

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

Great Lakes Dredge & Dock CORP

Form 10-K

February 26, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission file number: 001-33225

Great Lakes Dredge & Dock Corporation

(Exact name of registrant as specified in its charter)

Delaware 20-5336063
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) 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)

Securities registered pursuant to Section 12(b) of the Act:

DOCUMENTS INCORPORATED BY REFERENCE

Part of
10-K Documents Incorporated by Reference
Part III Portions of the Proxy Statement to be filed with the Securities and Exchange Commission in connection with the 2019 Annual Meeting of Stockholders.

TABLE OF CONTENTS

PART I

Item 1.	<u>Business</u>	2
Item 1A.	<u>Risk Factors</u>	10
Item 1B.	<u>Unresolved Staff Comments</u>	26
Item 2.	<u>Properties</u>	26
Item 3.	<u>Legal Proceedings</u>	27
Item 4.	<u>Mine Safety Disclosures</u>	27

PART II

Item 5.	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
Item 6.	<u>Selected Financial Data</u>	30
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	45
Item 8.	<u>Financial Statements and Supplementary Data</u>	46
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	48
Item 9A.	<u>Controls and Procedures</u>	48
Item 9B.	<u>Other Information</u>	51

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	51
Item 11.	<u>Executive Compensation</u>	51
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	51
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	51
Item 14.	<u>Principal Accounting Fees and Services</u>	51

PART IV

Item 15. <u>Exhibits, Financial Statement Schedules</u>	52
Item 16. <u>Form 10-K Summary</u>	52
<u>SIGNATURES</u>	91

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K may constitute “forward-looking” statements as defined in Section 27A of the Securities Act of 1933 (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), the Private Securities Litigation Reform Act of 1995 (the “PSLRA”) or in releases made by the Securities and Exchange Commission (“SEC”), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Great Lakes Dredge & Dock Corporation and its subsidiaries (“Great Lakes”), or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements.

Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words “plan,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “may,” “would,” “could,” “should,” “seeks” 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” of this Annual Report on Form 10-K for the year ended December 31, 2018, and in other securities filings by Great Lakes with the SEC.

Although Great Lakes believes that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any forward-looking statements. Great Lakes’ future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in this Annual Report on Form 10-K are made only as of the date hereof and we do 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.

Part I

Item 1. Business

The terms “we,” “our,” “ours,” “us,” “Great Lakes” and “Company” refer to Great Lakes Dredge & Dock Corporation and its subsidiaries.

Organization

Great Lakes is the largest provider of dredging services in the United States and is the only U.S. dredging service provider with significant international operations. The Company was founded in 1890 as Lydon & Drews Partnership and performed its first project in Chicago, Illinois. The Company changed its name to Great Lakes Dredge & Dock Company in 1905 and was involved in a number of marine construction and landfill projects along the Chicago lakefront and in the surrounding Great Lakes region. Great Lakes now provides dredging services in the East, West, and Gulf Coasts of the United States and worldwide.

The Company operates in one operating segment, which is also the Company’s sole reportable segment and reporting unit.

In the fourth quarter of 2018, the management team proposed, and the board of directors approved, a plan to sell the Company’s historical environmental & infrastructure business. The Company has retained a financial advisor to assist with the process and expects to finalize disposition of the environmental & infrastructure business in the first half of 2019. The historical environmental & infrastructure segment has been retrospectively presented as discontinued operations and assets and liabilities held for sale and is no longer reflected in continuing operations. Refer to Note 14, Business Dispositions, to the Company’s consolidated financial statements included in Item 15 of this Annual Report on Form 10-K.

Operations

Dredging generally involves the enhancement or preservation of navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. Domestically, our work generally is performed in coastal waterways and deep water ports. The U.S. dredging market consists of four primary types of work: capital, coastal protection, maintenance and rivers & lakes. The Company’s “bid market” is defined as the aggregate dollar value of domestic dredging projects on which the Company bid or could have bid if not for capacity constraints or other considerations. The Company experienced an average combined bid market share in the U.S. of 46% over the prior three years, including 77%, 40%, 28% and 14% of the domestic capital, coastal protection, maintenance and rivers & lakes sectors, respectively.

Over its 128 year history, the Company has grown to be a leader in capital, coastal protection and maintenance dredging in the U.S. and is one of the oldest and most experienced dredging companies in the United States. In addition, the Company is the only U.S. dredging service provider with significant international operations. Over the prior three years, foreign dredging operations accounted for an average of 13% of the Company’s dredging revenues. The Company’s foreign projects are typically categorized in the capital work type, but are not included in the aforementioned bid market.

Capital (domestic is 54% of 2018 revenues). Capital dredging consists primarily of port expansion projects, which involve the deepening of channels and berthing basins to allow access by larger, deeper draft ships and the provision of land fill used to expand port facilities. In addition to port work, capital projects also include coastal restoration and land reclamations, trench digging for pipelines, tunnels and cables, and other dredging related to the construction of breakwaters, jetties, canals and other marine structures. Although capital work can be impacted by budgetary constraints and economic conditions, these projects typically generate an immediate economic benefit to the ports and surrounding communities.

Foreign (2% of 2018 revenues). Foreign capital projects typically involve land reclamations, channel deepening and port infrastructure development. The Company targets foreign opportunities that are well suited to the Company's equipment and where it faces reduced competition from its European competitors. Maintaining a presence in foreign markets has enabled the Company to diversify its customer base and take advantage of differences in global economic development. Over the last ten years, the Company has performed dredging work in the Middle East, Africa, Australia, the Caribbean and Central and South America.

Coastal protection (28% of 2018 revenues). Coastal protection projects generally involve moving sand from the ocean floor to shoreline locations where erosion threatens shoreline assets. Beach erosion is a continuous problem that has intensified with the rise in coastal development and has become an important issue for state and local governments concerned with protecting beachfront tourism and real estate. Coastal protection via beach nourishment is often viewed as a better response to erosion than trapping sand through the use of sea walls and jetties, or relocating buildings and other assets away from the shoreline. Generally, coastal protection projects take place during the fall and winter months to minimize interference with bird and marine life migration and breeding patterns as well as coastal recreation activities.

Maintenance (9% of 2018 revenues). Maintenance dredging consists of the re-dredging of previously deepened waterways and harbors to remove silt, sand and other accumulated sediments. Due to natural sedimentation, many channels require maintenance dredging every one to three years, thus creating a recurring source of dredging work that is typically non-deferrable if adequate commercial navigability is to be maintained. In addition, severe weather such as hurricanes, flooding and droughts can also cause the accumulation of sediments and drive the need for maintenance dredging.

Rivers & lakes (7% of 2018 revenues). Domestic rivers and lakes dredging and related operations typically consist of lake and river dredging, inland levee and construction dredging, environmental restoration and habitat improvement and other marine construction projects. Although the Mississippi River has a large source of projects on which the Company bids, certain dredges used on these projects are more portable and able to be transported to take advantage of the fragmented market. Generally, inland river and lake projects in the northern U.S. take place in non-winter months because frozen waterways significantly reduce contractors' ability to operate and transport its equipment in the relevant geographies.

Demand Drivers

The Company believes that the following factors are important drivers of the demand for its services:

Deep port capital projects. Most of the East Coast and Gulf ports have expansion plans that include deepening and widening in order to better compete for international trade. International trade, particularly in the intermodal container shipping business, is undergoing significant change as a result of the Panama Canal expansion, which was completed in 2016. Many shipping lines have announced plans to deploy larger ships which, due to the channel dimension requirements, currently would not be able to use many U.S. ports. Miami's port deepening project was completed in 2015 and its port channels are now able to accommodate larger vessels. The first phase of a multi-year deepening effort of the Savannah Harbor Expansion Project was completed in 2018. Dredging commenced on two Charleston Entrance Channel projects during 2018 and is expected to continue through 2020. The ports of Los Angeles and Long Beach are resuming expansion efforts to remain competitive with deepened East Coast ports. Deepening projects in Boston, Jacksonville, Tampa and Corpus Christi were recently awarded. Further, projects to deepen the Mississippi River and Port of Norfolk, Virginia are being expedited. In addition, during the fourth quarter of 2018, the President signed America's Water Infrastructure Act of 2018/Water Resources Development Act ("WRDA 2018") into law. The Company views the bill as a positive catalyst for the domestic dredging industry as it authorizes funding for critical infrastructure improvements that are needed throughout the U.S. Further, the bill authorizes studies for future water resources improvements and makes modifications to previous authorizations. The Company is encouraged by the current administration's focus on repairing and rebuilding America's infrastructure, including our nation's ports and waterways. The Company believes that port deepening and expansion work authorized under current and anticipated future legislation will continue to provide significant opportunities for the domestic dredging industry.

Gulf coast restoration. There has been continued focus on restoring the barrier islands and wetlands that provide natural protection from storms in the Gulf Coast area. Many restoration projects have commenced to repair coastal areas. Several additional projects are being planned by state and local governments to restore natural barriers. The State of Louisiana has completed a master plan calling for a \$50 billion investment in its coastal infrastructure, with a significant portion involving dredging. Additionally, during October 2015, BP plc settled the final Deepwater Horizon oil spill claims for approximately \$20 billion. This amount reflects the preliminary agreement which was reached in the second quarter of 2015 and includes \$5.5 billion related to Clean Water Act penalties. Several state and local governments have already reached agreements that resolve their claims in the disaster. Many of the Gulf States previously committed to spending a portion of the fines received to repair the natural resources impacted by

the oil spill including on coastal restoration projects that include dredging. Although the bulk of the fines are to be paid over the next decade, the Company expects several coastal restoration projects envisioned by the Gulf States to come to fruition in the next couple of years providing a new source of domestic capital dredging projects on which the Company will bid. The annual bid market for domestic capital dredging, which includes deep port capital dredging and Gulf Coast restoration, averaged \$382 million over the prior three years. During 2018, the Company continued work on the \$88 million Mississippi coastal restoration project in the Gulf of Mexico which is expected to be completed in early 2019. Additional phases of the project are expected to bid in 2019.

Substantial need for coastal protection. Beach erosion is a recurring problem due to the normal ebb and flow of coastlines as well as the effects of severe storm activity. Growing populations in coastal communities and vital beach tourism are drawing attention to the importance of protecting beachfront assets. Over the past few years, both the federal government and state and local entities have funded beach work recognizing the essential role these natural barriers play in absorbing storm energy and protecting public and private property. With continued funding available for projects in the Northeast from the Superstorm Sandy supplemental appropriations, the Company expects to continue to see an increase in projects let for bid in the coastal protection market. As a result of the extreme storm systems last year involving Hurricanes Harvey,

3

Irma, and Maria, the U.S. Senate Committee on Appropriations passed supplemental appropriations for disaster relief and recovery which includes \$17.4 billion for the U.S. Army Corps of Engineers (the “Corps”) to fund projects that will reduce the risk of future damage from flood and storm events. The Corps is beginning to provide visibility on its plans for this money, and it is currently believed that over \$1 billion is expected to be added to its dredging related budget over the next few years. Most of this work is anticipated to be coastal protection related, but some funding may be provided for channel maintenance. During the fourth quarter of 2018, Congress passed an additional \$1.7 billion of supplemental appropriations for disaster relief funding as a result of Hurricane Florence. The annual bid market for coastal protection over the prior three years averaged \$315 million.

Required maintenance of U.S. ports. The channels and waterways leading to U.S. ports have stated depths on which shippers rely when entering those ports. Due to naturally occurring sedimentation and severe weather, active channels require maintenance dredging to ensure that stated depths are at authorized levels. Consequently, the need to maintain channel depth creates a recurring source of dredging work that is non-deferrable if optimal navigability is to be preserved. The Corps is responsible for federally funded projects related to navigation and flood control of U.S. waterways. The maritime industry, including the ports, has repeatedly advocated for congressional efforts to ensure that a fully funded, recurring maintenance program is in place. In March 2018, Congress approved and the President signed an omnibus spending bill through fiscal year 2018. The spending bill continues the increases in the budget for the Corps and exceeds the increase in Harbor Maintenance Trust Fund (“HMTF”) spending for maintenance dredging as required by the 2014 Water Resources and Development Act. As noted above, WRDA 2018 was signed into law during the fourth quarter of 2018. Similar to past versions of the bill, WRDA 2018 language calls for full use of the HMTF for its intended purpose of maintaining future access to the waterways and ports that support our nation’s economy. Further, WRDA 2018 ensures that Harbor Maintenance Tax (“HMT”) funding targets will increase by three percent over the prior year, even if the HMT revenue estimates decrease, to continue annual progress towards full use of the HMT by 2025. Through the increased appropriation of HMTF monies, the Company anticipates an increase in harbor projects to be let for bid throughout 2019 and beyond. Congress has improved spending from the HMTF by providing the Corps with record annual budgets including 94% utilization of the HMTF in FY 2018 and 91% proposed in the FY 2019 budget. The annual bid market for maintenance dredging over the prior three years averaged \$391 million.

