

Great Lakes Dredge & Dock CORP  
Form 10-Q  
November 12, 2008  
[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 September 30, 2008

OR

o

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

For the transition period from            to

Commission file number:

001-33225

**Great Lakes Dredge & Dock Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-5336063**  
(I.R.S. Employer  
Identification No.)

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

**2122 York Road, Oak Brook, IL**  
(Address of principal executive offices)

**60523**  
(Zip Code)

**(630) 574-3000**

(Registrant's telephone number, including area code)

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

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

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

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

As of November 7, 2008, 58,478,829 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 September 30, 2008**

**INDEX**

| <b><u>Part I</u></b>        | <b><u>Financial Information</u></b>   | <b>Page</b> |
|-----------------------------|---|-------------|
|                             | Item 1  | 3           |
|                             | Financial Statements (Unaudited)  |             |
|                             | <u>Condensed Consolidated Balance Sheets at September 30, 2008 and December 31, 2007</u>                                      | 3           |
|                             | <u>Condensed Consolidated Statements of Operations for the Three Months and Nine Months ended September 30, 2008 and 2007</u> | 4           |
|                             | <u>Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2008 and 2007</u>                  | 5           |
|                             | <u>Notes to Condensed Consolidated Financial Statements</u>   | 6           |
|                             | Item 2  | 22          |
|                             | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                  |             |
|                             | Item 3  | 28          |
|                             | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   |             |
|                             | Item 4  | 28          |
|                             | <u>Controls and Procedures</u>  |             |
| <b><u>Part II</u></b>       | <b><u>Other Information</u></b>   | 29          |
|                             | Item 1  | 29          |
|                             | <u>Legal Proceedings</u>  |             |
|                             | Item 1A   | 29          |
|                             | <u>Risk Factors</u>   |             |
|                             | Item 2  | 29          |
|                             | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  |             |
|                             | Item 3  | 29          |
|                             | <u>Defaults Upon Senior Securities</u>  |             |
|                             | Item 4  | 29          |
|                             | <u>Submission of Matters to a Vote of Security Holders</u>  |             |
|                             | Item 5  | 29          |
|                             | <u>Other Information</u>  |             |
|                             | Item 6  | 29          |
|                             | <u>Exhibits</u>   |             |
| <b><u>Signature</u></b>     |   | 30          |
| <b><u>Exhibit Index</u></b> |   | 31          |

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

|  | September 30<br>2008 | December 31<br>2007 |
|--|----------------------|---------------------|
| <b>ASSETS</b>                              |                      |                     |
| <b>CURRENT ASSETS:</b>                     |                      |                     |
| Cash and cash equivalents                  | \$ 11,523            | \$ 8,239            |
| Accounts receivable net                    | 98,963               | 115,709             |
| Contract revenues in excess of billings    | 26,510               | 13,828              |
| Inventories                                | 30,776               | 29,157              |
| Prepaid expenses                           | 5,282                | 6,710               |
| Other current assets                       | 29,089               | 16,980              |
| Total current assets                       | 202,143              | 190,623             |
| PROPERTY AND EQUIPMENT Net                 | 309,040              | 296,721             |
| GOODWILL                                   | 97,799               | 96,225              |
| OTHER INTANGIBLE ASSETS Net                | 1,063                | 1,006               |
| INVENTORIES Noncurrent                     | 35,213               | 21,315              |
| INVESTMENTS IN JOINT VENTURES              | 9,339                | 9,589               |
| OTHER                                      | 7,627                | 8,883               |
| TOTAL                                      | \$ 662,224           | \$ 624,362          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                      |                     |
| <b>CURRENT LIABILITIES:</b>                |                      |                     |
| Accounts payable                           | \$ 78,524            | \$ 77,552           |
| Accrued expenses                           | 25,143               | 24,067              |
| Billings in excess of contract revenues    | 7,672                | 5,437               |
| Current portion of equipment debt          | 1,551                | 1,273               |
| Total current liabilities                  | 112,890              | 108,329             |
| REVOLVING CREDIT FACILITY                  | 49,710               | 21,500              |
| 7 3/4% SENIOR SUBORDINATED NOTES           | 175,000              | 175,000             |
| DEFERRED INCOME TAXES                      | 84,493               | 79,836              |
| OTHER                                      | 10,627               | 9,301               |
| Total liabilities                          | 432,720              | 393,966             |
| <b>COMMITMENTS AND CONTINGENCIES</b>       |                      |                     |

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

|   |                   |                   |
|---|-------------------|-------------------|
| MINORITY INTEREST   | 468               | 2,061             |
| <b>STOCKHOLDERS EQUITY</b>  |                   |                   |
| Common stock \$.0001 par value; 90,000,000 authorized, 58,478,829 and 58,459,824 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively. | 6                 | 6                 |
| Additional paid-in capital  | 262,647           | 260,669           |
| Accumulated deficit   | (32,645)          | (32,810)          |
| Accumulated other comprehensive income (loss)   | (972)             | 470               |
| Total stockholders equity   | 229,036           | 228,335           |
| <b>TOTAL</b>  | <b>\$ 662,224</b> | <b>\$ 624,362</b> |

See notes to the 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<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                      | 2008                                | 2007       | 2008                               | 2007       |
| Contract revenues                    | \$ 142,809                          | \$ 116,460 | \$ 423,852                         | \$ 358,817 |
| Costs of contract revenues           | 125,193                             | 103,114    | 372,656                            | 313,594    |
| Gross profit                         | 17,616                              | 13,346     | 51,196                             | 45,223     |
| General and administrative expenses  | 10,971                              | 9,554      | 32,373                             | 26,834     |
| Amortization of intangible assets    | 177                                 | 66         | 308                                | 197        |
| Operating income                     | 6,468                               | 3,726      | 18,515                             | 18,192     |
| Interest expense, net                | (4,301)                             | (3,375)    | (12,853)                           | (14,217)   |
| Equity in earnings of joint ventures | 61                                  | 790        | 250                                | 1,689      |
| Minority interest                    |                                     | 22         | (231)                              | 3          |
| Income before income taxes           | 2,228                               | 1,163      | 5,681                              | 5,667      |
| Income tax provision                 | (827)                               | (519)      | (2,530)                            | (2,380)    |
| Net income                           | \$ 1,401                            | \$ 644     | \$ 3,151                           | \$ 3,287   |
| Basic earnings per share             | \$ 0.02                             | \$ 0.01    | \$ 0.05                            | \$ 0.07    |
| Basic weighted average shares        | 58,473                              | 56,265     | 58,466                             | 45,694     |
| Diluted earnings per share           | \$ 0.02                             | \$ 0.01    | \$ 0.05                            | \$ 0.07    |
| Diluted weighted average shares      | 58,499                              | 57,190     | 58,476                             | 50,107     |

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, except per share amounts)**

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2008</b>                                | <b>2007</b> |
| <b>Operating Activities</b>  |  |             |
| Net income   | \$ 3,151                                   | \$ 3,287    |
| Adjustments to reconcile net income to net cash flows from operating activities: |  |             |
| Depreciation and amortization  | 21,256                                     | 20,141      |
| Earnings of joint ventures   | (250)                                      | (1,689)     |
| Distribution from equity joint ventures  | 500  | 1,400       |
| Minority interest  | 231  | (3)         |
| Deferred income taxes  | 4,180                                      | 829         |
| Gain on dispositions of property and equipment                                   | (525)                                      | (556)       |
| Amortization of deferred financing fees  | 1,464                                      | 2,185       |
| Stock based compensation expense   | 302  |             |
| Changes in assets and liabilities:   |  |             |
| Accounts receivable  | 16,746                                     | (12,245)    |
| Contract revenues in excess of billings  | (12,682)                                   | 2,201       |
| Inventories  | (15,517)                                   | (13,887)    |
| Prepaid expenses and other current assets  | (8,789)                                    | (4,204)     |
| Accounts payable and accrued expenses  | (2,367)                                    | 2,861       |
| Billings in excess of contract revenues  | 2,235                                      | (10,553)    |
| Other noncurrent assets and liabilities  | 1,059                                      | 308         |
| Net cash flows from operating activities   | 10,994                                     | (9,925)     |
| <b>Investing Activities</b>  |  |             |
| Purchases of property and equipment  | (32,906)                                   | (77,175)    |
| Dispositions of property and equipment   | 799  | 28,378      |
| Repayment of loan to related party   |  | 1,703       |
| Purchase of minority interest  | (5)  |             |
| Changes to restricted cash   | 787  |             |
| Net cash flows used in investing activities                                      | (31,325)                                   | (47,094)    |
| <b>Financing Activities</b>  |  |             |
| Repayments of long-term debt   | (1,469)                                    | (19,685)    |
| Borrowings under revolving loans, net of repayments                              | 28,210                                     | 14,500      |
| Cash proceeds from conversion of warrants  |  | 91,768      |
| Financing fees   |  | (2,101)     |
| Dividends  | (2,987)                                    |             |
| Repayment of capital lease debt  | (139)                                      | (1,393)     |
| Net cash flows from financing activities   | 23,615                                     | 83,089      |
| Net change in cash and equivalents   | 3,284                                      | 26,070      |
| Cash and equivalents at beginning of period                                      | 8,239                                      | 3,640       |
| Cash and equivalents at end of period  | \$ 11,523                                  | \$ 29,710   |

**Supplemental Cash Flow Information**

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

|  |    |       |    |       |
|--|----|-------|----|-------|
| Cash paid for interest                   | \$ | 8,328 | \$ | 8,891 |
| Cash paid for income taxes               | \$ | 4,724 | \$ | 6,757 |
| <b>Non-cash Investing Activity</b>       |    |       |    |       |
| Capital expenditures in accounts payable | \$ | 3,793 | \$ | 2,546 |

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)**

**(in thousands, except per share amounts)**

**1. Basis of presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). for interim financial information. Accordingly, these financial statements do not include all the information in the notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as of and for the dates presented. 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, 2007.

The Company s cost structure includes significant annual equipment-related costs, principally depreciation, maintenance, insurance and long-term equipment rentals, which have averaged approximately 22% to 25% of total costs of contract revenues over the last three years. During the year, both equipment utilization and the timing of these cost expenditures fluctuate significantly. Accordingly, the Company allocates these 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 the 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 or under allocated equipment costs are recognized such that the expense for the year equals the actual equipment costs incurred during the year. As a result of this methodology, the recorded expense in any interim period may be higher or lower than the actual equipment costs incurred in that interim period.

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.

**2. Comprehensive income**

Total comprehensive income (loss) is comprised of the Company s net income (loss) and net unrealized gains (losses) on cash flow hedges as discussed in Note 4 below. Total comprehensive income (loss) for the three months ended September 30, 2008 and 2007 was (\$2,338) and \$781, respectively. Total comprehensive income for the nine months ended September 30, 2008 and 2007 was \$1,709 and \$4,948, respectively.

