Great Lakes Dredge & Dock CORP
Form 10-Q
November 06, 2009
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, 2009

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	**20-5336063**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2122 York Road, Oak Brook, IL	**60523**

(Address of principal executive offices) (Zip Code)

(630) 574-3000

(Registrant s telephone number, including area code)

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

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

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

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

As of November 5, 2009, 58,527,572 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, 2009

INDEX

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, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,939	$ 10,478
Accounts receivable net	124,133	120,620
Contract revenues in excess of billings	37,576	30,916
Inventories	29,550	28,666
Prepaid expenses	2,850	4,684
Other current assets	17,108	20,994
Total current assets	223,156	216,358
PROPERTY AND EQUIPMENT Net	289,955	296,885
GOODWILL	98,049	97,799
OTHER INTANGIBLE ASSETS Net	1,230	931
INVENTORIES Noncurrent	31,453	38,024
INVESTMENTS IN JOINT VENTURES	7,926	8,949
OTHER	7,560	7,209
TOTAL	$ 659,329	$ 666,155
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 61,987	$ 76,862
Accrued expenses	26,703	30,442
Billings in excess of contract revenues	23,517	19,782
Current portion of equipment debt	1,239	1,553
Total current liabilities	113,446	128,639
REVOLVING CREDIT FACILITY	30,000	41,500
7 3/4% SENIOR SUBORDINATED NOTES	175,000	175,000
DEFERRED INCOME TAXES	84,680	81,004
OTHER	11,222	11,899
Total liabilities	414,348	438,042
COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS EQUITY:				
Common stock $.0001 par value; 90,000,000 authorized, 58,509,912 and 58,484,242 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively.		6		6
Additional paid-in capital		263,279		262,501
Accumulated deficit		(18,361)		(31,812)
Accumulated other comprehensive loss		(7)		(3,415)
Total Great Lakes Dredge & Dock Corporation Stockholders Equity		244,917		227,280
NONCONTROLLING INTERESTS		64		833
Total equity		244,981		228,113
TOTAL	$	659,329	$	666,155

See notes to unaudited condensed consolidated financial statements.

Table of Contents

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Contract revenues	$ 140,029	$ 142,809	$ 461,687	$ 423,852
Costs of contract revenues	122,962	125,193	389,025	372,656
Gross profit	17,067	17,616	72,662	51,196
General and administrative expenses	11,755	10,971	33,745	32,373
Amortization of intangible assets	193	177	579	308
Operating income	5,119	6,468	38,338	18,515
Interest expense, net	(3,242)	(4,301)	(12,240)	(12,853)
Equity in earnings (loss) of joint ventures	163	61	(402)	250
Income before income taxes	2,040	2,228	25,696	5,912
Income tax provision	(885)	(827)	(10,687)	(2,530)
Net income	1,155	1,401	15,009	3,382
Net (income) loss attributable to noncontrolling interests	540		1,431	(231)
Net income attributable to Great Lakes Dredge & Dock Corporation	$ 1,695	$ 1,401	$ 16,440	$ 3,151
Basic earnings per share attributable to Great Lakes Dredge & Dock Corporation	$ 0.03	$ 0.02	$ 0.28	$ 0.05
Basic weighted average shares	58,506	58,473	58,498	58,466
Diluted earnings per share attributable to Great Lakes Dredge & Dock Corporation	$ 0.03	$ 0.02	$ 0.28	$ 0.05
Diluted weighted average shares	58,688	58,499	58,577	58,476

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)

	Nine Months Ended September 30, 2009	2008
OPERATING ACTIVITIES:		
Net income	$ 15,009	$ 3,382
Adjustments to reconcile net income to net cash flows provided by operating activities:		
from operating activities:		
Depreciation and amortization	24,588	21,256
Equity in (earnings) loss of joint ventures	402	(250)
Distribution from equity joint ventures	621	500
Deferred income taxes	3,597	4,180
Gain on dispositions of property and equipment	(453)	(525)
Amortization of deferred financing fees	1,275	1,464
Share-based compensation expense	778	302
Changes in assets and liabilities:		
Accounts receivable	(3,513)	16,746
Contract revenues in excess of billings	(6,647)	(12,682)
Inventories	5,687	(15,517)
Prepaid expenses and other current assets	1,967	(8,789)
Accounts payable and accrued expenses	(12,780)	(2,367)
Billings in excess of contract revenues	3,735	2,235
Other noncurrent assets and liabilities	(155)	1,059
Net cash flows provided by operating activities	34,111	10,994
INVESTING ACTIVITIES:		
Purchases of property and equipment	(16,375)	(32,906)
Dispositions of property and equipment	773	799
Acquisition of controlling interest in Yankee Environmental Services	(1,229)	
Acquisition of controlling interest in NASDI		(5)
Changes to restricted cash		787
Net cash flows used in investing activities	(16,831)	(31,325)
FINANCING ACTIVITIES:		
Repayments of long-term debt	(1,256)	(1,469)
Borrowings under revolving loans net	(11,500)	28,210
Dividends paid	(2,989)	(2,987)
Repayment of capital lease debt	(74)	(139)
Net cash flows (used in) provided by financing activities	(15,819)	23,615
Net change in cash and equivalents	1,461	3,284
Cash and equivalents at beginning of period	10,478	8,239
Cash and equivalents at end of period	$ 11,939	$ 11,523
Supplemental Cash Flow Information		
Cash paid for interest	$ 8,176	$ 8,328
Cash paid for income taxes	$ 8,609	$ 4,724

Non-cash Investing Activity				
Property and equipment purchased but not yet paid	$	3,780	$	3,793
Property and equipment purchased on equipment notes	$	243	$	1,636

See notes to unaudited condensed consolidated financial statements.

