

Orion Marine Group Inc  
Form 10-Q  
November 05, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number:  
1-33891

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

DELAWARE  
(State or other jurisdiction of  
Incorporation or organization)

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

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

77034  
(Zip Code)

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

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "Large Accelerated Filer," "Accelerated Filer," and "Smaller Reporting

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

Company” in Rule 12b-2 of the Exchange Act. (Check one)

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

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

As of November 1, 2010, 26,899,679 shares of the Registrant’s common stock, \$0.01 par value were outstanding.

ORION MARINE GROUP, INC.  
Quarterly Report on Form 10-Q for the period ended September 30, 2010  
INDEX

PART I FINANCIAL INFORMATION

Item 1	Financial Statements (Unaudited)	Page
	<u>Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009</u>	3
	<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2010 and 2009</u>	4
	<u>Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2010</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	7
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4	<u>Controls and Procedures</u>	22
PART II OTHER INFORMATION		
Item 1	<u>Legal Proceedings</u>	23
Item 1A	<u>Risk Factors</u>	23
Item 6	<u>Exhibits</u>	23
SIGNATURES		24

## Part I – Financial Information

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

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$28,600	\$104,736
Accounts receivable:		
Trade, net of allowance of \$0 and \$1,203, respectively	37,298	32,819
Retainage	9,458	12,028
Other	1,589	922
Income taxes receivable	3,025	3,040
Note receivable	121	961
Inventory	2,355	1,472
Deferred tax asset	1,798	1,499
Costs and estimated earnings in excess of billings on uncompleted contracts	29,201	10,868
Prepaid expenses and other	604	1,624
Total current assets	114,049	169,969
Property and equipment, net	160,248	90,790
Goodwill	31,161	12,096
Intangible assets, net of accumulated amortization	396	248
Other assets	37	54
Total assets	\$305,891	\$273,157
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$27,303	\$23,680
Retainage	1,310	1,227
Accrued liabilities	14,759	8,354
Taxes payable	301	312
Billings in excess of costs and estimated earnings on uncompleted contracts	6,114	5,636
Total current liabilities	49,787	39,209
Other long-term liabilities	729	514
Deferred income taxes	12,084	11,453
Deferred revenue	274	315
Total liabilities	62,874	51,491
Commitments and contingencies		
Stockholders' equity:		
Common stock -- \$0.01 par value, 50,000,000 authorized, 26,911,910 and 26,852,407 issued; 26,899,679 and 26,840,761 outstanding at September 30, 2010 and December 31, 2009, respectively	269	268
Treasury stock, 12,231 and 11,646 shares, at cost	--	--
Additional paid-in capital	153,823	151,361
Retained earnings	88,925	70,037

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

Total stockholders' equity	243,017	221,666
Total liabilities and stockholders' equity	\$305,891	\$273,157

See notes to unaudited condensed consolidated financial statements

[BACK TO TOP](#)

3

---

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Contract revenues	\$ 100,024	\$ 81,466	\$ 262,706	\$ 222,259
Costs of contract revenues	81,594	65,468	209,100	173,112
Gross profit	18,430	15,998	53,606	49,147
Selling, general and administrative expenses	6,970	7,699	25,720	23,638
Income from operations	11,460	8,299	27,886	25,509
Other (income) expense				
Other income	--	--	(2,176 )	--
Interest income	(11 )	(78 )	(43 )	(275 )
Interest expense	68	88	92	524
Other (income) expense, net	57	10	(2,127 )	249
Income before income taxes	11,403	8,289	30,013	25,260
Income tax expense	4,305	2,892	11,125	9,236
Net income	\$ 7,098	\$ 5,397	\$ 18,888	\$ 16,024
Basic earnings per share	\$ 0.26	\$ 0.22	\$ 0.70	\$ 0.71
Diluted earnings per share	\$ 0.26	\$ 0.22	\$ 0.70	\$ 0.70
Shares used to compute earnings per share:				
Basic	26,899,591	24,241,749	26,883,815	22,485,770
Diluted	27,094,326	24,678,251	27,165,987	22,896,150

See notes to unaudited condensed consolidated financial statements

[BACK TO TOP](#)

Orion Marine Group, Inc. and Subsidiaries  
Condensed Consolidated Statement of Stockholders' Equity  
For the Nine Months Ended September 30, 2010  
(Unaudited)  
(In Thousands, Except Share Information)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance, January 1, 2010	26,852,407	\$268	(11,646 )	\$--	\$151,361	\$70,037	\$221,666
Stock-based compensation					1,876		1,876
Exercise of stock options	55,964	1			527		528
Excess tax benefits from exercise of stock options					59		59
Issuance of restricted stock	3,539	--			--		--
Forfeiture of restricted stock			(585 )	--			--
Net income	—	—			—	18,888	18,888
Balance, September 30, 2010	26,911,910	\$269	(12,231 )	\$--	\$153,823	\$88,925	\$243,017