**3. Earnings per share**

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) 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. Options to purchase 356,744 shares of common stock were outstanding during the three month and nine month period ended September 30, 2008 but were not included in the computation of earnings per share ( EPS ) because the options were determined to be anti-dilutive. The potentially dilutive impact of 145,736 issued restricted stock units ( RSUs ) is included in the calculation of diluted earnings per share based on the application of the treasury stock method. At January 1, 2007, warrants to purchase 18.4 millions shares of the Company s common stock were outstanding and exercisable. By December 31, 2007 all of these warrants had been exercised or redeemed. The potentially dilutive impact of shares that were issuable pursuant to the exercise of these warrants prior to the redemption date is included in the calculation of diluted earnings per share at September 30, 2007 based on the application of the treasury stock method. The computations for basic and diluted earnings per share from continuing operations are as follows:

Table of Contents

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2008                                | 2007    | 2008                               | 2007     |
| <b>Numerator:</b>  |                                     |         |                                    |          |
| Net income - numerator for basic and diluted earnings per share                | \$ 1,401                            | \$ 644  | \$ 3,151                           | \$ 3,287 |
| <b>Denominator:</b>  |                                     |         |                                    |          |
| Denominator for basic earnings per share - weighted average shares outstanding | 58,473                              | 56,265  | 58,466                             | 45,694   |
| Dilutive impact of warrants to purchase common stock                           |                                     | 925     |                                    | 4,413    |
| Dilutive impact of restricted stock units issued                               | 26                                  |         | 10                                 |          |
| Denominator for diluted earnings per share adjusted weighted average shares    | 58,499                              | 57,190  | 58,476                             | 50,107   |
| Basic earnings per share   | \$ 0.02                             | \$ 0.01 | \$ 0.05                            | \$ 0.07  |
| Diluted earnings per share   | \$ 0.02                             | \$ 0.01 | \$ 0.05                            | \$ 0.07  |

**4. Fair value measurements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157 Fair Value Measurements ( SFAS 157 ). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. SFAS 157 for financial assets and liabilities was effective for fiscal years beginning after November 15, 2007. The Company adopted the standard for those assets and liabilities as of January 1, 2008 and the adoption did not have a material effect on the Corporation's consolidated financial condition, results of operations or cash flows.

SFAS 157 defines fair value 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. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard 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 September 30, 2008, the

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

Company held certain derivative contracts, which the Company uses to manage commodity price and interest rate risk. Such instruments are not used for trading purposes. The fair value of these derivative contracts is summarized as follows:

| Description                         | Fair Value Measurements at Reporting Date Using |   |   |   |
|-------------------------------------|---|---|---|---|
|                                     | September<br>30, 2008                           | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| Fuel hedge contracts                | \$ (1,617)                                      | \$  | \$ (1,617)  | \$  |
| Interest rate swap contracts        | 40  |   |   | 40  |
| Total assets measured at fair value | \$ (1,577)                                      | \$  | \$ (1,617)  | \$ 40   |

Table of Contents*Fuel Hedge Contracts*

As of September 30, 2008, 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 September 2009. As of September 30, 2008, there were 5.6 million gallons remaining on these contracts. Under these agreements, the Company will pay fixed prices ranging from \$2.45 to \$4.08 per gallon. At September 30, 2008 and December 31, 2007, the fair value asset (liability) on these contracts was estimated to be (\$1,617) and \$775, respectively, and is recorded in other current assets (accrued expenses). Ineffectiveness related to these fuel hedge arrangements was determined to be immaterial. The remaining gains included in accumulated other comprehensive income at September 30, 2008 will be reclassified into earnings over the next twelve 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 has categorized these fuel hedges as Level 2.

*Interest Rate Swap Contracts*

In February 2004, the Company entered into an interest rate swap arrangement, which is effective through December 15, 2013, 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 debt. The interest rate swaps contain a provision whereby the counterparties have the right to terminate the contracts at any time after December 15, 2008. The current portion of the fair value asset of the swap at September 30, 2008 and December 31, 2007 was \$1,026 and \$351, respectively, and is recorded in current assets. The long term portion of the fair value liability of the swap at September 30, 2008 and December 31, 2007 was \$986 and \$717, respectively, and is recorded in other long term liabilities. 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 termination provision of the interest rate swap contracts. The Company believes that these unobservable inputs are significant and accordingly the Company has categorized these interest rate swap contracts as Level 3.

|   | <b>Fair Value Measurements Using<br/>Significant Unobservable Inputs<br/>(Level 3) Interest Rate Swap</b> |       |
|---|---|-------|
| Balance at January 1, 2008                        | \$  | (365) |
| Transfers to Level 3                              |   |       |
| Total gains or (losses) (realized or unrealized): |   |       |
| Included in earnings                              |   | (405) |
| Included in other comprehensive income            |   |       |
| Purchases and settlements                         |   |       |
| Balance at September 30, 2008                     | \$  | 40    |

The carrying values of other financial instruments included in current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. The carrying value of the Company's variable rate debt (primarily bank debt) approximates fair values, based on prevailing market rates. The fair value of the Company's \$175,000 of 7.75% senior subordinated notes was \$136,500 at September 30, 2008, based on indicative market prices.

**5. Share-based compensation**

The Company's 2007 Long-Term Incentive Plan (the "Incentive Plan"), as approved by the Board of Directors on September 18, 2007, permits the grant of stock options, stock appreciation rights, restricted stock and RSUs to its employees 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.

On May 20, 2008, the Company granted non-qualified stock options ( "NQSOs" ) and RSUs to certain employees pursuant to the plan. In accordance with SFAS 123R, *Share-Based Payment*, the compensation cost charged to income related to these stock-based compensation arrangements was \$126 and \$190 for the three months and nine months ended September 30, 2008.

Table of Contents

*Non-qualified stock options*

The NQSO awards were granted with an exercise price equal to the market price of the Company's common stock at the date of grant. The option awards generally vest in three equal annual installments commencing on the first anniversary of the grant date and have 10-year exercise periods.

The fair value of the NQSOs is determined at the grant date using a Black-Scholes option pricing model, which requires the Company to make several assumptions. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The annual dividend yield on our common stock is based on our estimate of future dividends during the expected term of the NQSOs. The expected life of the NQSOs was determined based upon a simplified assumption that the NQSOs will be exercised evenly from vesting to expiration under the guidance of Staff Accounting Bulletin No. 110, Topic 14, Share-Based Payment, as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected life.

The volatility assumptions were based upon historical volatilities of comparable companies whose shares are traded using daily stock price returns equivalent to the expected term of the option. Due to a lack of sufficient historical information (the Company's shares were not publicly traded until December of 2006) historical volatility data for the Company was not considered in determining expected volatility. The Company also considered implied volatility data for comparable companies, using current exchange traded options. There is not an active market for options on the Company's common stock and, as such, implied volatility for the Company's stock was not considered. Additionally, the Company's general policy is to issue new shares of registered common stock to satisfy stock option exercises or grants of restricted stock.

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2008 was \$2.24. The fair value of each option was estimated using the following assumptions:

|                          | 2008      |
|--------------------------|-----------|
| Expected volatility      | 45.0%     |
| Expected dividends       | 1.3%      |
| Expected term (in years) | 5.5 - 6.5 |
| Risk free rate           | 3.0%      |

A summary of option activity under the Incentive Plan as of September 30, 2008, and changes during the nine months then ended is presented below:

| Options | Shares | Exercise Price | Weighted-Average Remaining Contract Term (yrs) | Aggregate Intrinsic Value (\$000 s) |
|---------|--------|----------------|--|-------------------------------------|
|---------|--------|----------------|--|-------------------------------------|

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

|  |         |    |      |     |        |
|--|---------|----|------|-----|--------|
| Outstanding as of January 1, 2008                |         |    |      |     |        |
| Granted  | 356,774 | \$ | 5.41 |     |        |
| Exercised  |         |    |      |     |        |
| Forfeited or Expired                             |         |    |      |     |        |
| Outstanding as of September 30, 2008             | 356,774 | \$ | 5.41 | 5.6 | \$ 321 |
| Vested at September 30, 2008                     |         |    |      |     |        |
| Vested or expected to vest at September 30, 2008 | 334,038 |    |      |     |        |

There were no NQSOs exercisable as of September 30, 2008, and therefore no NQSOs were exercised during the nine months ended September 30, 2008.

*Restricted stock units*

RSUs generally vest in one installment on the third anniversary of the grant date. A summary of the status of the Company's non-vested RSUs as of September 30, 2008, and changes during the nine months ended September 30, 2008 is presented below:



Table of Contents

| Nonvested Restricted Stock Units                 | Shares  | Grant Date Price | Weighted-Average Grant-Date Fair Value |
|--|---------|------------------|--|
| Non-vested as of January 1, 2008                 |         |                  |  |
| Granted  | 145,736 | \$ 5.41          | \$ 5.41                                |
| Vested   |         |                  |  |
| Forfeited  |         |                  |  |
| Outstanding as of September 30, 2008             | 145,736 | \$ 5.41          | \$ 5.41                                |
| Vested at September 30, 2008                     |         |                  |  |
| Vested or expected to vest at September 30, 2008 | 125,747 |                  |  |

The fair value of RSUs was based upon the Company's stock price on the date of grant. RSUs generally vest over three years.

As of September 30, 2008, there was \$1.2 million of total unrecognized compensation cost related to non-vested NQSOs and RSUs granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.4 years.

*Director Compensation*

As of May 20, 2008, the Company uses a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on our Board of Directors. Compensation is paid to non-employee directors. Stock-based compensation is paid pursuant to the Incentive Plan and was granted by the Compensation Committee. For the 2008 fiscal year each non-employee director will receive \$60,000, 50% in cash and 50% payable in unrestricted shares of the Company's common stock. Directors who are not outside directors receive no additional compensation for services as members of the Board or any of its committees. All of our directors in 2008 to date were outside directors other than Douglas B. Mackie. In addition, Thomas Souleles and Douglas Grissom waived their right to director's compensation for the 2008 fiscal year. During the nine months ended September 30, 2008 19,005 shares of the Company's common stock were issued to non-employee directors.