Table of Contents

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited)

(in thousands, except per share amounts)

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
BALANCE January 1, 2009	58,484,242	$ 6	$ 262,501	$ (31,812)	$ (3,415)	$ 833	$ 228,113
Acquisition of Yankee Environmental Services						662	662
Share-based compensation	25,670		778				778
Dividends declared and paid				(2,989)			(2,989)
Comprehensive income (loss):							
Net income (loss)				16,440		(1,431)	15,009
Reclassification of derivative gain to earnings					3,450		3,450
Change in fair value of derivatives					(42)		(42)
Total comprehensive income (loss)						(1,431)	18,417
BALANCE September 30, 2009	58,509,912	$ 6	$ 263,279	$ (18,361)	$ (7)	$ 64	$ 244,981

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
BALANCE January 1, 2008	58,459,824	$ 6	$ 260,669	$ (32,810)	$ 470	$ 2,061	$ 230,396
Acquisition of controlling interest in NASDI			1,676			(1,824)	(148)
Share-based compensation	19,005		302				302
Dividends declared and paid				(2,986)			(2,986)
Comprehensive income:							
Net income				3,151		231	3,382
Reclassification of derivative loss to earnings					(2,202)		(2,202)
Change in fair value of derivatives					760		760
Total comprehensive income						231	1,940
BALANCE September 30, 2008	58,478,829	$ 6	$ 262,647	$ (32,645)	$ (972)	$ 468	$ 229,504

See notes to unaudited condensed consolidated financial statements.

6

Table of Contents

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. Basis of presentation

The 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 GAAP 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, 2008.

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 Company performs its annual assessment of goodwill impairment as of July 1 each year. The Company performed its annual test of impairment as of July 1, 2009 for the goodwill in both the dredging and demolition segments with no indication of goodwill impairment as of the test date. The decline in the operating results and related cash flow forecasts in the demolition segment during the past year has reduced the amount by which the estimated fair value of the demolition segment exceeds the carrying value of the demolition segment s assets. A more than insignificant decline in the demolition segment s future operating results or cash flow forecasts versus the segment s current forecasts could potentially trigger a goodwill impairment charge in a future period.

We evaluated all events or transactions that occurred after September 30, 2009 up through November 6, 2009, the date we issued these financial statements. During this period we did not have any material subsequent events.

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. Earnings per share

Basic earnings per share is computed by dividing net income attributable to Great Lakes Dredge & Dock Corporation by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. The dilutive impact of options to purchase 727,483 shares of common stock and 339,600 issued restricted stock units (RSUs) is included in the calculation of diluted earnings per share (EPS) 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 September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Numerator:				
Net income attributable to Great Lakes Dredge & Dock Corporation - numerator for basic earnings per share	$ 1,695	$ 1,401	$ 16,440	$ 3,151
Denominator:				
Denominator for basic earnings per share - weighted average shares outstanding	58,506	58,473	58,498	58,466
Dilutive impact of restricted stock units issued	139	26	65	10
Dilutive impact of stock options issued	43		14	
Denominator for diluted earnings per share adjusted weighted average shares	58,688	58,499	58,577	58,476
Basic earnings per share attributable to Great Lakes Dredge & Dock Corporation	$ 0.03	$ 0.02	$ 0.28	$ 0.05
Diluted earnings per share attributable to Great Lakes Dredge & Dock Corporation	$ 0.03	$ 0.02	$ 0.28	$ 0.05

3. Fair value measurements

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

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

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

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

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. At September 30, 2009, the 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	At September 30, 2009	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fuel hedge contracts	$ (12)	$	$ (12)	$
Interest rate swap contracts	259			259
Total assets measured at fair value	$ 247	$	$ (12)	$ 259

Interest Rate Swaps

In May 2009, the Company entered into two interest rate swap arrangements, which are effective through December 15, 2012, to swap a notional amount of $50 million from a fixed rate of 7.75% to a floating LIBOR-based rate in order to manage the interest rate paid with respect to the Company s 7.75% senior subordinated debt. The current portion of the fair value asset of the swaps is $653 at September 30, 2009 and is recorded in current assets. The long term portion of the fair value liability of the swaps at September 30, 2009 was $394 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.

Table of Contents

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Interest Rate Swaps	
Balance at Januray 1, 2009	$	
Total unrealized gains or (losses)		
included in earnings		(225)
Included in other comprehensive income		
Purchases and settlements		(34)
Balance at September 30, 2009	$	259

Fuel Hedge Contracts

As of September 30, 2009, 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 August 2010. As of September 30, 2009, there were 7.2 million gallons remaining on these contracts. Under these agreements, the Company will pay fixed prices ranging from $1.21 to $2.08 per gallon. At September 30, 2009 and December 31, 2008, the fair value liability on these contracts was estimated to be $12 and $5,682, respectively, and is recorded in other accrued expenses. The change in fair value of derivatives during the nine months ended September 30, 2009 was ($42). The remaining gains included in accumulated other comprehensive income at September 30, 2009 will be reclassified into earnings over the next eleven 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.