Need to maintain safe navigability of the U.S. river system. There are over twelve thousand miles of commercially navigable inland waterways that move more than 566 million tons of commercial goods annually. Transportation by barge requires less energy, and therefore is both better for the environment and costs less to move cargo than transportation by airplane, railcar or truck. Many industries rely on safe navigability of U.S. inland waterways as a primary means to transport goods and commodities such as coal, chemicals, petroleum, minerals, stones, metals and agricultural products. Natural sedimentation and other circumstances require that the inland waterway system be periodically dredged so that it can be used as intended. The Corps recognizes the need to maintain the safe navigability of U.S. waterways. The annual bid market for rivers and lakes dredging over the prior three years averaged \$70 million.

Domestic and international energy transportation. The growth in demand for transportation of energy worldwide has driven the need for dredging to support new terminals, harbors, channels and pipelines. During 2014, Great Lakes completed dredging work on a project that created a new greenfield port for a liquefied natural gas (“LNG”) terminal developed to export abundant energy resources from the west coast of Australia. The Company was awarded a contract with Corpus Christi Liquefaction, LLC (“CCL”) during 2015. CCL is developing an LNG export terminal at a site located on Corpus Christi Bay in Texas. Great Lakes' portion of the LNG project involves the dredging and slope protection of two LNG carrier ship berths, dredging of a material offloading and tug mooring basin, and expansion of an existing La Quinta Channel turning basin. During 2018, the Company was awarded a project to widen the La Quinta Channel turning basin. The significant drop in crude oil prices in during recent years may lead to a slowdown in the development of LNG export plants; however, the Company continues to expect that future global energy demand will necessitate improvements in the infrastructure base around sources of rich resources and in countries that import global energy.

the Middle East market. Over the past ten years, the Middle East has been a strong market for dredging services. With substantial income from oil revenues and significant real estate development, these countries have been undergoing extensive infrastructure expansion. Historically lower oil prices and the contraction in Middle East commercial and real estate development have slowed the rate of the region's infrastructure development in recent years. Despite the decline in recent years, urban development continues to drive the need for land reclamation in the Middle East and the Company expects growth in the area over the next few years.

For additional details regarding Operations, including financial information regarding our international and U.S. revenues and long-lived assets, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8. "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

Customers

The dredging industry's customers include federal, state and local governments, foreign governments and both domestic and foreign private concerns, such as utilities, oil and other energy companies. Most dredging projects are competitively bid, with the award going to the lowest qualified bidder. Customers generally have few economical alternatives to dredging services. The Corps is the largest dredging customer in the U.S. and has responsibility for federally funded projects related to navigation and flood control. In addition, the U.S. Coast Guard and the U.S. Navy are responsible for awarding federal contracts with respect to their own facilities. In 2018, approximately 75% of the Company's dredging revenues were generated from 30 different contracts with federal agencies or third parties operating under contracts with federal agencies.

Bidding Process

Most of the Company's contracts are obtained through competitive bidding on terms specified by the party inviting the bid. The types of equipment required to perform the specified service, project site conditions, the estimated project duration, seasonality, location and complexity of a project affect the cost of performing the contract and the price that dredging contractors will bid.

For contracts under its jurisdiction, the Corps typically prepares a fair and reasonable cost estimate based on the specifications of the project. To be successful, a bidder must be determined by the Corps to be a responsible bidder (i.e., a bidder that generally has the necessary equipment and experience to successfully complete the project as well as the ability to obtain a surety bid bond) and submit the lowest responsive bid that does not exceed 125% of the Corps' original estimate. Contracts for state and local governments are generally awarded to the lowest qualified bidder. Contracts for private customers are awarded based on the contractor's experience, equipment and schedule, as well as price. While substantially all of the Company's contracts are competitively bid, some government contracts are awarded through a sole source procurement process involving negotiation between the contractor and the government, while other projects are bid by the Corps through a "request for proposal" process. The request for proposal process benefits both Great Lakes and its customers as customers can award contracts based on factors beyond price, including experience, skill and specialized equipment.

Bonding and Foreign Project Guarantees

For most domestic projects and some foreign projects, dredging service providers are required to obtain three types of bonds: bid bonds, performance bonds and payment bonds. These bonds are typically provided by large insurance companies. A bid bond is required to serve as a guarantee so that if a service provider's bid is chosen, the service provider will sign the contract. The amount of the bond is typically 20% of the service provider's bid, with a range generally between \$1 and \$10 million. After a contract is signed, the bid bond is replaced by a performance bond, the purpose of which is to guarantee that the job will be completed. If the service provider fails to complete a job, the bonding company would be required to complete the job and would be entitled to be paid the contract price directly by the customer. Additionally, the bonding company would be entitled to be paid by the service provider for any costs incurred in excess of the contract price. A service provider's ability to obtain performance bonds with respect to a

particular contract depends upon the size of the contract, as well as the size of the service provider and its financial position. A payment bond is required to protect the service provider's suppliers and subcontractors in the event that the service provider cannot make timely payments. Payment bonds are generally written at 100% of the contract value.

The Company has bonding agreements with Argonaut Insurance Company, Berkley Insurance Company, Chubb Surety and Liberty Mutual Insurance Company, (collectively, the "Sureties") under which the Company can obtain performance, bid and payment bonds. The Company also has outstanding bonds with Travelers Casualty and Surety Company of America and Zurich American Insurance Company ("Zurich"). Great Lakes has never experienced difficulty in obtaining bonding for any of its projects and Great Lakes has never failed to complete a marine project in its 128 year history. For most foreign dredging projects, letters of credit or bank guarantees issued by foreign banks are required as security for the bid, performance and, if applicable, advance payment guarantees. The Company obtains its letters of credit under the Credit Agreement (as defined below). Foreign bid guarantees are usually 2% to 5% of the service provider's bid. Foreign performance and advance payment guarantees are each typically 5% to 10% of the contract value.

Competition

The U.S. dredging industry is highly fragmented with approximately 250 entities in the U.S. presently operating more than 850 dredges, primarily in maintenance dredging. Most of these dredges are smaller and service the inland, as opposed to coastal, waterways, and therefore do not generally compete with Great Lakes except in our rivers & lakes market. Competition is determined by the size and complexity of the job; equipment bonding and certification requirements; and government regulations. Competition on rivers & lakes projects is determined primarily based on geographic reach, project execution capability and price. Great Lakes and four other companies comprised approximately 85% of the Company's defined bid market related to domestic capital, coastal protection, maintenance and rivers & lakes over the prior three years. Within the Company's bid market, competition is determined primarily on the basis of price. In addition, the Foreign Dredge Act of 1906, or "Dredging Act," and Section 27 of the Merchant Marine Act of 1920, or "Jones Act," provide significant barriers to entry with respect to foreign competition. Together these two laws prohibit foreign-built, chartered or operated vessels from competing in the U.S. See "Business—Government Regulations" below.

Competition in the international market is dominated by four large European dredging companies all of which operate larger equipment and fleets that are more extensive than the Company's fleet. Recently, a large Chinese dredging company has emerged as a key player in the international market. In addition, there are several governmentally supported dredging companies that operate on a local or regional basis. The Company targets opportunities that are well suited to its equipment and where it can be most competitive. Most recently, the Company has focused on opportunities in the Middle East where the Company has cultivated close customer relationships and has pursued contracts compatible with the size of the Company's vessels.

Equipment

Great Lakes' fleet of dredges, material barges and other specialized equipment is the largest and most diverse in the U.S. The Company operates three principal types of dredging equipment: hopper dredges, hydraulic dredges and mechanical dredges.

Hopper Dredges. Hopper dredges are typically self-propelled and have the general appearance of an ocean-going vessel. The dredge has hollow hulls, or "hoppers," into which material is suctioned hydraulically through drag-arms. Once the hoppers are filled, the dredge sails to the designated disposal site and either (i) bottom dumps the material or (ii) pumps the material from the hoppers through a pipeline to a designated site. Hopper dredges can operate in rough waters, are less likely than other types of dredges to interfere with ship traffic, and can be relocated quickly from one project to another. Hopper dredges primarily work on coastal protection and maintenance projects. The Company completed construction of a dual mode articulated tug/barge trailing suction hopper dredge, the Ellis Island, which is the largest domestic hopper dredge, during the fourth quarter of 2017.

Hydraulic Dredges. Hydraulic dredges remove material using a revolving cutterhead which cuts and churns the sediment on the channel or ocean floor and hydraulically pumps the material by pipe to the disposal location. These dredges are very powerful and can dredge some types of rock. Certain dredged materials can be directly pumped for miles with the aid of multiple booster pumps. Hydraulic dredges work with an assortment of support equipment, which help with the positioning and movement of the dredge, handling of the pipelines and the placement of the dredged material. Unlike hopper dredges, relocating hydraulic dredges and all their ancillary equipment requires specialized vessels and additional time, and their operations can be impacted by ship traffic and rough waters. There is a wide range of hydraulic dredges from our smaller rivers & lakes vessels that use pipe sizes ranging from 10" to 22" and operate at between 365 and 3,200 total horsepower, while the Company's other hydraulic dredges use pipe sizes ranging from 18" to 36" and operate at between 1,900 and 16,650 total horsepower.

Mechanical Dredges. There are two basic types of mechanical dredges: clamshell and backhoe. In both types, the dredge uses a bucket to excavate material from the channel or ocean floor. The dredged material is placed by the

bucket into material barges, or “scows,” for transport to the designated disposal area. The scows are emptied by bottom-dumping, direct pump-out or removal by a crane with a bucket. Mechanical dredges are capable of removing hard-packed sediments, blasted rock and debris and can work in tight areas such as along docks or terminals. Clamshell dredges with specialized buckets are ideally suited to handle material requiring environmentally controlled disposal. Additionally, the Company owns an electric clamshell dredge which provides an advantage in those markets with stringent emissions standards.

Scows. The Company has the largest fleet of material barges in the domestic industry, which provides cost advantages when dredged material is required to be disposed far offshore or when material requires controlled disposal. The Company uses scows with its hydraulic dredges and mechanical dredges. Scows are an efficient and cost effective way to move material and increase dredging production. The Company has twelve scows in its fleet with a capacity ranging from 5,000 to 8,800 cubic yards.

In addition, the Company has numerous pieces of smaller equipment that support its dredging operations. Great Lakes' domestic dredging fleet is typically positioned on the East and Gulf Coasts, with a smaller number of vessels occasionally positioned on the West Coast, and with many of the rivers & lakes dredges on inland rivers and lakes. The mobility of the fleet enables the Company to move equipment in response to changes in demand. Great Lakes' fleet also includes vessels currently positioned in the Middle East.

The Company continually assesses its need to upgrade and expand its dredging fleet to take advantage of improving technology and to address the changing needs of the dredging market. The Company is also committed to preventive maintenance, which it believes is reflected in the long lives of most of its equipment and its low level of unscheduled downtime on jobs. To the extent that market conditions warrant the expenditures, Great Lakes can prolong the useful life of its vessels.

During 2017, management initiated a strategic review to improve the Company's financial results in both domestic and international operations. As a result of this review, management executed a plan to retire certain underperforming and underutilized assets. The retirement of these underperforming and underutilized assets was substantially completed in 2018.

Certification of equipment by the U.S. Coast Guard and establishment of the permissible loading capacity by the American Bureau of Shipping ("A.B.S.") are important factors in the Company's dredging business. Many projects, such as coastal protection projects with offshore sand borrow sites and dredging projects in exposed entrance channels or with offshore disposal areas, are restricted by federal regulations to be performed only by dredges or scows that have U.S. Coast Guard certification and a load line established by A.B.S. The certifications indicate that the dredge is structurally capable of operating in open waters. The Company has more certified dredging vessels than any of the Company's domestic competitors and makes substantial investments to maintain these certifications.

