)</b>		<b>18,992</b>
<b>BALANCE June 30, 2010</b>		58,671,956	\$ 6	\$ 264,854	\$ (206)	\$ (36)	\$ (1,806)	\$ 262,812

See notes to unaudited condensed consolidated financial statements.



**Table of Contents****Great Lakes Dredge & Dock Corporation and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 4,566	\$ 19,567
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	18,804	17,993
Equity in loss of joint ventures	714	853
Loss on extinguishment of 7 3/4% senior subordinated notes	5,145	
Deferred income taxes	1,010	(2,958)
Gain on dispositions of property and equipment	(2,771)	(255)
Amortization of deferred financing fees	775	803
Share-based compensation expense	843	861
Excess income tax benefit from share based compensation	(52)	
Changes in assets and liabilities:		
Accounts receivable	(13,025)	18,934
Contract revenues in excess of billings	(2,278)	14,867
Inventories	(362)	1,823
Prepaid expenses and other current assets	(12,432)	2,093
Accounts payable and accrued expenses	(5,523)	577
Billings in excess of contract revenues	(2,165)	2,189
Other noncurrent assets and liabilities	(3,694)	(1,702)
Net cash flows provided by (used in) operating activities	(10,445)	75,645
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(13,583)	(12,973)
Proceeds from dispositions of property and equipment	7,275	210
Net cash flows used in investing activities	(6,308)	(12,763)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of 7 3/8% senior notes	250,000	
Redemption of 7 3/4% senior subordinated notes	(175,000)	
Senior subordinated notes redemption premium	(2,264)	
Deferred financing fees	(5,829)	
Dividends paid	(2,236)	(1,992)
Dividend equivalents paid on restricted stock units	(11)	(12)
Taxes paid on vested share awards	(250)	
Repayments of equipment debt	(217)	(740)
Exercise of stock options	27	414
Excess income tax benefit from share-based compensation	52	
Borrowings under revolving loans		14,968
Repayments of revolving loans		(25,968)
Net cash flows provided by (used in) financing activities	64,272	(13,330)

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

Net change in cash and cash equivalents	47,519	49,552
Cash and cash equivalents at beginning of period	48,478	3,250
Cash and cash equivalents at end of period	\$ 95,997	\$ 52,802
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 2,728	\$ 6,747
Cash paid for income taxes	\$ 5,155	\$ 8,431
<b>Non-cash Investing Activity</b>		
Property and equipment purchased but not yet paid	\$ 4,303	\$ 1,444
Property and equipment purchased on equipment notes	\$	\$ 32
Acquisition of noncontrolling interest in NASDI, LLC	\$ 40	\$

See notes to unaudited condensed consolidated financial statements.

---

**Table of Contents**

**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**1. Basis of presentation**

The unaudited condensed consolidated financial statements and notes herein should be read in conjunction with the audited consolidated financial statements of Great Lakes Dredge & Dock Corporation and Subsidiaries (the Company or Great Lakes ) and the notes thereto, included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2010. The condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) have been condensed or omitted pursuant to the SEC's rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management, all adjustments, which are of a normal and recurring nature (except as otherwise noted), that are necessary to present fairly the Company's financial position as of June 30, 2011, its results of operations for the three and six months ended June 30, 2011 and 2010 and its cash flows for the six months ended June 30, 2011 and 2010 have been included.

The components of costs of contract revenues include labor, equipment (including depreciation, maintenance, insurance and long-term rentals), subcontracts, fuel and project overhead. Hourly labor is generally hired on a project-by-project basis. Costs of contract revenues vary significantly depending on the type and location of work performed and assets utilized. Generally, capital projects have the highest margins due to the complexity of the projects, while beach nourishment projects have the most volatile margins because they are most often exposed to variability in weather conditions. The Company has reclassified certain of its gains, net of losses, on the sale of assets during the first quarter of 2011, of \$258, from costs of contract revenues to gain on sale of assets, net within the consolidated statement of operations to conform to the current year presentation. In the prior year gains, net of losses, on the sale of assets included in costs of contract revenues were \$62 and \$236 for the three and six months ended June 30, 2010.

The Company's cost structure includes significant annual equipment-related costs, including depreciation, maintenance, insurance and long-term rentals. These costs have averaged approximately 21% to 22% of total costs of contract revenues over the last three years. During the year, both equipment utilization and the timing of fixed cost expenditures fluctuate significantly. Accordingly, the Company allocates these fixed equipment costs to interim periods in proportion to revenues recognized over the year to better match revenues and expenses. Specifically, at each interim reporting date the Company compares actual revenues earned to date on its dredging contracts to expected annual revenues and recognizes equipment costs on the same proportionate basis. In the fourth quarter, any over and under allocated equipment costs are recognized such that the expense for the year equals actual equipment costs incurred during the year.

The Company operates in two reportable segments: dredging and demolition. These reportable segments are the Company's operating segments and the reporting units at which the Company tests goodwill for impairment. The Company performed its most recent annual test of impairment as of July 1, 2010 for the goodwill in both the dredging and demolition segments with no indication of goodwill impairment as of the test date. As of the test date, the fair value of both the dredging segment and the demolition segment were in excess of their carrying values by approximately 25%. The decline in the operating results and related cash flow forecasts in the demolition segment during the past year has likely reduced the amount by which the estimated fair value of the demolition segment exceeds the carrying value of the demolition segment's assets. A more than insignificant decline in the demolition segment's future operating results or cash flow forecasts versus the segment's current forecasts could potentially trigger a goodwill impairment charge in a future period. No test was performed in the first six months of 2011 because no triggering event occurred that would require a test to be performed. The Company will perform its next scheduled annual test of goodwill in the third quarter of 2011.

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

***Future adoption of accounting standards***

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

In May 2011, the Financial Accounting Standards Board ( FASB ) issued an amendment to their accounting guidance to clarify existing standards and to improve comparability of fair value measurements disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards ( IFRS ). The amendment clarifies the FASB s intent as it relates to existing measurement guidance and revises some requirements for measuring or disclosing information about fair value measurements. The amendment will be effective for Great Lakes on January 1, 2012 and is not expected to have a significant impact our consolidated financial statements.

In June 2011, the FASB issued an amendment to their accounting guidance that requires presentation of net income and total comprehensive income, together with their components, either in a single continuous statement or in two separate but consecutive statements. The amendment does not alter any current recognition or measurement requirements in respect of items of other comprehensive income. When adopted, Great Lakes will cease to present the components of other comprehensive income within the statements of equity. The amendment will be effective for Great Lakes on January 1, 2012, with early adoption permitted.

**Table of Contents****2. Earnings per share**

Basic earnings per share is computed by dividing net income attributable to Great Lakes Dredge & Dock Corporation by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. At June 30, 2011 and 2010, the impact of options to purchase shares of common stock was dilutive and, accordingly, no options are excluded from the calculation of diluted earnings per share based on the application of the treasury stock method. In addition, the impact of restricted stock units was dilutive. The computations for basic and diluted earnings per share from continuing operations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Numerator:</b>				
Net income attributable to Great Lakes Dredge & Dock Corporation - numerator for basic and diluted earnings per share	\$ 1,706	\$ 10,808	\$ 4,098	\$ 20,134
<b>Denominator:</b>				
Denominator for basic earnings per share - weighted average shares outstanding	58,875	58,602	58,830	58,575
Dilutive impact of outstanding restricted stock units issued	180	135	216	134
Dilutive impact of outstanding stock options issued	129	44	182	39
<b>Denominator for diluted earnings per share adjusted weighted average shares</b>	<b>59,184</b>	<b>58,781</b>	<b>59,228</b>	<b>58,748</b>
Basic earnings per share attributable to Great Lakes Dredge & Dock Corporation	\$ 0.03	\$ 0.18	\$ 0.07	\$ 0.34
Diluted earnings per share attributable to Great Lakes Dredge & Dock Corporation	\$ 0.03	\$ 0.18	\$ 0.07	\$ 0.34

**3. Fair value measurements**

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

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

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

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

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. At June 30, 2011, the Company held certain derivative contracts that it uses to manage commodity price risk and interest rate risk. The Company does not hold or issue derivatives for speculative or trading purposes. At June 30, 2011 the Company held a position in a money market fund where quoted prices are not available in an active market. The fair value of these financial instruments are summarized as follows:

Description	Fair Value Measurements at Reporting Date Using			
	At June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 20,012	\$	\$ 20,012	\$
Fuel hedge contracts	182		182	
Interest rate swap contracts-assets	1,141			1,141
Total assets measured at fair value	\$ 21,335	\$	\$ 20,194	\$ 1,141

**Table of Contents**

Description	Fair Value Measurements at Reporting Date Using			
	At December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fuel hedge contracts	\$ 595	\$	\$ 595	\$
Interest rate swap contracts-assets	1,264			1,264
<b>Total assets measured at fair value</b>	<b>\$ 1,859</b>	<b>\$</b>	<b>\$ 595</b>	<b>\$ 1,264</b>

**Interest rate swaps**

In May 2009, the Company entered into two interest rate swap arrangements, which are effective through December 15, 2012, to swap a notional amount of \$50 million from a fixed rate of 7.75% to a floating LIBOR-based rate in order to manage the interest rate paid with respect to the Company's 7.75% senior subordinated notes. Although the senior subordinated notes were redeemed in January 2011, the swaps remained in place. The swap is not accounted for as a hedge; therefore, the changes in fair value are recorded as adjustments to interest expense in each reporting period.