The Company is exposed to certain market risks, primarily commodity price risk as it relates to the diesel fuel purchase requirements that occur in the normal course of business. The Company enters into heating oil commodity swap contracts to hedge the risk that fluctuations in diesel fuel prices will have an adverse impact on cash flows associated with our domestic dredging contracts. The Company does not hold or issue derivatives for speculative or trading purposes. The Company s goal is to hedge approximately 80% of the fuel requirements for work in backlog. At September 30, 2009, the Company had hedged 7.2 million gallons, accounting for 71% of its forecasted fuel purchases for the next eleven months, at a weighted-average price per gallon of $1.89.

The Company designates the commodity swap contracts as cash flow hedges under generally accepted accounting principles. Accordingly, we formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives to either specific firm commitments or highly-probable forecasted transactions. Changes in the fair value of these hedge positions are recognized within cost of revenue, in the condensed consolidated statement of operations, offsetting the gain or loss from the hedged item.

The Company formally assesses, at inception and on an ongoing basis, the effectiveness of hedges in offsetting changes in the cash flows of hedged items. Hedge accounting treatment is discontinued when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions), (2) the derivative expires or is sold, terminated or exercised, (3) it is no longer probable that the forecasted transaction will occur or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate. If management elects to stop hedge accounting for its fuel hedges, it would be on a prospective basis and any hedges in place would be recognized in Other Comprehensive Income until all the related forcasted fuel purchases were made.

The Company is exposed to counterparty credit risk associated with non-performance on our hedging instruments. The Company s risk would be limited to any unrealized gains on current positions. To help mitigate this risk, the Company transacts only with counterparties that are rated as investment grade or higher. In addition, all counterparties are monitored on a continuous basis.

At each balance sheet date, unrealized gains and losses on fuel hedge contracts are recorded as a component of comprehensive income (loss) in the condensed consolidated balance sheets. Gains and losses realized upon settlement of fuel hedge contracts are recorded as a reduction of fuel expense, which is a component of costs of contract revenues in the condensed consolidated statements of operations.

The fair value of interest rate and fuel hedge contracts outstanding as of September 30, 2009 is as follows:

Table of Contents

Fair Value of Derivatives
At September 30, 2009

	Balance Sheet Location	Fair Value Asset	Balance Sheet Location	Fair Value Liability
Interest rate swaps	Current Assets	$ 653	Other Liabilities	$ (394)
Fuel hedge contracts	Current Assets	16	Accrued expenses	(28)
Total Derivatives		$ 669		$ (422)

Other financial instruments

The carrying value of financial instruments included in current assets and current liabilities approximates fair values due to the short-term maturities of these instruments. At September 30, 2009, the Company had long-term subordinated notes outstanding with a recorded book value of $175,000. The fair value of these notes was $170,625 at September 30, 2009, based on indicative market prices.

4. Share-based compensation

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

In May of 2009 and 2008, the Company granted non-qualified stock options (NQSOs) and RSUs to certain employees pursuant to the plan. In addition all non-employee directors on the Company s board are paid a portion of their compensation in stock grants. Compensation cost charged to income related to these stock-based compensation arrangements was $403 and $778 for the three months and nine months ended September 30, 2009 and $238 and $302 for the three and nine months ended September 30, 2008

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 was 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 the Company s common stock is based on estimates 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, 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, 2009 and September 30, 2008 was $1.86 and $2.24, respectively. The fair value of each option was estimated using the following assumptions:

	2009	**2008**
Expected volatility	60.0%	45.0%
Expected dividends	1.8%	1.3%
Expected term (in years)	5.0 - 6.0	5.5 - 6.5
Risk free rate	2.2%	3.0%

A summary of option activity under the Incentive Plan as of September 30, 2009, and changes during the nine months then ended is presented below:

Table of Contents

Options	Shares	Exercise Price	Weighted-Average Remaining Contract Term (yrs)	Aggregate Intrinsic Value ($000 s)
Outstanding as of January 1, 2009	356,774	$ 5.41	4.6	$ 560
Granted	371,069	3.82	5.6	1,173
Exercised				
Forfeited or Expired				
Outstanding as of September 30, 2009	727,843	$ 4.60	5.2	$ 872
Vested at September 30, 2009	118,925	$ 5.41	4.6	$ 560
Vested or expected to vest at September 30, 2009	697,761	$ 4.61	5.2	$ 870

Restricted stock units

RSUs generally vest in one installment on the third anniversary of the grant date. The fair value of RSUs was based upon the Company s stock price on the date of grant. A summary of the status of the Company s non-vested RSUs as of September 30, 2009, and changes during the nine months ended September 30, 2009 is presented below:

Nonvested Restricted Stock Units	Shares	Grant Date Price	Weighted-Average Grant-Date Fair Value
Outstanding as of January 1, 2009	145,736	$ 5.41	$ 5.41
Granted	193,864	3.82	3.82
Vested			
Forfeited			
Outstanding as of September 30, 2009	339,600	$ 4.50	$ 4.50
Vested at September 30, 2009		$	$
Vested or expected to vest at September 30, 2009	243,984	$ 4.63	$ 4.60

As of September 30, 2009, there was $1.7 million of total unrecognized compensation cost related to non-vested NQSOs and RSUs granted under the Incentive Plan. That cost is expected to be recognized over a weighted-average period of 1.2 years.