Seasonality

Seasonality generally does not have a significant impact on the Company's operations. However, many East Coast coastal protection projects are limited by environmental windows that require work to be performed in winter months to protect wildlife habitats. The Company can mitigate the impact of these environmental restrictions to a certain extent because the Company has the flexibility to reposition its equipment to project sites, if available, that are not limited by these restrictions. In addition, rivers and lakes in the northern U.S. freeze during the winter, significantly reducing the Company's ability to operate and transport its equipment in the relevant geographies. Fish spawning and flooding can affect dredging operations as well.

Weather

The Company's ability to perform its contracts may depend on weather conditions. Inclement or hazardous weather conditions can delay the completion of a project, can result in disruption or early termination of a project, unanticipated recovery costs or liability exposure and additional costs. As part of bidding on fixed price contracts, the Company makes allowances, consistent with historical weather data, for project downtime due to adverse weather conditions. In the event that the Company experiences adverse weather beyond these allowances, a project may require additional days to complete, resulting in additional costs and decreased gross profit margins. Conversely, favorable weather can accelerate the completion of the project, resulting in cost savings and increased gross profit margins. Typically, Great Lakes is exposed to significant weather in the first and fourth quarters, and certain projects are required to be performed in environmental windows that occur during these periods. See "Business-Seasonality" above.

Weather is difficult to predict and historical records exist for only the last 100-125 years. Changes in weather patterns may cause a deviation from project weather allowances on a more frequent basis and consequently increase or decrease gross profit margin, as applicable, on a project-by-project basis. In a typical year, the Company works on

many projects in multiple geographic locations and experiences both positive and negative deviations from project weather allowances. Accordingly, it is unlikely that future climate change will have a material adverse effect on the Company's results of operations.

Backlog

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

backlog includes only those projects for which the Company has obtained a signed contract with the customer. The components of the Company's backlog including dollar amount and other related information are addressed in more detail in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Bidding Activity and Backlog."

Employees

At December 31, 2018, the Company employed 399 full-time salaried personnel in the U.S., including those in a corporate function. In addition, the Company employs U.S. hourly personnel, most of whom are unionized, on a project-by-project basis. Crews are generally available for hire on relatively short notice. During 2018, the Company employed an average of approximately 684 hourly personnel to meet domestic project requirements.

At December 31, 2018, the Company employed 8 expatriates, 15 foreign nationals and 41 local staff to manage and administer its Middle East operations. During 2018, the Company also employed a daily average of 45 hourly personnel to meet project requirements in the Middle East.

Safety

Safety of its employees is one of the Company's core values. The Company employs behavioral and system based programs utilizing an Incident & Injury Free® (IIF) approach. The Company's safety culture is committed to training, behavioral based awareness and mutual responsibility for the wellbeing of its employees. The Company's goal is sustainable safety excellence. Incident prevention in all areas have top priority in the Company's business planning, in the overall conduct of its business, and in the operation and maintenance of our equipment (marine and land) and facilities.

Unions

The Company is a party to numerous collective bargaining agreements in the U.S. that govern its relationships with its unionized hourly workforce. However, two unions represent a large majority of our dredging employees - the International Union of Operating Engineers ("IUOE"), Local 25 and the Seafarers International Union. The Company's master contract with IUOE, Local 25 was ratified in February 2019 and expires in September 2021. Two ancillary contracts with IUOE, Local 25 expired in September 2018 and will be re-negotiated now that the master contract is completed. Our agreements with Seafarers International Union expire in February 2023. The Company has not experienced any major labor disputes in the past five years and believes it has good relationships with the unions that represent a significant number of its hourly employees; however, there can be no assurances that the Company will not experience labor strikes or disturbances in the future.

Government Regulations

The Company is subject to government regulations pursuant to the Dredging Act, the Jones Act, the Shipping Act, 1916, or "Shipping Act," and the vessel documentation laws set forth in Chapter 121 of Title 46 of the United States Code. These statutes require vessels engaged in dredging in the navigable waters of the United States to be documented with a coastwise endorsement, to be owned and controlled by U.S. citizens, to be manned by U.S. crews, and to be built in the United States. The U.S. citizen ownership and control standards require the vessel-owning entity to be at least 75% U.S. citizen owned and prohibit the chartering of the vessel to any entity that does not meet the 75% U.S. citizen ownership test.

Environmental Matters

The Company's operations, facilities and vessels are subject to various environmental laws and regulations related to, among other things: dredging operations; the disposal of dredged material; protection of wetlands; storm water and

waste water discharges; demolition activities; asbestos removal; transportation and disposal of wastes and materials; air emissions; and remediation of contaminated soil, sediments, surface water and groundwater. The Company is also subject to laws designed to protect certain marine species and habitats. Compliance with these statutes and regulations can delay appropriation and/or performance of particular projects and increase related project costs. Non-compliance can also result in fines, penalties and claims by third parties seeking damages for alleged personal injury, as well as damages to property and natural resources.

Certain environmental laws such as the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, and the Oil Pollution Act of 1990 impose strict and, under some circumstances joint and several, liability on owners and operators of facilities and vessels for investigation and remediation of releases and discharges of regulated materials, and also impose liability for related damages to natural resources. The Company's past and ongoing operations involve the use, and from time to time the release or discharge, of regulated materials which could result in liability under these and other environmental laws. The Company has remediated known releases and discharges as deemed necessary, but there can be no guarantee that additional costs will not be incurred if, for example, third party claims arise or new conditions are discovered.

The Company’s projects may involve remediation, demolition, excavation, transportation, management and disposal of hazardous waste and other regulated materials. Various laws strictly regulate the removal, treatment and transportation of hazardous water and other regulated materials and impose liability for human health effects and environmental contamination caused by these materials. The Company takes steps to limit its potential liability by hiring qualified subcontractors from time to time to remove such materials from our projects, and some project contracts require the client to retain liability for hazardous waste generation.

Based on the Company’s experience and available information, the Company believes that the future cost of compliance with existing environmental laws and regulations (and liability for known environmental conditions) will not have a material adverse effect on the Company’s business, financial position, results of operations or cash flows. However, the Company cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental or health and safety laws or regulations or to respond to newly discovered conditions, such as future cleanup matters or other environmental claims.

Executive Officers of the Registrant

The following table sets forth the names and ages of all of the Company’s executive officers and the positions and offices presently held by them.

Name	Age	Position
Lasse J. Petterson	62	Chief Executive Officer and Director
Mark W. Marinko	57	Chief Financial Officer and Senior Vice President
David E. Simonelli	62	President—Dredging Division
Christopher P. Shea	56	President—Environmental & Infrastructure Division
Kathleen M. LaVoy	39	Senior Vice President, Chief Legal Officer and Corporate Secretary

Lasse J. Petterson, Chief Executive Officer and Director

Mr. Petterson has served as Chief Executive Officer (“CEO”) since May 2017. Mr. Petterson most recently had served as a private consultant to clients in the Oil & Gas sector and served as Chief Operating Officer (“COO”) and Executive Vice President at Chicago Bridge and Iron (“CB&I”) from 2009 to 2013. Reporting directly to the CEO, he was responsible for all of CB&I’s engineering, procurement and construction project operations and sales. Prior to CB&I, Mr. Petterson was CEO of Gearbulk, Ltd., a privately held company that owns and operates one of the largest fleets of gantry craned open hatch bulk vessels in the world. He was also President and COO of AMEC Inc. Americas, a subsidiary of AMEC plc, a British multinational consulting, engineering and project management company. Prior to joining AMEC, Mr. Petterson served in various executive and operational positions for Aker Maritime, Inc., the deepwater division of Aker Maritime ASA of Norway over the course of 20 years. He spent the first nine years of his career in various positions at Norwegian Contractors, an offshore oil & gas platform contractor. Mr. Petterson holds both master’s and bachelor’s degrees from the Norwegian University of Technology.

Mark W. Marinko, Senior Vice President and Chief Financial Officer

Mr. Marinko has served as Senior Vice President and Chief Financial Officer since June 2014. Mr. Marinko was most recently President of the Consumer Services division at TransUnion leading the direct to consumer and business market, customer service, consumer compliance and marketing for the credit information company. Prior to his position as President, Mr. Marinko has been in increasing accounting and financial roles as Controller and Vice President of Finance at TransUnion since 1996. Prior to TransUnion, Mr. Marinko served as controller of Official Airline Guides. In his over 30 years of professional experience, Mr. Marinko has held roles specializing in accounting, finance, sales, systems and business operations. Mr. Marinko earned a Bachelor of Arts degree in Accounting and

Business Administration from Augustana College.

David E. Simonelli, President—Dredging Division

Mr. Simonelli was named President—Dredging Division in April 2010. Mr. Simonelli has overall responsibility for the Dredging Division which includes safety, estimating, engineering, domestic and international operations and plant and equipment. He was named a Vice President of the Company in 2002 and Special Projects Manager in 1996. He joined the Company in 1978 as a Civil Engineer and has since held positions of increasing responsibility in domestic and international operations and project management. Mr. Simonelli earned a Bachelor of Science degree in Civil and Environmental Engineering from the University of Rhode Island. He is a member of the Hydrographic Society, the American Society of Civil Engineers and the Western Dredging Association.

9

Christopher P. Shea, President—Environmental & Infrastructure Division

Mr. Shea was named President—Environmental & Infrastructure Division in November 2015. Mr. Shea has overall responsibility for the Environmental & Infrastructure Division. He has over 25 years of experience in global engineering, environmental services and construction management services. Prior to joining Great Lakes, Mr. Shea was at CH2M Hill, Inc., a global environmental and engineering consulting services firm, where he was most recently President of the Environmental and Nuclear Business Group. Prior to his nine year tenure at CH2M Hill, Mr. Shea was employed by Envirocon, Inc. as Senior Vice President of Business Development and Strategic Planning. Mr. Shea started his career at Waste Management (formerly Chemical Waste Management) in 1986. He received a BS in Chemistry from the University of Arizona.

Kathleen M. LaVoy, Senior Vice President, Chief Legal Officer and Corporate Secretary

Ms. LaVoy was appointed Senior Vice President, Chief Legal Officer and Corporate Secretary in January 2018. Previously, Ms. LaVoy served as our Interim Chief Legal Officer and Corporate Secretary since November 2015. Ms. LaVoy was appointed Vice President and General Counsel, Dredging Operations in July 2012. She joined the Company in 2007 as Assistant General Counsel. Ms. LaVoy received her J.D. cum laude from Northwestern University School of Law and was an associate in the litigation department of the Chicago law firm Winston & Strawn LLP following graduation. Ms. LaVoy earned a Bachelor of Science degree with distinction in Business Administration from the University of North Carolina – Chapel Hill.

Availability of Information

You may read and obtain copies of any materials Great Lakes files with the SEC, including without limitation, the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, free of charge, at the SEC's website, www.sec.gov. Great Lakes' SEC filings are also available to the public, free of charge, on our corporate website, www.gldd.com, at "Investors – Financial & Filings", as soon as reasonably practicable after Great Lakes electronically files such material with, or furnishes it to, the SEC. The reference to the Company's website does not constitute incorporation by reference of information contained on or accessible through such website.

Item 1A. Risk Factors

The following risk factors address the material risks and uncertainties concerning our business. You should carefully consider the following risks and other information contained or incorporated by reference into this Annual Report on Form 10-K when evaluating our business and financial condition and an investment in our common stock. Should any of the following risks or uncertainties develop into actual events, such developments could have material adverse effects on our business, financial condition, cash flows or results of operations. We have grouped our Risk Factors under captions that we believe describe various categories of potential risk. For the reader's convenience, we have not duplicated risk factors that could be considered to be included in more than one category.

Risks Related to our Business

We depend on our ability to continue to obtain federal government dredging and other contracts, and are therefore impacted by the amount of government funding for dredging and other projects. A reduction in government funding for dredging or other contracts, or government cancellation of such contracts, could materially adversely affect our business operations, revenues and profits.