See notes to unaudited condensed consolidated financial statements

[BACK TO TOP](#)

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

	September 30,	
	2010	2009
Cash flows from operating activities		
Net income	\$18,888	\$16,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,061	14,712
Deferred financing cost amortization	231	189
Bad debt expense	(328 )	442
Deferred income taxes	332	(1,226 )
Stock-based compensation	1,876	1,059
Gain on sale of property and equipment	(357 )	(245 )
Gain on bargain purchase from acquisition of business	(2,176 )	--
Excess tax benefit from stock option exercise	(59 )	(1,456 )
Change in operating assets and liabilities, excluding effects of businesses acquired:		
Accounts receivable	3,100	(4,956 )
Income tax receivable	75	3,276
Inventory	(883 )	(1,006 )
Note receivable	1,214	(765 )
Prepaid expenses and other	637	1,386
Costs and estimated earnings in excess of billings		
on uncompleted contracts	(16,831 )	(1,866 )
Accounts payable	(2,967 )	7,594
Accrued liabilities	3,633	3,551
Income tax payable	(10 )	353
Billings in excess of costs and estimated earnings		
on uncompleted contracts	(1,516 )	(6,264 )
Deferred revenue	(41 )	(42 )
Net cash provided by operating activities	18,879	30,760
Cash flows from investing activities:		
Proceeds from sale of property and equipment	526	673
Purchase of property and equipment	(25,071 )	(8,389 )
Acquisition of assets in Pacific Northwest	(6,653 )	--
Acquisition of business (net of cash acquired)	(64,000 )	--
Net cash used in investing activities	(95,198 )	(7,716 )
Cash flows from financing activities:		
Exercise of stock options	528	1,876
Excess tax benefit from stock option exercise	59	1,456
Proceeds from the sale of common stock	--	91,345
Expenses from the sale of common stock	--	(324 )
Increase in loan costs	(404 )	--
Payments on long-term debt	--	(34,125 )
Net cash provided by financing activities	183	60,228
Net change in cash and cash equivalents	(76,136 )	83,272



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

Cash and cash equivalents at beginning of period	104,736	25,712
Cash and cash equivalents at end of period	\$28,600	\$108,984
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$84	\$539
Taxes	\$10,696	\$6,831

See notes to unaudited condensed consolidated financial statements

[BACK TO TOP](#)

6

---

Orion Marine Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended September 30, 2010

(Unaudited)

(Tabular Amounts in thousands, Except for Share and per Share Amounts)

1. Description of Business and Basis of Presentation

Description of Business

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

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

Basis of Presentation

The accompanying condensed consolidated financial statements and financial information included herein have been prepared pursuant to the interim period reporting requirements of Form 10-Q. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Readers of this report should also read our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (“2009 Form 10-K”) as well as Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations also included in our 2009 Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal recurring nature. Interim results of operations for the three and nine months ended September 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

2. Summary of Significant Accounting Principles

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

Note 2 of the Notes to Consolidated Financial Statements in the 2009 Form 10-K.

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

- Revenue recognition from construction contracts;
  - Allowance for doubtful accounts;
- Testing of goodwill and other long-lived assets for possible impairment;
  - Income taxes;
  - Self-insurance; and
  - Stock based compensation

[BACK TO TOP](#)

7

---

## Revenue Recognition

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

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

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

## Classification of Current Assets and Liabilities

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

## Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times, cash held by financial institutions may exceed federally insured limits. The Company has not historically sustained losses on our cash balances in excess of federally insured limits. Cash equivalents at September 30, 2010 and December 31, 2009 consisted primarily of money market mutual funds and overnight bank deposits.

## Risk Concentrations

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

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

At September 30, 2010, 10.2% of our accounts receivable was due from a single customer, and at December 31, 2009, one customer accounted for 12.3% of total receivables. In the three months ended September 30, 2010 two customers generated 47.5% of total revenue(34.6% and 12.9%, respectively). In the three months ended September 30, 2009, one customer generated 13.7% of total revenues for the period. In the nine months ended September 30, 2010 and 2009, one customer generated 30.3% and 14.5% of total revenues, respectively.

## Accounts Receivable

Accounts receivable are stated at the historical carrying value, less write-offs and allowances for doubtful accounts. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. As of September 30, 2010 the Company did not have an allowance for doubtful accounts. At December 31, 2009, the Company had an allowance for doubtful accounts of \$1.2 million. The decrease was due to a write-off of a receivable upon settlement which had previously been fully reserved, as well as collection of a previously reserved receivable.

Balances billed to customers but not paid pursuant to retainage provisions in construction contracts generally become payable upon contract completion and acceptance by the owner. Retention at September 30, 2010 totaled \$9.5 million, of which \$0.3 million is expected to be collected beyond 2010. Retention at December 31, 2009 totaled \$12.0 million.