5. Accounts receivable

Accounts receivable at September 30, 2009 and December 31, 2008 are as follows:

	September 30, 2009	December 31, 2008
Completed contracts	$ 11,239	$ 37,119
Contracts in progress	84,782	61,010
Retainage	29,362	23,741
	125,383	121,870
Allowance for doubtful accounts	(1,250)	(1,250)
Total accounts receivable	$ 124,133	$ 120,620

Approximately $46 million of accounts receivable contracts in progress as of September 30, 2009 relates to dredging contracts with the government of Bahrain. Included in that balance are amounts owed related to one project on which the Company has signed a contract amendment revising, among other items, the payment terms. These revised terms require the customer to pay a specific amount each month that may or may not equal the amount billed by the Company for work completed that month. Currently the Company has billed amounts in excess of the specific payment requirements. The Company expects the work under the contract to be completed and all progress billings to be paid by the end of 2010.

6. Contracts in progress

The components of contracts in progress at September 30, 2009 and December 31, 2008 are as follows:

Table of Contents

	September 30, 2009	December 31, 2008
Costs and earnings in excess of billings:		
Costs and earnings for contracts in progress	$ 264,049	$ 409,304
Amounts billed	(226,817)	(378,732)
Costs and earnings in excess of billings for contracts in progress	37,232	30,572
Costs and earnings in excess of billings for completed contracts	344	344
Total contract revenues in excess of billings	$ 37,576	$ 30,916
Billings in excess of costs and earnings:		
Amounts billed	$ (384,061)	$ (145,441)
Costs and earnings for contracts in progress	360,544	125,659
Total billings in excess of contract revenues	$ (23,517)	$ (19,782)

7. Intangible assets

The net book value of intangible assets is as follows:

As of September 30, 2009:	Cost	Accumulated Amortization	Net
Demolition segment customer relationships	$ 1,481	$ 1,003	$ 478
Demolition backlog	480	399	81
Software and databases	1,209	814	395
Non-compete agreement	205	51	154
Trade names	88	13	75
Other	83	36	47
Total	$ 3,546	$ 2,316	$ 1,230

As of December 31, 2008:	Cost	Accumulated Amortization	Net
Demolition segment customer relationships	$ 1,300	$ 871	$ 429
Demolition backlog	158	158	
Software and databases	1,209	707	502
Total	$ 2,667	$ 1,736	$ 931

On January 1, 2009 the Company acquired a 65% interest in Yankee Environmental Services (Yankee) resulting in the recognition of intangible assets (See Note 15).

Amortization expense related to the intangible assets is estimated to be $193 for the remainder of 2009, $427 in 2010, $227 in 2011, and $146 in both 2012 and 2013.

8. Investment in joint ventures

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.

Table of Contents

	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Revenue	$ 4,834	$ 5,103	$ 10,441	$ 15,739
Gross profit (loss)	$ 873	$ 500	$ 505	$ 1,682
Net income (loss)	$ 332	$ 122	$ (916)	$ 500
Great Lakes 50% share	$ 166	$ 61	$ (458)	$ 250

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. The Company received distributions from Amboy totaling $271 and $500 for the nine months ended September 30, 2009 and September 30, 2008, respectively.

The Company and its Amboy joint venture partner also each own a 50% interest in land that is adjacent to the Amboy property and may be used in conjunction with the Amboy operations. The Company recorded income of $56 and received distributions of $350 related to the property for the nine months ended September 30, 2009. The Company s recorded share of the property is $770 and is reflected in investments in joint ventures.

9. Accrued expenses

Accrued expenses at September 30, 2009 and December 31, 2008 are as follows:

	September 30, 2009	December 31, 2008
Insurance	$ 8,927	$ 10,367
Payroll and employee benefits	7,750	9,968
Interest	4,085	1,037
Percentage of completion adjustment	3,230	
Income and other taxes	1,270	2,488
Fuel hedge liability	28	5,682
Other	1,413	900
Total accrued expenses	$ 26,703	$ 30,442

10. Noncontrolling interests

Effective January 1, 2009, the Company adopted the accounting and disclosure guidance for noncontrolling interests which 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. As a result of the adoption, the Company has recharacterized minority interests as noncontrolling interests, a component of equity in the Condensed Consolidated Balance Sheets and the net income or loss attributable to noncontrolling interests has been separately identified in the Condensed Consolidated Statement of Operations. The prior periods presented have also been reclassified to conform to the current classification required by GAAP.

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, 2009 and 2008 include uncertain income tax positions, which, under GAAP, 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.

Table of Contents

The uncertain tax positions of the Company as of September 30, 2009 totaled $1,785, a reduction of $435 from the December 31, 2008 balance of $2,220. At September 30, 2009, the unrecognized tax benefits totaled $913 while at December 31, 2008, the balance was $1,091. 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. Interest and penalties are not significant for the nine months ended September 30, 2009 and 2008.

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 2006 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 2006. In the nine months ended September 30, 2009, an examination by the State of Illinois for the 2005 and 2004 tax years was completed; the examination did not result in any adjustments. In foreign jurisdictions in which the Company operates, all significant years prior to 2004 are closed and are no longer subject to examination.

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.