A substantial portion of our revenue is derived from federal government contracts, particularly dredging contracts. Revenues related to dredging contracts with federal agencies or companies operating under contracts with federal

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

agencies and the percentage as a total of dredging revenue for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,		
	2018	2017	2016
Federal government revenue (in US \$1,000)	\$468,422	\$375,276	\$409,942
Percent of revenue from federal government	75	% 63	% 64

Amounts spent by the federal government on dredging are subject to the budgetary and legislative processes. We would expect the federal government to continue to improve and maintain ports as it has for many years, which will necessitate a certain level of federal spending. However, there can be no assurance that the federal government will allocate any particular amount or level of funds to be spent on dredging projects for any specified period. In addition, Congress must approve budgets that govern spending by many of the federal agencies we support. When Congress is unable to agree on budget priorities, and thus is unable to pass the annual budget on a timely basis, Congress typically enacts a continuing resolution. A continuing resolution allows U.S. federal government agencies

to operate at spending levels approved in the previous budget cycle. Under a continuing resolution, funding may not be available for new projects or may be delayed on current projects. Any such delays would likely result in new projects being delayed or canceled and could have a material adverse effect on our revenue and operating results. Furthermore, a failure to complete the budget process and fund government operations pursuant to a continuing resolution may result in a U.S. federal government shutdown, such as the recent shutdowns in 2018 and early 2019. While the impact on the Company of the shutdowns in 2018 and early 2019 was not material, an extended shutdown may result in us incurring substantial costs without reimbursement under our contracts and the delay or cancellation of key projects, which could have a material adverse effect on our revenue and operating results.

In addition, potential contract cancellations, modifications, protests, suspensions or terminations may arise from resolution of these issues and could cause our revenues, profits and cash flows to be lower. Federal government contracts can be canceled at any time without penalty to the government, subject to, in most cases, our contractual right to recover our actual committed costs and profit on work performed up to the date of cancellation. Accordingly, there can be no assurance that the federal government will not cancel any federal government contracts that have been or are awarded to us. Even if a contract is not cancelled, the government may elect to not award further work pursuant to a contract. Furthermore, in February 2019 the U.S. President declared a national emergency. This may allow the administration to divert funds previously budgeted for other purposes. There is no guarantee that the administration will not divert funds away from the Corps or from our other customers relying on funding from the federal government. There is also no guarantee that additional national emergencies will not be declared in the future. A significant reduction in government funding for dredging or remediation contracts, could materially adversely affect our business, operations, revenues and profits.

We depend on our ability to qualify as an eligible bidder under government contract criteria and to compete successfully against other qualified bidders in order to obtain government dredging and other contracts. Our inability to qualify or to compete successfully for certain contracts could materially adversely affect our business operations, revenues and profits.

The U.S. government and various state, local and foreign government agencies conduct rigorous competitive processes for awarding many contracts. Some contracts include multiple award task order contracts in which several contractors are selected as eligible bidders for future work. We will face strong competition and pricing pressures for any additional contract awards from the U.S. government and other domestic and foreign government agencies, and we may be required to qualify or continue to qualify under various multiple award task order contract criteria. Our inability to qualify as an eligible bidder under government contract criteria could preclude us from competing for certain government contract awards. In addition, our inability to qualify as an eligible bidder, or to compete successfully when bidding for certain government contracts and to win those contracts, could materially adversely affect our business, operations, revenues and profits.

The nature of our contracts, particularly those that are fixed-price, subjects us to risks associated with cost over-runs, operating cost inflation and potential claims for liquidated damages. If we are unable to accurately estimate our costs to complete our projects, our profitability could suffer.

We conduct our business under various types of contracts where costs are estimated in advance of our performance. Most dredging contracts are fixed-price contracts where the customer pays a fixed price per unit (e.g., cubic yard) of material dredged. Fixed-price contracts carry inherent risks, including risks of losses from underestimating costs, operational difficulties, and other changes that can occur over the contract period. In 2017, we experienced delays as a result of Hurricanes Harvey, Irma, Maria and Jose, which caused work stoppages in the impacted areas. If our estimates prove inaccurate, if there are errors or ambiguities as to contract specifications, or if circumstances change due to, among other things, unanticipated conditions or technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, inclement or hazardous weather conditions, changes in cost of equipment or materials, or our suppliers' or subcontractor's inability to perform, then cost over-runs and delays in performance are likely to occur. We may not be able to obtain compensation for additional work performed or

expenses incurred, or may be delayed in receiving necessary approvals or payments. Additionally, we may be required to pay liquidated damages upon our failure to meet schedule or performance requirements of our contracts. Our failure to accurately estimate the resources and time required for fixed-price contracts or our failure to perform our contractual obligations within the expected time frame and costs could result in reduced profits or, in certain cases, a loss for that contract. If we were to significantly underestimate the costs on one or more significant contracts, the resulting losses could have a material adverse effect on our business, operating results, cash flows or financial condition.

Our results of operations depend on the award of new contracts and the timing of the performance of these contracts. As a result, our quarterly and annual operating results may vary significantly.

Our quarterly and annual results of operations have fluctuated from period to period in the past and may continue to fluctuate in the future. Accordingly, you should not rely on the results of any past quarter or quarters as an indication of future performance in our business operations or valuation of our stock. Our operating results could vary greatly from period to period due to factors such as:

- the timing of contract awards and the commencement or progress of work under awarded contracts;
- inclement or hazardous weather conditions that may result in underestimated delays in dredging, disruption or early termination of projects, unanticipated recovery costs or liability exposure, and additional contract expenses;
- planned and unplanned equipment downtime;
- our ability to recognize revenue from pending change orders, which is not recognized until the recovery is probable and collectability is reasonably assured;
- environmental restrictions requiring that certain projects be performed in winter months to protect wildlife habitats; and
- equipment mobilization to and from projects.

If our results of operations from quarter to quarter fail to meet the expectations of public market analysts and investors, our stock price could be negatively impacted. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Primary Factors that Determine Operating Profitability.”

If we fail to comply with government contracting regulations, our revenue could suffer, and we could be subject to significant potential liabilities.

Our contracts with federal, state local and foreign governmental customers are subject to various procurement regulations and contract provisions. These regulations also subject us to examinations by government auditors and investigators, from time to time, to ensure compliance and to review costs. Violations of government contracting regulations could result in the imposition of civil and criminal penalties, which could include termination of contracts, forfeiture of profits, imposition of payments and fines and suspension or debarment from future government contracting. If we fail to continue to qualify for or are suspended from work under a government contract for any reason, we could suffer a material adverse effect on our business, operating results, cash flows or financial condition.

In addition, we may be subject to litigation brought by private individuals on behalf of the government relating to our government contracts, referred to in this annual report as “qui tam” actions, which could include claims for up to treble damages. Qui tam actions are sealed by the court at the time of filing. The only parties privy to the information in the complaint are the complainant, the U.S. government and the court. Therefore, it is possible that qui tam actions have been filed against us and that we are not aware of such actions or have been ordered by the court not to discuss them until the seal is lifted. Thus, it is possible that we are subject to liability exposure arising out of qui tam actions.

We are subject to risks related to our international dredging operations.

Revenue from foreign contracts and its percentage to total dredging revenue for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,		
	2018	2017	2016
Foreign revenue (in US \$1,000)	\$ 14,088	\$ 42,306	\$ 59,413
Percent of revenue from foreign countries	2 %	7 %	9 %

The international dredging market is highly competitive and competition in the international market is dominated by four large European dredging companies, all of which operate larger equipment and fleets that are more modern and extensive than the Company's. In addition, there are several governmentally supported dredging companies that operate on a local or regional basis. Competing for international dredging projects requires a substantial investment of resources, skilled personnel and capital investment in equipment and technology, and may adversely affect our ability to deploy resources for domestic dredging projects.

International operations subject us to additional potential risks, including:

- uncertainties concerning import and export license requirements, tariffs and other trade barriers;
- political and economic instability and risks of terrorist activities;
- reduced demand as a result of fluctuations in the price of oil, the primary export in the Middle East;
- difficulties in enforcing contractual rights and agreements through certain foreign legal systems;
- requirements of, and changes in, foreign laws, policies and regulations;
- local licensing, permitting and royalty issues, particularly with respect to our overseas operations in Bahrain and the Middle East;
- difficulties in staffing and managing international operations without additional expense;
- taxation issues;
- greater difficulty in accounts receivable collection and longer collection periods;
- compliance with the U.S. Foreign Corrupt Practices Act and international anticorruption laws;
- currency fluctuations;
- logistical and communication challenges; and
- inability to effectively insure against political, cultural and economic uncertainties, including acts of terrorism, civil unrest, war or other armed conflict.

In addition, our international operations are subject to U.S. and other laws and regulations regarding operations in foreign jurisdictions. These numerous and sometimes conflicting laws and regulations include anti-boycott laws, anti-competition laws, anti-corruption laws, tax laws, immigration laws, privacy laws and accounting requirements. There is a risk that some provisions may be breached, for example through inadvertence or mistake, fraudulent or negligent behavior of individual employees or of agents, or failure to comply with certain formal documentation requirements or otherwise. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to operate in one or more countries, and could have a material adverse effect on our business, results of operations or financial condition. In addition, military action, terrorist activities or continued unrest in the Middle East could affect the safety of our personnel in the region and significantly increase the costs of, or disrupt our operations in, the region and could have a material adverse effect on our business, operating results, cash flows or financial condition.

A significant portion of our international revenue is earned from large, single customer contracts.

The Company earns significant revenue from governmental entities and private parties in the Middle East. Revenue from foreign projects has been concentrated in the Middle East which comprised 100%, 97% and 89% of our foreign dredging revenues in the years ended December 31, 2018, 2017 and 2016, respectively. A single customer contract represented 78% of the Company's foreign dredging revenue from all sources in the year ended December 31, 2018. The Company continues to maintain significant equipment in the Middle East region and continues to pursue additional contracts in the region.

Certain factors have occurred suggesting that future revenues from projects with governments in the Middle East could decrease. Historically lower oil prices and the contraction in Middle East commercial and real estate development have slowed the rate of the region's infrastructure development. If the diplomatic relationship of the United States or our commercial relationship with governments in the Middle East is significantly negatively impacted or terminated, or we encounter significant difficulties in obtaining licensing or permits to do business in these countries, the Company's international revenues would be materially and adversely impacted. If the government of Bahrain or Saudi Arabia further curtails its infrastructure investment or diversifies its use of dredging vendors, our revenue from these customers could decline further.

Other Middle East governments have national dredging companies and may be incentivized to use the national dredging company of another Middle East government or have significant history with competitive dredging vendors other than the Company. The Company could lose future contracts for work in the Middle East to these competitors or could be forced to accept lower margins on contracts in order to utilize the equipment that is located in the Middle

East. In addition, the Company may be forced to shrink the workforce in place or relocate dredging assets from this region in reaction to lower contract earnings. Lower utilization, workforce reductions or asset relocations could have a material adverse effect on our business, operating results, cash flows or financial condition.

Regional instability in the Middle East may adversely affect business conditions and may disrupt our operations.

Saudi Arabia, Bahrain and other Middle East countries have experienced political turbulence in the recent past. Political uprisings and conflicts, including armed hostilities and civil unrest, may affect the political stability of the region. In addition, there has been a decline in the relationships between and amongst certain governments in the Middle East, such as continued conflicts between Saudi Arabia and Iran and the boycott of Qatar by Saudi Arabia, United Arab Emirates, Bahrain, and Egypt.

Deterioration in the political, economic, and social conditions or other relevant policies of the government, such as changes in laws or regulations, export restrictions, expropriation of our assets or resource nationalization, could materially and adversely affect our business, access to markets, financial condition, and results of operations. Similar civil unrest and political turbulence has occurred in other countries in the region.

In addition, such events may affect plans for infrastructure investment. If the government changes or significant restrictions are established, our dredging operations in the Middle East, including the value of our assets related to such operations, may be adversely affected.

Our financial results include certain estimates and assumptions that may differ from actual results.

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States, a number of estimates and assumptions are made by management that affect the amounts reported in the financial statements. These estimates and assumptions must be made because certain information that is used in the preparation of our financial statements is either dependent on future events or cannot be calculated with a high degree of precision from available data. In some instances, these estimates are particularly uncertain and we must exercise significant judgment. Estimates are primarily used in our assessment of the recognition of revenue for costs and estimated earnings under the percentage of completion method of accounting as discussed above, the fair value of reporting units for goodwill impairment analysis, the assessment of impairment of intangibles and other long-lived assets, the purchase price allocations of businesses acquired, accrued insurance claims, income taxes, asset lives used in computing depreciation and amortization, stock-based compensation expense for performance-based stock awards, and accruals for contingencies, including legal matters. At the time they are made, we believe that such estimates are fair when considered in conjunction with our consolidated financial position and results of operations taken as a whole. However, actual results could differ from those estimates and such differences may be material to our financial statements.

Lapses in disclosure controls and procedures or internal control over financial reporting could materially and adversely affect our operations, profitability or reputation.