[BACK TO TOP](#)

## Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by US GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. The Company accounts for any uncertain tax positions in accordance with the provisions of US GAAP, which prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on our consolidated tax return. The Company has not recorded a liability for uncertain tax positions at December 31, 2009 or September 30, 2010.

## Insurance Coverage

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

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

## Stock-Based Compensation

The Company recognizes compensation expense for equity awards over the vesting period based on the fair value of these awards at the date of grant. The computed fair value of these awards is recognized as a non-cash cost over the period the employee provides services, which is typically the vesting period of the award. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of restricted stock grants is equivalent to the fair value of the stock issued on the date of grant.

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

## Goodwill and Other Intangible Assets

### Goodwill

The Company has acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill. Goodwill represents the costs in excess of fair values assigned to the underlying net assets in the acquisition. In accordance with US GAAP, acquired goodwill is not amortized, but is subject to impairment testing at least annually or more frequently if events or circumstances indicate that the asset more likely than not may be impaired.

### Intangible assets

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

carrying value of such asset is amortized prospectively over that revised remaining useful life.

#### New Accounting Standards

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (the “Update”), which provides amendments to Accounting Standards Codification 820-10 (Fair Value Measurements and Disclosures – Overall Subtopic) of the Codification. The Update requires improved disclosures about fair value measurements. Separate disclosures need to be made of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with a description of the reasons for the transfers. Also, disclosure of activity in Level 3 fair value measurements needs to be made on a gross basis rather than as one net number. The Update also requires: (1) fair value measurement disclosures for each class of assets and liabilities, and (2) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements, which are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Because these are enhanced disclosure requirements, there has been no impact on the Company’s results of operations or financial position. In addition, the enhanced disclosure requirements have not materially affected the Company’s financial reporting.

[BACK TO TOP](#)

3. Acquisition of T.W. LaQuay Dredging, LLC and assets purchased by Northwest Marine Construction

On January 28, 2010, the Company purchased (a) the membership interests of T.W. LaQuay Dredging, LLC (“TWLD”), a Texas limited liability company, from LaQuay Holdings, Inc. (the “Seller”), (b) all of the issued and outstanding capital stock of Industrial Channel and Dock Company, a Texas Corporation, and Commercial Channel and Dock Company, a Texas Corporation (collectively, the “Channel and Dock Companies”), from Timothy W. LaQuay and Linda F. LaQuay (the principal shareholders of the Seller, the “Principal Shareholders”), and (c) certain parcels of real property located in Port Lavaca, Texas from the Principal Shareholders (collectively, the “Purchase Transactions”). TWLD and its predecessor company have operated as a marine construction and dredging company in the Gulf Coast markets since 2000. The integration of TWLD’s operations and assets have added to the Company’s dredging fleet and enhanced its presence in the Gulf Coast. At the closing, the Company entered into a consulting agreement with Timothy and Linda LaQuay and with Charles F. Barnett for a term of one year from the Closing Date.

Upon the terms of and subject to the conditions set forth in the Purchase Agreement, the total aggregate consideration paid by the Company to the Seller and the Principal Shareholders consisted of the following:

- Cash consideration of \$55.5 million, paid to the Seller for the membership interests of T.W. LaQuay Dredging;
- Cash consideration of \$4.5 million, paid to the Principal Shareholders for the Channel and Dock Companies and the above mentioned parcels of land; and
- Up to an additional \$4.0 million (to be held in escrow) payable to Seller as a result of an increase in the purchase price of the membership interests by the amount of any additional taxes incurred by the Seller arising from the allocation of the membership interests purchase price, as further described in Section 1060 of the U.S. Internal Revenue Code, as amended.

The Purchase Agreement contains customary representations, warranties, covenants and indemnities, including certain post-closing covenants with respect to confidentiality and non-competition.

The following table summarizes the preliminary allocation of the purchase price:

Fair value of working capital items	\$(4,067 )
Property and equipment	\$49,002
Goodwill	\$19,065
Total	\$64,000

The purchase price has been allocated to the assets acquired and the liabilities assumed using estimated fair values as of the acquisition date. The estimates and assumptions are subject to change upon the finalization of valuations, which are contingent upon final appraisals of property and equipment, identifiable intangible assets, and other adjustments through January 28, 2010. Revisions to the preliminary purchase price allocation could result in significant deviations from the preliminary allocation.