The effective tax rate for the nine months ended September 30, 2009 was 39.4%, down from 42.7% at September 30, 2008. The effective tax rate was lower due to the reorganization of NASDI in 2008 as well as a decrease in the effective state income tax rate due to the decline in income in the demolition segment as well as the location of dredging projects during the period. The effective tax rate for the nine months ended September 30, 2009 is now comparable to the statutory rate.

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 of the two segments. Segment information for the periods presented is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Dredging				
Contract revenues	$ 128,375	$ 123,815	$ 423,198	$ 334,515
Operating income	6,618	6,603	42,428	13,635
Demolition				
Contract revenues	$ 11,654	$ 18,994	$ 38,489	$ 89,337
Operating income (loss)	(1,499)	(135)	(4,090)	4,880
Total				
Contract revenues	$ 140,029	$ 142,809	$ 461,687	$ 423,852
Operating income	5,119	6,468	38,338	18,515

In addition, foreign dredging revenue of $25,264 and $115,040 for the three and nine months ended September 30, 2009, respectively, and $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

The Company 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, 2009, the Company had $30,000 of borrowings and $12,984 of letters of credit outstanding, and $103,950 of remaining availability under the Credit Agreement. In late 2008, Lehman Brothers, a 6.5% participant in the credit facility, filed for bankruptcy and stopped funding its share of the Company s revolver borrowings. As Lehman Brothers is a defaulting lender, the Company is no longer able to draw upon Lehman Brothers pro-rata portion of the revolver commitment. As of September 30, 2009, the Company had drawn $1,936 of the $10,000 applicable to Lehman Brothers. As such, Lehman Brothers remaining $8,064 commitment has not been included in availability under the credit facility.

Table of Contents

The Company 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, 2009, Great Lakes had outstanding bonds valued at $535,974; however, the revenue value remaining in backlog related to these projects totaled approximately $343,303.

The Company has a $24,000 international letter of credit facility that it uses for the performance and advance payment guarantees on the Company s foreign contracts. As of September 30, 2009, Great Lakes had $15,703 of letters of credit outstanding under this facility.

The Company has also $175,000 of 7.75% senior subordinated notes outstanding, which mature in December 2013.

The Company s 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, 2008, 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 $91,886 and $77,523, 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.

The Company s 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.

Legal proceedings and other contingencies

Various legal actions, claims, assessments and other contingencies arising in the ordinary course of business are pending against the Company and certain of its subsidiaries. These matters are subject to many uncertainties, and it is possible that some of these matters could ultimately be decided, resolved, or settled adversely. For a discussion of these matters, please refer to Note 19 Commitments and Contingencies reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, as updated by our Quarterly Report on Form 10-Q for the quarters ending March 31, 2009 and June 30, 2009. Except as noted below, there have been no material changes or developments in these matters since December 31, 2008.

Although the Company is subject to various claims and legal actions that arise in the ordinary course of business, except as described below, the Company is not currently a party to any material legal proceedings or environmental claims.

The Company or its former subsidiary, NATCO Limited Partnership, are named as defendants in approximately 264 lawsuits, the majority of which were filed between 1989 and 2000. In the second quarter of 2009, one additional lawsuit was filed against the Company. In these lawsuits, the plaintiffs allege personal injury, primarily fibrosis or asbestosis, from exposure to asbestos on our vessels. The vast majority of these lawsuits have been filed in the Northern District of Ohio and a few in the Eastern District of Michigan. All of the cases filed against the Company prior to 1996 were administratively dismissed in May 1996 and any cases filed since that time have similarly been administratively transferred to the inactive docket. Plaintiffs in these cases could seek to reinstate the cases at a future date without being barred by the statute of limitations. However, to date, no plaintiffs with claims against the Company have sought reinstatement. Management does not believe that these cases will have a material adverse impact on the Company s financial position, results of operations and cash flows.

On April 24, 2006, a class action 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 (the Reed Complaint). The Reed Complaint names as defendants the U.S. government, Great Lakes Dredge & Dock Company and numerous other dredging companies that 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 the dredging of MRGO caused the destruction of 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 levees as Katrina floodwaters damaged plaintiffs property. The Reed Complaint asserts claims of negligence, warranty, concealment and violations of the Water Pollution Control Act. Other plaintiffs have filed similar class action complaints and one mass tort case (together with the Reed Complaint, hereinafter referred to as the Katrina Claims). All of these cases raise the same claims as the Reed Complaint. The amount of claimed damages in these claims is not stated, but is presumed to be material. On March 9, 2007, the District Court dismissed with prejudice the Katrina Claims against Great Lakes and those plaintiffs have filed an appeal to the U.S. Court of Appeals for 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.

Table of Contents

On October 19, 2006, Great Lakes and the other dredging companies filed for exoneration or limitation of liability under the Limitation of Liability Act in federal district court. This limitation action stays all outstanding Katrina Claims against Great Lakes in the district court, pending resolution of Great Lakes exoneration and limitation claims. Roughly 40,000 claims by individuals, businesses, and the State of Louisiana were filed against Great Lakes, asserting the same basic theory of liability as in the Katrina Claims and seeking damages significantly in excess of the $55 million limitation bond posted by Great Lakes (the Limitation Claims). In addition, all of the dredging companies, including Great Lakes, filed cross-claim against each other in the limitation actions seeking contribution and indemnification. Great Lakes currently believes that it has meritorious claims to either exoneration from all liability or limitation of liability to not more than $55 million, which is the value of the vessels which conducted the MRGO dredging work. These defenses include arguments for both statutory and constitutional immunity from liability for the Limitation Claims. On September 7, 2007, Great Lakes filed a motion to dismiss the Limitation Claims. 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 and filed their opening appellate brief on February 23, 2009. The Fifth Circuit stayed the briefing schedule pending issuance of its opinion in the appeal of the Katrina Claims, which was argued on September 4, 2008. Following issuance of the opinion, briefing will resume followed by oral argument. Great Lakes maintains $150 million in insurance coverage for the Katrina Claims and Limitation Claims. Great Lakes currently believes that these claims will not have a material adverse impact on its financial condition, results of operations and cash flows.