There can be no assurance that our disclosure controls and procedures will be effective in the future or that we will not experience a material weakness or significant deficiency in internal control over financial reporting. Any such lapses or deficiencies may materially and adversely affect our business, operating results, cash flows or financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the lapses or deficiencies, expose us to regulatory or legal proceedings, including litigation brought by private individuals, subject us to fines, penalties or judgments, harm our reputation, or otherwise cause a decline in investor confidence and our stock price.

Many of our contracts have penalties for late completion.

In many instances, including in our fixed-price contracts, we guarantee that we will complete a project by a scheduled date. If we subsequently fail to complete the project as scheduled, we may be liable for any customer losses resulting from such delay, generally in the form of contractually agreed-upon liquidated damages. In addition, failure to maintain a required schedule could cause us to default on our government contracts, giving rise to a variety of

potential damages. To the extent that these events occur, the total costs of the project could exceed our original estimates, and we could experience reduced profits or, in some cases, a loss for that project.

Force majeure events, including natural disasters and terrorists' actions, could negatively impact our business, which may affect our business, operations, revenues, cash flows and profits.

Force majeure or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate. We typically negotiate contract language where we are allowed certain relief from force majeure events in private client contracts and review and attempt to mitigate force majeure events in both public and private client contracts. We remain obligated to perform our services after most extraordinary events subject to relief that may be available pursuant to a force majeure clause.

If a contract contains a force majeure provision, we may be able to obtain an extension of time to complete our obligations under such contract, but we will still be subject to our other contractual obligations in the event of such an extraordinary event. Because we cannot predict the length, severity or location of any potential force majeure event, it is not possible to determine the specific effects any such event may have on us. Depending on the specific circumstances of any particular force majeure event, or if

we are unable to react quickly to such an event, our operations may be affected significantly, our productivity may be affected, our ability to complete projects in accordance with our contractual obligations may be affected, our payments from customers may be delayed and we may incur increased labor and materials costs, which could have a negative impact on our financial condition, relationships with customers or suppliers, and our reputation.

The amount of our estimated backlog is subject to change and not necessarily indicative of future revenues.

Our contract backlog represents our estimate of the revenues that we will realize under the portion of the contracts remaining to be performed. These estimates are based primarily upon the time and costs required to mobilize the necessary assets to and from the project site, the amount and type of material to be dredged and the expected production capabilities of the equipment performing the work. However, these estimates are necessarily subject to variances based upon actual circumstances. From time to time, changes in project scope may occur with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the timing of the revenue and profits that we actually earn. Projects may remain in our backlog for an extended period of time because of the nature of the project and the timing of the particular services or equipment required by the project.

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 our backlog (83% in 2018) relates to federal government contracts, which can be canceled at any time without penalty to the government, subject, in most cases, to our contractual right to recover our actual committed costs and profit on work performed up to the date of cancellation.

Below is our backlog from federal government contracts as of December 31, 2018, 2017, and 2016 and the percentage of those contracts to total backlog as of the same date.

	Year Ended December 31,		
	2018	2017	2016
Federal government backlog (in US \$1,000)	\$586,568	\$413,678	\$269,362
Percentage of backlog from federal government	83	% 81	% 58

At times we may have backlog with foreign governments that use local laws and regulations to change terms of a contract in backlog or to limit our ability to receive payment on a timely basis. Other contracts in backlog are with state and local municipalities or private companies that may have funding constraints or impose restrictions on timing. The termination, modification or suspension of projects currently in backlog could have a material adverse effect on our business, operating results, cash flows or financial condition.

Our business would be adversely affected if we failed to comply with Section 27 of the Merchant Marine Act of 1920 (the “Jones Act”) provisions on coastwise trade, or if those provisions were modified or repealed.

We are subject to the Jones Act and other federal laws that restrict dredging in U.S. waters and maritime transportation between points in the United States to vessels operating under the U.S. flag, built in the United States, at least 75% owned and operated by U.S. citizens and manned by U.S. crews. We are responsible for monitoring the ownership of our common stock to ensure compliance with these laws. If we do not comply with these restrictions, we would be prohibited from operating our vessels in the U.S. market, and under certain circumstances we would be deemed to have undertaken an unapproved foreign transfer, resulting in severe penalties, including permanent loss of U.S. dredging rights for our vessels, fines or forfeiture of the vessels.

In the past, interest groups have unsuccessfully lobbied Congress to modify or repeal the Jones Act to facilitate foreign flag competition for trades and cargoes currently reserved for U.S. flag vessels under the Jones Act. We believe that continued efforts may be made to modify or repeal the Jones Act or other federal laws currently benefiting

U.S. flag vessels. If these efforts are ever successful, it could result in significantly increased competition and have a material adverse effect on our business, results of operations, cash flows or financial condition.

Our dependence on petroleum-based products increases our costs as the prices of such products increase, which could adversely affect our business, operations, revenues and profits.

Fuel prices fluctuate based on market events outside of our control. We use diesel fuel and other petroleum-based products to operate our equipment used in our dredging contracts. Fluctuations in supplies relative to demand and other factors can cause unanticipated increases in their cost. Most of our contracts do not allow us to adjust our pricing for higher fuel costs during a contract term and we may be unable to secure price increases reflecting rising costs when renewing or bidding contracts. In addition, on January 1, 2020, the International Maritime Organization's regulations regarding use of low sulfur fuel are expected to go into effect. We use low sulfur fuel in many of our domestic operations, and the increased demand for low sulfur fuel may result in an increase in price. Future increases in the costs of fuel and other petroleum-based products used in our business, particularly if a bid has been submitted for a contract and the costs of those products have been estimated at amounts less than the actual costs thereof, could result in a lower profit, or even a loss, on one or more contracts.

If we are unable, in the future, to obtain bonding or letters of credit for our contracts, our ability to obtain future contracts will be limited, thereby adversely affecting our business, operating results, cash flows or financial condition.

We are generally required to post bonds in connection with our domestic dredging contracts and bonds or letters of credit with our foreign dredging contracts to ensure job completion if we ever fail to finish a project. We have entered into bonding agreements with Argonaut Insurance Company, Berkley Insurance Company, Chubb Surety and Liberty Mutual Insurance Company (collectively, the “Sureties”) to which the Sureties act as surety, issue bid bonds, performance bonds and payment bonds, and provide guarantees required by us in the day-to-day operations of our dredging business. The Company also has outstanding bonds with Travelers Casualty and Surety Company of America and Zurich to issue future bonds for us. Historically, we have had a strong bonding capacity, but surety companies issue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of collateral as a condition to issuing any bonds. With respect to our foreign dredging business, we generally obtain letters of credit under our Credit Agreement. However, access to our senior credit facility under our Credit Agreement may be limited by failure to meet certain levels of availability or other defined financial or other requirements. If we are unable to obtain bonds or letters of credit on terms reasonably acceptable to us, our ability to take on future work would be severely limited.

In connection with the sale of our historical demolition business, we were obligated to keep in place the surety bonds on pending demolition projects for the period required under the respective contract for a project. In 2017, we were notified by Zurich of an alleged default triggered on a historical demolition surety performance bond in the aggregate amount of approximately \$20 million for failure of the contractor to perform in accordance with the terms of a project. Zurich drew upon the letter of credit in the amount of \$20.9 million. In order to fund the draw on the letter of credit, we had to increase the borrowings on our revolving credit facility. As the outstanding letters of credit previously reduced our availability under the revolving credit facility, this draw down on our letter of credit did not impact our liquidity or capital availability. However, in the future, other defaults (or alleged defaults) triggered under any of our surety bonds could have a material adverse effect on our business, results of operations, cash flows or financial condition.

Capital expenditures and other costs necessary to operate and maintain our vessels tend to increase with the age of the vessel and may also increase due to changes in governmental regulations, safety or other equipment standards, which could result in a decrease in our profits.

Capital expenditures and other costs necessary to operate and maintain our vessels tend to increase with the age of the vessel. Accordingly, it is likely that the operating costs of our vessels will increase.

The average age of our more significant vessels as of December 31, 2018, by equipment type, is as follows:

Type of Equipment	Quantity	Average Age in Years
Hydraulic Dredges	13	35
Hopper Dredges	6	27
Mechanical Dredges	4	39
Unloaders	1	34
Drillboats	1	34
Material and Other Barges	118	23
Total	143	25

Remaining economic life has not been presented because it is not reasonably quantifiable because, to the extent that market conditions warrant the expenditures, we can prolong the vessels' lives. In our domestic market, we operate in an industry where a significant portion of our competitors' equipment is of a similar age. It is common in the dredging industry to make maintenance and capital expenditures in order to extend the economic life of equipment.

In addition, changes in governmental regulations, safety or other equipment standards, as well as compliance with standards imposed by maritime self-regulatory organizations, standards imposed by vessel classification societies and customer requirements or competition, may require us to make additional expenditures. For example, if the U.S. Coast Guard enacts new standards, we may be required to incur expenditures for alterations or the addition of new equipment (e.g. more fuel efficient engines). Other new standard requirements could be significant. In order to satisfy any such requirement, we may need to take our vessels out of service for extended periods of time, with corresponding losses of revenues.

We may experience equipment or mechanical failures, which could increase costs, reduce revenues and result in penalties for failure to meet project completion requirements.

The successful performance of contracts requires a high degree of reliability of our vessels, barges and other equipment. The average age of our marine fleet as of December 31, 2018 was 25 years. Breakdowns not only add to the costs of executing a project, but they can also delay the completion of subsequent contracts, which are scheduled to utilize the same assets. We operate a scheduled maintenance program in order to keep all assets in good working order, but despite this, breakdowns can and do occur and may result in loss of revenue.

Our current business strategy may include acquisitions which present certain risks and uncertainties. There are integration and consolidation risks associated with acquisitions. Future acquisitions may result in significant transaction expenses, unexpected liabilities and risks associated with entering new markets, and we may be unable to profitably operate these businesses.

We may seek business acquisition activities as a means of broadening our offerings and capturing additional market opportunities by our business units. We may be exposed to certain additional risks resulting from these activities. Acquisitions may expose us to operational challenges and risks, including:

- the effects of valuation methodologies which may not accurately capture the value proposition;
- the failure to integrate acquired businesses into our operations, financial reporting and controls with the efficiency and effectiveness initially expected resulting in a potentially significant detriment to our financial results and our operations as a whole;
- the management of the growth resulting from acquisition activities;
- the inability to capitalize on expected synergies;
- the assumption of liabilities of an acquired business (for example, litigation, tax liabilities, environmental liabilities), including liabilities that were contingent or unknown at the time of the acquisition and that pose future risks to our working capital needs, cash flows and the profitability of related operations;
- the assumption of unprofitable projects that pose future risks to our working capital needs, cash flows and the profitability of related operations;
- the risks associated with entering new markets;
- diversion of management's attention from our existing business;
- failure to retain key personnel, customers or contracts of any acquired business;
- potential adverse effects on our ability to comply with covenants in our existing debt financing;
- potential impairment of acquired intangible assets; and
- additional debt financing, which may not be available on attractive terms.

We may not have the appropriate management, financial or other resources needed to integrate any businesses that we acquire. Any future acquisitions may result in significant transaction expenses and unexpected liabilities.

Divestitures and discontinued operations could negatively impact our business, and retained liabilities from businesses that we sell or discontinue could adversely affect our financial results.

As part of our strategic process, we review our operations for assets and businesses which may no longer be aligned with our strategic initiatives and long-term objectives. For example, we are currently marketing our environmental & infrastructure business for sale and, over the past five years, we have divested our historical demolition and certain service lines of our historical environmental & infrastructure business. We continue to review our assets and strategy and may pursue additional divestitures. Divestitures pose risks and challenges that could negatively impact our business, including required separation or carve-out activities and costs, disputes with buyers or potential impairment charges. We may also dispose of a business such as the environmental & infrastructure business at a price or on terms that are less than we had previously anticipated or fail to close a transaction at all. Dispositions may also involve continued financial involvement, as we may be required to retain responsibility for, or agree to indemnify buyers against contingent liabilities related to a businesses sold, such as lawsuits, surety obligations, tax liabilities, or

environmental matters. It may also be difficult to determine whether a claim from a third party stemmed from actions taken by us or by another party and we may expend substantial resources trying to determine which party has responsibility for the claim. Under these types of arrangements, performance by the divested businesses or other conditions outside of our control could affect future financial results and such claims or conditions may divert management attention from our continuing business.