The Company’s condensed consolidated financial statements at September 30, 2010 include results of TWLD for the period since the acquisition. Pro-forma information is presented below as if the purchase had occurred on January 1 of each reporting period:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenue	\$100,024	\$90,683	\$266,507	\$251,751
Income before taxes	11,403	9,577	30,465	34,253



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

Net income	\$7,098	\$6,277	\$19,172	\$21,729
Earnings per share:				
Basic	\$0.26	\$0.26	\$0.71	\$0.97
Diluted	\$0.26	\$0.25	\$0.71	\$0.95

On February 11, 2010, the Company purchased several heavy civil marine construction equipment items including derrick barges, cranes, hammers and ancillary equipment from a private company exiting the marine construction business, for a purchase price of approximately \$7.0 million. In accordance with ASC 820, the Company recorded these assets at fair value, which was based on information derived from dealer markets, known transactions, and availability in the marketplace. The Company's preliminary valuation of these assets is approximately \$9.2 million, which resulted in a gain of approximately \$2.2 million. The Company is still in the process of finalizing its purchase price allocation to these assets. Pro forma information is not presented, as the Company's purchase of assets was limited to items of equipment.

#### 4. Contracts in Progress

Contracts in progress are as follows at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Costs incurred on uncompleted contracts	\$314,227	\$235,175
Estimated earnings	93,152	61,486
	407,379	296,661
Less: Billings to date	(384,292 )	(291,429 )
	\$23,087	\$5,232
Included in the accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$29,201	\$10,868
Billings in excess of costs and estimated earnings on uncompleted contracts	(6,114 )	(5,636 )
	\$23,087	\$5,232

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

[BACK TO TOP](#)

## 5. Property and Equipment

The following is a summary of property and equipment at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Automobiles and trucks	\$1,950	\$1,409
Building and improvements	13,026	12,832
Construction equipment	135,434	92,230
Dredges and dredging equipment	66,599	44,912
Office equipment	3,144	2,460
	220,153	153,843
Less: accumulated depreciation	(95,515 )	(82,671 )
Net book value of depreciable assets	124,638	71,172
Construction in progress	26,256	14,389
Land	9,354	5,229
	\$160,248	\$90,790

For the three months ended September 30, 2010 and 2009, depreciation expense was \$4.9 million and \$4.0 million, respectively. Depreciation expense for the nine month periods ended September 30, 2010 and 2009 was \$14.0 million and \$11.7 million, respectively. The assets of the Company are pledged as collateral for the Company's credit facility.

## 6. Inventory

Inventory at September 30, 2010 and December 31, 2009, of \$2.4 million and \$1.5 million, respectively, consists of spare parts and small equipment held for use in the ordinary course of business.

## 7. Fair Value

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. Due to their short term nature, we believe that the carrying value of our accounts receivables, other current assets, accounts payable and other current liabilities approximate their fair values. We have a note receivable in the amount of \$121,000 from a customer. Due to the short-term payment schedule, we believe that the carrying value of the note receivable approximates its fair value.

## 8. Goodwill and Intangible Assets

## Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Beginning balance, January 1.....	\$12,096	\$12,096
Additions.....	19,065	--
Ending balance.....	\$31,161	\$12,096

## Intangible assets

The Company's intangible assets consists primarily of non-compete agreements, which amortize over the next 6 months. The Company is continuing to identify and evaluate intangible assets, if any, related to the TWLD acquisition.

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

On June 29, 2010, the Company entered into a credit agreement with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC as sole lead arranger and bookrunner; and the lenders from time to time as party thereto.

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

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

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

- A Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;
- A Leverage Ratio of not greater than 2.50 to 1.00 at all times;
- A minimum Net Worth of not less than \$180 million on the effective date, and at the end of each fiscal quarter thereafter, minimum net worth required as of the end of the immediately preceding fiscal quarter plus 50% of the Borrower's and its subsidiaries consolidated net income for that quarter, plus 75% of all issuances of equity interests by Borrower during that quarter.

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

The Company is subject to a commitment fee, payable quarterly in arrears on the unused portion of the Credit Facility at a current rate of 0.25% of the unused balance. As of September 30, 2010, no amounts had been drawn under the Credit Facility.

At September 30, 2010, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of the Credit Facility, and had outstanding letters of credit of \$979,221. Historically, the Company has not relied on debt financing to fund its operations or working capital.

[BACK TO TOP](#)



## 10. Income Taxes

The Company's effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available to it. For interim financial reporting, the Company estimates its annual tax rate based on projected taxable income for the full year and records a quarterly tax provision in accordance with the anticipated annual rate. The effective rate for the three months ended September 30, 2010 and 2009 was 37.8% and 34.9%, respectively, and for the nine month periods was 37.1% and 36.6%, respectively. The effective rate in the current year period differed from the Company's statutory rate primarily due to state income taxes, the non-deductibility of certain permanent tax items, such as incentive stock compensation expense, offset in part by the benefit of the domestic production activities deduction on its federal tax return, which net effect increased the overall effective tax rate.