14. Effects of recently issued accounting pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162*. SFAS No. 168 establishes the FASB Accounting Standards Codification (the Codification) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. Effective July 1, 2009, the Codification superseded all existing non-SEC accounting and reporting standards.

15. Yankee Acquisition

On January 1, 2009, the Company acquired Yankee. The acquisition of the business was accomplished as an asset purchase through a new subsidiary, Yankee Environmental Services, LLC. The total purchase price was $1,891 of which NASDI Holdings Corporation (NASDI Holdings), a 100% owned subsidiary of Great Lakes Dredge & Dock Corporation, contributed 65% of the purchase price, $1,229, with the remaining 35% of the purchase price paid by other investors, one of which is Christopher A. Berardi, a principal of NASDI Holdings. Yankee provides environmental remediation including asbestos abatement and removal of other hazardous materials to private and government entities including schools, universities, hospitals and other businesses throughout the New England area. Yankee has previously been a subcontractor on many NASDI projects requiring such services. The acquisition of Yankee provides an avenue to diversify the Company s demolition business to include abatement capabilities which makes NASDI more competitive on jobs requiring these services. Yankee operates within the demolition segment.

The assets and liabilities associated with this 65% interest were adjusted to their estimated fair values. A summary of the allocation of purchase price to the assets acquired is as follows:

Property, plant and equipment	$	725

Intangible assets		879
Goodwill		250
Other assets and liabilities		37
Total	$	1,891
Noncontrolling interests		662
Company s interest in Yankee	$	1,229

Amortization expense related to these intangible assets is estimated to be $480 in 2009, $135 in 2010, $125 in 2011, $43 in 2012 and 2013.

16. 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 Great Lakes Dredge & Dock Corporation, exclusive of its subsidiaries (GLDD Corporation).

Table of Contents

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2009

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 11,930	$ 9	$	$	$ 11,939
Accounts receivable net	124,133				124,133
Receivables from affiliates	24,551	2,151		(26,702)	
Contract revenues in excess of billings	37,576				37,576
Inventories	29,550				29,550
Prepaid expenses	2,565		285		2,850
Other current assets	10,492		6,662	(6)	17,108
Total current assets	240,797	2,160	6,907	(26,708)	223,156
PROPERTY AND EQUIPMENT Net	289,955				289,955
GOODWILL	98,049				98,049
OTHER INTANGIBLE ASSETS Net	1,230				1,230
INVESTMENTS IN SUBSIDIARIES	2,160		546,651	(548,811)	
NOTES RECEIVABLE FROM AFFILIATES	242			(242)	
INVENTORIES Noncurrent	31,453				31,453
INVESTMENTS IN JOINT VENTURES	7,926				7,926
OTHER ASSETS	1,952		5,912	(304)	7,560
TOTAL	$ 673,764	$ 2,160	$ 559,470	$ (576,065)	$ 659,329
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	61,987				61,987
Payables to affiliates	9,737		16,965	(26,702)	
Accrued expenses	22,752		3,957	(6)	26,703
Billings in excess of contract revenues	23,517				23,517
Current portion of equipment debt	1,239				1,239
Total current liabilities	119,232		20,922	(26,708)	113,446
REVOLVING CREDIT FACILITY			30,000		30,000
7 3/4% SENIOR SUBORDINATED DEBT			175,000		175,000
NOTES PAYABLE TO AFFILIATES	242			(242)	
DEFERRED INCOME TAXES			84,984	(304)	84,680
OTHER	7,575		3,647		11,222
Total liabilities	127,049		314,553	(27,254)	414,348
Total Great Lakes Dredge & Dock Corporation Stockholders Equity	546,651	2,160	244,917	(548,811)	244,917

NONCONTROLLING INTERESTS		64								64
TOTAL EQUITY		546,715		2,160		244,917		(548,811)		244,981
TOTAL	$	673,764	$	2,160	$	559,470	$	(576,065)	$	659,329