On April 24, 2014, the Company announced that it had completed the sale of its historical demolition business. In connection with the sale, the Company retained responsibility for various pre-closing liabilities and obligations and may incur costs and expenses related to these items and asset recoveries. It is possible that claims, which could be material, could be made against the Company pursuant to the agreement pursuant to which the Company's historical demolition business was sold. In connection with the sale of our historical demolition business, we were obligated to keep in place the surety bonds on pending demolition projects for the period required under the respective contract for a project. Moreover, we could face the same or similar risks with the planned divestiture of the environmental & infrastructure business. As noted above, if there should be a default (or alleged default) triggered under any of the surety bonds for either the historical demolition business or the environmental & infrastructure business, it could have a material adverse effect on our ability to obtain bonds and on our business, results of operations, cash flows or financial condition.

If we do not realize the expected benefits or synergies of any divestiture transaction or if we underestimated the valuation of the charge related to placing the asset held for sale in discontinued operations, our consolidated financial position, results of operations and cash flows could be negatively impacted. Any divestiture may result in a dilutive impact to our future earnings if we are unable to offset the dilutive impact from the loss of revenue associated with the divestiture, as well as significant write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial condition.

We could face liabilities and/or damage to our reputation as a result of certain legal and regulatory proceedings.

From time to time, we are subject to legal and regulatory proceedings in the ordinary course of our business. These include proceedings relating to aspects of our businesses that are specific to us and proceedings that are typical in the businesses in which we operate. We are currently a defendant in a number of litigation matters, including those described in Item 3. "Legal Proceedings" of this Annual Report on Form 10-K. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts of damages. These matters are subject to many uncertainties, and it is possible that some of these matters could ultimately be decided, resolved or settled adversely to the Company. An adverse outcome in a legal or regulatory matter could, depending on the facts, have an adverse effect on our business, results of operations, cash flows or financial condition.

In addition to its potential financial impact, legal and regulatory matters can have a significant adverse reputational impact. Allegations of improper conduct made by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, whether valid or not, may harm our reputation, which may be damaging to our business, results of operations, cash flows or financial condition.

Our current business strategy includes the construction of new vessels. There are substantial uncertainties associated with such construction, including the possibility of unforeseen delays and cost overruns.

We have previously disclosed our plans to build new vessels, including the recently completed dual mode articulated tug/barge trailing suction hopper dredge, the Ellis Island, which is now in full operation. As the Company previously disclosed, the Ellis Island experienced greater than anticipated delays in ramping up to full operation due to mechanical issues involving the port side gearbox. Although the Ellis Island is now in operation, other unknown mechanical or engineering issues involving the Ellis Island, or other mechanical or engineering issues involving other new vessels, could adversely affect the Company's business, operating results, cash flows or financial condition. Our future revenues and profitability will also be impacted to some extent by our ability to secure financing for new vessels and bring them into service within the timeline anticipated by the Company. The Company contracts with shipyards to build new vessels and currently has vessels under construction. Construction projects are subject to risks of delay and cost overruns, resulting from shortages of equipment, materials and skilled labor; lack of shipyard availability; unforeseen design and engineering problems; work stoppages; weather interference; unanticipated cost increases; unscheduled delays in the delivery of material and equipment; and financial and other difficulties at shipyards including labor disputes, shipyard insolvency and inability to obtain necessary certifications and approvals.

A significant delay in the construction of new vessels or a shipyard's inability to perform under the construction contract could negatively impact the Company's ability to fulfill contract commitments and to realize timely revenues with respect to vessels under construction. Significant cost overruns or delays for vessels under construction could also adversely affect the Company's business, operating results, cash flows or financial condition. Changes in governmental regulations, safety or other equipment standards, as well as compliance with standards imposed by maritime self-regulatory organizations and customer requirements or competition, could also substantially increase the cost of such construction beyond what we currently expect such costs to be.

We may not realize all of the expected benefits from our restructuring activities.

In October 2017, we announced that we were executing a restructuring plan that would allow us to focus on reducing debt, improving return on capital and enhancing our fleet (the "Restructuring Plan"). Actual total costs, savings, benefits and timing of the Restructuring Plan may vary from our estimates. We therefore cannot ensure that we will achieve the targeted savings or other benefits. Numerous factors may limit the extent to which the anticipated benefits are realized. Unanticipated costs or unrealized savings in connection with the Restructuring Plan could adversely affect our results of operations and financial condition, as well as our likelihood of realizing, and the amount of, expected restructuring charges to be realized in connection with the Restructuring Plan.

We may become liable for the obligations of our joint ventures, partners and subcontractors.

Some of our projects are performed through joint ventures and similar arrangements with other parties. In addition to the usual liability of contractors for the completion of contracts and the warranty of our work, if work is performed through a joint venture or similar arrangement, we also have potential liability for the work performed by the joint venture or arrangement or a performance or payment default by another member of the joint venture or arrangement. In these projects, even if we satisfactorily complete our project responsibilities within budget, we may incur additional unforeseen costs due to the failure of the other party or parties to the arrangement to perform or complete work, fund expenditures, or make payments in accordance with contract specifications. In some joint ventures and similar arrangements, we may not be the controlling member. In these cases, we may have limited control over the actions of the joint venture. In addition, joint ventures or arrangements may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. To the extent the controlling member makes decisions that negatively impact the joint venture or arrangement or internal control problems arise within the joint venture or arrangement, it could have a material adverse impact on our business, results of operations, cash flows or financial condition.

Depending on the nature of work required to complete the project, we may choose to subcontract a portion of the project. In our industries, the prime contractor is often responsible for the performance of the entire contract, including subcontract work. Thus, we are subject to the risk associated with the failure of one or more subcontractors to perform as anticipated. In addition, in some cases, we pay our subcontractors before our customers pay us for the related services. If we choose, or are required, to pay our subcontractors for work performed for customers who fail to pay, or delay paying us for the related work, we could experience a material decrease in profitability and liquidity.

Environmental regulations could force us to incur capital and operational costs.

Our industries, and more specifically, our operations, facilities and vessels and equipment, are subject to various environmental laws and regulations relating to, among other things: dredging operations; the disposal of dredged material; protection of wetlands; storm water and waste water discharges; transportation and disposal of hazardous wastes and other regulated materials; air emissions; and disposal or remediation of contaminated soil, sediments, surface water and groundwater. We are also subject to laws designed to protect certain marine or land species and habitats. Compliance with these statutes and regulations can delay permitting and/or performance of particular projects and increase related project costs. These delays and increased costs could have a material adverse effect on our business, results of operations, cash flows or financial condition. Non-compliance can also result in fines, penalties and claims by third parties seeking damages for alleged personal injury, as well as damages to property and natural resources.

Certain environmental laws such as the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the Oil Pollution Act of 1990 impose strict and, under some circumstances, joint and several, liability on owners and lessees of land and facilities as well as owners and operators of vessels. Such obligations may include investigation and remediation of releases and discharges of regulated materials, and also impose liability for related damages to natural resources. Our past and ongoing operations involve the use, and from time to time the release or discharge, of regulated materials which could result in liability under these and other environmental laws. We have remediated known releases and discharges as deemed necessary, but there can be no guarantee that additional costs will not be incurred if, for example, third party claims arise or new conditions are discovered.

Our projects may involve excavation, remediation, demolition, transportation, management and disposal of hazardous waste and other regulated materials. Various laws strictly regulate the removal, treatment and transportation of hazardous waste and other regulated materials and impose liability for human health effects and environmental contamination caused by these materials. Services rendered in connection with hazardous substance and material removal and site development may involve professional judgments by licensed experts about the nature of soil conditions and other physical conditions, including the extent to which hazardous substances and materials are

present, and about the probable effect of procedures to mitigate problems or otherwise affect those conditions. If the judgments and the recommendations based upon those judgments are incorrect, we may be liable for resulting damages, which may be material. The failure of certain contractual protections to protect us from incurring such liability, such as staying out of the ownership chain for hazardous waste and other regulated materials and securing indemnification obligations from our customers or subcontractors, could have a material adverse effect on our business, results of operations, revenues or profits.

Environmental requirements have generally become more stringent over time, for example in the areas of air emissions controls for vessels and ballast treatment and handling. New or stricter enforcement of existing laws, the discovery of currently unknown conditions or accidental discharges of regulated materials in the future could cause us to incur additional costs for environmental matters which might be significant.

Uncertainty regarding fiscal, immigration, and other policies of the current U.S. Presidential administration or the impact of the Tax Cuts and Jobs Act may adversely affect our business.

The current U.S. Presidential administration has called for changes to fiscal, immigration and other policies, which may include changes to infrastructure spending. We cannot predict the impact, if any, of these changes to our business. Until we know what changes are enacted and when, we will not know whether in total we benefit from, or are negatively affected by, such changes. In addition, the Company may not realize any expected benefits associated with, and could be negatively impacted by, final implementation of the Tax Cuts and Jobs Act.

New tariffs have resulted in increased prices and could adversely affect our business operations, revenues and profits.

Recently, the United States imposed Section 232 tariffs on certain steel and aluminum products, such as imported dredge-related machinery and pipes. These tariffs have increased the prices of these inputs. Increased prices for imported steel and aluminum products have lead domestic sellers to respond with market-based increases to prices for such inputs as well. We cannot be sure of the ultimate effect such tariffs or any additional tariffs will have on our operating profits. If we are not able to pass these price increases on to our customers or to secure adequate alternative sources for such inputs on a timely basis, the tariffs may have a material adverse effect on our business operations, revenues and profits.

Our business could suffer in the event of a work stoppage by our unionized labor force.

We are a party to numerous collective bargaining agreements in the U.S. that govern our industry's relationships with our unionized hourly workforce. However, two unions represent approximately 70% of our hourly dredging employees—the IUOE, Local 25 and the Seafarers International Union. The Company's master contract with IUOE, Local 25 was ratified in February 2019 and expires in September 2021. Two ancillary contracts with IUOE, Local 25 expired in September 2018 and will be re-negotiated now that the master contract is completed. The inability to successfully renegotiate contracts with these unions as they expire, or any future strikes, employee slowdowns or similar actions by one or more unions could have a material adverse effect on our ability to operate our business.

Our employees are covered by federal laws that may provide seagoing employees remedies for job-related claims in addition to those provided by state laws.

Substantially all of our maritime employees are covered by provisions of the Jones Act, the U.S. Longshore and Harbor Workers' Compensation Act, the Seaman's Wage Act and general maritime law. These laws typically operate to make liability limits established by state workers' compensation laws inapplicable to these employees and to permit these employees and their representatives to pursue actions against employers for job-related injuries in federal or state courts. Because we are not generally protected by the limits imposed by state workers' compensation statutes with respect to our seagoing employees, we have greater exposure for claims made by these employees as compared to industries whose employees are not covered by these provisions.

Our business is subject to significant operating risks and hazards that could result in damage or destruction to persons or property, which could result in losses or liabilities to us.

The dredging business is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, encountering unusual or unexpected geological formations, cave-ins below water levels, collisions, disruption of transportation services and flooding. These risks could result in personal injury, damage to, or destruction of, dredges, barges transportation vessels, other maritime vessels, other structures, buildings or equipment, environmental damage, performance delays, monetary losses or legal liability to third parties. We may also be exposed to disruption of our operations, early termination of projects, unanticipated recovery costs and loss of use of our equipment that may materially adversely affect our business, results of operations, cash flows or financial condition.

Our safety record is an important consideration for our customers. Some of our customers require that we maintain certain specified safety record guidelines to be eligible to bid for contracts with these customers. Furthermore, contract terms may provide for automatic termination or forfeiture of some of our contract revenue in the event that our safety record fails to adhere to agreed-upon guidelines during performance of the contract. As a result, if serious accidents or fatalities occur or our safety record was to deteriorate, we may be ineligible to bid on certain work, and existing contracts could be terminated or less profitable than expected. Adverse experience with hazards and claims could have a negative effect on our reputation with our existing or potential new customers and our prospects for future work.

Our methods of accounting for recognizing revenue involve significant estimates and could result in a change in previously recorded revenue and profit.

We recognize revenue on our projects using generally accepted accounting principles in the United States (“GAAP”) including the percentage-of-completion method prior to December 31, 2017 and guidance from Revenue from Contracts with Customers, as

amended (commonly referred to as ASC 606) subsequent to year-end. The majority of our work is performed on a fixed-price basis. Contract revenue is recorded over time based on estimates which we develop from information known to us at the time of recording, but which may change. The cumulative impact of revisions to estimates is reflected in the period in which these changes are experienced or become known. Given the risks associated with the variables in these types of estimates, it is possible for actual costs to vary from estimates previously made, which may result in reductions or reversals of previously recorded net revenues and profits.

