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**


| | | | Page |
|---|---|---|---|
| **Part I** | **Financial Information** | | 3 |
| | Item 1 | Financial Statements (Unaudited) | |
| | | Condensed Consolidated Balance Sheets at September 30, 2009 and December 31, 2008 | 3 |
| | | Condensed Consolidated Statements of Operations for the Three Months and Nine Months ended September 30, 2009 and 2008 | 4 |
| | | Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2009 and 2008 | 5 |
| | | Condensed Consolidated Statements of Equity for the Nine Months ended September 30, 2009 and 2008 | 6 |
| | | Notes to Condensed Consolidated Financial Statements | 7 |
| | Item 2 | Management s Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| | Item 3 | Quantitative and Qualitative Disclosures About Market Risk | 29 |
| | Item 4 | Controls and Procedures | 29 |
| **Part II** | **Other Information** | | 29 |
| | Item 1 | Legal Proceedings | 29 |
| | Item 1A | Risk Factors | 29 |
| | Item 2 | Unregistered Sales of Equity Securities and Use of Proceeds | 29 |
| | Item 3 | Defaults Upon Senior Securities | 29 |
| | Item 4 | Submission of Matters to a Vote of Security Holders | 29 |
| | Item 5 | Other Information | 29 |
| | Item 6 | Exhibits | 29 |
| **Signature** | | | 31 |
| **Exhibit Index** | | | 32 |

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 | Nine Months Ended September 30, 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<br>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 | | Three Months Ended September 30, 2008 | | Nine Months Ended September 30, 2009 | | Nine Months Ended September 30, 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.

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, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 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 | | 0.3 | (0.1) |
| Net income attributable to Great Lakes Dredge & Dock Corporation | 1.3% | 0.9% | 3.5% | 0.8% |
| | | | | |
| EBITDA | 9.2% | 10.2% | 13.9% | 9.4% |

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

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Change | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 | Change |
|---|---|---|---|---|---|---|
| | $ 1,695 | $ 1,401 | 21.0% | $ 16,440 | $ 3,151 | 421.7% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net income attributable to Great Lakes Dredge & Dock Corporation | | | | | | | | | |
| Adjusted for: | | | | | | | | | |
| Interest expense, net | | 3,242 | | 4,301 | (24.6)% | | 12,240 | | 12,853 | (4.8)% |
| Income tax expense | | 885 | | 827 | 7.0% | | 10,687 | | 2,530 | 322.4% |
| Depreciation and amortization | | 7,106 | | 8,042 | (11.6)% | | 24,588 | | 21,256 | 15.7% |
| EBITDA | $ | 12,928 | $ | 14,571 | (11.3)% | $ | 63,955 | $ | 39,790 | 60.7% |

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

Table of Contents

| Revenues (in thousands) | Three Months Ended September 30, 2009 | 2008 | Change | Nine Months Ended September 30, 2009 | 2008 | Change |
|---|---|---|---|---|---|---|
| Dredging: | | | | | | |
| Capital - U.S. | $ 43,660 | $ 37,313 | 17% | $ 135,858 | $ 113,593 | 20% |
| Capital - foreign | 25,264 | 50,837 | (50)% | 115,040 | 118,959 | (3)% |
| Beach | 23,152 | 7,045 | 229% | 46,298 | 34,186 | 35% |
| Maintenance | 36,299 | 28,621 | 27% | 126,002 | 67,777 | 86% |
| Demolition | 11,654 | 18,993 | (39)% | 38,489 | 89,337 | (57)% |
| | $ 140,029 | $ 142,809 | (2)% | $ 461,687 | $ 423,852 | 9% |

Total revenue for the quarter ended September 30, 2009 was $140.0 million, down slightly from revenue of $142.8 million for the third quarter of 2008. Dredging revenue of $128.4 million increased nearly $4.6 million, or 4% from a year ago as strong domestic operations more than offset a significant decline in foreign work. The demolition business continues to be negatively impacted by the economic recession and the resulting slowdown in construction activity which resulted in reduced demolition revenue of $11.7 million versus $19.0 million a year ago, a decrease of $7.3 million or 38.6%. Total revenues for the nine-month period ended September 30, 2009 increased by 9% to $461.7 million compared with $423.9 million for the same 2008 period, primarily as a result of increased domestic dredging activity more than offsetting decreased foreign dredging and demolition activity.