Table of Contents

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2008

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 10,473	$ 5	$	$	$ 10,478
Accounts receivable net	120,620				120,620
Receivables from affiliates	15,372	2,748	11,107	(29,227)	
Contract revenues in excess of billings	30,916				30,916
Inventories	28,666				28,666
Prepaid expenses	2,877		1,807		4,684
Other current assets	12,895		8,099		20,994
Total current assets	221,819	2,753	21,013	(29,227)	216,358
PROPERTY AND EQUIPMENT Net	296,885				296,885
GOODWILL	97,799				97,799
OTHER INTANGIBLE ASSETS Net	931				931
INVESTMENTS IN SUBSIDIARIES	2,753		502,722	(505,475)	
NOTES RECEIVABLE FROM AFFILIATES					
INVENTORIES Noncurrent	38,024				38,024
INVESTMENTS IN JOINT VENTURES	8,949				8,949
OTHER ASSETS	1,697		5,512		7,209
TOTAL	$ 668,857	$ 2,753	$ 529,247	$ (534,702)	$ 666,155
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	76,863		(1)		76,862
Payables to affiliates	7,382			(7,382)	
Accrued expenses	28,447		1,995		30,442
Billings in excess of contract revenues	19,782				19,782
Current portion of equipment debt	1,553				1,553
Total current liabilities	134,027		1,994	(7,382)	128,639
REVOLVING CREDIT FACILITY			41,500		41,500
7 3/4% SENIOR SUBORDINATED DEBT			175,000		175,000
NOTES PAYABLE TO AFFILIATES	21,845			(21,845)	
DEFERRED INCOME TAXES	738		80,266		81,004
OTHER	8,692		3,207		11,899
Total liabilities	165,302		301,967	(29,227)	438,042
Total Great Lakes Dredge & Dock Corporation Stockholders Equity	502,722	2,753	227,280	(505,475)	227,280

NONCONTROLLING INTERESTS		833								833
TOTAL EQUITY		503,555		2,753		227,280		(505,475)		228,113
TOTAL	$	668,857	$	2,753	$	529,247	$	(534,702)	$	666,155

Table of Contents

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
CONTRACT REVENUES	$ 140,029	$	$	$	140,029
COST OF CONTRACT REVENUES	(122,962)				(122,962)
GROSS PROFIT	17,067				17,067
OPERATING EXPENSES					
General and administrative expenses	(10,448)		(1,307)		(11,755)
Amortization of intangibles	(193)				(193)
Total operating income	6,426		(1,307)		5,119
INTEREST EXPENSE (Net)	(47)		(3,195)		(3,242)
EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES			7,147	(7,147)	
EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE	163				163
INCOME (LOSS) BEFORE INCOME TAXES	6,542		2,645	(7,147)	2,040
INCOME TAX (PROVISION) BENEFIT	605		(1,490)		(885)
NET INCOME (LOSS)	7,147		1,155	(7,147)	1,155
NONCONTROLLING INTEREST			540		540
NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE & DOCK CORPORATION	$ 7,147	$	$ 1,695	$ (7,147)	$ 1,695

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
CONTRACT REVENUES	$ 142,809	$	$	$	142,809
COST OF CONTRACT REVENUES	(125,192)		(1)		(125,193)
GROSS PROFIT	17,617		(1)		17,616
OPERATING EXPENSES					
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 SUBSIDIARIES	(26)		7,145	(7,119)	
EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE	61				61
INCOME (LOSS) BEFORE INCOME 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
NONCONTROLLING INTEREST					
NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE & DOCK CORPORATION	$ 7,145	$ (26)	$ 1,401	$ (7,119)	$ 1,401

Table of Contents

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
CONTRACT REVENUES	$ 461,687	$	$	$	461,687
COST OF CONTRACT REVENUES	(388,980)		(45)		(389,025)
GROSS PROFIT	72,707		(45)		72,662
OPERATING EXPENSES					
General and administrative expenses	(31,329)		(2,416)		(33,745)
Amortization of intangibles	(579)				(579)
Total operating income	40,799		(2,461)		38,338
INTEREST EXPENSE (Net)	(82)		(12,158)		(12,240)
EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES			41,759	(41,759)	
EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE	(402)				(402)
INCOME (LOSS) BEFORE INCOME TAXES	40,315		27,140	(41,759)	25,696
INCOME TAX (PROVISION) BENEFIT	1,444		(12,131)		(10,687)
NET INCOME (LOSS)	41,759		15,009	(41,759)	15,009
NONCONTROLLING INTEREST			1,431		1,431
NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE & DOCK CORPORATION	$ 41,759	$	$ 16,440	$ (41,759)	$ 16,440

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
CONTRACT REVENUES	$ 423,852	$	$	$	423,852
COST OF CONTRACT REVENUES	(372,594)		(62)		(372,656)
GROSS PROFIT	51,258		(62)		51,196
OPERATING EXPENSES					
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 SUBSIDIARIES	(45)		17,426	(17,381)	
EQUITY IN EARNINGS (LOSS) OF JOINT VENTURE	250				250
INCOME (LOSS) BEFORE INCOME TAXES	19,022	(45)	4,316	(17,381)	5,912
INCOME TAX (PROVISION) BENEFIT	(1,596)		(934)		(2,530)
NET INCOME (LOSS)	17,426	(45)	3,382	(17,381)	3,382
NONCONTROLLING INTEREST			(231)		(231)
NET INCOME (LOSS) ATTRIBUTABLE TO GREAT LAKES DREDGE & DOCK CORPORATION	$ 17,426	$ (45)	$ 3,151	$ (17,381)	$ 3,151