	Current	Deferred	Total
<b>Three months ended September 30, 2010:</b>			
U.S. Federal	\$3,752	\$328	\$4,080
State and local	158	67	225
	\$3,910	\$395	\$4,305
<b>Three months ended September 30, 2009:</b>			
U.S. Federal	\$3,009	\$(58)	\$2,951
State and local	248	(307)	(59)
	\$3,257	\$(365)	\$2,892
<b>Current</b>			
<b>Deferred</b>			
<b>Total</b>			
<b>Nine months ended September 30, 2010:</b>			
U.S. Federal	\$10,570	\$253	\$10,823
State and local	223	79	302
	\$10,793	\$332	\$11,125
<b>Nine months ended September 30, 2009:</b>			
U.S. Federal	\$9,786	\$(986)	\$8,800
State and local	676	(240)	436
	\$10,462	\$(1,226)	\$9,236

The Company does not believe that its uncertain tax positions will significantly change due to the settlement and expiration of statutes of limitations prior to September 30, 2011.

## 11. Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Basic:</b>				
Weighted average shares outstanding	26,899,591	24,241,749	26,883,815	22,485,770
<b>Diluted:</b>				
Total basic weighted average shares outstanding	26,899,591	24,241,749	26,883,815	22,485,770

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

Effect of dilutive securities:				
Common stock options	194,735	436,502	282,172	410,380
Total weighted average shares outstanding assuming dilution	27,094,326	24,678,251	27,165,987	22,896,150
Anti-dilutive stock options	539,351	26,677	283,340	209,848
Shares of common stock issued from the exercise of stock options	224	17,981	55,964	375,198

[BACK TO TOP](#)

## 12. Stock-Based Compensation

The Compensation Committee of the Company's Board of Directors is responsible for the administration of the Company's two stock incentive plans. In general, the plans provide for grants of restricted stock and stock options to be issued with a per-share price equal to the fair market value of a share of common stock on the date of grant. Option terms are specified at each grant date, but generally are 10 years. Options generally vest over a three to five year period. Total shares of common stock that may be delivered under these plans may not exceed 2,943,946.

Compensation expense related to stock options for the three month period ended September 30, 2010 and 2009, was \$481,000 and \$350,000, respectively; and for the nine month period was \$1.9 million and \$1.1 million in 2010 and 2009, respectively. In the nine months ended September 30, 2010, the Company granted options to purchase 6,481 shares of common stock and used the Black-Scholes option pricing model to estimate the fair value of stock-based awards. The option awards granted in 2010 used the following weighted average assumptions:

Expected life of options	4 years
Expected volatility	57.5%
Risk-free interest rate	1.50%
Dividend yield	0.0%
Grant date fair value	\$7.41

In March 2010, 3,539 shares of common stock were granted to certain employees of the Company. These shares are restricted from sale until vesting requirements are fulfilled, which vesting is over a period of three years from the date of grant. Compensation expense to be recorded over the three year vesting period is approximately \$63,000.

During the three and nine months ended September 30, 2010, the Company received proceeds of approximately \$1,000 and \$528,000 from the exercise of 224 and 55,964 stock options, respectively. Proceeds received by the Company for the exercise of stock options for the three and nine months ended September 30, 2009 was \$208,000 and \$1.9 million, respectively.

## 13. Commitments and Contingencies

From time to time the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, the Company accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on results of operations, cash flows or financial condition.

The Company was named as one of a substantial number of defendants in numerous individual claims and lawsuits brought by the residents and landowners of New Orleans, Louisiana and surrounding areas in the United States District Court for the Eastern District of Louisiana. These suits have been classified as a subcategory of suits under the more expansive proceeding, *In re Canal Breaches Consolidation Litigation*, Civil Action No: 05-4182, (E.D. La.), which was instituted in late 2005. While not technically class actions, the individual claims and lawsuits are being prosecuted in a manner similar to that employed for federal class actions. The claims are based on flooding and related damage from Hurricane Katrina. In general, the claimants state that the flooding and related damage resulted from the failure of certain aspects of the levee system constructed by the Corps of Engineers, and the claimants seek recovery of alleged general and special damages. The Corps of Engineers contracted with various private dredging companies, including us, to perform maintenance dredging of the waterways. On October 15, 2010, the United States Court of Appeals for the Fifth Circuit affirmed the lower court's decision and dismissed the claimants' suit against us and all

defendant dredgers.

[BACK TO TOP](#)

13

---



## 14. Enterprise Wide Disclosures

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

The following table represents concentrations of revenue by type of customer for the three and nine months ended September 30, 2010 and 2009.

	Three months ended September 30,				Nine months ended September 30,			
	2010	%	2009	%	2010	%	2009	%
Federal.....	\$45,135	45	\$8,316	10	\$100,127	38	\$36,373	17
State.....	10,363	10	2,946	4	26,364	10	20,158	9
Local.....	4,627	5	28,628	35	32,409	12	65,009	29
Private.....	39,899	40	41,576	51	103,806	40	100,719	45
	\$100,024	100	\$81,466	100	\$262,706	100	\$222,259	100

Revenues generated from projects located in the Caribbean Basin totaled 5% of total revenues in the three months ended September 30, 2010, as compared with 18.5% in the comparable period last year. For the nine months ended September 30, 2010 and 2009, revenues generated from projects located in the Caribbean Basin totaled 6.2% and 14.6% of total revenues, respectively.