**6. Accounts receivable**

Accounts receivable at September 30, 2008 and December 31, 2007 are as follows:

|                                 | September 30<br>2008 | December 31<br>2007 |
|---------------------------------|----------------------|---------------------|
| Completed contracts             | \$ 17,821            | \$ 28,048           |
| Contracts in progress           | 58,422               | 68,197              |
| Retainage                       | 23,970               | 20,953              |
|                                 | 100,213              | 117,198             |
| Allowance for doubtful accounts | (1,250)              | (1,489)             |
| Total accounts receivable       | \$ 98,963            | \$ 115,709          |

**7. Contracts in progress**

The components of contracts in progress at September 30, 2008 and December 31, 2007 are as follows:

Table of Contents

|  | September 30<br>2008 | December 31<br>2007 |
|--|----------------------|---------------------|
| <b>Costs and earnings in excess of billings:</b>                   |                      |                     |
| Costs and earnings for contracts in progress                       | \$ 392,769           | \$ 216,701          |
| Amounts billed   | (366,603)            | (203,347)           |
| Costs and earnings in excess of billings for contracts in progress | 26,166               | 13,354              |
| Costs and earnings in excess of billings for completed contracts   | 344                  | 474                 |
| <b>Total contract revenues in excess of billings</b>               | <b>\$ 26,510</b>     | <b>\$ 13,828</b>    |
| <b>Prepaid contract costs (included in prepaid expenses)</b>       | <b>\$ 747</b>        | <b>\$ 2,618</b>     |
| <b>Billings in excess of costs and earnings:</b>                   |                      |                     |
| Amounts billed   | \$ (79,097)          | \$ (61,067)         |
| Costs and earnings for contracts in progress                       | 71,425               | 55,630              |
| <b>Total billings in excess of contract revenues</b>               | <b>\$ (7,672)</b>    | <b>\$ (5,437)</b>   |

**8. Intangible assets**

The net book value of intangible assets is as follows:

| As of September 30, 2008:                 | Cost     | Acquisitions | Accumulated<br>Amortization | Net      |
|---|----------|--------------|-----------------------------|----------|
| Demolition segment customer relationships | 1,093    | 207          | 833                         | 467      |
| Demolition Backlog                        |          | 158          | 99                          | 59       |
| Software and databases                    | 1,209    |              | 672                         | 537      |
|   | \$ 2,302 | \$ 365       | \$ 1,604                    | \$ 1,063 |

| As of December 31, 2007                   | Cost            | Acquisitions | Accumulated<br>Amortization | Net             |
|---|-----------------|--------------|-----------------------------|-----------------|
| Demolition segment customer relationships | 1,093           |              | 730                         | 363             |
| Software and databases                    | 1,209           |              | 566                         | 643             |
| <b>Total</b>                              | <b>\$ 2,302</b> | <b>\$</b>    | <b>\$ 1,296</b>             | <b>\$ 1,006</b> |

On April 30, 2008 the Company acquired the remaining 15% interest in North American Site Developers, Inc. ( NASDI Inc ) resulting in the recognition of additional intangible assets (See Note 15).

**9. Investment in joint ventures**

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

The Company has a 50% ownership interest in Amboy Aggregates ( Amboy ), whose primary business is the dredge mining and sale of fine aggregate. The Company accounts for its investment in Amboy using the equity method. The following table includes Amboy s summarized financial information for the periods presented.

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

### Table of Contents

|                       | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|-----------------------|-------------------------------------|----------|------------------------------------|-----------|
|                       | 2008                                | 2007     | 2008                               | 2007      |
| Revenue               | \$ 5,103                            | \$ 6,778 | \$ 15,739                          | \$ 18,019 |
| Gross profit          | \$ 500                              | \$ 1,861 | \$ 1,682                           | \$ 4,680  |
| Net income            | \$ 122                              | \$ 1,580 | \$ 500                             | \$ 3,378  |
| Great Lakes 50% share | \$ 61                               | \$ 790   | \$ 250                             | \$ 1,689  |

Amboy has a revolving loan with a bank for up to \$3,000 which contains certain restrictive covenants, including limitations on the amount of distributions to its joint venture partners. The Company does not guarantee any of the outstanding borrowings and accrued interest under the bank agreement. It is the intent of the joint venture partners to periodically distribute Amboy's earnings, to the extent allowed by Amboy's bank agreement. For the nine months ended September 30, 2008 and 2007, the Company received distributions from Amboy totaling \$500 and \$1,400, respectively.

The Company and its Amboy joint venture partner also each own a 50% interest in land, which is adjacent to the Amboy property and is used in connection with the Amboy operations. The Company's recorded share of the property is \$1,047 and is reflected in investments in joint ventures.

### **10. Accrued expenses**

Accrued expenses at September 30, 2008 and December 31, 2007 are as follows:

|                               | September 30<br>2008 | December 31<br>2007 |
|-------------------------------|----------------------|---------------------|
| Payroll and employee benefits | \$ 9,077             | \$ 10,778           |
| Insurance                     | 7,425                | 6,553               |
| Interest                      | 4,416                | 950                 |
| Income and other taxes        | 1,043                | 4,690               |
| Fuel hedge liability          | 1,617                |                     |
| Other                         | 1,565                | 1,096               |
| Total accrued expenses        | \$ 25,143            | \$ 24,067           |

### **11. Income taxes**

The Company provides for income taxes in interim periods based on an estimated annual effective tax rate adjusted for items that are discrete to each period. Significant items impacting the effective tax rate at September 30, 2008 and 2007 include amounts associated with FASB Interpretation No. 48, Accounting for Uncertainties in Income Taxes (FIN 48). Effective January 1, 2007, Great Lakes adopted FIN 48, which requires a company to evaluate whether the tax position taken by a company will more likely than not be sustained upon examination by the appropriate taxing authority. It also provides guidance on how a company should measure the amount of benefit that the company is to

recognize in its financial statements.

The uncertain tax positions of the Company as of September 30, 2008 and December 31, 2007, totaled \$1,940 and \$1,867, respectively. At September 30, 2008 and December 31, 2007, approximately \$646 and \$599, respectively, of the total gross unrecognized tax benefits represent the amount that, if recognized, would affect the effective income tax rate in future periods. The Company does not anticipate the total amount of unrecognized tax benefits will significantly change over the next twelve months. The Company's continuing practice is to record interest and penalties related to income tax matters in income tax expense. Such interest and penalties are not significant for the three and nine months ended September 30, 2008 and 2007.

The Company files income tax returns at the U.S. federal level and in various state and foreign jurisdictions. U.S. federal income tax years prior to 2004 are closed and no longer subject to examination. With few exceptions, the statute of limitations in state taxing jurisdictions in which the Company operates has expired for all years prior to 2004. The Company is currently undergoing an examination by the State of Illinois for the 2005 and 2004 tax years. An Internal Revenue Service examination of the 2005 tax year is in process as of September 30, 2008. In foreign jurisdictions in which the Company operates, all significant years prior to 2004 are closed and are no longer subject to examination.

Table of Contents

While the Company does not expect material adjustments will result from such examinations, it is possible that federal, state or foreign authorities may challenge tax positions taken by the Company, and seek payment for additional taxes and penalties. While no assurance can be given, the Company does not believe the results of these examinations will have a material effect on its financial position, results of operations, or cash flows.

**12. Segment information**

The Company operates 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 as follows:

|                   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|-------------------|-------------------------------------|------------|------------------------------------|------------|
|                   | 2008                                | 2007       | 2008                               | 2007       |
| <b>Dredging</b>   |                                     |            |                                    |            |
| Contract revenues | \$ 123,816                          | \$ 93,707  | \$ 334,515                         | \$ 310,989 |
| Operating income  | 6,603                               | 3,162      | 13,635                             | 15,992     |
| <b>Demolition</b> |                                     |            |                                    |            |
| Contract revenues | \$ 18,993                           | \$ 22,753  | \$ 89,337                          | \$ 47,828  |
| Operating income  | (135)                               | 564        | 4,880                              | 2,200      |
| <b>Total</b>      |                                     |            |                                    |            |
| Contract revenues | \$ 142,809                          | \$ 116,460 | \$ 423,852                         | \$ 358,817 |
| Operating income  | 6,468                               | 3,726      | 18,515                             | 18,192     |

In addition, foreign dredging revenue of \$50,837 and \$118,959 for the three and nine months ended September 30, 2008, 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.

**13. Commitments and contingencies***Commercial commitments*

Great Lakes has a secured \$155,000 bank credit facility, which matures in June 2012. This credit facility provides for revolving loans, letters of credit and swingline loans. As of September 30, 2008, Great Lakes had \$49,709 of revolver borrowings and \$26,333 of letters of credit outstanding under this facility.

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

During the three-months ended September 30, 2008, one of the lenders supporting the Company's \$155,000 revolving credit facility defaulted under the company's credit agreement. This lender is responsible for \$10,000 or 6.5% of the overall line of credit. While the default of this lender may reduce overall availability, the Company continues to have adequate capacity under the revolving credit agreement to fund its operations, provide working capital, meet debt service requirements and finance capital expenditures. Accordingly, the Company does not believe that the loss of this lender will have a material effect on its financial position, result of operations or cash flows.

Great Lakes obtains its performance, bid and payment bonds through a bonding agreement with a surety company. The bonds issued under the bonding agreement are customarily required for dredging and marine construction projects, as well as demolition projects. As of September 30, 2008, Great Lakes had outstanding bonds valued at \$402,989; however, the revenue value remaining in backlog related to these projects totaled approximately \$248,805.

Great Lakes 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 September 30, 2008, Great Lakes had \$16,341 of letters of credit outstanding under this facility.

Great Lakes has also issued \$175,000 of senior subordinated notes, which mature in December 2013.

Great Lakes' obligations under its bank credit facility and bonding agreement are secured by liens on a substantial portion of Great Lakes' assets. As of December 31, 2007, the net book value of the Company's operating equipment securing the Company's obligations under its bank credit facility and bonding agreement was approximately \$77,000 and \$83,000, respectively. Great Lakes' obligations under its international letter of credit facility are secured by the Company's foreign accounts receivable. Great Lakes' obligations under its senior subordinated notes are unsecured.



Table of Contents

Great Lakes bank credit facility, bonding agreement and senior subordinated notes contain various restrictive covenants, including a limitation on dividends, limitations on redemption and repurchases of capital stock, limitations on the incurrence of 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.

As is customary with negotiated contracts and modifications or claims to competitively-bid contracts with the federal government, the government has the right to audit the books and records of the Company to ensure compliance with such contracts, modifications or claims and the applicable federal laws. The government has the ability to seek a price adjustment based on the results of such audit. Any such audits have not had and are not expected to have a material impact on the financial position, operations or cash flows of the Company.

In the ordinary course of business, the Company negotiates contract related claims for additional compensation. These amounts are not recognized in contract revenues until such claims are settled. During September 2008, the Company came to agreement with a customer on additional compensation due to the Company related to its performance of an ongoing dredging project. This agreement provides for additional revenue of approximately \$13,300 over the duration of the contract. As a result of percent complete accounting, the Company recorded an incremental \$6,000 in contract revenue as of September 30, 2008 related to work performed on this contract from the fourth quarter of 2006 through September 30, 2008. Future revenue from this claim will be recorded along with the costs associated with performing this work.