Table of Contents

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
Operating Activities					
Net cash flows provided by operating activities	$ 51,206	$	$ (17,095)	$	$ 34,111
Investing Activities					
Purchases of property and equipment	(16,375)				(16,375)
Dispositions of property and equipment	773				773
Acquisition of controlling interest in Yankee Environmental Services	(1,229)				(1,229)
Net cash flows used in investing activities	(16,831)				(16,831)
Financing Activities					
Repayments of long-term debt	(1,256)				(1,256)
Borrowings under (repayments of) revolving loans net	(11,500)				(11,500)
Net change in accounts with affiliates	(20,088)	4	20,084		
Dividends			(2,989)		(2,989)
Repayment of capital lease debt	(74)				(74)
Net cash flows provided by (used in) financing activities	(32,918)	4	17,095		(15,819)
Net change in cash and equivalents	1,457	4			1,461
Cash and equivalents at beginning of period	10,473	5			10,478
Cash and equivalents at end of period	$ 11,930	$ 9	$	$	$ 11,939

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 Subsidiaries	Other Subsidiary	GLDD Corporation	Eliminations	Consolidated Totals
Operating Activities					
Net cash flows provided by operating activities	$ 25,330	$ (45)	$ (14,291)	$	$ 10,994
Investing Activities					
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 used in investing activities	(31,325)				(31,325)
Financing Activities					
Repayments of long-term debt	(1,469)				(1,469)
Borrowings under (repayments of) revolving loans net			28,210		28,210
Net change in accounts with affiliates	10,532	19	(10,551)		
Dividends	(2,987)				(2,987)
Repayment of capital lease debt	(139)				(139)
Net cash flows provided by (used in) 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 period	8,233	6			8,239
Cash and equivalents at end of period	$ 8,175	$ (20)	$ 3,368	$	$ 11,523

Table of Contents

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

Statement Under the Private Securities Litigation Reform Act

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Great Lakes Dredge & Dock Corporation and its subsidiaries (Great Lakes), or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, will, would, co 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, 2008, the Company s Quarterly Reports on Form 10-Q for the periods ended March 31, 2009 and June 30, 2009 and in other securities filings by Great Lakes with the SEC.

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

General

The Company is the largest provider of dredging services in the United States. In addition, the Company is the only U.S. dredging service provider with significant international operations, which represented approximately 27% of its dredging revenues for the first nine months of 2009 which is slightly below the Company s prior three year average of 30%. The mobility of the Company s fleet enables the Company to move equipment in response to changes in demand for dredging services.

Dredging generally involves the enhancement or preservation of the navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. The U.S. dredging market consists of three primary types of work: capital, beach nourishment and maintenance, in which sectors we have experienced an average combined bid market share in the U.S. of 42% over the last three years, including 47%, 44% and 36% of the capital, beach nourishment and maintenance sectors, respectively. The Company s bid market is defined as the aggregate dollar value of domestic projects on which the Company bid or could have bid if not for capacity constraints (bid market).

The Company s largest domestic dredging customer is the Army Corps of Engineers (the Corps), which has responsibility for federally funded projects related to navigation and flood control of U.S. waterways. The Company s dredging revenues for the nine months ended September 30, 2009 earned from contracts with federal government agencies, including the Corps as well as other federal entities such as the U.S. Coast Guard and the U.S. Navy, were approximately 55% as compared with the Company s three year average of 47%.

The Company also owns a majority interest in NASDI, LLC (NASDI), a demolition service provider located in the Boston, Massachusetts area. Demolition revenues accounted for 8.3% of total revenues for the first nine months of 2009, compared with the prior three year average of 14.8%. 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 majority of NASDI s work has historically been performed in the New England area; however, NASDI is currently expanding into New York and other New England states. In January 2009, the Company acquired a 65% interest in Yankee Environmental Services LLC (Yankee), a provider of environmental remediation services including asbestos abatement and removal of other hazardous materials for private and governmental entities. Prior to this acquisition, Yankee served as a subcontractor on many NASDI projects.

The Company has a 50% ownership interest in Amboy Aggregates (Amboy). Amboy s primary business is mining sand from the entrance channel to the New York harbor in order to provide sand and aggregate for use in road and building construction. The Company and its Amboy joint venture partner own a 50% interest in land that is adjacent to Amboy s property and may be used in conjunction with Amboy s operations. The Company s investment in Amboy is accounted for using the equity method.

Table of Contents

In August, the Company completed an underwritten secondary offering of approximately 12.5 million shares of its common stock owned primarily by Madison Dearborn Capital Partners IV, L.P. All proceeds of this offering were received by the selling shareholders, not by the Company. This transaction has increased the trading liquidity for the Company s common stock and expanded its shareholder base.

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

Table of Contents

Results of Operations

The following table sets forth the components of net income (loss) attributable to Great Lakes Dredge & Dock Corporation and EBITDA, as defined below, as a percentage of contract revenues for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Contract revenues	100.0%	100.0%	100.0%	100.0%
Costs of contract revenues	(87.8)	(87.7)	(84.3)	(87.9)
Gross profit	12.2	12.3	15.7	12.1
General and administrative expenses	(8.4)	(7.7)	(7.3)	(7.6)
Amortization of intangible assets	(0.1)	(0.1)	(0.1)	(0.1)
Operating income	3.7	4.5	8.3	4.4
Interest expense, net	(2.3)	(3.0)	(2.7)	(3.0)
Equity in earnings (loss) of joint ventures	0.1		(0.1)	0.1
Income before income taxes	1.5	1.5	5.5	1.5
Income tax provision	(0.6)	(0.6)	(2.3)	(0.6)
Net income	0.9	0.9	3.2	0.9
Net income (loss) attributable to noncontrolling interests	0.4			