The Company verifies the fair value of the interest rate swaps using a quantitative model that contains both observable and unobservable inputs. The unobservable inputs relate primarily to the LIBOR rate and long-term nature of the contracts. The Company believes that these unobservable inputs are significant and accordingly the Company determines the fair value of these interest rate swap contracts using Level 3 inputs.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Interest Rate Swaps 2011	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Interest Rate Swaps 2010
Balance at January 1,	\$ 1,264	\$ (20)
Total unrealized gains (losses): included in earnings	(568)	773
Settlements	445	440
Balance at June 30,	\$ 1,141	\$ 1,193
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Interest Rate Swaps 2011	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Interest Rate Swaps 2010
Balance at April 1,	\$ 1,299	\$ 774
Total unrealized losses: included in earnings	(603)	(21)

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

Settlements		445		440
Balance at June 30,	\$	1,141	\$	1,193

### *Fuel hedge contracts*

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

As of June 30, 2011, the Company was party to various swap arrangements to hedge the price of a portion of its diesel fuel purchase requirements for work in its backlog to be performed through December 2011. As of June 30, 2011, there were 2.7 million gallons remaining on these contracts which represent approximately 76% of the Company's forecasted fuel purchases through December 2011. Under these swap agreements, the Company will pay fixed prices ranging from \$2.35 to \$3.33 per gallon.



**Table of Contents**

At June 30, 2011 and December 31, 2010, the fair value asset of the fuel hedge contracts was estimated to be \$299 and \$595, respectively, and is recorded in other current assets. The gain reclassified to earnings from changes in fair value of derivatives, net of cash settlements and taxes, for the period ended June 30, 2011 was \$1,067. The remaining gains included in accumulated other comprehensive income at June 30, 2011 will be reclassified into earnings over the next six months, corresponding to the period during which the hedged fuel is expected to be utilized. The fair values of fuel hedges are corroborated using inputs that are readily observable in public markets; therefore, the Company determines fair value of these fuel hedges using Level 2 inputs.

The fair value of the money market fund, interest rate and fuel hedge contracts outstanding as of June 30, 2011 and December 31, 2010 is as follows:

	Balance Sheet Location	Fair Value		
		At June 30, 2011		
		Fair Value Asset	Balance Sheet Location	Fair Value Liability
Cash equivalents	Cash and cash equivalents	\$ 20,012		
Fuel hedge contracts	Other current assets	299	Accrued expenses	\$ (117)
Interest rate swaps	Other current assets	1,101	Accrued expenses	(86)
Interest rate swaps	Other assets	126	Other liabilities	
<b>Total</b>		<b>\$ 21,538</b>		<b>\$ (203)</b>

	Balance Sheet Location	Fair Value		
		At December 31, 2010		
		Fair Value Asset	Balance Sheet Location	Fair Value Liability
Interest rate swaps	Other current assets	\$ 816	Other liabilities	\$
Interest rate swaps	Other assets	448	Other liabilities	
Fuel hedge contracts	Other current assets	595	Accrued expenses	
<b>Total</b>		<b>\$ 1,859</b>		<b>\$</b>

**Other financial instruments**

The carrying value of financial instruments included in current assets and current liabilities approximates fair value due to the short-term maturities of these instruments. In January 2011, the Company issued \$250,000 of 7.375% senior notes due February 1, 2019, which were outstanding at June 30, 2011. The senior notes are senior unsecured obligations of the Company and its subsidiaries that guarantee the senior notes. The fair value of the senior notes was \$246,875 at June 30, 2011, based on recent transactions.

**4. Share based compensation**

The Company's 2007 Long-Term Incentive Plan permits the grant of stock options, stock appreciation rights, restricted stock and restricted stock units to its employees and directors for up to 5.8 million shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders and attract and retain the best possible talent.

In June 2011, the Company granted 444,178 options to purchase shares of common stock and 263,428 restricted stock units to certain employees pursuant to the plan. In addition all non-employee directors on the Company's board of directors are paid a portion of their compensation in stock grants. Compensation cost charged to income related to all share-based compensation arrangements was \$323 and \$843, respectively, for the three months and six months ended June 30, 2011 and \$561 and \$861, respectively, for the three and six months ended June 30, 2010.

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

**5. Accounts receivable**

Accounts receivable at June 30, 2011 and December 31, 2010 are as follows:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Completed contracts	\$ 26,964	\$ 20,093
Contracts in progress	64,041	64,399
Retainage	18,786	12,711
	109,791	97,203
Allowance for doubtful accounts	(1,639)	(1,655)
Total accounts receivable	\$ 108,152	\$ 95,548

**Table of Contents**

At June 30, 2011 and December 31, 2010, \$6,344 and \$5,923, respectively, of retainage from long-term projects was not expected to be collected within the next twelve months and is classified as other non-current assets.

**6. Contracts in progress**

The components of contracts in progress at June 30, 2011 and December 31, 2010 are as follows:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Costs and earnings in excess of billings:</b>		
Costs and earnings for contracts in progress	\$ 289,449	\$ 287,291
Amounts billed	(263,335)	(263,665)
Costs and earnings in excess of billings for contracts in progress	26,114	23,626
Costs and earnings in excess of billings for completed contracts	1,006	1,216
Total contract revenues in excess of billings	\$ 27,120	\$ 24,842
 <b>Billings in excess of costs and earnings:</b>		
Amounts billed	\$ (430,920)	\$ (429,688)
Costs and earnings for contracts in progress	418,601	415,204
Total billings in excess of contract revenues	\$ (12,319)	\$ (14,484)

**7. Accrued expenses**

Accrued expenses at June 30, 2011 and December 31, 2010 are as follows:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Insurance	\$ 9,669	\$ 11,039
Payroll and employee benefits	8,338	13,573
Interest	7,837	604
Percentage of completion adjustment	4,750	3,232
Income and other taxes	1,257	2,977
Other	2,060	1,384
Total accrued expenses	\$ 33,911	\$ 32,809

**Table of Contents****8. Segment information**

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
<b>Dredging</b>				
Contract revenues	\$ 125,085	\$ 165,599	\$ 261,682	\$ 314,640
Operating income	13,594	21,462	31,415	41,031
<b>Demolition</b>				
Contract revenues	\$ 29,874	\$ 14,536	\$ 48,615	\$ 26,895
Operating loss	(4,937)	(1,247)	(7,147)	(1,402)
<b>Total</b>				
Contract revenues	\$ 154,959	\$ 180,135	\$ 310,297	\$ 341,535
Operating income	8,657	20,215	24,268	39,629

In addition, foreign dredging revenue of \$16,065 and \$37,936 for the three months and six months ended June 30, 2011 and \$13,641 and \$39,213 for the three months and six months ended June 30, 2010, respectively, was primarily attributable to work done in Bahrain.