*Legal proceedings and other contingencies*

Various legal actions, claims, assessments and other contingencies arising in the ordinary course of business are pending against Great Lakes 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. For a discussion of these matters, please refer to Note 18 Commitments and Contingencies reported in Great Lakes Annual Report on Form 10-K for the year ended December 31, 2007, as updated by our Quarterly Report on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008. Except as noted below, there have been no material changes or developments in these matters since December 31, 2007.

In February 2004, the Company was served with a subpoena to produce documents in connection with a federal grand jury convened in the United States District Court for the District of South Carolina. The Company believes that the grand jury was convened to investigate the United States dredging industry in connection with work performed for the U.S. Army Corps of Engineers. On September 30, 2008, the Company received notification from the Department of Justice that the investigation has been closed and there will be no further activity.

The Company's results continue to be negatively impacted from the increase in reserves related to injury claims from our hourly workforce residing in Texas. In the normal course of business, the Company is party to various personal injury lawsuits for which it maintains insurance to cover claims that arise subject to a deductible. In 2006 and 2005, there was a substantial increase in suits filed in Texas due, in large part, to two Texas law firms aggressively pursuing personal injury claims on behalf of dredging workers resident in Texas. During the first half of 2007, Maritime Jobs for Texas, a coalition of maritime employers worked to reform Texas venue law with regard to the type of personal injury suits

the dredging industry has recently faced. On May 24, 2007, the Texas legislature passed a bill which removed in part certain venue rules favorable to would-be plaintiffs. As enacted, these legislative reforms could alleviate the increasing number of meritless personal injury suits facing the industry in Texas. Since the passage of this legislation, the Company has been served with one personal injury lawsuit in Texas. In addition, with the settlement of several claims throughout 2007, the inventory of claims at the end of the year was significantly less compared to the start of the year. During the third quarter of 2008, no new personal injury lawsuits related to our hourly workforce in Texas were commenced against the Company. The Company's recorded self-insurance reserves represent its best estimate of the outcomes of outstanding claims and the Company does not believe that there will be a material adverse impact to the Company's financial position or results of operations or cash flows related to outstanding claims. However, the occurrence of new claims of a similar nature is not possible to predict and, while the Company does not believe that additional claims would have a material impact on the Company's financial position, it is possible they could be material to future results of operations and cash flows in future periods.

On April 24, 2006, a class action complaint ( Reed Complaint ) was filed in the U.S. District Court for the Eastern District of Louisiana, on behalf of Louisiana citizens who allegedly suffered property damage from the floodwaters that flooded New Orleans and surrounding areas when Hurricane Katrina hit the area on August 29, 2005. Other plaintiffs have filed similar class action complaints, as well one mass tort (collectively with the Reed Complaints, the Katrina Claims ). Great Lakes maintains \$150 million in insurance coverage for the Katrina Claims. The Reed Complaint names as defendants the U.S. government, Great Lakes Dredge & Dock Company, and numerous other dredging companies, which completed dredging projects on behalf of the Army Corps of Engineers in the Mississippi River Gulf Outlet (MRGO) between 1993 and 2005. The Reed Complaint alleges that dredging of MRGO caused the destruction of the Louisiana wetlands, which had provided a natural barrier against some storms and hurricanes. The Reed Complaint alleges that this loss of natural barriers contributed to the failure of the levees as Katrina floodwaters damaged plaintiffs' property. The Reed Complaint asserts claims of negligence, warranty, concealment, and violations of the Water Pollution Control Act. All these cases raise the same claims as the Reed Complaint. One dredging company has filed a cross-claim seeking contribution and indemnification. The amount of claimed damages is not stated, but is presumed to be significant. On March 9, 2007, the District Court dismissed with prejudice the Reed Complaint and one mass tort claim against Great Lakes and those plaintiffs have filed an appeal to the U.S. Court of Appeals for the Fifth Circuit (the Fifth Circuit ). Briefing on the appeal is now complete, and the Fifth Circuit held oral argument on September 4, 2008. The Fifth Circuit has now taken the appeal under advisement and the parties are awaiting a ruling. In addition and as previously reported, on October 19, 2006, Great Lakes filed for exoneration or limitation of liability under the Limitation of Liability Act in the U.S. District Court for the Eastern District of Louisiana. Roughly 40,000 claims by individuals, businesses, and the State of Louisiana were filed against Great Lakes, asserting the same basis theory of liability as in the Reed Complaint and seeking damages significantly in excess of the \$55 million limitation bond posted by Great Lakes. On September 7, 2007, Great Lakes filed a motion to dismiss all claims against it in the limitation proceeding. The District Court granted the motion on June 12, 2008, dismissing the limitation claims with prejudice. The claimants filed a notice of appeal in the Fifth Circuit. Briefing is expected to begin during the fourth quarter of 2008, and oral arguments are expected to take place on this appeal during the second or third quarter of 2009. Great Lakes believes that the Katrina Claims will not have a material adverse impact on its financial condition or results of operations and cash flows.

---

Table of Contents

**14. Effects of recently issued accounting pronouncements**

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ( SFAS 141(R) ), which replaces SFAS No. 141, *Business Combinations*. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to

enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. Great Lakes will assess the impact, if any, that SFAS 141(R) will have on the Company's consolidated financial condition, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Adoption of SFAS 160 as of January 1, 2009 is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 ( SFAS 161 ). SFAS 161 requires entities to provide greater disclosure about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS 133, and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The principal impact to the Company of adopting SFAS 161 will be to require the Company to expand its disclosure regarding its derivative instruments.

#### **15. Minority interest acquisition**

On April 30, 2008 the Company acquired the remaining 15% minority interest in NASDI Inc., which it did not previously own, from Christopher A. Berardi, the President of NASDI Inc. Additionally, the Company entered into a series of transactions for the purpose of restructuring the Company's arrangements with Mr. Berardi.

As a result of these transactions, the operations of NASDI Inc. were contributed into NASDI, LLC, a newly formed Delaware limited liability company, which issued Class A and Class B member interests. The Company is the owner of 100% of the Class A interests, which provide a \$28,000 liquidation preference with respect to proceeds upon disposition of NASDI, LLC. The Company also owns 65% of the Class B interests, with the remaining 35% owned by Mr. Berardi. The holders of Class B interests are entitled to receive periodic distributions of future profits based on available cash flows from operations on a pro rata basis in proportion to their percentage ownership interest.

Pursuant to the terms of the NASDI, LLC Limited Liability Company Agreement, the Company has the ability to call Mr. Berardi's 35% interest upon Mr. Berardi's termination of employment, upon a change in control related to the Company or any time after December 31, 2010. The call payment is based on a formula that considers NASDI, LLC's average annual EBITDA for a two year period, as adjusted for the Class A liquidation preference and outstanding indebtedness of NASDI, LLC. The call payment is limited, in certain situations, to a maximum of \$1,500.

The Company also entered into an employment agreement with Mr. Berardi that establishes the terms of Mr. Berardi's salary and benefits. Additionally, in the event of sale of all or a material portion of NASDI, LLC, Mr. Berardi is entitled to a cash payment equal to 35% of the proceeds received by the Company in connection with the sale of NASDI, LLC to a third party, but such payment shall not exceed \$9,800.

The acquisition was accounted for as a purchase, with a purchase price of \$1,939 equal to the fair value of consideration received by Mr. Berardi, including the 35% interest in Class B shares, a cash payment of \$5 and the fair value of future obligations to Mr. Berardi by the Company. Accordingly, the assets and liabilities associated with this 15% interest were adjusted to their estimated fair values. This allocation of purchase price is preliminary and is subject to change in future periods based on refinements of the amounts and assumptions used in the allocation. A summary of the allocation of purchase price to the assets acquired is as follows:

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

|                               |    |       |
|-------------------------------|----|-------|
| Property, plant and equipment | \$ | (28)  |
| Intangible assets             |    | 365   |
| Goodwill                      |    | 1,574 |
| Total                         | \$ | 1,911 |

15

---

Table of Contents

**16. Subsequent events**

On November 3, 2008 the Company entered into a sale-leaseback with Banc of America Leasing & Capital, LLC, for a piece of ancillary equipment, the GL 177. The Company sold the vessel to Banc of America Leasing & Capital, LLC, for \$16,665. The Company will lease it through November 2018 under a long term operating lease.

**17. Supplemental unaudited condensed consolidating financial information**

Included in the Company's long-term debt is \$175,000 of 7.75% senior subordinated notes which will mature on December 15, 2013. The payment obligations of the Company under the senior subordinated notes are guaranteed by the Company's domestic subsidiaries (the Subsidiary Guarantors). Such guarantees are full, unconditional and joint and several. The following supplemental financial information sets forth, on a combined basis, the balance sheets, statements of operations and statements of cash flows for the Subsidiary Guarantors, the Company's non-guarantor subsidiary and for the Company, exclusive of its subsidiaries (GLDD Corporation).

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF SEPTEMBER 30, 2008****UNAUDITED****(in thousands)**