Capital projects include large port deepenings and other infrastructure projects including land reclamations. Domestic capital dredging revenue increased $6.3 million, or 17%, and $22.3 million, or 20%, in the 2009 third quarter and first nine months, respectively, compared to the same 2008 periods. Domestic capital revenue in the quarter and year to date was primarily generated by projects in the Ports of New York, New Jersey, Tampa and Jacksonville and coastal restoration in Louisiana. Foreign revenue decreased $25.6 million and $3.9 million, or 50% and 3%, in the 2009 third quarter and first nine months, respectively, compared to the same 2008 periods. As expected, foreign revenue decreased in the quarter as work slowed on foreign contracts in backlog and potential projects continued to be delayed. Foreign revenue was driven by continued work in Bahrain on the Diyar land reclamation project.

Beach nourishment projects include rebuilding of shoreline areas that have been damaged by storm activity or ongoing erosion. Beach revenue in the 2009 third quarter increased $16.1 million, compared to the same 2008 quarter. Year to date revenue of $46.3 million increased $12.1 million compared to the first nine months of 2008. Beach work rebounded in the third quarter as numerous beach projects that had been hindered by permitting and funding issues were finally bid.

Maintenance projects include routine dredging of ports, rivers and channels to remove the regular build up of sediment. Maintenance revenue in the three and nine months ended September 30, 2009 increased $7.7 million and $58.2 million, respectively, compared to the same periods of 2008. The 2009 year to date maintenance market of $483 million is approximately $200 million greater than the previous five year average for that market and is translating into record maintenance revenue for the Company. This is largely the result of a backlog of maintenance projects being put out to bid as well as additional funding coming from the American Recovery and Reinvestment Act. A number of maintenance projects contributed to this quarter s revenue, including maintenance dredging in Oregon and the Gulf of Mexico.

Gross profit for the 2009 third quarter declined $0.5 million , or 2.9%, to $17.1 million from $17.6 million a year earlier. Gross profit margin (gross profit divided by revenues) for the 2009 third quarter was 12.2% and while comparable to that of the prior year, was down from 17.3% gross profit margin achieved in the first half of 2009. Fleet utilization was down during the quarter due to the mobilization of the dredges Texas and California from the Middle East as well as three other dredges that were in required dry-dock service for a significant portion of the quarter. In addition, costs for mobilization of the dredge California combined with the expected project cost, will not be fully covered by revenue from the first two projects booked to this vessel. As a result approximately $3.0 million of additional expense was recognized in the 2009 third quarter which lowered gross profit margin by 2%. The demolition unit s gross profit was negatively impacted as the demolition unit had lower revenue to cover fixed costs. Gross profit margin for the nine months ended September 30, 2009 increased to 15.7% from 12.1% a year earlier largely due to favorable dredge fleet utilization during the first six months of 2009. As evidenced by the variability in the Company s revenues and gross profit margins in each of the 2009 quarters, both the level of fleet utilization (or days the dredges worked) and the mix of specific projects on which our dredges perform have a significant impact on the Company s quarterly results.

The Company s general and administrative (G&A) expenses totaled $11.8 million and $33.7 million for the three and nine months ended September 30, 2009, respectively, an increase of $0.8 million and $1.4 million from the same periods in 2008. The increase in G&A expense in the third quarter was primarily driven by $0.6 million of expenses related to the secondary stock offering. The year to date increase was also driven by the secondary expenses and legal expenses related to a contract claim for additional revenue on a project.

Operating income for the, 2009 third quarter decreased by 20.9%, to $5.1 million from the prior year, but increased 107% to $38.3 million for 2009 year to date. Although the third quarter results were adversely impacted by mobilizations and dry dockings as discussed above, the strong performance of the first six months and relatively constant G&A expenses helped strengthen gross profit year to date.

Interest expense, net was $3.2 million and $12.2 million for the three and nine months ended September 30, 2009, down $1.1 million and $0.7 million from same 2008 periods primarily as a result of lower interest rates.

Income tax expense for the three and nine months ended September 30, 2009 was \$0.9 million and \$10.7 million, respectively, compared to \$0.8 and \$2.5 million for the same 2008 periods, increasing primarily as a result of the higher earnings the Company generated in 2009. 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.

Net income attributable to Great Lakes Dredge & Dock Corporation of \$1.7 million and earnings per diluted share of \$0.03 for the 2009 third quarter compared to \$1.4 million and \$0.02 for the same 2008 period. Net income attributable to Great Lakes Dredge & Dock Corporation and earnings per diluted share for 2009 year to date was \$16.4 million and \$0.28 respectively, compared to \$3.2 million and \$0.05 for the same 2008 period.