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

**9. Commitments and contingencies****Commercial commitments**

The Company entered into a credit agreement (the "Credit Agreement") with Bank of America N.A. as administrative agent and issuing lender, various other financial institutions as lenders and certain subsidiaries of the Company as loan parties. The Credit Agreement provides for a revolving credit facility of up to \$145,000 in borrowings and includes sublimits for the issuance of letters of credit and swingline loans. The revolving credit facility matures on June 12, 2012. The revolving credit facility bears interest at rates selected at the option of Great Lakes, currently equal to either LIBOR plus an applicable margin or the Base Rate (as defined in the Credit Agreement), plus an applicable margin. The applicable margins for LIBOR loans and Base Rate loans, as well as any non-use fee, are subject to adjustment based upon the Company's ratio of Total Funded Debt to Adjusted Consolidated EBITDA (each as defined in the Credit Agreement). As of June 30, 2011, the Company had no borrowings and \$9,119 of letters of credit outstanding, resulting in \$135,881 of availability under the Credit Agreement.

The Company obtains its performance, bid and payment bonds through a bonding agreement (the "Bonding Agreement") with Travelers Casualty and Surety Company of America. The bonds issued under the Bonding Agreement are customarily required for dredging and marine construction projects, as well as demolition projects. As of June 30, 2011, Great Lakes had outstanding bonds valued at \$297,869; however, the revenue value remaining in backlog related to these projects totaled \$120,439.

The Company has a \$24,000 international letter of credit facility that it uses for the performance and advance payment guarantees on the Company's foreign contracts. As of June 30, 2011, Great Lakes had \$15,703 of letters of credit outstanding under this facility.

The Company also has \$250,000 of 7.375% senior notes outstanding, which mature in February 2019.

The Company's obligations under the Credit Agreement and Bonding Agreement are secured by liens on a substantial portion of Great Lakes assets. As of December 31, 2010, the net book value of the Company's operating equipment securing the Company's obligations under the Credit Agreement and Bonding Agreement was \$95,658 and \$70,662, respectively. Great Lakes' obligations under its international letter of credit facility are secured by the Company's foreign accounts receivable.

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

The Credit Agreement, the Bonding Agreement and the indenture relating to the senior notes contain various restrictive covenants, including a limitation on dividends, limitations on redemption and repurchases of capital stock, limitations on the incurrence of additional indebtedness and requirements to maintain certain financial covenants.

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

---

**Table of Contents**

***Legal proceedings and other contingencies***

Various legal actions, claims, assessments and other contingencies arising in the ordinary course of business are pending against the Company and certain of its subsidiaries. These matters are subject to many uncertainties, and it is possible that some of these matters could ultimately be decided, resolved, or settled adversely. Although the Company is subject to various claims and legal actions that arise in the ordinary course of business, except as described below, the Company is not currently a party to any material legal proceedings or environmental claims.

The Company or its former subsidiary, NATCO Limited Partnership, is named as a defendant in approximately 251 asbestos-related personal injury lawsuits, the majority of which were filed between 1989 and 2000. All of the cases, filed against the Company prior to 1996, were administratively dismissed in May 1996 and any cases filed since that time have similarly been administratively transferred to the inactive docket. Over the last year, hundreds of lawsuits have been reactivated in an effort to clean out the administrative docket. Prior to the commencement of discovery in any of the reactivated cases, counsel for plaintiffs agreed to name a group of cases that they intended to pursue and to dismiss the remaining cases without prejudice. Plaintiffs have currently named 38 cases against the Company that they intend to pursue, each of which involves one plaintiff. The remaining cases against the Company either have been or will be dismissed. Plaintiffs in the dismissed cases could file a new lawsuit if they develop a new disease allegedly caused by exposure to asbestos on board our vessels. The Company is presently unable to quantify the amounts of damages being sought in these lawsuits because none of the complaints specify a damage amount. The Company does not believe that it is probable that losses from these claims could be material, and an estimate of a range of losses relating to these claims cannot reasonably be made. Based on the foregoing, management does not believe that any of the 38 lawsuits will have a material impact on our business, financial position, results of operations or cash flows.

On August 26, 2009, the Company's subsidiary NASDI, LLC ( NASDI ) received a letter stating that the Attorney General for the Commonwealth of Massachusetts is investigating alleged violations of the Massachusetts Solid Waste Act. The Company believes that the Massachusetts Attorney General is investigating illegal dumping activities at a dump site NASDI contracted with to have waste materials disposed of between September 2007 and July 2008. Per the Massachusetts Attorney General's request, NASDI executed a tolling agreement regarding the matter and has engaged in further discussions with the Massachusetts Attorney General's office. The matter remains open, and, to the Company's knowledge, no proceedings have currently been initiated against NASDI. Should a claim be brought, NASDI intends to defend itself vigorously. Based on consideration of all of the facts and circumstances now known, the Company does not believe this claim will have a material impact on its business, financial position, results of operations or cash flows.

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

On April 6, 2011, NASDI received a subpoena from the District Attorney for Richmond County, New York in connection with a grand jury investigation. The subpoena directs NASDI to furnish certain documents relating to one project performed by NASDI and one of its subcontractors. The subpoena appears to be related to the activities of NASDI's subcontractor for this project. The Company fully complied with the production of requested documents and has received no further communications. Based on the Company's internal investigation to date, the Company does not believe that it will have any liability with respect to this matter. In addition, the Company intends to continue to fully cooperate with the New York grand jury subpoena.

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

**10. Acquisition of noncontrolling interest**

Effective January 1, 2011 the Company reacquired Mr. Christopher Berardi's membership interest in NASDI for no cost per terms of NASDI's limited liability company agreement. This resulted in the elimination of noncontrolling interest of \$1,973 during the first quarter ended March 31, 2011. The Company now owns 100% of NASDI.

In March 2011, Mr. Berardi resigned his employment with the Company's demolition segment effective April 29, 2011. Mr. Berardi's resignation and the repurchase of his NASDI membership interest also resulted in the reversal of a \$1,933 accrual established in conjunction with a prior

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

restructuring of ownership interest in NASDI. This reversal was recorded directly to equity as part of the reacquisition of the noncontrolling interest.

**Table of Contents**

**11. Subsidiary guarantors**

The Company's long-term debt at June 30, 2011 includes \$250,000 of 7.375% senior notes due February 1, 2019. The Company's obligations under these senior unsecured notes are guaranteed by the Company's wholly-owned domestic subsidiaries. Such guarantees are full, unconditional and joint and several.

In connection with the private placement of the senior unsecured notes, the Company entered into an agreement giving registration rights to initial purchasers of the senior unsecured notes (the Registration Rights Agreement). The terms of the Registration Rights Agreement require, among other things, that the Company will use its commercially reasonable efforts to consummate an offer (the Exchange Offer) to exchange the senior notes for registered, publicly tradable notes that have substantially identical terms as the senior notes (the Exchange Notes). The Exchange Notes will be guaranteed by the Company's wholly-owned domestic subsidiaries (the Exchange Notes Guarantors). The Company commenced the Exchange Offer in August 2011 and expects to consummate the Exchange Offer in September 2011. The Exchange Note Guarantors are presented in this supplemental financial information as Subsidiary Guarantors as if the Exchange Notes and the guarantees of the Exchange Notes Guarantors had been outstanding at June 30, 2011. The Exchange Notes are not included in this supplemental financial information as they were not outstanding at June 30, 2011.

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

- (i) balance sheets as of June 30, 2011 and December 31, 2010;
- (ii) statements of operations for the three and six months ended June 30, 2011 and 2010; and
- (iii) statements of cash flows for the six months ended June 30, 2011 and 2010.