|  | <b>Guarantor<br/>Subsidiaries</b> | <b>Other<br/>Subsidiary</b> | <b>GLDD<br/>Corporation</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|--|-----------------------------------|-----------------------------|-----------------------------|---------------------|--------------------------------|
| <b>ASSETS</b>                              |                                   |                             |                             |                     |                                |
| <b>CURRENT ASSETS:</b>                     |                                   |                             |                             |                     |                                |
| Cash and cash equivalents                  | \$ 11,513                         | \$ 10                       | \$                          | \$                  | \$ 11,523                      |
| Accounts receivable net                    | 98,963                            |                             |                             |                     | 98,963                         |
| Receivables from affiliates                | 7,620                             | 2,739                       | 28,378                      | (38,737)            |                                |
| Contract revenues in excess of billings    | 26,510                            |                             |                             |                     | 26,510                         |
| Inventories                                | 30,776                            |                             |                             |                     | 30,776                         |
| Prepaid expenses and other current assets  | 21,818                            |                             | 12,553                      |                     | 34,371                         |
| Total current assets                       | 197,200                           | 2,749                       | 40,931                      | (38,737)            | 202,143                        |
| PROPERTY AND EQUIPMENT Net                 | 309,040                           |                             |                             |                     | 309,040                        |
| GOODWILL                                   | 97,799                            |                             |                             |                     | 97,799                         |
| OTHER INTANGIBLE ASSETS Net                | 1,063                             |                             |                             |                     | 1,063                          |
| INVESTMENTS IN SUBSIDIARIES                | 2,750                             |                             | 500,878                     | (503,628)           |                                |
| INVENTORIES                                | 35,213                            |                             |                             |                     | 35,213                         |
| INVESTMENTS IN JOINT VENTURES              | 9,339                             |                             |                             |                     | 9,339                          |
| OTHER ASSETS                               | 1,713                             |                             | 5,914                       |                     | 7,627                          |
| TOTAL                                      | \$ 654,117                        | \$ 2,749                    | \$ 547,723                  | \$ (542,365)        | \$ 662,224                     |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                                   |                             |                             |                     |                                |
| <b>CURRENT LIABILITIES:</b>                |                                   |                             |                             |                     |                                |
| Accounts payable                           | 78,431                            |                             | 120                         | (27)                | 78,524                         |
| Payables to affiliates                     | 38,737                            |                             |                             | (38,737)            |                                |
| Accrued expenses                           | 20,449                            |                             | 4,694                       |                     | 25,143                         |
| Billings in excess of contract revenues    | 7,672                             |                             |                             |                     | 7,672                          |
| Current portion of equipment debt          | 1,551                             |                             |                             |                     | 1,551                          |
| Total current liabilities                  | 146,840                           |                             | 4,814                       | (38,764)            | 112,890                        |
| REVOLVING CREDIT FACILITY                  |                                   |                             | 49,710                      |                     | 49,710                         |
| 7 3/4% SENIOR SUBORDINATED DEBT            |                                   |                             | 175,000                     |                     | 175,000                        |
| DEFERRED INCOME TAXES                      | 1,343                             | (1)                         | 83,151                      |                     | 84,493                         |
| OTHER                                      | 6,700                             |                             | 3,927                       |                     | 10,627                         |
| Total liabilities                          | 154,883                           | (1)                         | 316,602                     | (38,764)            | 432,720                        |
| MINORITY INTEREST                          |                                   |                             | 468                         |                     | 468                            |
| STOCKHOLDERS EQUITY                        | 499,234                           | 2,750                       | 230,653                     | (503,601)           | 229,036                        |
| TOTAL                                      | \$ 654,117                        | \$ 2,749                    | \$ 547,723                  | \$ (542,365)        | \$ 662,224                     |

Table of Contents

**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF DECEMBER 31, 2007**

UNAUDITED

(in thousands)

|  | Guarantor<br>Subsidiaries | Other<br>Subsidiary | GLDD<br>Corporation | Eliminations | Consolidated<br>Totals |
|--|---------------------------|---------------------|---------------------|--------------|------------------------|
| <b>ASSETS</b>                                  |                           |                     |                     |              |                        |
| <b>CURRENT ASSETS:</b>                         |                           |                     |                     |              |                        |
| Cash and cash equivalents                      | \$ 8,233                  | \$ 6                | \$                  | \$           | \$ 8,239               |
| Accounts receivable net                        | 115,709                   |                     |                     |              | 115,709                |
| Receivables from affiliates                    | 7,712                     | 2,789               | 19,507              | (30,008)     |                        |
| Contract revenues in excess of billings        | 13,828                    |                     |                     |              | 13,828                 |
| Inventories                                    | 29,157                    |                     |                     |              | 29,157                 |
| Prepaid expenses and other current assets      | 15,805                    |                     | 7,885               |              | 23,690                 |
| Total current assets                           | 190,444                   | 2,795               | 27,392              | (30,008)     | 190,623                |
| PROPERTY AND EQUIPMENT Net                     | 296,721                   |                     |                     |              | 296,721                |
| GOODWILL                                       | 96,225                    |                     |                     |              | 96,225                 |
| OTHER INTANGIBLE ASSETS Net                    | 1,006                     |                     |                     |              | 1,006                  |
| INVESTMENTS IN SUBSIDIARIES                    | 2,795                     |                     | 454,481             | (457,276)    |                        |
| NOTES RECEIVABLE FROM<br>AFFILIATES            |                           |                     | 22,702              | (22,702)     |                        |
| INVENTORIES                                    | 21,315                    |                     |                     |              | 21,315                 |
| INVESTMENTS IN JOINT VENTURES                  | 9,589                     |                     |                     |              | 9,589                  |
| OTHER ASSETS                                   | 1,764                     |                     | 7,119               |              | 8,883                  |
| TOTAL  | \$ 619,859                | \$ 2,795            | \$ 511,694          | \$ (509,986) | \$ 624,362             |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY</b> |                           |                     |                     |              |                        |
| <b>CURRENT LIABILITIES:</b>                    |                           |                     |                     |              |                        |
| Accounts payable                               | 77,542                    |                     | 10                  |              | 77,552                 |
| Payables to affiliates                         | 30,008                    |                     |                     | (30,008)     |                        |
| Accrued expenses                               | 19,091                    |                     | 4,976               |              | 24,067                 |
| Billings in excess of contract revenues        | 5,437                     |                     |                     |              | 5,437                  |
| Current portion of equipment debt              | 1,273                     |                     |                     |              | 1,273                  |
| Total current liabilities                      | 133,351                   |                     | 4,986               | (30,008)     | 108,329                |
| REVOLVING CREDIT FACILITY                      |                           |                     | 21,500              |              | 21,500                 |
| 7 3/4% SENIOR SUBORDINATED DEBT                |                           |                     | 175,000             |              | 175,000                |
| NOTES PAYABLE TO AFFILIATES                    | 22,702                    |                     |                     | (22,702)     |                        |
| DEFERRED INCOME TAXES                          | 1,278                     |                     | 78,558              |              | 79,836                 |
| OTHER  | 7,577                     |                     | 1,724               |              | 9,301                  |
| Total liabilities                              | 164,908                   |                     | 281,768             | (52,710)     | 393,966                |
| MINORITY INTEREST                              |                           |                     | 2,061               |              | 2,061                  |
| STOCKHOLDERS EQUITY                            | 454,951                   | 2,795               | 227,865             | (457,276)    | 228,335                |
| TOTAL  | \$ 619,859                | \$ 2,795            | \$ 511,694          | \$ (509,986) | \$ 624,362             |





Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008****UNAUDITED****(in thousands)**

|  | Guarantor<br>Subsidiaries | Other<br>Subsidiary | GLDD<br>Corporation | Eliminations | Consolidated<br>Totals |
|--|---------------------------|---------------------|---------------------|--------------|------------------------|
| CONTRACT REVENUES                            | \$ 142,809                | \$                  | \$                  | \$           | 142,809                |
| COST OF CONTRACT REVENUES                    | (125,192)                 |                     | (1)                 |              | (125,193)              |
| GROSS PROFIT                                 | 17,617                    |                     | (1)                 |              | 17,616                 |
| <b>OPERATING EXPENSES</b>                    |                           |                     |                     |              |                        |
| General and administrative expenses          | (10,424)                  | (15)                | (532)               |              | (10,971)               |
| Amortization of intangibles                  | (177)                     |                     |                     |              | (177)                  |
| Total operating income                       | 7,016                     | (15)                | (533)               |              | 6,468                  |
| INTEREST EXPENSE (Net)                       | (32)                      |                     | (4,269)             |              | (4,301)                |
| EQUITY IN EARNINGS (LOSS) OF<br>SUBSIDIARIES | (26)                      |                     | 7,145               | (7,119)      |                        |
| EQUITY IN EARNINGS OF JOINT<br>VENTURE       | 61                        |                     |                     |              | 61                     |
| INCOME (LOSS) BEFORE INCOME<br>TAXES         | 7,019                     | (15)                | 2,343               | (7,119)      | 2,228                  |
| INCOME TAX (PROVISION) BENEFIT               | 126                       | (11)                | (942)               |              | (827)                  |
| NET INCOME (LOSS)                            | \$ 7,145                  | \$ (26)             | \$ 1,401            | \$ (7,119)   | \$ 1,401               |

**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007****UNAUDITED****(in thousands)**

|                   | Guarantor<br>Subsidiaries | Other<br>Subsidiary | GLDD<br>Corporation | Eliminations | Consolidated<br>Totals |
|-------------------|---------------------------|---------------------|---------------------|--------------|------------------------|
| CONTRACT REVENUES | \$ 116,460                | \$                  | \$                  | \$           | \$ 116,460             |

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

|   |           |         |            |            |           |
|---|-----------|---------|------------|------------|-----------|
| COST OF CONTRACT REVENUES                 | (103,114) |         |            |            | (103,114) |
| GROSS PROFIT                              | 13,346    |         |            |            | 13,346    |
| <b>OPERATING EXPENSES</b>                 |           |         |            |            |           |
| General and administrative expenses       | (8,961)   | (16)    | (577)      |            | (9,554)   |
| Amortization of intangibles               | (66)      |         |            |            | (66)      |
| Total operating income                    | 4,319     | (16)    | (577)      |            | 3,726     |
| INTEREST EXPENSE <sup>0</sup> Net         | (577)     |         | (2,798)    |            | (3,375)   |
| EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES | (10)      |         | 5,662      | (5,652)    |           |
| EQUITY IN EARNINGS OF JOINT VENTURE       | 790       |         |            |            | 790       |
| MINORITY INTEREST                         |           |         |            | 22         | 22        |
| INCOME (LOSS) BEFORE INCOME TAXES         | 4,522     | (16)    | 2,287      | (5,630)    | 1,163     |
| INCOME TAX (PROVISION) BENEFIT            | 1,056     | 6       | (3,946)    | 2,365      | (519)     |
| NET INCOME (LOSS)                         | \$ 5,578  | \$ (10) | \$ (1,659) | \$ (3,265) | \$ 644    |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****UNAUDITED****(in thousands)**

|  | Guarantor<br>Subsidiaries | Other<br>Subsidiary | GLDD<br>Corporation | Eliminations | Consolidated<br>Totals |
|--|---------------------------|---------------------|---------------------|--------------|------------------------|
| CONTRACT REVENUES                            | \$ 423,852                | \$                  | \$                  | \$           | 423,852                |
| COST OF CONTRACT REVENUES                    | (372,594)                 |                     | (62)                |              | (372,656)              |
| GROSS PROFIT                                 | 51,258                    |                     | (62)                |              | 51,196                 |
| <b>OPERATING EXPENSES</b>                    |                           |                     |                     |              |                        |
| General and administrative expenses          | (31,179)                  | (45)                | (1,149)             |              | (32,373)               |
| Amortization of intangibles                  | (308)                     |                     |                     |              | (308)                  |
| Total operating income                       | 19,771                    | (45)                | (1,211)             |              | 18,515                 |
| INTEREST EXPENSE (Net)                       | (954)                     |                     | (11,899)            |              | (12,853)               |
| EQUITY IN EARNINGS (LOSS) OF<br>SUBSIDIARIES | (45)                      |                     | 17,426              | (17,381)     |                        |
| EQUITY IN EARNINGS OF JOINT<br>VENTURE       | 250                       |                     |                     |              | 250                    |
| MINORITY INTEREST                            |                           |                     | (231)               |              | (231)                  |
| INCOME (LOSS) BEFORE INCOME<br>TAXES         | 19,022                    | (45)                | 4,085               | (17,381)     | 5,681                  |
| INCOME TAX (PROVISION) BENEFIT               | (1,596)                   |                     | (934)               |              | (2,530)                |
| NET INCOME (LOSS)                            | \$ 17,426                 | \$ (45)             | \$ 3,151            | \$ (17,381)  | \$ 3,151               |