Our current insurance coverage may not be adequate, and we may not be able to obtain insurance at acceptable rates, or at all.

We maintain various insurance policies, including hull and machinery, pollution liability, general liability and personal injury. We partially self-insure risks covered by our policies. While we reserve for such self-insured exposures when appropriate for accounting purposes, we are not required to, and do not, specifically set aside funds for the self-insured portion of claims. We may not have insurance coverage or sufficient insurance coverage for all exposures potentially arising from a project. Furthermore, in situations where there is insurance coverage, if multiple policies are involved, we may be subject to a number of self-retention or deductible amounts which in the aggregate could have an adverse effect on our business, results of operations, cash flows or financial condition. At any given time, we are subject to Jones Act personal injury claims and claims from general contractors and other third parties for personal injuries. Our insurance policies may not be adequate to protect us from liabilities that we incur in our business. We may not be able to obtain similar levels of insurance on reasonable terms, or at all. Our inability to obtain such insurance coverage at acceptable rates or at all could have a material adverse effect on our business, results of operations, cash flows or financial condition.

We could face adverse consequences if we are unable to attract and retain key personnel and skilled labor.

Our ability to attract and retain reliable, qualified personnel is a significant factor that enables us to successfully bid for and profitably complete our work. This includes members of our board of directors, management, project managers, estimators, skilled engineers, supervisors, foremen, equipment operators and laborers. The loss of the services of any of our management could have a material adverse effect on us. If we do not succeed in retaining our current key employees and attracting, developing and retaining new highly-skilled employees, our reputation may be harmed and our operations and future earnings may be negatively impacted. We may not be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy. We have from time to time experienced, and may in the future experience, shortages of certain types of qualified equipment operating personnel. The supply of experienced engineers, project managers, field supervisors and other skilled workers may not be sufficient to meet current or expected demand. If we are unable to hire employees with the requisite skills, we may also be forced to incur significant training expenses. The occurrence of any of the foregoing could have an adverse effect on our business, results of operations, cash flows or financial condition.

In addition, any abrupt changes in our management or board of directors may lead to concerns regarding the direction or stability of our business, which may be exploited by our competitors, result in the loss of business opportunities, cause concern to our current or potential customers or suppliers, or make it more difficult to retain existing personnel or attract and retain new personnel. Changes in management or the board could be time-consuming, result in significant additional costs to us and could be disruptive of our operations and divert the time and attention of management and our employees away from our business operations and executing on our strategic plan. The unexpected loss of any additional members of our Board of Directors or senior management team could be disruptive to our operations, jeopardize our ability to raise additional funding and have an adverse effect on our business. The failure of our directors or any new members of our Board of Directors or management to perform effectively could have a significant negative impact on our business, financial condition and results of operations.

We rely on information technology systems to conduct our business and disruption, failure, data corruption, cyber-based attacks or security breaches of these systems could adversely affect our business and results of operations.

We rely on information technology (IT) systems in order to achieve our business objectives, including to transmit and store electronic information, to capture knowledge of our business including vessel operation systems containing information about production, efficiency and vessel positioning, to conduct our accounting, financial and treasury activities, to store historical financial, project and proprietary information, to monitor our vessel maintenance and engine systems, and to communicate within the organization and with customers, suppliers, partners and other third parties. Our portfolio of hardware and software products, solutions and services and our enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, power outages, natural disasters and computer system or network failures. The Company's IT systems may also be subject to cybersecurity attacks including malware, other computer viruses or malicious software, spoofing or phishing email attacks, attempts to gain unauthorized access to our data, the unauthorized release, corruption or loss of its data, loss or damage to its data delivery systems and other electronic security breaches. The failure or disruption of our IT systems to perform as anticipated for any reason could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, failure to properly estimate the work or costs associated with projects, litigation and the loss of customers or suppliers. A significant disruption or failure could have a material adverse effect on our business, operating results, cash flows or financial condition.

We are incurring costs associated with designing and implementing a new enterprise resource planning software system (ERP) with the objective of gradually migrating to the new system. Capital expenditures and expenses for the ERP for 2019 and beyond will depend upon the pace of conversion. If implementation is not executed successfully, this could result in business interruptions. If we do not complete the implementation of the ERP timely and successfully, we may incur additional costs associated with completing this project and a delay in our ability to improve existing operations, support future growth and enable us to take advantage of new engineering and other applications and technologies.

We may be affected by market or regulatory responses to climate change.

Increased concern about the potential impact of greenhouse gases (GHG), such as carbon dioxide resulting from combustion of fossil fuels, on climate change has resulted in efforts to regulate their emission. Legislation, international protocols, regulation or other restrictions on GHG emissions could also affect our customers. Such legislation or restrictions could increase the costs of projects for our customers or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services which could in turn have a material adverse effect on our operations and financial condition. Additionally, in our normal course of operations, we use a significant amount of fossil fuels. The costs of controlling our GHG emissions or obtaining required emissions allowances in response to any regulatory change in our industry could increase materially.

We may be unable to identify and contract with qualified Minority Business Enterprise (“MBE”) or Disadvantaged Business Enterprise (“DBE”) contractors to perform as subcontractors.

Certain of our government agency projects contain goals for minimum MBE and/or DBE participation clauses. If we subsequently fail to reach our goals for the minimum MBE and/or DBE participation, we may be held responsible for breach of contract, which may include restrictions on our ability to bid on future projects as well as monetary damages. To the extent we are responsible for monetary damages, the total costs of the project could exceed our original estimates, we could experience reduced profits or a loss for that project and there could be a material adverse impact to our financial position, results of operations, cash flows and liquidity.

Risks Related to our Financing

We have indebtedness, which makes us more vulnerable to adverse economic and competitive conditions.

We currently have a substantial amount of indebtedness. As of December 31, 2018, we had indebtedness of \$336.5 million, consisting of \$325.0 million of our senior subordinated notes and \$11.5 million of borrowings on our revolving credit facility, in each case excluding approximately \$37.7 million of undrawn letters of credit and \$174.6 million of additional borrowing capacity under our revolving credit facility and excluding contingent obligations, including \$1.4 billion of performance bonds outstanding under the Company’s agreements with the Sureties and other bonding agreements. Our debt could:

- require us to dedicate a portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital and capital expenditures, pay dividends and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and our industries;
- affect our competitiveness compared to our less leveraged competitors;
- increase our exposure to both general and industry-specific adverse economic conditions; and
- limit, among other things, our ability to borrow additional funds.

We and our subsidiaries also may be able to incur substantial additional indebtedness in the future. The terms of our revolving credit facility, the indenture under which our senior subordinated notes are issued, and our term loan facility limit, but do not prohibit, us or our subsidiaries from incurring additional indebtedness. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

Covenants in our financing arrangements limit, and other future financing agreements may limit, our ability to operate our business.

The credit agreement governing our senior revolving credit facility, the indenture governing our senior subordinated notes and any of our other future financing agreements, may contain covenants imposing operating and financial restrictions on our business.

For example, the credit agreement governing our senior revolving credit facility requires us to satisfy certain net leverage and fixed charge coverage ratios. If we fail to meet or satisfy any of these covenants (after applicable cure periods), we would be in default and the lenders (through the administrative agent or collateral agent, as applicable) could elect to declare all amounts outstanding to be

immediately due and payable, enforce their interests in the collateral pledged/or and restrict our ability to make additional borrowings, as applicable. The covenants and restrictions in the credit agreement, the indenture and the term loan facility, subject to specified exceptions and to varying degrees, restrict our ability to, among other things:

- incur additional indebtedness;
- create, incur, assume or permit to exist any liens;
- enter into sale and leaseback transactions;
- make investments, loans and advancements; merge or consolidate with, or dispose of all or substantially all assets to, a third party;
- sell assets;
- make acquisitions;
- pay dividends;
- enter into transactions with affiliates;
- make capital expenditures;
- prepay other indebtedness; and
- issue capital stock.

These restrictions may interfere with our ability to obtain financings or to engage in other business activities, which could have a material adverse effect on our results of operations, cash flows or financial condition.

Adverse capital and credit market conditions may affect our ability to meet liquidity needs, access to capital and cost of capital.

The domestic and worldwide capital and credit markets may experience significant volatility, disruptions and dislocations with respect to price and credit availability. Should we need additional funds or to refinance our existing indebtedness, we may not be able to obtain such additional funds.

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock. Without sufficient liquidity, we will be forced to curtail our operations, and our business will suffer. The principal sources of our liquidity are cash flow from operations and borrowings under our senior revolving credit facility. Earnings from our operations and our working capital requirements can vary significantly from period to period based primarily on the mix of our projects underway and the percentage of project work completed during the period. Capital expenditures may also vary significantly from period to period. While we manage cash requirements for working capital and capital expenditure needs, unpredictability in cash collections and payments has required us in the past and may require us to borrow on our line of credit from time to time to meet the needs of our operations.

In the event these resources do not satisfy our liquidity needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects if the level of our business activity decreased due to a market downturn. If internal sources of liquidity prove to be insufficient, we may not be able to successfully obtain additional financing on favorable terms, or at all.

We may be unable to maintain or expand our credit capacity, which would adversely affect our operations and business.

We use credit facilities to support our working capital and acquisition needs. If we exhaust our borrowing capacity under our Credit Agreement, and cash flows from operations do not increase sufficiently, our ability to fund the working capital, capital expenditure and other needs of our existing operations could be constrained and our business and results of operations could be materially adversely affected. If we experience operational difficulties or our operating results do not improve, we may need to increase our available borrowing capacity or seek amendments to the terms of our Credit Agreement. Our Credit Agreement is scheduled to expire in December 2019. There can be no

assurance that we will be able to refinance the Credit Agreement on commercially reasonable terms or at all, or that we will be able to secure any additional capacity or amend our Credit Agreement or to do so on terms that are acceptable to us, in which case, our costs of borrowing could rise and our business and results of operations could be materially adversely affected.

Regulatory requirements for derivative transactions could have an adverse impact on our ability to hedge risks associated with our business.

We may enter into interest rate swap agreements to manage the interest rate paid with respect to our fixed rate indebtedness, foreign exchange forward contracts to hedge currency risk and 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 Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) and regulations adopted by a number of U.S. federal regulatory agencies created a comprehensive statutory and regulatory framework for derivative transactions, including foreign currency and other over-the-counter derivative hedging transactions. While a number of provisions of Dodd-Frank have been implemented, certain key provisions have not yet been implemented or remain subject to uncertainty. Furthermore, certain provisions of Dodd-Frank may be modified or repealed in the future. Any substantial change in the financial regulatory environment could create additional new compliance costs for us or cause us to alter the manner in which we manage risk, which could have a materially adverse effect on our business. The rules adopted or to be adopted under Dodd-Frank may significantly reduce our ability to execute strategic hedges to manage our interest expense, reduce our fuel commodity uncertainty and hedge our currency risk thus protecting our cash flows. In addition, the banks and other derivatives dealers who are our contractual counterparties are required to comply with extensive regulation under Dodd-Frank. The cost of our counterparties’ compliance will likely be passed on to customers such as ourselves, thus potentially decreasing the benefits to us of hedging transactions and potentially reducing our profitability.

We may be subject to foreign exchange risks, and improper management of that risk could result in large cash losses.

We are exposed to market risk associated with changes in foreign currency exchange rates. The primary foreign currency to which the Company has exposure is the Bahraini dinar. Our international contracts may be denominated in foreign currencies, which will result in additional risk of fluctuating currency values and exchange rates, hard currency shortages and controls on currency exchange. Changes in the value of foreign currencies could increase our U.S. dollar costs for, or reduce our U.S. dollar revenues from, our foreign operations. Any increased costs or reduced revenues as a result of foreign currency fluctuations could affect our profits. The value of the Bahraini dinar has historically been pegged to the value of the U.S. dollar, which has effectively eliminated the foreign currency risk with respect to that currency. However, if the Bahraini dinar were no longer to be so pegged, whether due to civil unrest in Bahrain or otherwise, the Company could become subject to additional, and substantial, foreign currency risk.

Changes in macroeconomic indicators, the overall business climate, and other factors could lead to our goodwill and other intangible assets becoming impaired, which may require us to take significant non-cash charges against earnings.