**Table of Contents****GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF JUNE 30, 2011****(In thousands)**

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 95,598	\$ 399	\$	\$	\$ 95,997
Accounts receivable net	105,131	3,021			108,152
Receivables from affiliates	30,854	7,305	60,917	(99,076)	
Contract revenues in excess of billings	27,105	101		(86)	27,120
Inventories	31,464				31,464
Prepaid expenses	2,656		131		2,787
Other current assets	20,024	7	10,549		30,580
Total current assets	312,832	10,833	71,597	(99,162)	296,100
PROPERTY AND EQUIPMENT Net	309,137	159			309,296
GOODWILL	97,799	250			98,049
OTHER INTANGIBLE ASSETS Net	1,786	201			1,987
INVESTMENTS IN SUBSIDIARIES	3,525		556,129	(559,654)	
INVENTORIES Noncurrent	27,760				27,760
INVESTMENTS IN JOINT VENTURES	6,615				6,615
OTHER ASSETS	12,406		6,333	(1,212)	17,527
TOTAL	\$ 771,860	\$ 11,443	\$ 634,059	\$ (660,028)	\$ 757,334
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 68,896	\$ 1,341	\$	\$	70,237
Payables to affiliates	93,013	5,001	420	(98,434)	
Accrued expenses	25,269	787	7,855		33,911
Billings in excess of contract revenues	12,258	789		(728)	12,319
Current portion of note payable	2,500				2,500
Current portion of equipment debt	111				111
Total current liabilities	202,047	7,918	8,275	(99,162)	119,078
LONG TERM NOTE PAYABLE	5,000				5,000
7 3/8% SENIOR NOTES			250,000		250,000
DEFERRED INCOME TAXES			93,451	(1,212)	92,239
OTHER	8,684		832		9,516
Total liabilities	215,731	7,918	352,558	(100,374)	475,833
Total Great Lakes Dredge & Dock Corporation Equity	556,129	3,525	281,188	(559,654)	281,188
NONCONTROLLING INTERESTS			313		313

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

TOTAL EQUITY	556,129	3,525	281,501	(559,654)	281,501
TOTAL	\$ 771,860	\$ 11,443	\$ 634,059	\$ (660,028)	\$ 757,334

**Table of Contents****GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2010****(In thousands)**

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 48,416	\$ 62	\$	\$	\$ 48,478
Accounts receivable net	93,983	1,565			95,548
Receivables from affiliates	5,338	5,798	6,745	(17,881)	
Contract revenues in excess of billings	24,777	94		(29)	24,842
Inventories	31,734				31,734
Prepaid expenses	3,246		202		3,448
Other current assets	9,853	8	9,058		18,919
Total current assets	217,347	7,527	16,005	(17,910)	222,969
PROPERTY AND EQUIPMENT Net	322,958	273			323,231
GOODWILL	97,799	250			98,049
OTHER INTANGIBLE ASSETS Net	3,017	263			3,280
INVESTMENTS IN SUBSIDIARIES	2,311		528,425	(530,736)	
INVENTORIES Noncurrent	27,128				27,128
INVESTMENTS IN JOINT VENTURES	7,329				7,329
OTHER ASSETS	7,704		4,350	(215)	11,839
TOTAL	\$ 685,593	\$ 8,313	\$ 548,780	\$ (548,861)	\$ 693,825
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 81,534	\$ 1,187	\$	\$	\$ 82,721
Payables to affiliates	14,151	3,655		(17,806)	
Accrued expenses	30,511	693	1,605		32,809
Billings in excess of contract revenues	14,121	467		(104)	14,484
Current portion of note payable	2,500				2,500
Current portion of equipment debt	303				303
Total current liabilities	143,120	6,002	1,605	(17,910)	132,817
LONG TERM NOTE PAYABLE	5,000				5,000
7 3/4% SENIOR SUBORDINATED NOTES			175,000		175,000
DEFERRED INCOME TAXES			92,681	(215)	92,466
OTHER	9,048		2,669		11,717
Total liabilities	157,168	6,002	271,955	(18,125)	417,000
Total Great Lakes Dredge & Dock Corporation Equity	528,425	2,311	278,953	(530,736)	278,953
NONCONTROLLING INTERESTS			(2,128)		(2,128)

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

TOTAL EQUITY	528,425	2,311	276,825	(530,736)	276,825
TOTAL	\$ 685,593	\$ 8,313	\$ 548,780	\$ (548,861)	\$ 693,825

**Table of Contents****GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING INCOME STATEMENT****FOR THE THREE MONTHS ENDED JUNE 30, 2011****(In thousands)**

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
CONTRACT REVENUES	\$ 151,223	\$ 6,269	\$	\$ (2,533)	\$ 154,959
COSTS OF CONTRACT REVENUES	(132,879)	(4,847)		2,533	(135,193)
<b>GROSS PROFIT</b>	<b>18,344</b>	<b>1,422</b>			<b>19,766</b>
OPERATING EXPENSES					
General and administrative expenses	12,522	208	892		13,622
Gain on sale of assets	(2,513)				(2,513)
<b>Total operating income (loss)</b>	<b>8,335</b>	<b>1,214</b>	<b>(892)</b>		<b>8,657</b>
INTEREST EXPENSE (Net)	(49)	(54)	(4,808)		(4,911)
EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES	1,160		11,567	(12,727)	
EQUITY IN LOSS OF JOINT VENTURE	(123)				(123)
LOSS ON EXTINGUISHMENT OF DEBT					
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>9,323</b>	<b>1,160</b>	<b>5,867</b>	<b>(12,727)</b>	<b>3,623</b>
INCOME TAX (PROVISION) BENEFIT	2,244		(3,699)		(1,455)
<b>NET INCOME (LOSS)</b>	<b>11,567</b>	<b>1,160</b>	<b>2,168</b>	<b>(12,727)</b>	<b>2,168</b>
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS			(462)		(462)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE &amp; DOCK CORPORATION</b>	<b>\$ 11,567</b>	<b>\$ 1,160</b>	<b>\$ 1,706</b>	<b>\$ (12,727)</b>	<b>\$ 1,706</b>

**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING INCOME STATEMENT****FOR THE THREE MONTHS ENDED JUNE 30, 2010****(In thousands)**

Eliminations

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation		Consolidated Totals
CONTRACT REVENUES	\$ 179,218	\$ 1,703	\$	\$ (786)	\$ 180,135
COSTS OF CONTRACT REVENUES	(144,436)	(1,896)		786	(145,546)
<b>GROSS PROFIT</b>	<b>34,782</b>	<b>(193)</b>			<b>34,589</b>
General and administrative expenses	13,296	152	926		14,374
<b>Total operating income (loss)</b>	<b>21,486</b>	<b>(345)</b>	<b>(926)</b>		<b>20,215</b>
INTEREST EXPENSE (Net)	3	(18)	(2,980)		(2,995)
EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES	(363)		21,354	(20,991)	
EQUITY IN LOSS OF JOINT VENTURE	(131)				(131)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>20,995</b>	<b>(363)</b>	<b>17,448</b>	<b>(20,991)</b>	<b>17,089</b>
INCOME TAX PROVISION	359		(7,114)		(6,755)
<b>NET INCOME (LOSS)</b>	<b>21,354</b>	<b>(363)</b>	<b>10,334</b>	<b>(20,991)</b>	<b>10,334</b>
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS			474		474
<b>NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE &amp; DOCK CORPORATION</b>	<b>\$ 21,354</b>	<b>\$ (363)</b>	<b>\$ 10,808</b>	<b>\$ (20,991)</b>	<b>\$ 10,808</b>

**Table of Contents****GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING INCOME STATEMENT****FOR THE SIX MONTHS ENDED JUNE 30, 2011****(In thousands)**

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
CONTRACT REVENUES	\$ 305,262	\$ 9,586	\$	\$ (4,551)	\$ 310,297
COSTS OF CONTRACT REVENUES	(259,788)	(7,852)		4,551	(263,089)
GROSS PROFIT (LOSS)	45,474	1,734			47,208
OPERATING EXPENSES					
General and administrative expenses	23,726	421	1,564		25,711
Gain on sale of assets	(2,771)				(2,771)
Total operating income	24,519	1,313	(1,564)		24,268
INTEREST EXPENSE (Net)	(129)	(99)	(10,633)		(10,861)
EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES	1,214		28,118	(29,332)	
EQUITY IN LOSS OF JOINT VENTURE	(714)				(714)
LOSS ON EXTINGUISHMENT OF DEBT			(5,145)		(5,145)
INCOME (LOSS) BEFORE INCOME TAXES	24,890	1,214	10,776	(29,332)	7,548
INCOME TAX (PROVISION) BENEFIT	3,228		(6,210)		(2,982)
NET INCOME (LOSS)	28,118	1,214	4,566	(29,332)	4,566
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS			(468)		(468)
NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE & DOCK CORPORATION	\$ 28,118	\$ 1,214	\$ 4,098	\$ (29,332)	\$ 4,098

**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING INCOME STATEMENT****FOR THE SIX MONTHS ENDED JUNE 30, 2010****(In thousands)**