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

## 15. Subsidiary Guarantors

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

[BACK TO TOP](#)

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors, including those described under "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 ("2009 Form 10-K") may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements in this quarterly report on Form 10-Q speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly.

MD&A provides a narrative analysis explaining the reasons for material changes in the Company's (i) financial condition since the most recent fiscal year-end, and (ii) results of operations during the current fiscal year-to-date period and current fiscal quarter as compared to the corresponding periods of the preceding fiscal year. In order to better understand such changes, this MD&A should be read in conjunction with the Company's fiscal 2009 audited consolidated financial statements and notes thereto included in its 2009 Form 10-K, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2009 Form 10-K and with our unaudited financial statements and related notes appearing elsewhere in this quarterly report.

Overview

We are a leading marine specialty contractor serving the heavy civil marine infrastructure market. We provide a broad range of marine construction and specialty services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast, Canada, and the Caribbean Basin. Our customers include federal, state and municipal governments, the combination of which accounted for approximately 60% of our revenue in the three months ended September 30, 2010, as well as private commercial and industrial enterprises. We are headquartered in Houston, Texas.

Our contracts are obtained primarily through competitive bidding by federal, state and local agencies and through negotiation with private parties. Our bidding activity is affected by such factors as backlog, current utilization of equipment and other resources, ability to obtain necessary surety bonds and competitive considerations. The timing

and location of awarded contracts may result in unpredictable fluctuations in the results of our operations.

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

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

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

**Recent Developments.** In the first quarter of 2010, we continued to execute our growth strategy through the acquisition of Texas-based TW LaQuay Dredging, LLC (“TWLD”), a specialty dredging service provider that focuses on near shore dredging projects, and we established a base to serve the Pacific Northwest and West Coast through the purchase of marine equipment, including derrick barges, cranes, hammers and ancillary items. These acquisitions, along with our continued investment in specialized equipment to enhance our lift capabilities and expand our fleet, were funded with the proceeds generated from our common stock offering in 2009.

**Outlook.** We continue to see strong bidding activity in our end markets and geographic areas. Sources of bid opportunities available to us include:

- Port infrastructure, including Gulf Coast and Southeast Atlantic ports, which are expected to continue with expansion plans and rehabilitation projects.
- Bridge maintenance, alterations, and construction, which should be a priority for states, with funding from highway transportation programs.
  - Bid activity and funding from the US Army Corps of Engineers.
  - Opportunities with regard to hurricane protection and coastal restoration.

Competition in the East Coast construction market has remained elevated and has impacted our ability to secure projects through pressure on contract pricing in this region. In addition, the cost of certain materials has recently declined, which may also reduce the contract value of future projects on which we choose to bid.

[BACK TO TOP](#)

## Consolidated Results of Operations

Three months ended September 30, 2010 compared with three months ended September 30, 2009

	Three months ended September 30,				
	2010		2009		
	Amount	Percent	Amount	Percent	
Contract revenues	\$ 100,024	100.0	% \$ 81,466	100.0	%
Cost of contract revenues	81,594	81.6	65,468	80.4	
Gross profit	18,430	18.4	15,998	19.6	
Selling, general and administrative expenses	6,970	7.0	7,699	9.4	
Operating income	11,460	11.5	8,299	10.2	
Interest (income) expense					
Interest (income)	(11 )	(0.0 )	(78 )	(0.0 )	
Interest expense	68	0.1	88	0.1	
Interest expense, net	57	0.1	10	0.1	
Income before income taxes	11,403	11.4	8,289	10.1	
Income tax expense	4,305	4.2	2,892	3.5	
Net income	\$ 7,098	7.2	% \$ 5,397	6.6	%

**Contract Revenues.** Revenues for the three months ended September 30, 2010 increased approximately 22.8% as compared with the same period last year, and was attributable, to the integration of the TWLD assets and personnel into the Company as well as the mix of contracts in the year. Contract revenue generated from public agencies, including federal, state and local municipalities, represented 60% of total revenues in the third quarter of 2010, with the private sector generating 40%, as compared with the third quarter of 2009, when the mix of customers included 49% from the public agencies and 51% from the private sector. Revenues generated from projects in the Caribbean Basin represented 5% of total revenue, as compared with 18.5% in the third quarter of 2009.