EBITDA (as defined on page 24) was \$12.9 million and \$64.0 million for the three and nine months ended September 30, 2009, respectively, compared with \$14.6 million and \$39.8 million in the same 2008 periods. The increase in year to date EBITDA between the two periods was due to the strong operating performance in the Company s dredging segment.

**Results by segment**

**Dredging**

Dredging revenues for the three and nine months ended September 30, 2009 were \$128.4 million and \$423.2 million, respectively compared to \$123.8 million and \$334.5 million for the same periods of 2008. Dredging revenues for the nine months ended September 30, 2009 were driven by high utilization on domestic capital and maintenance projects throughout the year and foreign work during the first six months. The dredging segment generated operating income of \$6.6 million and \$42.4 million for the three and nine months ended September 30, 2009, respectively, compared to operating income of \$6.6 million and \$13.6 million for the same periods of 2008. 2009 year to date results were driven by high utilization as previously noted and strong margins on domestic projects. In addition, the first three quarters of 2008 were negatively impacted by the temporary loss of the dredge New York after it was struck by another vessel.

**Demolition**

Demolition revenues for the three months and nine months ended September 30, 2009 totaled \$11.7 million and \$38.5 million, respectively compared to \$19.0 million and \$89.3 million for the same 2008 periods. Revenue decreased period over period as activity in the demolition segment has been negatively affected by the economic recession and the resulting slowdown in the construction market. In addition, in the first half of 2008, NASDI worked on several unique, large dollar value projects that contributed to the high revenue in 2008, including one project that contributed \$22.4 million of revenue in the first nine months of 2008. Margins have been negatively impacted by the decreased activity as well as contract losses related to a large development project in downtown Boston that has been delayed due to the economic downturn. The demolition segment generated an operating loss of \$1.5 million and \$4.1 million for the three and nine months ended September 30, 2009, respectively compared to an operating loss of \$0.1 million and operating income of \$4.9 million for the same periods of 2008.

**Bidding Activity and Backlog**

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

| Backlog (in thousands) | September 30, 2009 | September 30, 2008 | December 31, 2008 |
|---|---|---|---|
| Dredging: | | | |
| Capital - U.S. | $ 211,392 | $ 186,523 | $ 176,051 |
| Capital - foreign | 58,158 | 154,940* | 139,479* |
| Beach | 36,986 | 23,592 | 18,934 |
| Maintenance | 94,925 | 31,270 | 26,726 |
| Demolition | 18,645 | 19,036 | 23,501 |
| | $ 420,106 | $ 415,361 | $ 384,691 |

(* Foreign backlog has been adjusted for the portion of the Diyar contract that became an option pending award in the first quarter of 2009)

Dredging contract backlog represents the Company s estimate of the revenues that will be realized under the portion of the contracts remaining to be performed based upon estimates relating to, among other things, the time required to mobilize the necessary assets to and from the project site, as well as the amount and type of material to be dredged. However, these estimates are necessarily subject to fluctuations based upon the amount and type of material that actually must be dredged. Because of these factors, as well as factors affecting the time required to complete each job, backlog is not necessarily indicative of future revenues or profitability. In addition, a significant amount of the Company s dredging backlog relates to federal government contracts, which can be canceled at any time without penalty, subject to the Company s right, generally, to recover the actual committed costs and profit on work performed up to the date of cancellation. Also, the Company s backlog may fluctuate significantly from quarter to quarter based on the type and size of the projects we are awarded from the bid market. A quarterly increase or decrease in the Company s backlog does not necessarily result in an improvement

Table of Contents

or a deterioration of the Company s business. The Company s backlog includes only those projects for which the Company has obtained a signed contract with the customer.

Funding from the American Recovery and Reinvestment Act continued to stimulate bidding in the third quarter. In addition, a number of beach projects that did not receive stimulus funding, were bid during the quarter after a relatively slow first half of 2009. The beach projects accounted for 32% of the third quarter domestic bid market of $325 million. The year to date 2009 domestic bid market reached $845 million, exceeding the size of any full year bid market since 2002. As the domestic bid market has improved the Company has captured a 50% share, which is higher than our prior three year average of 42%.