Eliminations

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation		Consolidated Totals
CONTRACT REVENUES	\$ 340,047	\$ 3,529	\$	\$ (2,041)	\$ 341,535
COSTS OF CONTRACT REVENUES	(274,968)	(3,535)		2,041	(276,462)
<b>GROSS PROFIT</b>	<b>65,079</b>	<b>(6)</b>			<b>65,073</b>
OPERATING EXPENSES					
General and administrative expenses	23,480	347	1,617		25,444
Total operating income (loss)	41,599	(353)	(1,617)		39,629
INTEREST EXPENSE (Net)	(4)	(37)	(6,174)		(6,215)
EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES	(390)		40,702	(40,312)	
EQUITY IN LOSS OF JOINT VENTURE	(853)				(853)
INCOME (LOSS) BEFORE INCOME TAXES	40,352	(390)	32,911	(40,312)	32,561
INCOME TAX PROVISION	350		(13,344)		(12,994)
NET INCOME (LOSS)	40,702	(390)	19,567	(40,312)	19,567
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS			567		567
NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE & DOCK CORPORATION	\$ 40,702	\$ (390)	\$ 20,134	\$ (40,312)	\$ 20,134



**Table of Contents****GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****AS OF JUNE 30, 2011****(In thousands)**

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
<b>OPERATING ACTIVITIES</b>					
Net cash flows provided by (used in) operating activities	\$ 3,004	\$ 3,230	\$ (16,679)	\$	\$ (10,445)
<b>INVESTING ACTIVITIES:</b>					
Purchases of property and equipment	(13,583)				(13,583)
Dispositions of property and equipment	7,275				7,275
Net cash flows used in investing activities	(6,308)				(6,308)
<b>FINANCING ACTIVITIES:</b>					
Proceeds from issuance of 7 3/8% senior unsecured notes			250,000		250,000
Redemption of 7 3/4% senior subordinated notes			(175,000)		(175,000)
Senior subordinated notes redemption premium			(2,264)		(2,264)
Deferred financing fees			(5,829)		(5,829)
Dividends paid			(2,236)		(2,236)
Dividend equivalents paid on restricted stock units			(11)		(11)
Taxes paid on vested share awards			(250)		(250)
Net change in accounts with affiliates	50,703	(2,893)	(47,810)		
Repayments of long-term debt	(217)				(217)
Exercise of stock options			27		27
Excess income tax benefit from share-based compensation			52		52
Net cash flows provided by (used in) financing activities	50,486	(2,893)	16,679		64,272
NET CHANGE IN CASH AND EQUIVALENTS	47,182	337			47,519
CASH AND CASH EQUIVALENTS Beginning of year	48,416	62			48,478
CASH AND CASH EQUIVALENTS End of year	\$ 95,598	\$ 399	\$	\$	\$ 95,997

**Table of Contents****GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****AS OF JUNE 30, 2010****(In thousands)**

	Subsidiary Guarantors	Non-Guarantor Subsidiaries	GLDD Corporation	Eliminations	Consolidated Totals
<b>OPERATING ACTIVITIES</b>					
Net cash flows provided by (used in) operating activities	\$ 98,716	\$ 1,336	\$ (24,407)	\$	\$ 75,645
<b>INVESTING ACTIVITIES:</b>					
Purchases of property and equipment	(12,973)				(12,973)
Dispositions of property and equipment	210				210
Net cash flows used in investing activities	(12,763)				(12,763)
<b>FINANCING ACTIVITIES:</b>					
Dividends paid			(1,992)		(1,992)
Dividend equivalents paid on restricted stock units			(12)		(12)
Net change in accounts with affiliates	(36,063)	(1,348)	37,411		
Repayments of long-term debt	(740)				(740)
Exercise of stock options	414				414
Borrowings under revolving loans			14,968		14,968
Repayments of revolving loans			(25,968)		(25,968)
Net cash flows provided by (used in) financing activities	(36,389)	(1,348)	24,407		(13,330)
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	49,564	(12)			49,552
<b>CASH AND CASH EQUIVALENTS</b> Beginning of year	3,028	222			3,250
<b>CASH AND CASH EQUIVALENTS</b> End of year	\$ 52,592	\$ 210	\$	\$	\$ 52,802

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
***Statement Under the Private Securities Litigation Reform Act***

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Great Lakes Dredge & Dock Corporation and its subsidiaries (Great Lakes), or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, would, could, scheduled to, or other similar words, or the negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws. Great Lakes cautions investors that any forward-looking statements made by Great Lakes are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to Great Lakes, include, but are not limited to, risks and uncertainties that are described in Item 1A Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, and in other securities filings by Great Lakes with the SEC.

Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any forward-looking statements. The Company's future financial condition, results of operations and cash flows, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in the Company's Quarterly Report on Form 10-Q are made only as of the date hereof and the Company does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

*General*

The Company is the largest provider of dredging services in the United States. In addition, the Company is the only U.S. dredging service provider with significant international operations, which represented 14% of its dredging revenues for the first six months of 2011, compared with the Company's three year average of 23%. The mobility of the Company's fleet enables the Company to move equipment in response to changes in demand for dredging services.

Dredging generally involves the enhancement or preservation of the navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. The U.S. dredging market consists of three primary types of work: capital, beach nourishment and maintenance. The Company experienced an average combined bid market share in the U.S. of 39% over the last three years, including 44%, 32% and 52% of the capital, beach nourishment and maintenance sectors, respectively. The Company's bid market is defined as the aggregate dollar value of domestic projects on which the Company bid or could have bid if not for capacity constraints (bid market). With the acquisition of L.W. Matteson, Inc. (Matteson), on January 1, 2011 the Company began to provide the following additional dredging and other services: inland lake and river dredging, inland levee and construction dredging, environmental restoration and habitat improvement and other marine construction. The foregoing bid market shares do not reflect Matteson's activities prior to December 31, 2010.

The Company's largest domestic dredging customer is the Army Corps of Engineers (the Corps), which has responsibility for federally funded projects related to navigation and flood control of U.S. waterways. In the first six months of 2011, the Company's dredging revenues earned from contracts with federal government agencies, including the Corps as well as other federal entities such as the U.S. Coast Guard and the U.S. Navy, were approximately 54% of dredging revenues, down slightly from the Company's three year average of 60%.

The Company's demolition subsidiaries are headquartered in the Boston, Massachusetts area. In the first six months of 2011, demolition revenues accounted for 16% of total revenues, above the prior three year average of 12%. The demolition segment's principal services consist of interior and exterior demolition of commercial and industrial buildings, salvage and recycling of related materials, and removal of hazardous substances and materials. The majority of the work has historically been performed in New England; however, the primary demolition subsidiary, NASDI, LLC (NASDI) continues to expand its footprint primarily into the New York area and the marine demolition market, and specifically into bridge demolition projects. Effective as of January 1, 2011, NASDI became a wholly owned subsidiary of the Company. See Note 10 to Condensed Consolidated Financial Statements.

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

The Company also owns 50% of Amboy Aggregates ( Amboy ). Amboy s primary business is mining sand from the entrance channel to the New York harbor in order to provide sand and aggregate for use in road and building construction and for clean land

**Table of Contents**

fill. Amboy also imports stone from Nova Scotia and distributes it throughout the New York area. The Company and its Amboy joint venture partner together own a 50% interest in land that is adjacent to Amboy's property and may be used in conjunction with Amboy's operations. The Company's investment in Amboy is accounted for using the equity method.

The Company operates in two reportable segments: dredging and demolition.