**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007****UNAUDITED****(in thousands)**

|  | Guarantor<br>Subsidiaries | Other<br>Subsidiary | GLDD<br>Corporation | Eliminations | Consolidated<br>Totals |
|--|---------------------------|---------------------|---------------------|--------------|------------------------|
|--|---------------------------|---------------------|---------------------|--------------|------------------------|

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

|   |    |           |      |          |          |           |
|---|----|-----------|------|----------|----------|-----------|
| CONTRACT REVENUES                         | \$ | 358,817   | \$   |          | \$       | 358,817   |
| COST OF CONTRACT REVENUES                 |    | (312,691) |      | (903)    |          | (313,594) |
| GROSS PROFIT                              |    | 46,126    |      | (903)    |          | 45,223    |
| <b>OPERATING EXPENSES</b>                 |    |           |      |          |          |           |
| General and administrative expenses       |    | (26,030)  | (50) | (754)    |          | (26,834)  |
| Amortization of intangibles               |    | (197)     |      |          |          | (197)     |
| Total operating income                    |    | 19,899    | (50) | (1,657)  |          | 18,192    |
| INTEREST EXPENSE (Net)                    |    | (3,131)   |      | (11,086) |          | (14,217)  |
| EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES |    | (32)      |      | 21,299   | (21,267) |           |
| EQUITY IN EARNINGS OF JOINT VENTURE       |    | 1,689     |      |          |          | 1,689     |
| MINORITY INTEREST                         |    |           |      |          | 3        | 3         |
| INCOME (LOSS) BEFORE INCOME TAXES         |    | 18,425    | (50) | 8,556    | (21,264) | 5,667     |
| INCOME TAX (PROVISION) BENEFIT            |    | 2,854     | 18   | (14,183) | 8,931    | (2,380)   |
| NET INCOME (LOSS)                         | \$ | 21,279    | \$   | (32)     | \$       | (5,627)   |
|   |    |           |      |          | \$       | (12,333)  |
|   |    |           |      |          |          | \$        |
|   |    |           |      |          |          | 3,287     |

Table of Contents**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****UNAUDITED****(in thousands)**

|   | Guarantor<br>Subsidiaries | Other<br>Subsidiary | GLDD<br>Corporation | Eliminations | Consolidated<br>Totals |
|---|---------------------------|---------------------|---------------------|--------------|------------------------|
| <b>Operating Activities</b>               |                           |                     |                     |              |                        |
| Net cash flows from operating activities  | \$ 25,330                 | \$ (45)             | \$ (14,291)         | \$           | \$ 10,994              |
| <b>Investing Activities</b>               |                           |                     |                     |              |                        |
| Purchases of property and equipment       | (32,906)                  |                     |                     |              | (32,906)               |
| Dispositions of property and equipment    | 799                       |                     |                     |              | 799                    |
| Loan to related party                     |                           |                     |                     |              |                        |
| Purchase of Minority Interest             | (5)                       |                     |                     |              | (5)                    |
| Changes to Restricted Cash                | 787                       |                     |                     |              | 787                    |
| Net cash flows from investing activities  | (31,325)                  |                     |                     |              | (31,325)               |
| <b>Financing Activities</b>               |                           |                     |                     |              |                        |
| Repayments of long-term debt              | (1,469)                   |                     |                     |              | (1,469)                |
| Borrowings under revolving loans          |                           |                     | 28,210              |              | 28,210                 |
| Net change in accounts with affiliates    | 10,532                    | 19                  | (10,551)            |              |                        |
| Cash proceeds from conversion of warrants |                           |                     |                     |              |                        |
| <b>Financing Fees</b>                     |                           |                     |                     |              |                        |
| Dividends                                 | (2,987)                   |                     |                     |              | (2,987)                |
| Repayment of capital lease debt           | (139)                     |                     |                     |              | (139)                  |
| Net cash flows from financing activities  | 5,937                     | 19                  | 17,659              |              | 23,615                 |
| Net change in cash and equivalents        | (58)                      | (26)                | 3,368               |              | 3,284                  |
| Cash and equivalents at beginning of year | 8,233                     | 6                   |                     |              | 8,239                  |
| Cash and equivalents at end of year       | \$ 8,175                  | \$ (20)             | \$ 3,368            | \$           | \$ 11,523              |

**GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007****UNAUDITED****(in thousands)**

|                             | Guarantor<br>Subsidiaries | Other<br>Subsidiary | GLDD<br>Corporation | Eliminations | Consolidated<br>Totals |
|-----------------------------|---------------------------|---------------------|---------------------|--------------|------------------------|
| <b>Operating Activities</b> |                           |                     |                     |              |                        |

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

|   |    |          |    |      |    |          |    |          |
|---|----|----------|----|------|----|----------|----|----------|
| Net cash flows from operating activities  | \$ | 18,114   | \$ | (32) | \$ | (28,007) | \$ | (9,925)  |
| <b>Investing Activities</b>               |    |          |    |      |    |          |    |          |
| Purchases of property and equipment       |    | (77,175) |    |      |    |          |    | (77,175) |
| Dispositions of property and equipment    |    | 28,378   |    |      |    |          |    | 28,378   |
| Loan to related party                     |    | 1,703    |    |      |    |          |    | 1,703    |
| Net cash flows from investing activities  |    | (47,094) |    |      |    |          |    | (47,094) |
| <b>Financing Activities</b>               |    |          |    |      |    |          |    |          |
| Repayments of long-term debt              |    | (19,685) |    |      |    |          |    | (19,685) |
| Borrowings under revolving loans          |    |          |    |      |    | 14,500   |    | 14,500   |
| Net change in accounts with affiliates    |    | 78,229   |    | 32   |    | (78,261) |    |          |
| Cash proceeds from conversion of warrants |    |          |    |      |    | 91,768   |    | 91,768   |
| Repayment of capital lease debt           |    | (1,393)  |    |      |    |          |    | (1,393)  |
| Financing Fees                            |    | (2,101)  |    |      |    |          |    | (2,101)  |
| Net cash flows from financing activities  |    | 55,050   |    | 32   |    | 28,007   |    | 83,089   |
| Net change in cash and equivalents        |    | 26,070   |    |      |    |          |    | 26,070   |
| Cash and equivalents at beginning of year |    | 3,630    |    | 10   |    |          |    | 3,640    |
| Cash and equivalents at end of year       | \$ | 29,700   | \$ | 10   | \$ |          | \$ | 29,710   |

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 and 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, will, would, could, or 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, 2007, the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2008 and June 30, 2008 and in other securities filings by Great Lakes with the SEC.

Although Great Lakes 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. Great Lakes' 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 Great Lakes 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. 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 Army Corps of Engineers (the Corps) has responsibility for federally funded projects related to navigation and flood control of the U.S. waterways and is the Company's primary customer in the U.S. The U.S. dredging market consists of three primary types of work: Capital, Maintenance and Beach Nourishment, in which the Company experienced an average combined U.S. bid market share of 39% over the last three fiscal years (2005 to 2007). The Company's bid market is defined as the population of projects on which it bid or could have bid if not for capacity constraints (bid market). In addition, the Company has continued its role as the only U.S. dredging contractor with significant international operations, which averaged 23% of its dredging revenues over the last three fiscal years.

The Company's subsidiary, NASDI, LLC (NASDI), is a demolition service provider located in the Boston, Massachusetts area. NASDI'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 Company's equity in earnings from joint ventures relates to the Company's 50% ownership interests in Amboy Aggregates ( Amboy ) and in its interest in an adjoining land investment joint venture, which are accounted for using the equity method.

**Results of Operations**

The following table sets forth the components of net income and EBITDA, as defined below, as a percentage of contract revenues for the three months and nine months ended September 30, 2008 and 2007:



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

Table of Contents

|                                      | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                      | 2008                                | 2007   | 2008                               | 2007   |
| Contract revenues                    | 100.0%                              | 100.0% | 100.0%                             | 100.0% |
| Costs of contract revenues           | (87.7)                              | (88.5) | (87.9)                             | (87.4) |
| Gross profit                         | 12.3                                | 11.5   | 12.1                               | 12.6   |
| General and administrative expenses  | (7.7)                               | (8.2)  | (7.6)                              | (7.5)  |
| Amortization of intangible assets    | (0.1)                               | (0.0)  | (0.1)                              | (0.0)  |
| Operating income                     | 4.5                                 | 3.2    | 4.4                                | 5.0    |
| Interest expense, net                | (3.0)                               | (2.9)  | (3.0)                              | (4.0)  |
| Equity in earnings of joint ventures | 0.0                                 | 0.7    | 0.1                                | 0.5    |
| Minority interest                    |                                     | 0.0    | (0.1)                              | 0.0    |
| Income before income taxes           | 1.6                                 | 1.0    | 1.3                                | 1.5    |
| Income tax provision                 | (0.6)                               | (0.4)  | (0.6)                              | (0.6)  |
| Net income                           | 1.0%                                | 0.6%   | 0.7%                               | 0.9%   |
| EBITDA                               | 10.2%                               | 10.0%  | 9.4%                               | 11.2%  |

EBITDA, as provided herein, represents net income (loss), adjusted for net interest expense, income taxes, depreciation and amortization expense. The Company presents EBITDA as an additional measure by which to evaluate the Company's operating trends. The Company believes that EBITDA is a measure frequently used to evaluate performance of companies with substantial leverage and that all of its primary stakeholders (i.e. its bondholders, banks and investors) use EBITDA to evaluate the Company's period to period performance. Additionally, management believes that 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 EBITDA to assess performance for purposes of determining compensation under its incentive plan. 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 of America (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 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 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 its operating performance and uses EBITDA only as a supplement. EBITDA is reconciled to net income in the table of financial results as follows.