**Gross Profit.** Gross profit increased approximately \$2.4 million, or 15.2%, in the third quarter of 2010 as compared with the corresponding period last year. The improvement in gross profit was due primarily to the increase in revenues. Gross margin, as a percentage of revenue, was 18.4% for the third quarter of 2010, a decrease compared with 19.6% in the prior year period, due to a self-performance rate in the three months ended September 30, 2010, of approximately 79.0% of total cost of revenue, as compared with a self-performance rate of 83.3% in the third quarter of 2009, resulting from the mix of contracts between periods.

**Selling, General and Administrative Expense.** Selling, general and administrative expenses (“SG&A”) totaled \$7.0 million, a decrease of approximately \$729,000 as compared with the third quarter of 2009, principally due from amortization of intangible assets in the prior year period of approximately \$687,000. SG&A expense as a percent of revenue in the third quarter of 2010 was 7.0%, as compared with 9.4% in the third quarter of 2009. The decrease was due primarily to the growth in revenue without a corresponding increase in overheads.

**Income Tax Expense** Our effective rate for the three months ended September 30, 2010 was 37.8%, and differed from the Company’s statutory rate of 35% primarily due to state income taxes and the non-deductibility of certain permanent tax items, such as incentive stock compensation expense, offset in part by the benefit of the domestic production activities deduction on our federal tax return, which net effect increased our overall effective tax rate. In the three month period ended September 30, 2009, tax benefits related to option exercises reduced the overall effective rate to

34.9%.

[BACK TO TOP](#)

16

---

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

Nine months ended September 30, 2010 compared with nine months ended September 30, 2009

	2010		Nine months ended September 30, 2009		
	Amount	Percent	Amount	Percent	
Contract revenues	\$262,706	100.0	% \$222,259	100.0	%
Cost of contract revenues	209,100	79.6	173,112	77.9	
Gross profit	53,606	20.4	49,147	22.1	
Selling, general and administrative expenses	25,720	9.8	23,638	10.6	
Operating income	27,886	10.6	25,509	11.5	
Other (income) expense					
Other income	(2,176 )	(0.8 )	--	0.0	
Interest (income)	(43 )	(0.0 )	(274 )	(0.1 )	
Interest expense	92	0.0	525	0.2	
Other (income) expense, net	(2,127 )	(0.8 )	249	0.1	
Income before income taxes	30,013	11.4	25,260	11.4	
Income tax expense	11,125	4.2	9,236	4.2	
Net income	\$18,888	7.2	% \$16,024	7.2	%

**Contract Revenues.** Revenues for the nine months ended September 30, 2010 increased approximately \$40.5 million, or 18.2% as compared with the same period last year, and was attributable, in part, to the integration of the TWLD assets and personnel into the Company and the progress schedules of the mix of contracts between periods. Contract revenue generated from public agencies, including federal, state and local municipalities, represented 60% of total revenues in the first nine months of 2010, with the private sector generating 40%, as compared with the prior year period, when the mix of customers included 55% from the public agencies and 45% from the private sector.

**Gross Profit.** Gross profit increased approximately \$4.5 million, or 9.1%, in the first nine months of 2010 as compared with the corresponding period last year. The improvement in gross profit was due primarily to the increase in revenues. Gross margin for the nine months ended September 30, 2010 was 20.4%, as compared with 22.1% in the prior year period. The decrease in margins was due primarily to the use of outside subcontractors resulting from the mix of contracts between periods.

**Selling, General and Administrative Expense.** SG&A expenses increased approximately \$2.1 million between comparable periods. Costs related to the acquisitions in the first quarter of 2010 totaled approximately \$1.7 million. Outside these acquisition related expenses, SG&A increased due to additional overheads to support our business growth.

**Other Income, net of Other Expense.** The Company recognized a gain of approximately \$2.2 million on the preliminary valuation of the bargain purchase of assets acquired in February, 2010.

**Income Tax Expense** Our effective rate for the nine months ended September 30, 2010 and 2009 was 37.1% and 36.6%, respectively, and differed from the Company's statutory rate of 35% primarily due to state income taxes and the non-deductibility of certain permanent tax items, such as incentive stock compensation expense, offset in part by the benefit of the domestic production activities deduction on our federal tax return, which net effect increased our overall effective tax rate.

[BACK TO TOP](#)

17

---

## Liquidity and Capital Resources

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

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At September 30, 2010, our working capital was \$64.3 million. This compares with \$130.8 million at December 31, 2009, of which \$55.3 million was related to the balance of the proceeds received from the sale of common stock in August 2009. The decrease was due to funds used in the acquisition of TWLD and to the purchase of marine construction assets in the Pacific Northwest, which were funded entirely through cash on hand.

We expect to meet our future internal liquidity and working capital needs, and maintain our equipment fleet through capital expenditure purchases and major repairs, from funds generated in our operating activities for at least the next 12 months. We believe our cash position, combined with the capacity available under our revolving credit facility, is adequate for our general business requirements.