**Results of Operations**

The following tables set forth the components of net income (loss) attributable to Great Lakes Dredge & Dock Corporation and Adjusted EBITDA, as defined below, as a percentage of contract revenues for the three months and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Contract revenues	100.0%	100.0%	100.0%	100.0%
Costs of contract revenues	(87.2)	(80.8)	(84.8)	(80.9)
Gross profit	12.8	19.2	15.2	19.1
General and administrative expenses	8.8	8.0	8.3	7.5
Gain on sale of assets, net	(1.6)		(0.9)	
Operating income	5.6	11.2	7.8	11.6
Interest expense, net	(3.2)	(1.7)	(3.5)	(1.8)
Equity in loss of joint ventures	(0.1)	(0.1)	(0.2)	(0.2)
Loss on extinguishment of debt			(1.7)	
Income before income taxes	2.3	9.4	2.4	9.6
Income tax provision	(0.9)	(3.7)	(1.0)	(3.8)
Net income	1.4	5.7	1.4	5.8
Net (income) loss attributable to noncontrolling interests	(0.3)	0.3	(0.2)	0.2
Net income attributable to Great Lakes Dredge & Dock Corporation	1.1%	6.0%	1.2%	6.0%
Adjusted EBITDA	11.2%	16.2%	13.5%	16.8%

Adjusted EBITDA, as provided herein, represents net income (loss) attributable to Great Lakes Dredge & Dock Corporation, adjusted for net interest expense, income taxes, depreciation and amortization expense and debt extinguishment. The Company presents Adjusted EBITDA as an additional measure by which to evaluate the Company's operating trends. The Company believes that Adjusted EBITDA is a measure frequently used to evaluate performance of companies with substantial leverage and that the Company's primary stakeholders (i.e. its stockholders, bondholders and banks) use Adjusted EBITDA to evaluate the Company's period to period performance. Additionally, management believes that Adjusted EBITDA provides a transparent measure of the Company's recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and identify strategies to improve operating performance. For this reason, the Company uses a measure based upon Adjusted EBITDA to assess performance for purposes of determining compensation under the Company's incentive plan. Adjusted EBITDA should not be considered an alternative to, or more meaningful than, amounts determined in accordance with accounting principles generally accepted in the United States (GAAP) including: (a) operating income as an indicator of operating performance; or (b) cash flows from operations as a measure of liquidity. As such, the Company's use of Adjusted EBITDA, instead of a GAAP measure, has limitations as an analytical tool, including the inability to determine profitability or liquidity due to the exclusion of interest and income tax expense and the associated significant cash requirements and the exclusion of depreciation and amortization, which represent significant and unavoidable operating costs given the level of indebtedness and capital expenditures needed to maintain the Company's business. For these reasons, the Company uses operating income to measure the Company's operating performance and uses Adjusted EBITDA only as a supplement. The following is a reconciliation of Adjusted EBITDA to net income (loss) attributable to Great Lakes Dredge and Dock Corporation:

Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income attributable to Great Lakes Dredge & Dock Corporation	\$ 1,706	\$ 10,808	\$ 4,098	\$ 20,134
Adjusted for:				
Loss on extinguishment of debt			5,145	
Interest expense, net	4,911	2,995	10,861	6,215
Income tax expense	1,455	6,755	2,982	12,994
Depreciation and amortization	9,238	8,554	18,804	17,993
Adjusted EBITDA	\$ 17,310	\$ 29,112	\$ 41,890	\$ 57,336

**Table of Contents**

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

Revenues (in thousands)	Three Months Ended			Six Months Ended		
	2011	June 30, 2010	Change	2011	June 30, 2010	Change
<b>Dredging:</b>						
Capital - U.S.	\$ 44,480	\$ 72,164	(38)%	\$ 90,509	\$ 116,251	(22)%
Capital - foreign	16,065	13,640	18%	37,936	39,212	(3)%
Beach	28,376	43,099	(34)%	46,233	81,704	(43)%
Maintenance	28,703	36,696	(22)%	75,942	77,473	(2)%
Rivers & Lakes*	7,461		%	11,062		%
<b>Dredging Revenue</b>	<b>125,085</b>	<b>165,599</b>	<b>(24)%</b>	<b>261,682</b>	<b>314,640</b>	<b>(17)%</b>
Demolition	29,874	14,536	106%	48,615	26,895	81%
<b>Total Revenue</b>	<b>\$ 154,959</b>	<b>\$ 180,135</b>	<b>(14)%</b>	<b>\$ 310,297</b>	<b>\$ 341,535</b>	<b>(9)%</b>

\* Rivers & Lakes was acquired by the Company on December 31, 2010 in connection with the Matteson acquisition, and did not operate as part of the Company prior to January 1, 2011

Total revenue for the 2011 second quarter was \$155.0 million, down 14% from \$180.1 million during the 2010 second quarter. Most of this decline was attributable to a decrease in domestic capital revenue, as well as a decrease in beach nourishment and maintenance revenue. Demolition revenue for the quarter was \$29.9 million, more than double that of a year ago. Revenue for the six months ended June 30, 2011 was down compared to the prior year, due to decreases in dredging revenue, offset by contributions from rivers & lakes and a significant increase in demolition revenues.

Capital projects include large port deepening and other infrastructure projects such as land reclamations. Domestic capital dredging revenue decreased \$27.7 million, or 38%, in the 2011 second quarter, compared to the 2010 second quarter. Domestic capital dredging revenue decreased \$25.7 million, or 22%, in the six months ended June 30, 2011, compared to the same period in 2010. Domestic capital revenues in the quarter and year to date were generated by work in the Port of New York, three projects in Florida and concluding work on the Louisiana sand berms. Foreign revenue increased \$2.4 million, or 18%, for the second quarter of 2011 compared to the 2010 second quarter, but decreased \$1.3 million, or 3%, in first six months of 2011 compared to the same period in 2010. Over 40% of foreign revenue was driven by two projects in Bahrain. Foreign revenues also benefited from the resolution of outstanding project claims of approximately \$3.8 million in the 2011 first quarter.

Beach nourishment projects include rebuilding of shoreline areas that have been damaged by storm activity or ongoing erosion. Beach nourishment revenue in the 2011 second quarter decreased \$14.7 million, or 34%, compared to the same 2010 quarter. Year to date 2011 beach revenue decreased \$35.5 million, or 43%, compared to the first half of 2010. Beach nourishment revenue in the first six months of 2010 was atypically high due to the significant beach nourishment backlog the Company had at the beginning of 2010. In the 2011 second quarter, the Company worked on several beach projects, including projects in Delaware, Florida, New Jersey and North Carolina.

Maintenance projects include routine dredging of ports, non-inland rivers and channels to remove the regular build up of sediment. Maintenance revenue in the 2011 second quarter decreased by \$8.0 million, or 22%, compared to the 2010 second quarter. Maintenance revenue in the first six months of 2011 decreased by \$1.5 million, or 2%, compared to the same period in 2010. Maintenance revenue decreased compared to the prior year as the Company won fewer projects in the first half of 2011 compared to 2010.

---

**Table of Contents**

Rivers and lakes projects include inland lake and river dredging, environmental restoration and habitat improvement and other marine construction. Rivers and lakes revenue was \$7.5 million and \$11.1 million for the three and six months ended June 30, 2011, respectively. The Company purchased its rivers and lakes operations on December 31, 2010. Rivers and lakes revenue increased in the 2011 second quarter because first quarter revenue is generally limited by freezing conditions in the northern United States that are typical during that time of year.

Gross profit for the 2011 second quarter decreased by 43% to \$19.8 million, from \$34.6 million in the same 2010 quarter. Gross profit margin (gross profit divided by revenue) for the 2011 second quarter decreased to 12.8% from 19.2% in the 2010 second quarter. Gross profit for the six months ended June 30, 2011 decreased by \$17.9 million to \$47.2 million from \$65.1 million in the same 2010 period, resulting in a decline in and gross profit margin to 15.2% from 19.1%. The decrease in gross profit and gross profit margin was primarily due to lower fixed cost coverage associated with increased vessel downtime and negative gross profit in the Company's demolition segment. The demolition segment continued to work on several projects, primarily in the New York market, that experienced cost overruns. These projects were commenced in 2010 as part of the demolition segment's expansion into new markets.

The Company's general and administrative expenses totaled \$13.6 million and \$25.7 million for the three and six months ended June 30, 2011. General and administrative expenses totaled \$14.2 million and \$25.2 million for the three and six months ended June 30, 2010. Although these expenses remain relatively flat, the six months ended June 30, 2011 included an additional \$1.1 million of amortization expense related to the Company's December 2010 acquisition of its rivers and lakes dredging operations. Additionally, during the 2011 second quarter, the demolition segment recorded \$1.3 million of investigation-related expenses resulting from two subpoenas received in April 2011 (see Note 9 to Condensed Consolidated Financial Statements). In the six months ended June 30, 2010 the Company incurred severance expense of \$2.7 million related to the April 2010 departure of the Company's former Chief Operating Officer.

During the 2011 second quarter, the Company completed the sale of the dredge Victoria Island, resulting in the recognition of a \$2.0 million gain.