|                               | Three Months Ended<br>September 30, |           |        | Nine Months Ended<br>September 30, |           |        |
|-------------------------------|-------------------------------------|-----------|--------|------------------------------------|-----------|--------|
|                               | 2008                                | 2007      | Change | 2008                               | 2007      | Change |
| Net income                    | \$ 1,401                            | \$ 644    | 117.5% | \$ 3,151                           | \$ 3,287  | (4.1)% |
| Adjusted for:                 |                                     |           |        |                                    |           |        |
| Interest expense, net         | 4,301                               | 3,375     | 27.4%  | 12,853                             | 14,217    | (9.6)% |
| Income tax expense            | 827                                 | 519       | 59.3%  | 2,530                              | 2,380     | 6.3%   |
| Depreciation and amortization | 8,042                               | 7,204     | 11.6%  | 21,256                             | 20,141    | 5.5%   |
| EBITDA                        | \$ 14,571                           | \$ 11,742 | 24.1%  | \$ 39,790                          | \$ 40,025 | (0.6)% |

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

### Table of Contents

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

| Revenues (in thousands) | Three Months Ended<br>September 30, |            |        | Nine Months Ended<br>September 30, |            |        |
|-------------------------|-------------------------------------|------------|--------|------------------------------------|------------|--------|
|                         | 2008                                | 2007       | Change | 2008                               | 2007       | Change |
| <b>Dredging:</b>        |                                     |            |        |                                    |            |        |
| Capital - U.S.          | \$ 37,313                           | \$ 39,440  | (5)%   | \$ 113,593                         | \$ 85,434  | 33%    |
| Capital - foreign       | 50,837                              | 42,126     | 21     | 118,959                            | 95,105     | 25     |
| Beach                   | 7,045                               | 2,929      | 141    | 34,186                             | 70,886     | (52)   |
| Maintenance             | 28,621                              | 9,214      | 211    | 67,777                             | 59,565     | 14     |
| Demolition              | 18,993                              | 22,751     | (17)   | 89,337                             | 47,827     | 87     |
|                         | \$ 142,809                          | \$ 116,460 | 23%    | \$ 423,852                         | \$ 358,817 | 18%    |

Revenues for the quarter ended September 30, 2008 were \$142.8 million, an increase of almost 23% from \$116.5 million in the same period a year earlier. Dredging revenues increased by nearly 32% led by strong foreign operations, including additional revenue related to an ongoing contract claim successfully settled during the quarter, as well as an increase in domestic maintenance work. During the quarter, foreign dredging operations produced \$50.8 million of revenue and domestic maintenance work more than tripled from last year to \$28.6 million as market demand continued to increase in the aftermath of spring flooding along the Mississippi River and hurricanes in the Gulf Coast. Revenues from capital projects were relatively unchanged from the 2007 third quarter with major projects underway in the Ports of New York, New Jersey and Boston as well as on the Columbia River in Oregon. Beach work was adversely impacted by environmental window restrictions that are typical in the third quarter of each year. Demolition revenues decreased by 17% as demolition activity returned to normalized levels.

Revenue for the nine-month period ended September 30, 2008 of \$423.9 million was up by 18% from \$358.8 million for the comparable 2007 period, a result of the additional demolition activity in the first half of the year and an increase in domestic capital and foreign dredging work year to date that more than offset the decline in beach work.

Gross profit of \$17.6 million for the third quarter of 2008 grew by 32% from \$13.3 million in the third quarter of 2007. Gross profit margin for the period was 12.3% versus 11.5% for the third quarter of 2007. The Company achieved this increase despite major mechanical and weather-related downtime which negatively impacted three domestic projects and the Company's operations in the Middle East, partially offsetting the increase from the additional contract claim revenue. Strong revenue performance for the nine months ended September 30, 2008 produced a 13% growth in gross profit to \$51.2 million from \$45.2 million in the same period a year earlier. However, gross profit margin of 12.1% decreased from 12.6% a year earlier as operations in the first half of the year were unfavorably impacted by the temporary loss of the dredge New York, mobilizations to the Middle East and the reduced level of beach work.

Operating income in the 2008 third quarter was \$6.5 million, up 74% from \$3.7 million a year ago, despite a 15% increase in general and administrative expenses. General and administrative expenses increased due to increases in incentive pay, payroll and health care costs. Operating income increased to \$18.5 million for the nine months ended September 30, 2008, from \$18.2 million in the same period a year earlier, as higher gross profit offset the growth in general and administrative expenses.

Capital projects include large port deepenings and other infrastructure projects including land reclamations. Domestic capital dredging revenue decreased \$2.1 million and increased \$28.2 million in the 2008 third quarter and first nine months of 2008, respectively, compared to the same 2007 periods. Domestic capital work accounted for 30% and 34% of dredging revenue for the 2008 third quarter and first nine months, respectively and was primarily generated by projects in the New York/New Jersey harbors, the Columbia River in Oregon and in Barbour's Cut,

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

Texas. Foreign revenue increased \$7.7 million and \$23.8 million in the 2008 third quarter and first nine months, respectively, compared to the same 2007 periods. Foreign work accounted for 41% and 36% of the 2008 third quarter and first nine months dredging revenue, respectively due to continuing work in Bahrain on the Diyaar land development project, as well as two other land reclamation projects.

Beach nourishment projects include rebuilding of shoreline areas that have been damaged by storm activity or ongoing erosion. Beach revenue in the 2008 third quarter was up \$4.1 million compared to the same 2007 quarter but was down \$36.7 million for the nine months ended September 30, 2008 compared to the same 2007 period. Since the end of 2007, beach revenues have been negatively impacted through out 2008 as state and local governments experienced delays in getting the necessary approvals to put projects out to bid.

Maintenance projects include routine dredging of ports, rivers and channels to remove the regular build up of sediment. Maintenance revenue was up \$19.4 million and \$8.2 million for the three and nine months ended September 30, 2008, respectively, compared to the same periods of 2007 as market demand continued to increase in the aftermath of spring flooding along the Mississippi River and Gulf Coast. A number of maintenance projects contributed to this quarter's revenue, including dredging in the Mississippi River and along the West Coast.

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

### Table of Contents

The Company's general and administrative expenses totaled \$11.0 million and \$32.4 million for the three and nine months ended September 30, 2008, respectively, an increase of \$1.4 million and \$5.6 million from the same periods in 2007. General and administrative expenses were higher due to increases in incentive pay, payroll and health care costs.

Interest expense, net was \$4.3 million for the third quarter of 2008 representing an increase of \$0.9 million from the same 2007 period and primarily resulted from a \$0.8 million reduction in the unrealized gain on the Company's interest rate swap. Interest expense, net was \$12.9 million for the nine months ended September 30, 2008, a decrease of \$1.3 million over the same 2007 period. The decrease from prior year is primarily related to the write-off of \$0.8 million in financing fees in 2007 in connection with the Company's refinancing of its revolving credit facility.

Income tax expense for the third quarter and first nine months of 2008 was \$0.8 million and \$2.5 million compared to \$0.5 million and \$2.4 million for the same periods in 2007. The effective tax rate for the nine months ended September 30, 2008 was 42.7%, up slightly from 41.9% at the same time last year. The Company generated net income for the 2008 third quarter of \$1.4 million, or \$0.02 per diluted share, up from \$0.6 million, or \$0.01 per diluted share, a year ago. Net income for the nine months ended September 30, 2008 was \$3.2 million, relatively unchanged from \$3.3 million a year earlier. Earnings per diluted share for the first nine months of 2008 were \$0.05 versus \$0.07 the previous year. The diluted weighted average number of shares outstanding for the nine months ended September 30, 2008 increased to 58.5 million from 50.1 million last year as a result of the Company's issuance of 18.4 million shares of stock upon exercise of warrants in 2007.

EBITDA (as defined on page 23) was \$14.6 million and \$39.8 million for the quarter and nine months ended September 30, 2008, respectively, compared to \$11.7 million and \$40.0 million for the same periods of 2007.

### Results by segment

#### *Dredging*

Dredging revenues for the three and nine months ended September 30, 2008 were \$123.8 million and \$334.5 million, respectively, compared to \$93.7 million and \$311.0 million for the same periods of 2007. Dredging revenues for the nine months ended September 30, 2008 were driven by domestic capital and foreign work, as the beach market was adversely impacted by continuing funding and permitting delays. The dredging segment generated operating income of \$6.6 million and \$13.6 million for the quarter and nine months ended September 30, 2008, respectively, compared to operating income of \$3.2 million and \$16.0 million for the same periods of 2007. Year to date operating income was below prior year as operations in the first half of the year were unfavorably impacted by the temporary loss of the dredge New York, mobilizations of equipment to the Middle East, the reduced level of beach work and the increase in general and administrative expenses.

#### *Demolition*

Demolition revenues for the three and nine months ended September 30, 2008 totaled \$19.0 million and \$89.3 million, respectively compared to \$22.8 million and \$47.8 million for the same periods of 2007. NASDI activity increased beginning in the third quarter of 2007 and continued at

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

these higher levels during the first half of 2008 due to several large projects which have now been completed. The demolition segment generated an operating loss of \$0.1 million for the three months ended September 30, 2008 and operating income of \$4.9 million for the nine months ended September 30, 2008 compared to operating income of \$0.6 million and \$2.2 million for the same periods of 2007. The increase in the first nine months of 2008 is attributable to higher revenues from the increased activity that more than offset the impact of the lower gross profit margins related to such projects and an increase in general and administrative expenses.

### **Bidding Activity and Backlog**

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

Table of Contents

| Backlog (in thousands) | September 30, |            |
|------------------------|---------------|------------|
|                        | 2008          | 2007       |
| Dredging:              |               |            |
| Capital - U.S.         | \$ 186,523    | \$ 103,388 |
| Capital - foreign      | 211,848       | 127,673    |
| Beach                  | 23,592        | 43,966     |
| Maintenance            | 31,270        | 15,893     |
| Demolition             | 19,036        | 37,428     |
|                        | \$ 472,269    | \$ 328,348 |

The Company's contract backlog represents management's current estimate of the revenues that will be realized under the portion of the contracts remaining to be performed. Such estimates are subject to fluctuations based upon the amount of material actually dredged, as well as factors affecting the time required to complete the job. In addition, because a substantial portion of the Company's backlog relates to government contracts, the Company's backlog can be canceled at any time without penalty. However, the Company can generally recover the actual committed costs and profit on work performed up to the date of cancellation. Consequently, backlog is not necessarily indicative of future revenues. The Company's backlog includes only those projects for which the Company has obtained a signed contract with the customer.

Through the first three quarters of 2008, maintenance projects represented 51% of the total domestic bid market of \$593 million. The year to date domestic bid market is only \$10 million less than the total 2007 bid market. The Company's 37% share of the 2008 year to date bid market is down from 44% in the same 2007 period. Due to the larger domestic bid market this year, the Company took on more work to date than it took on during the first nine months of 2007. Excluded from the Company's share of the 2008 year to date bid market are four projects worth over \$50 million for which the Company was low bidder during the third quarter; two of these projects were awarded subsequent to the end of the quarter and the other two are expected to be awarded before the end of the year.