The following table provides information regarding our cash flows and capital expenditures for the nine months ended September 30, 2010 and 2009 (unaudited):

	Nine months ended September 30,	
	2010	2009
Cash flows provided by operating activities.....	\$ 18,879	\$ 30,760
Cash flows used in investing activities.....	\$(95,198 )	\$(7,716 )
Cash flows provided by financing activities.....	\$ 183	\$ 60,228

**Operating Activities.** During the nine months ended September 30, 2010, our operations provided approximately \$18.9 million in cash. Changes in operating activities included an increase in costs and estimated earnings in excess of billings on uncompleted contracts, which resulted from the timing of billings to customers as well as our contractual ability to bill for work performed. Changes in non-cash items included an increase in non-cash stock-based compensation related to grants in 2009, offset by the gain on the fair value in excess of the purchase price of assets acquired during the period.

**Investing Activities.** In January 2010, we purchased the membership interest of TWLD for \$60.0 million with an additional \$4.0 million held in escrow, all or part of which is payable to the seller as a result of an increase in the purchase price by the amount of any additional taxes arising from the allocation of the purchase price in accordance with U.S. Internal Revenue Code. In February 2010, we purchased marine equipment totaling approximately \$7.0 million. In addition, we added to our capital assets by approximately \$25.1 million to enhance our lift capabilities and expand our fleet.

**Financing Activities.** In the nine months ended September 30, 2010, we received proceeds from stock option exercises, including related tax benefits of \$587,000. This was offset in part by an increase in amortizable loan costs incurred in conjunction with the new credit facility. In the nine months ended September 30, 2009, we completed a public offering of common stock, receiving proceeds, net of expenses, of approximately \$91.0 million. With a portion of the proceeds, we repaid the outstanding balance on our credit facility. In addition, we received proceeds from stock option exercises, including the related excess tax benefits. .

## Sources of Capital



On June 29, 2010, the Company entered into a credit agreement with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC as sole lead arranger and bookrunner; and the lenders from time to time as party thereto.

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

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

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

- A Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 at all times;
  - A Leverage Ratio of not greater than 2.50 to 1.00 at all times;
- A minimum Net Worth of not less than \$180 million on the effective date, and at the end of each fiscal quarter thereafter, minimum net worth required as of the end of the immediately preceding fiscal quarter plus 50% of the Borrower's and its subsidiaries consolidated net income for that quarter, plus 75% of all issuances of equity interests by Borrower during that quarter.

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

The Company is subject to a commitment fee, payable quarterly in arrears on the unused portion of the Credit Facility at a current rate of 0.25% of the unused balance. As of September 30, 2010, no amounts had been drawn under the Credit Facility.

At September 30, 2010, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of the Credit Facility, and had outstanding letters of credit of \$979,221. Historically, the Company has not relied on debt financing to fund its operations or working capital.

[BACK TO TOP](#)

### Bonding Capacity

We are generally required to provide various types of surety bonds that provide additional security to our customers for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends on our capitalization, working capital, past performance and external factors, including the capacity of the overall surety market. At September 30, 2010, we believe our capacity under our current bonding arrangement with Liberty Mutual was in excess of \$400 million, of which we had approximately \$125 million in surety bonds outstanding. During the quarter ended September 30, 2010, approximately 60% of projects, measured by revenue, required us to post a bond.

### Off-Balance Sheet Arrangements

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

### Inflation

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

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

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

#### Commodity price risk

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

#### Interest rate risk

At September 30, 2010, we had no borrowings under our credit facility. Our objectives in managing interest rate risk are to lower our overall borrowing costs and limit interest rate changes on our earnings and cash flows. To achieve this, we closely monitor changes in interest rates and we utilize cash from operations to reduce our debt position.

### Item 4. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures. As required, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on that evaluation, such officers have concluded that the disclosure controls and procedures are effective.
- (b) Changes in Internal Controls. There have been no changes in our internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

[BACK TO TOP](#)

19

---

PART II – Other Information

Item 1. Legal Proceedings

For information about litigation involving us, see Note 13 to the condensed consolidated financial statements in Part I of this report, which we incorporate by reference into this Item 1 of Part II.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our 2009 Form 10-K

Item 6. Exhibits

Exhibit

Number		Description
2	.2	Purchase Agreement dated January 28, 2010 by and among LaQuay Holdings., Inc and Seagull Services Inc. (filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K on February 2, 2010)
3	.1	Amended and Restated Certificate of Incorporation of Orion Marine Group, Inc.
3	.2	Amended and Restated Bylaws of Orion Marine Group, Inc.
4	.1	Registration Rights Agreement between Friedman, Billings, Ramsey & Co., Inc. and Orion Marine Group, Inc. dated May 17, 2007

- 31.1 Certification of the Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of the Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32 Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

[BACK TO TOP](#)

SIGNATURES

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

ORION MARINE GROUP, INC.

November 5, 2010

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

November 5, 2010

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

[BACK TO TOP](#)

21

---