Operating income for the three and six months ended June 30, 2011 decreased 57% and 39% to \$8.7 million and \$24.3 million, respectively, compared to the same periods of 2010, as a result of decreased dredging revenue and the resulting decline in gross profit, as well as negative gross profit in the demolition segment.

Interest expense totaled \$4.9 million and \$10.9 million, for the three and six months ended June 30, 2011, respectively, an increase from \$3.0 million and \$6.2 million from the same period of 2010, primarily due to the Company's issuance of \$250 million of 7.375% senior notes and the related redemption of the Company's \$175 million of 7.75% senior subordinated notes in the 2011 first quarter. Due to timing requirements, both of these note issuances were outstanding and accruing interest for approximately 30 days in the 2011 first quarter, resulting in duplicative interest expense of approximately \$1.1 million. In addition, although the senior notes accrue interest at a lower interest rate, the increase in principal outstanding results in an increased amount of interest expense. Additionally, the Company recorded gains on interest rate swaps of \$0.3 million for both the three and six months ended June 30, 2011, compared to gains of \$0.9 million and \$1.7 million for the three and six months ended June 30, 2010, respectively, as interest rates generally declined during 2011.

Income tax expense for the three and six months ended June 30, 2011 was \$1.5 million and \$3.0 million, respectively, compared to \$6.8 million and \$13.0 million for the same 2010 periods. This decrease was primarily attributable to lower earnings generated in 2011. The effective tax rate for the six months ended June 30, 2011 was 39.5%, which is substantially consistent with the effective tax rate of 39.9% for the same period of 2010. The Company expects the tax rate for the full year to remain at 39.5%.

Net income attributable to Great Lakes Dredge & Dock Corporation was \$1.7 million and earnings per diluted share were \$0.03 for the 2011 second quarter as compared to \$10.8 million and \$0.18 for the same 2010 period. Net income attributable to Great Lakes Dredge & Dock Corporation and earnings per diluted share for the six months ended June 30, 2011 was \$4.1 million and \$0.07, respectively, compared to \$20.1 million and \$0.34 for the same 2010 period. The decrease is due to the lower operating income and increased interest expense for the period, as well as approximately \$6.2 million of expense associated with the redemption of the \$175 million senior subordinated notes (consisting of a \$2.9 million non-cash write off of deferred financing fees, a \$2.2 million redemption premium, and \$1.1 million in interest on the \$175 million notes that were outstanding for 30 days after the debt was called).

Adjusted EBITDA (as defined on page 22) was \$17.3 million and \$41.9 million for the three and six months ended June 30, 2011, respectively, compared with \$29.1 million and \$57.3 million in the same 2010 periods, for the reasons discussed above.

***Results by segment***

***Dredging***



## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

Dredging revenues for the three and six months ended June 30, 2011 were \$125.1 million and \$261.7 million, respectively, compared to \$165.6 million and \$314.6 million for the same periods of 2010. Dredging revenues for the six months ended June 30, 2011 were driven by domestic capital work. The decline in dredging revenue was due to a decline in domestic capital, beach nourishment and maintenance revenue, which was partially offset by the revenue contribution of the Company's rivers and lakes operations. Gross

**Table of Contents**

profit margin in the dredging segment was 17.3% and 18.9% for the three and six months ended June 30, 2011 compared to gross profit margin in the dredging segment of 20.7% and 20.1% for the three and six months ended June 30, 2010, respectively, as lower dredging revenues from increased vessel downtime resulted in lower coverage of fixed costs. Dredging segment operating income was \$13.6 million and \$31.4 million for the three and six months ended June 30, 2011, compared to operating income of \$21.5 million and \$41.0 million for the three and six months ended June 30, 2010, respectively.

*Demolition*

Demolition revenues for the three and six months ended June 30, 2011 totaled \$29.9 million and \$48.6 million, respectively, compared to \$14.5 million and \$26.9 million for the same 2010 periods. The demolition segment experienced higher revenue levels in the 2011 second quarter as it worked off backlog from the New York market and due to the Louisiana bridge project that was started earlier this year. The demolition segment generated an operating loss of \$4.9 million and \$7.1 million for the three and six months ended June 30, 2011, respectively, compared to an operating loss of \$1.2 million and \$1.4 million for the same periods of 2010. Gross profit margin in the demolition segment was (4.5%) and (6.2%) for the three and six months ended June 30, 2011 compared to gross profit margin of 2.1% and 6.4% for the three and six months ended June 30, 2010, respectively. The Company continued to experience cost overruns on demolition projects in the New York market that were commenced in 2010, resulting in additional losses during the quarter. This, along with the \$1.3 million of additional legal expenses relating to the subpoenas received in April 2011, drove down the second quarter results for the demolition segment.

*Bidding Activity and Backlog*

The following table sets forth, by reporting segment and type of dredging work, the Company's backlog as of the dates indicated:

Backlog (in thousands)	June 30, 2011	December 31, 2010	June 30, 2010
<b>Dredging:</b>			
Capital - U.S.	\$ 49,086	\$ 117,866	\$ 170,709
Capital - foreign	53,941	65,334	35,899
Beach	62,228	18,080	10,860
Maintenance	12,935	56,140	31,681
Rivers & Lakes*	18,355	25,116	
<b>Dredging Backlog</b>	<b>196,545</b>	<b>282,536</b>	<b>249,149</b>
Demolition	74,087	80,984	57,601
<b>Total Backlog</b>	<b>\$ 270,632</b>	<b>\$ 363,520</b>	<b>\$ 306,750</b>

\* Rivers & Lakes was acquired by the Company on December 31, 2010 in connection with the Matteson acquisition, and was not part of the Company for the period ended June 30, 2010

The Company's contract backlog represents its estimate of the revenues that will be realized under the portion of the contracts remaining to be performed. For dredging contracts these estimates are based primarily upon the time and costs required to mobilize the necessary assets to and from the project site, the amount and type of material to be dredged, and the expected production capabilities of the equipment performing the work. For demolition contracts, these estimates are based on the time and remaining costs required to complete the project, relative to total estimated project costs and project revenues agreed to with the customer. However, these estimates are necessarily subject to variances based upon actual circumstances. Because of these factors, as well as factors affecting the time required to complete each job, backlog is not always indicative of future revenues or profitability. In addition, a significant amount of the Company's dredging backlog relates to federal government contracts, which can be canceled at any time without penalty to the government, subject to the Company's contractual right to recover the Company's actual committed costs and profit on work performed up to the date of cancellation. In addition, the Company's backlog may fluctuate significantly from quarter to quarter based upon the type and size of the projects the Company is awarded from the bid market. A quarterly increase or decrease of the Company's backlog does not necessarily result in an improvement or a deterioration of the Company's business. The Company's backlog includes only those projects for which the Company has obtained a signed contract with the customer.

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

The domestic dredging bid market for the 2011 second quarter totaled \$135.9 million, resulting in a total amount of work awarded for six months ended June 30, 2011 to \$333.4 million, compared to \$302.6 million in the same period of 2010. The Company won 78%, or \$89.5 million, of the beach nourishment projects awarded through June 30, 2011, as well as 22%, or \$30.4 million, of the maintenance projects and 12%, or \$8.8 million, of capital projects awarded through June 30, 2011. The Company won 40% of the overall domestic bid market through June 30, 2011, on par with its three year average of 39%. In addition, since the end of the second quarter the Company has won over \$90 million in projects, including a \$43 million Louisiana coastal restoration project. Variability in contract wins from quarter to quarter is not unusual and one quarter's win rate is generally not indicative of the win rate the Company is likely to achieve for a full year.

---

## **Table of Contents**

The Company's contracted dredging backlog was \$196.5 million at June 30, 2011 compared to \$282.5 million as of December 31, 2010. These amounts do not reflect approximately \$27 million of domestic low bids pending formal award and additional phases ( options ) pending on projects currently in backlog. At December 31, 2010 the amount of domestic low bids pending award was \$40 million.

Capital dredging backlog at June 30, 2011 was less than prior periods because the Company worked off most of its prior backlog related to deepening projects in the ports of New York and New Jersey and no large capital projects were added to backlog during the first half of 2011. The Company initially anticipated that no major capital deepening projects were expected to be let to bid this year; however, it now appears that a large project in New York will be bid in 2011. The Company believes that the new focus in Washington D.C. on marine infrastructure is evidenced by the bipartisan interest in addressing deferred and long overdue needs.