With the award of the second phase of the Diyaar land reclamation project and the Company's 37% of the year to date domestic bid market, dredging backlog at September 30, 2008 totaled \$453 million compared with \$291 million at September 30, 2007. The Company's September 30, 2008 dredging backlog does not include approximately \$132 million of domestic low bids pending award at the end of the quarter, additional phases (options) pending on projects currently in backlog, a Bahrain channel deepening project that was awarded in October and several Bahrain land reclamation projects that we expect will be awarded in 2009.

Demolition services backlog at September 30, 2008 was \$19 million, compared with \$37 million at the end of the third quarter of 2007. Demolition backlog has begun to moderate to levels existing prior to the 2007 second quarter primarily due to the completion of the several large projects described above.

**Market Outlook**

The Water Resources Development Act (WRDA), the primary vehicle for authorizing capital projects to deepen the nation's ports, and the 2008 federal budget were both passed in prior quarters. While WRDA authorizes capital projects, the budgeting process appropriates annual funding for projects. Since a 2009 budget was not approved prior to the beginning of the government's October 1 fiscal year, a continuing resolution was passed at that time. This continuing resolution allows the government to operate for six months without an approved budget, which is longer than the six-week continuing resolutions that have been typically passed over the last several years. The continuing resolution kept spending at the 2008 budget levels, which was beneficial for the dredging industry because the 2008 budget contained an increase in funding for dredging from the prior year. In addition, Congress and the current Administration are negotiating a \$150 billion stimulus plan, one of the

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

elements of which is expected to be infrastructure spending. It is the Company's understanding that this stimulus package will include more than \$1 billion, to be spent over a two year period, as requested by the Army Corps of Engineers for maintenance dredging and coastal restoration.

There has been increased discussion on Capitol Hill regarding the need for maintenance dredging in our country's 296 commercial ports. This has likely been the result of efforts by the maritime industry coalition, Realize America's Maritime Promise ( RAMP ). Maintenance dredging in U.S. ports has been underfunded for several years leaving many of them at considerably less than their authorized depths. This has had a negative impact on U.S. commerce by virtue of increasing costs on imports and exports. Maintaining the ports will lead to more efficient movement of shipping traffic, thereby reducing costs and promoting economic growth. So while specific projects under this stimulus plan are still to be determined, the activity on Capitol Hill is an indicator that work may be forthcoming either later this year or in early 2009.

Table of Contents

While a stimulus package will be helpful to get U.S. ports back in shape in the near term, the problem will reoccur in subsequent years if a reliable source of funding is not provided to maintain them. Therefore the success of RAMP's initiative is critical. Having 100% of the Harbor Maintenance Trust funds go for their intended purpose will ensure U.S. harbors are continually maintained at their stated depths.

The need to deepen U.S. ports, not just maintain them, is expected to become more important over the next several years as deeper draft cargo ships are being built and the Panama Canal expansion described below moves forward. Near term domestic capital projects include another section of the New York harbor, a port expansion project in Jacksonville Harbor, Florida, a project for new container terminal facilities in Norfolk, VA, two coastal restoration projects and a Mississippi River sediment delivery system which, in the aggregate, are anticipated to provide more than \$200 million of opportunities over the next 12 months.

There have been no significant LNG starts this year and none are expected for some time as various potential projects continue to work through permitting and sourcing issues.

In March, a \$5.25 billion expansion plan of the Panama Canal commenced and is expected to be completed over the next six years. In recent weeks, the Panama Canal Authority announced that it planned to finance about \$2.3 billion of the work through debt and it had secured that financing. The remainder of the expansion will be financed through cash flow generated by operation of the Canal. The Company anticipates there will be several more projects that will come out in the next couple of years that should provide good opportunities for our equipment. More importantly, the completion of the Panama Canal expansion is expected to make maintaining and deepening U.S. ports even more critical. If this is not done, deeper draft vessels that are too large to navigate in U.S. ports will go to deeper ports outside of the U.S., and goods will have to be imported into the country via a more expensive method.

While the domestic dredging market, with the exception of the beach market, has been fairly robust to date, overall funding constraints are still evident. We anticipate an increase in the amount of work coming out to bid when the federal stimulus package is finalized and funds are allocated to specific projects. With the change in the administration, there is reason to anticipate that the appropriation process will get back on track and money will start to be spent on the country's infrastructure needs. In addition, the growth in foreign commerce, which is expected to accelerate with the expansion of the Panama Canal, is expected to create significant pressure to improve U.S. ports. Finally, it is possible that the Harbor Maintenance Trust Fund will in the future be directed to their intended purpose of funding maintenance dredging.

Internationally, during the 2008 third quarter the Company signed the second phase of the Diyaar land reclamation project in Bahrain. This project added \$158 million to backlog at quarter end. In October, the Company was awarded a channel deepening project in Bahrain and the Company has several additional projects pending award for a substantial amount of work for which it expects to commence operations throughout 2009.

In the first quarter of 2008, the Company deployed four of its vessels to the Middle East. This mobilization has been completed and during the 2008 third quarter progress was made in equipping and upgrading the dredges Reem Island, the Noon Island and the Ohio. The hydraulic cutterhead dredge Texas was fully operational during the third quarter. The Reem Island began working in the fourth quarter and the Ohio and Noon Island are expected to be fully operational in 2009.

**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 finance capital expenditures, provide working capital, meet debt service requirements, pay dividends (when and if declared by the Board of Directors) and meet other general corporate purposes.

The Company's net cash flows from operating activities for the nine months ended September 30, 2008 were \$11.0 million, compared to a use of cash of \$9.9 million for the nine months ended September 30, 2007. Normal increases or decreases in the level of working capital relative to the level of operational activity impact cash flow from operating activities. In both periods, operating cash flows decreased as a result of an investment in pipe and spare parts inventory. Cash flows in 2007 were also reduced by the completion of a project in the third quarter of that year for which client had paid for the work in 2006. In addition, as foreign operations continue to grow, there has been an increase in receivables and retainage that the Company expects to maintain to support the level of work overseas.

The Company's net cash flows used in investing activities for the nine months ended September 30, 2008 totaled \$31.3 million, compared to \$47.1 million for the nine months ended September 30, 2007. Spending for the nine months ended September 30, 2008 included \$15.1 million of capital expenditures on the dredges Ohio, Reem Island and Noon Island for upgrades and other activities related to placing these vessels into service. Another \$4.4 million was spent this year on continuing construction of the power barge that will enhance the utilization and operating efficiency of the dredge Florida. Work on this vessel was completed in October and the vessel was then sold in a sale

Table of Contents

leaseback transaction. The remaining \$11.8 million spent in the quarter was for work on a variety of dredges as well as the purchase of smaller ancillary equipment for dredging operations and expenditures in the demolition unit. The cash flows used in investing activities for the nine months ended September 30, 2007 included the Company's purchase of the dredge Ohio and attendant plant for \$13.6 million and the buy out of the operating leases for the dredges Texas and Pontchartrain and two scows for \$14.4 million. Also in 2007, the Company purchased the dredge Terrapin Island for \$25.5 million, which was refinanced through a sale leaseback under a long term operating lease in the third quarter of 2007. As of September 30, the Company had spent \$5.1 million on the construction of the power barge for the Florida. Another \$17.2 million was spent on other vessels in the fleet. The foregoing amounts include non-cash amounts. For additional details, see the Condensed Consolidated Statements of Cash Flows included in this report.

The Company's net cash flows from financing activities for the nine months ended September 30, 2008 totaled \$23.6 million compared to \$83.1 million for the nine months ended September 30, 2007. Financing activity for 2008 included \$28.2 million of net borrowing under the revolver to fund working capital needs and capital expenditures. During the nine months ended September 30, 2007 the Company received \$91.2 million of proceeds in connection with the exercise of common stock purchase warrants, and borrowed \$14.5 million on its revolving credit facility, which inflows were offset by \$21.1 million of debt and capital lease repayments. During the nine months ended September 30, 2008, the Company paid dividends of \$3.0 million and capital lease payments of \$1.6 million.

Great Lakes paid a \$1.0 million dividend in each quarter of 2008. 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 indebtedness and other factors the Board of Directors deems relevant.

Great Lakes' obligations under its bank credit facility and bonding agreement are secured by liens on a substantial portion of the Company's operating equipment. Great Lakes' obligations under its international letter of credit facility are secured by the Company's foreign accounts receivable. Great Lakes' obligations under its senior subordinated notes are unsecured. Great Lakes' bank credit facility, bonding agreement and senior subordinated notes contain various restrictive covenants, including a limitation on dividends, limitations on redemption and repurchases of capital stock, limitations on the incurrence of indebtedness and requirements to maintain certain financial covenants. During the three-months ended September 30, 2008, one of the lenders supporting the Company's \$155,000 revolving credit facility was in default under our credit agreement. This lender is responsible for \$10,000 or 6.5% of the overall line of credit. While the default of this lender may reduce our overall credit availability, we believe that the Company continues to have adequate capacity under the revolving credit agreement to fund its operations, provide working capital, meet debt service requirements and finance capital expenditures. For additional detail, see Note 13 to Condensed Consolidated Financial Statements included in this report.

The Company believes its anticipated cash flows from operations and availability under its revolving credit facility will be sufficient to fund the Company's operations, capital expenditures, debt service requirement and pay any declared dividends for the next 12 months. Beyond the next 12 months, the Company's ability to fund its working capital needs, planned capital expenditures and scheduled debt payments and declare any dividends will depend 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,

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

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, 2007.

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

The market risk of the Company's financial instruments as of September 30, 2008 has not materially changed since December 31, 2007. The market risk profile of the Company on December 31, 2007 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, 2007.

### **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 September 30, 2008. 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.

Table of Contents

Our Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures are effective to provide such reasonable assurance.

b) Changes in internal control over financial reporting.

There have been no changes in our internal controls 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 controls over financial reporting.

**PART II Other Information**

**Item 1. Legal Proceedings** See Note 13 in the Notes To Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes during the three months ended September 30, 2008 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, 2007.

**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. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 31.1 Certification Pursuant to Rules 13a-14 and 15d-14 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 and 15d-14 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.

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)

/s/ Deborah A. Wensel  
By: Deborah A. Wensel  
Senior Vice President and  
Chief Financial Officer

Date: November 10, 2008

(Principal Financial and Accounting Officer and  
Duly Authorized Officer)

Table of Contents

**EXHIBIT INDEX**

| <b>Number</b> | <b>Document Description</b>  |
|---------------|--|
| 31.1          | Certification Pursuant to Rules 13a-14 and 15d-14 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 and 15d-14 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.  |