The Company s contracted dredging backlog as of September 30, 2009 was $401 million, compared with $396 million at September 30, 2008. The 2008 backlog number has been adjusted for the portion of the Diyar contract that became an option pending award in the first quarter of 2009. While total backlog has remained constant compared with September 2008; domestic backlog has grown by over 40%, primarily driven by maintenance and beach work, which offset a reduction in foreign backlog. The September 30, 2009 dredging backlog does not reflect approximately $83 million of domestic low bids pending award, additional phases ( options ) pending on projects currently in backlog and the remaining option on the Diyar contract. The September 30, 2008 dredging backlog does not reflect approximately $132 million of domestic low bids pending award and options pending on projects currently in backlog.

Demolition services backlog at September 30, 2009 was $18.6 million, compared with $19.0 million at September 30, 2008.

**Market Outlook**

*United States.* The Company currently expects work funded under the American Recovery and Reinvestment Act to be let to bid through October 2010 and continues to believe that approximately $350 to $400 million will be spent on dredging projects, primarily maintenance work, under this stimulus plan. Much of the maintenance work coming out now is due to a lack of focus on maintenance projects over the last several years. The critical need for these maintenance projects to be completed is helping garner support for the Harbor Maintenance Trust Fund (HMTF) initiative. It currently appears that a new Water Resources Development Act bill (WRDA) will be introduced by the end of 2009 and the HMTF legislation will be included within this WRDA bill.

The Panama Canal Expansion continues to move forward. While the Company did not win the most recent dredging project that was bid, the need to deepen U.S. ports will become more important over the next several years as deeper draft cargo ships are being built. This is evidenced by the $350 million deepening project in the Delaware River, the first phase of which was bid earlier this year, and the $600 million deepening project that is planned in Jacksonville, Florida. Both are being planned in anticipation of the need to accommodate these deeper draft vessels. Near term domestic capital projects include another section of the New York harbor, work for the U.S. Navy in Norfolk, and other deepening work along the East Coast. An additional funding source, the Coastal Impact Assistance program, is still on track to add dollars to the dredging market in the Gulf of Mexico coastal area during next few years. This program has obtained funding and is currently formalizing a procurement process to bid projects in 2010. In total there are capital projects which, in the aggregate, could provide more than $200 million of opportunities over the next year or two.

The Supplemental Appropriations Act of 2009 was signed into law in June and appropriates $400 million for barrier island and ecosystem restoration to rebuild shorelines impacted by historic levels of storm damage along the Mississippi Gulf Coast. The Corps is in the planning stages for this restoration and has indicated that it will start bidding projects in the fourth quarter of 2010.

Beach work was actively bid in the third quarter with more than a $100 million of projects awarded. While state and local authorities may still struggle to get beach projects funded, the third quarter was a good sign that work which needs to get done will continue to come out. In addition, there appears to be a change in sentiment by the Administration towards budgeting for beach projects that should provide future funding for this market.

*International*. As noted throughout 2009, with the decline in oil prices and contraction in the region s real estate market, the economic boom in the Middle East has stalled. The downturn has impacted the scope of the Company s Diyar contract with a portion of the backlog being delayed indefinitely and an extended payment schedule established. The Company s current backlog will occupy a portion of the Company s Middle East fleet into the second quarter of 2010 and there are several potential dredging projects that may come up for bid in the future. At this point, the time frame for when these projects might move forward is unknown. Bahrain still holds good potential for the Company s fleet located there; however there probably will not be major opportunities until dredging customers in the region feel more confident in continuing their expansion plans. As the opportunities in the Middle East have slowed and the domestic market has grown throughout 2009, the Company responded by moving two of its large hydraulic dredges back to the U.S. during the third quarter of 2009.

Last quarter the Company reported it had signed a contract for work in Brazil; however, this project has been cancelled, but may rebid in the future. The Company believes that there is potential in the Brazilian market and is working on bidding other projects for some equipment currently located in the Middle East.

*Demolition*. As previously noted, the demolition segment has been negatively impacted by the economic recession. Currently the Company is expanding into new geographic markets on the East Coast. In addition, the demolition segment has won several bridge demolition projects, and sees more bidding opportunities in that market which appears to be receiving funding under the stimulus plan; however, the near term opportunities in this segment remain less than in recent years.

Table of Contents

**Liquidity and Capital Resources**

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

The Company s net cash flows generated from operating activities for the nine months ended September 30, 2009 were $34.1 million, compared to $11.0 million for the nine months ended September 30, 2008. Normal increases or decreases in the level of working capital relative to the level of operational activity impact cash flow from operating activities. The change in operating cash flow in the first nine months of 2009 was primarily related to the increase in net income in the first nine months of 2009, versus the same period in 2008 as well as an investment in pipe and spare parts inventory that occurred during 2008.