The \$43 million Louisiana coastal restoration project won by Great Lakes in July, along with another coastal project that was let to bid, demonstrates that resources are being devoted to help restore the barrier islands and wetlands that provide natural protection from storms. The Company believes that numerous projects are being planned in the Gulf States resulting from a fund established following the Deepwater Horizon Oil Spill, which has not yet released projects. These projects have been long overdue to restore the eroding coastline.

Although several Middle Eastern countries have experienced civil unrest and resulting governmental instability in the current year, recent international response and focus has contributed to increased stability within many of these nations, including Bahrain. The Company has maintained normal operations for its international projects and has a positive outlook for many of its foreign markets. There has been further evidence of an increase in international dredging plans, particularly in the Middle East. In addition, the Company continues to follow the many opportunities in Brazil. These foreign opportunities include several projects that are being advertised which fit well with Great Lakes' expertise and equipment.

Demolition services backlog was \$74.1 million and \$80.9 million at June 30, 2011 and December 31, 2010, respectively. This continued level of backlog reflects the success the demolition segment has achieved in expanding into other markets, specifically in New York and bridge demolition.

### ***Liquidity and Capital Resources***

The Company's principal sources of liquidity are cash flow generated from operations and borrowings under its senior credit facility. The Company's principal uses of cash are to meet debt service requirements, finance its capital expenditures, provide working capital and meet other general corporate purposes.

The Company's net cash (used in) provided by operating activities for the six months ended June 30, 2011 and 2010 totaled \$(10.4) million, and \$75.6 million, respectively. Normal increases or decreases in the level of working capital relative to the level of operational activity impact cash flow from operating activities. In the first six months of 2011, net cash used in operating activities was primarily the result of lower net income and changes in accounts receivable and other operating assets between periods. In the first six months of 2010, lower activity in foreign dredging operations (which usually experience longer collection periods) coupled with payments being made on a foreign accounts receivable that had been outstanding throughout 2009, drove the increase in cash generated.

The Company's net cash flows used in investing activities for the first six months of 2011 and 2010 totaled \$6.3 million and \$12.8 million, respectively. During the six months ended June 30, 2011, the Company sold the dredge Victoria Island for \$6.6 million. Other investing activities in both periods primarily relate to normal course upgrades and capital maintenance of the Company's dredging fleet.

The Company's net cash flows provided by (used in) financing activities for the quarters ended June 30, 2011 and 2010 totaled \$64.3 million and \$(13.3) million, respectively. The Company issued \$250 million of 7.375% senior notes in the first six months of 2011, resulting in \$244.2 million of net proceeds. The Company used a portion of these net proceeds to redeem its \$175 million of 7.75% senior subordinated notes in the first six months of 2011 for \$180.0 million, which included a redemption premium and unpaid interest. Cash flows used in financing activities in the first six months of 2010 was primarily due to the net repayment of \$11.0 million of revolving credit borrowings.

The Company paid \$2.2 million in dividends in the first six months of 2011. The declaration and payment of any future cash dividends will be at the discretion of the Company's Board of Directors and will depend on many factors, including general economic and business conditions, the Company's strategic plans, the Company's financial results and condition, legal requirements, including restrictions and limitations contained in the Company's Credit Agreement, Bonding Agreement and the Indenture relating to its senior notes, and other factors the Board of Directors deems relevant. Accordingly, the Company cannot make any assurances as to the amount of any such dividend or that it will pay any such dividend in future periods.

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

In January 2011, the Company issued \$250 million aggregate principal amount of 7.375% senior notes due February 1, 2019 in a private placement. Approximately \$180 million of the net proceeds from the issuance of the senior notes was used to redeem all of the Company's 7.75% senior subordinated notes due December 2013, including a redemption premium and accrued and unpaid interest. The remaining net proceeds from the issuance of the senior notes were used to augment working capital and could be used in the

## **Table of Contents**

future for acquisitions. The Indenture governing the senior notes, among other things, limits the ability of the Company and its restricted subsidiaries to (i) pay dividends, or make certain other restricted payments or investments; (ii) incur additional indebtedness and issue disqualified stock; (iii) create liens on its assets; (iv) transfer and sell assets; (v) merge, consolidate or sell all or substantially all of its assets; (vi) enter into certain transactions with affiliates; (vii) create restrictions on dividends or other payments by its restricted subsidiaries; and (viii) create guarantees of indebtedness by restricted subsidiaries. These covenants are subject to a number of important limitations and exceptions that are described in the Indenture governing the senior notes.

In connection with the issuance of the senior notes, the Company entered an agreement giving registration rights to initial purchasers of the senior notes (the Registration Rights Agreement). The terms of the Registration Rights Agreement require, among other things, that the Company agreed use its commercially reasonable efforts to consummate an offer (the Exchange Offer) to exchange the senior notes for registered, publicly tradable notes that have substantially identical terms as the senior notes. If the Company fails to satisfy its registration obligations under the Registration Rights Agreement, then the Company will be required to pay, as liquidated damages, additional interest to the holders of the senior notes at an annual rate of 0.25% per annum which rate will be increased by an additional 0.25% per annum for each subsequent 90 day period that such additional interest continues to accrue (provided that the rate at which such additional interest accrues may not exceed 1.0% per annum). The Company commenced the Exchange Offer in August 2011 and expects to consummate the Exchange Offer in September 2011. The Company believes that upon consummation of the Exchange Offer no additional interest will be payable.

The Company's obligations under the Credit Agreement and the Bonding Agreement are secured by liens on a substantial portion of the Company's operating equipment. The Company's obligations under its international letter of credit facility are secured by the Company's foreign accounts receivable. The Company's obligations under its senior notes are unsecured. The Company's Credit Agreement, Bonding Agreement and the Indenture relating to the senior notes contain various restrictive covenants, including limitations on dividends, redemption and repurchases of capital stock, and the incurrence of indebtedness and requirements to maintain certain financial covenants.

The Company believes its cash and cash equivalents, anticipated cash flows from operations and availability under its Credit Agreement will be sufficient to fund the Company's operations, capital expenditures, debt service requirements and pay any declared dividends for the next twelve months. Beyond the next twelve months, the Company's ability to fund its working capital needs, planned capital expenditures, scheduled debt payments and dividends, if any, and to comply with all the financial covenants under the Credit Agreement and the Bonding Agreement, depends on its future operating performance and cash flow, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond the Company's control.

### *Critical Accounting Policies and Estimates*

In preparing its consolidated financial statements, the Company follows accounting principles generally accepted in the United States of America. The application of these principles requires significant judgments or an estimation process that can affect the results of operations, financial position and cash flows of the Company, as well as the related footnote disclosures. The Company continually reviews its accounting policies and financial information disclosures. There have been no material changes in the Company's critical accounting policies or estimates since December 31, 2010.

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The market risk of the Company's financial instruments as of June 30, 2011 has not materially changed since December 31, 2010. The market risk profile of the Company on December 31, 2010 is disclosed in Item 7A. Quantitative and Qualitative Disclosures about Market Risk of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Table of Contents**

**Item 4. Controls and Procedures**

*a) Evaluation of disclosure controls and procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the Exchange Act) as of June 30, 2011. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in providing such reasonable assurance.

*b) Changes in internal control over financial reporting.*

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**PART II Other Information**

**Item 1. Legal Proceedings**

See Note 9 Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes during the three months and six months ended June 30, 2011 to the risk factors previously disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

(a) None.

(b) None.

(c) None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Reserved**

**Item 5. Other Information**

(a) None.

(b) Not applicable.

**Item 6. Exhibits**

31.1	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 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

## Edgar Filing: Great Lakes Dredge & Dock CORP - Form 10-Q

101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**Table of Contents**

**SIGNATURE**

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.

Great Lakes Dredge & Dock Corporation

(registrant)

By: */s/* **BRUCE J. BIEMECK**  
**Bruce J. Biemeck**

**President and Chief Financial Officer**

**(Principal Financial and Accounting Officer and Duly  
Authorized Officer)**

Date: August 5, 2011

**Table of Contents**

**EXHIBIT INDEX**

<b>Number</b>	<b>Document Description</b>
31.1	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 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
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.