The Company s net cash flows used in investing activities for the nine months ended September 30, 2009 totaled $16.8 million, compared to $31.3 million for the nine months ended September 30, 2008. Spending in the first nine months of 2009 was typical of the Company s normal recurring level of equipment spending, and included costs for dry-docking for a portion of the Company s vessels. The cash flows used in investing activities for the nine months ended September 30, 2008 included $15.1 million on the dredges Ohio, Reem Island and Noon Island for mobilization and other activities related to placing these vessels into service.

The Company s net cash flows used in financing activities for the nine months ended September 30, 2009 totaled $15.8 million compared to cash flow generated from financing activities of $23.6 million for the nine months ended September 30, 2008. The Company reduced its borrowings on its revolving credit facility by $11.5 million in the 2009 period. During the nine months ended September 30, 2008 the Company increased borrowings on its revolving credit facility by $28.2 million to finance investing activities, which were funded through operating cash flows in 2009. Financing activity in the first nine months of 2009 and 2008 included $3.0 million in dividends paid.

The Company paid a $1.0 million dividend in each of the three quarters of 2009. The declaration and payment of any future cash dividends will be at the discretion of the Company s Board of Directors and will depend on many factors, including general economic and business conditions, the Company s strategic plans, the Company s financial results and condition, legal requirements, including restrictions and limitations contained in the Company s senior credit facility and the indenture relating to its senior subordinated debt, and other factors the Board of Directors deems relevant. Accordingly the Company cannot make any assurances as to the size of any such dividend or that it will pay any such dividend in future quarters.

The Company s obligations under its bank credit facility and bonding agreement are secured by liens on a substantial portion of the Company s operating equipment. The Company s obligations under its international letter of credit facility are secured by the Company s foreign accounts receivable. The Company s obligations under its senior subordinated notes are unsecured. The Company s bank credit facility, bonding agreement and senior subordinated notes contain various restrictive covenants, including limitations on dividends, redemption and repurchases of capital stock, and the incurrence of indebtedness and requirements to maintain certain financial covenants. In late 2008, Lehman Brothers, a 6.5% participant in the Company s 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 Brother s pro rata portion of their commitment. As of September 30, 2009, the Company had drawn $2.0 million of the $10 million applicable to Lehman Brothers. As such, Lehman Brothers remaining $8.0 million commitment has not been included in the Company s availability under its credit facility; however, as the Company has significant capacity on its revolver, this has not presently impacted the Company s ability to fund working capital needs. For additional detail, see Note 13 Commitments and Contingencies to Condensed Consolidated Financial Statements included in this report.

The Company believes its anticipated cash flows from operations and availability under its revolving credit facility will be sufficient to fund the Company s operations, capital expenditures, debt service requirements and pay any declared dividends for the next 12 months. Beyond the next 12 months, the Company s ability to fund its working capital needs, planned capital expenditures, scheduled debt payments and dividends, if any, and to comply with all the financial covenants under the credit agreement and the bonding agreement, depends on its future operating performance and cash flows, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond the Company s control.

**Critical Accounting Policies and Estimates**

In preparing its consolidated financial statements, the Company follows accounting principles generally accepted in the United States of America. The application of these principles requires significant judgments or an estimation process that can affect the results of operations, financial position and cash flows of the Company, as well as the related footnote disclosures. The Company continually reviews its accounting policies and financial information disclosures. There have been no material changes in the Company s critical accounting policies or estimates since December 31, 2008.

Table of Contents

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

The market risk of the Company s financial instruments as of September 30, 2009 has not materially changed since December 31, 2008. The market risk profile of the Company on December 31, 2008 is disclosed in Item 7A. Quantitative and Qualitative Disclosures about Market Risk of the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

**Item 4. Controls and Procedures**

a) Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company s disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the Exchange Act ) as of September 30, 2009. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

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

b) Changes in internal control over financial reporting.

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

**PART II Other Information**

**Item 1. Legal Proceedings**

See Note 13 Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes during the nine months ended September 30, 2009 to the risk factors previously disclosed in Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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

(a) None.

(b) None.

(c) None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

(a) None.

(b) Not applicable.

**Item 6. Exhibits**

| | |
|---|---|
| 31.1 | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

Table of Contents

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

Table of Contents

## SIGNATURE

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

Great Lakes Dredge & Dock Corporation
(registrant)

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

Date: November 6, 2009

(Principal Financial and Accounting Officer and
Duly Authorized Officer)

Table of Contents

**EXHIBIT INDEX**

| Number | Document Description |
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