Under current accounting guidelines, we must assess, at least annually and potentially more frequently, whether the value of our goodwill and other intangible assets have been impaired. Any impairment of goodwill or other intangible assets as a result of such analysis would result in a non-cash charge against earnings, which charge could materially adversely affect our business, operating results, cash flows or financial condition. We test goodwill annually for impairment in the third quarter of each year, or more frequently should circumstances dictate. A significant and sustained decline in our future cash flows, a significant adverse change in the economic environment, slower growth rates or our stock price falling below our net book value per share for a sustained period could result in the need to perform additional impairment analysis in future periods. If we were to conclude that a future write-down of goodwill or other intangible assets is necessary, then we would be required to record a non-cash charge against earnings, which, in turn, could have a material adverse effect on our business, results of operations, cash flows or financial condition.

We have made and may continue to make debt or equity investments in privately financed projects in, or may accept extended payment terms for, privately financed projects in which we could sustain significant losses.

We have participated and may continue to participate in privately financed projects that enable state and local governments and other customers to finance dredging, such as dredging of local navigable waterways and lakes, coastal protection and infrastructure projects. These projects typically include the facilitation of non-recourse financing and the provision of dredging, environmental, infrastructure, and related services. We may incur contractually reimbursable costs and may accept extended payment terms, extend debt financing and/or make an equity investment in an entity prior to, in connection with, or as part of project financing, and in some cases we may be the sole or primary source of the project financing. Project financing may also involve the use of real estate, environmental, wetlands or similar credits. If a project is unable to obtain other financing on terms acceptable to it in amounts sufficient to repay or redeem our investments, we could incur losses on our investments and any related contractual receivables. After completion of these projects, the return on our equity investments can be dependent on the operational success of the project and market factors or sale of the aforementioned credits, which may not be under our control. As a result, we could sustain a loss of part or all of our equity investments in such projects or have to recognize the value of the credits at a lower amount than expected in the contract bid.

Risks Related to our Stock

Our common stock is subject to restrictions on foreign ownership.

We are subject to government regulations pursuant to the Dredging Act, the Jones Act, the Shipping Act and the vessel documentation laws set forth in Chapter 121 of Title 46 of the United States Code. These statutes require vessels engaged in the transport of merchandise or passengers or dredging in the navigable waters of the U.S. to be owned and controlled by U.S. citizens. The U.S. citizenship ownership and control standards require the vessel-owning entity to be at least 75% U.S.-citizen owned. Our certificate of incorporation contains provisions limiting non-citizenship ownership of our capital stock. If our board of directors determines that persons who are not citizens of the U.S. own more than 22.5% of our outstanding capital stock or more than 22.5% of our voting power, we may redeem such stock. The required redemption price could be materially different from the current price of our common stock or the price at which the non-citizen acquired the common stock. If a non-citizen purchases our common stock, there can be no assurance that he will not be required to divest the shares and such divestiture could result in a material loss. Such restrictions and redemption rights may make our equity securities less attractive to potential investors, which may result in our common stock having a lower market price than it might have in the absence of such restrictions and redemption rights.

Delaware law and our charter documents may impede or discourage a takeover that you may consider favorable.

The provisions of our certificate of incorporation and bylaws may deter, delay or prevent a third-party from acquiring us. These provisions include:

- limitations on the ability of stockholders to amend our charter documents, including stockholder supermajority voting requirements;
- the inability of stockholders to call special meetings;
- a classified board of directors with staggered three-year terms;
- advance notice requirements for nominations for election to the board of directors and for stockholder proposals; and
- the authority of our board of directors to issue, without stockholder approval, up to 1,000,000 shares of preferred stock with such terms as the board of directors may determine and to issue additional shares of our common stock.

We are also subject to the protections of Section 203 of the Delaware General Corporation Law, which prevents us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock, unless board or stockholder approval was obtained.

These provisions could have the effect of delaying, deferring or preventing a change in control of our company, discourage others from making tender offers for our shares, lower the market price of our stock or impede the ability of our stockholders to change our management, even if such changes would be beneficial to our stockholders.

Our stockholders may not receive dividends because of restrictions in our debt agreements, Delaware law and state regulatory requirements.

Our ability to pay dividends is restricted by the agreements governing our debt, including our Credit Agreement, our bonding agreements and the indenture governing our senior unsecured notes. In addition, under Delaware law, our board of directors may not authorize payment of a dividend unless it is either paid out of our surplus, as calculated in accordance with the Delaware General Corporation Law, or, if we do not have a surplus, it is paid out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. To the extent we do not have adequate surplus or net profits, we will be prohibited from paying dividends.

The market price of our common stock may fluctuate significantly, and this may make it difficult for holders to resell our common stock when they want or at prices that they find attractive.

The price of our common stock on the NASDAQ Global Market constantly changes. We expect that the market price of our common stock will continue to fluctuate. The market price of our common stock may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- changes in market conditions;
- quarterly variations in our operating results;
 - operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;

25

announcements of strategic developments, significant contracts, acquisitions and other material events by us or our competitors;

the operating and securities price performance of other companies that investors believe are comparable to us;

future sales of our equity or equity-related securities;

changes in the economy and the financial markets;

departures of key personnel;

changes in governmental regulations; and

geopolitical conditions, such as acts or threats of terrorism, political instability, civil unrest or military conflicts.

In addition, in recent years, global stock markets have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Volatility in the financial markets could cause a decline in our stock price, which could trigger an impairment of the goodwill of individual reporting units that could be material to our consolidated financial statements. A significant drop in the price of our stock could also expose us to the risk of securities class action lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, many of whom are awarded equity securities, the value of which is dependent on the performance of our stock price.

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

The Company owns or leases the properties described below. The Company believes that its existing facilities are adequate for its operations.

The Company's headquarters are located at 2122 York Road, Oak Brook, Illinois 60523, with approximately 66,343 square feet of office space that it leases with a term expiring in 2020. As of December 31, 2018 the Company owns or leases the following additional facilities:

Location	Type of Facility	Size	Leased or Owned
Staten Island, NY	Yard	4.4 Acres	Owned
Morgan City, LA	Yard	6.4 Acres	Owned
Norfolk, VA	Yard	15.3 Acres	Owned
Chickasaw, AL	Yard	2.0 Acres	Leased
Channelview, TX	Office	1,302 Square feet	Leased
Cape Girardeau, MO	Office	726 Square feet	Owned
Cape Girardeau, MO	Storage	7,200 Square feet	Owned
Cape Girardeau, MO	Yard	18.4 Acres	Owned
Orange Park, FL	Office	1,700 Square feet	Leased

The following facilities are leased by the Company’s historical environmental & infrastructure segment, which is presented in discontinued operations:

Location	Type of Facility	Size	Owned or
Centennial, Colorado	Office	5,464 Square feet	Leased
Portage, Michigan	Office	1,344 Square feet	Leased
Rocklin, CA	Office	12,623 Square feet	Leased
Rocklin, CA*	Yard	5.0 Acres	Leased
Rocklin, CA*	Storage	14,731 Square feet	Leased
Cumming, GA	Office	2,400 Square feet	Leased
Denton, Texas	Office	3,766 Square feet	Leased
Brielle, New Jersey	Office	4,800 Square feet	Leased

*The historical environmental & infrastructure segment leases the Rocklin, California facilities from the former shareholders of Magnus Pacific Corporation pursuant to leases expiring in 2019. See Note 13, Related-Party Transactions, to the Company’s consolidated financial statements.

Item 3. Legal Proceedings

For a discussion of certain litigation involving the Company, see the disclosures under “Legal proceedings and other contingencies” included within Note 12, Commitments and Contingencies, to the Company’s consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
 Market Information

Our common stock is traded under the symbol "GLDD" on the NASDAQ Global Market.

The graph below shows the cumulative total return to stockholders of the Company's common stock during a five year period ending December 31, 2018, the last trading day of our 2018 fiscal year, compared with the return on the NASDAQ Composite Index and a group of our peers which we use internally as a benchmark for our performance. The graph assumes initial investments of \$100 each on December 31, 2013, in GLDD stock (assuming reinvestment of all dividends paid during the period), the NASDAQ Composite Index and the peer group companies, collectively.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Great Lakes Dredge & Dock Corp	\$ 100.00	\$ 93.04	\$ 43.04	\$ 45.65	\$ 58.70	\$ 71.96
Peer Average (see below)	100.00	91.73	89.74	128.18	144.10	146.70
NASDAQ Composite Index	100.00	113.40	119.89	128.89	165.29	158.87

The peer group in the graph above is comprised of the following member companies:

Company	Ticker
Aegion Corporation, successor to Insituform Technologies, Inc.	AEGN
Ameresco	AMRC
Badger Daylighting Ltd	BADFF
Hill International	HIL
IES Holdings	IESC
Layne Christensen Company (prior to merger with Granite Construction Inc. on June 14, 2018)	LAYN
Matrix Service Company	MTRX
Mistras Group	MG
MYR Group Inc.	MYRG
NV5 Global Inc	NVEE
Orion Marine Group, Inc.	ORN
Primoris Services Corporation	PRIM
Sterling Construction Company, Inc.	STRL
Team, Inc.	TISI
Willbros Group, Inc. (prior to merger with Primoris Services Corporation on June 4, 2018)	WG

Given the usage of this peer group for compensation purposes and the fact that each peer is a capital intensive business, the Company deems it appropriate to also use this peer group for showing the comparative cumulative total return to stockholders of Great Lakes.

Holders of Record

As of February 22, 2019, the Company had approximately 25 shareholders of record of the Company's common stock. A substantial number of holders of the Company's common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

The Company does not currently pay dividends to its common stockholders. The declaration and payment of future dividends will be at the discretion of Great Lakes' board of directors and depends on many factors, including general economic and business conditions, the Company's strategic plans, financial results and condition, legal requirements including restrictions and limitations contained in the Company's senior credit agreement, bonding agreements and the indenture relating to the senior unsecured notes and other factors the board of directors deems relevant. Accordingly, the Company cannot ensure the size of any such dividend or that the Company will pay any future dividend.

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

Item 6. Selected Financial Data

The following table sets forth selected financial data and should be read in conjunction with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Company’s audited consolidated financial statements and notes thereto included elsewhere in this annual report. The selected financial data presented below have been derived from the Company’s consolidated financial statements; items may not sum due to rounding.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in millions except shares in thousands and per share data)				
Contract revenues	\$620.8	\$592.2	\$637.5	\$681.3	\$697.7
Costs of contract revenues	509.3	549.4	552.1	569.5	607.4
Gross profit	111.5	42.7	85.3	111.7	90.3
General and administrative expenses	55.1	57.2	55.3	56.7	54.1
(Gain) loss on sale of assets — net	3.7	4.8	3.1	(0.9)	0.5
Operating income (loss)	52.6	(19.3)	27.0	55.9	35.7
Interest expense — net	(33.6)	(26.0)	(23.5)	(23.7)	(19.8)
Equity in earnings (loss) of joint ventures	—	(1.5)	(2.4)	(6.1)	2.9
Loss on extinguishment of debt	—	(2.3)	—	—	—
Other income (expense)	(2.6)	0.0	(0.8)	(0.3)	(0.4)
Income (loss) from continuing operations before income taxes	16.5	(49.1)	0.4	25.8	18.3
Income tax (provision) benefit	(5.4)	33.8	0.2	(11.1)	7.9
Income (loss) from continuing operations	11.0	(15.4)	0.5	14.7	26.3
Loss from discontinued operations, net of income taxes	(17.3)	(15.9)	(8.7)	(20.9)	(16.0)
Net income (loss)	\$(6.3)	\$(31.3)	\$(8.2)	\$(6.2)	\$10.3
Basic earnings (loss) per share attributable to income (loss) from continuing operations (1)	\$0.18	\$(0.25)	\$0.01	\$0.24	\$0.44
Basic loss per share attributable to loss on discontinued operations, net of income taxes	(0.28)	(0.26)	(0.14)	(0.35)	(0.26)
Basic earnings (loss) per share	\$(0.10)	\$(0.51)	\$(0.13)	\$(0.10)	\$0.18
Basic weighted average shares	62,236	61,365	60,744	60,410	59,938
Diluted earnings (loss) per share attributable to income (loss) from continuing operations (1)	\$0.17	\$(0.25)	\$0.01	\$0.24	\$0.43
Diluted loss per share attributable to loss on discontinued operations, net of income taxes	(0.27)	(0.26)	(0.14)	(0.34)	(0.26)
Diluted earnings (loss) per share	\$(0.10)	\$(0.51)	\$(0.13)	\$(0.10)	\$0.17
Diluted weighted average shares	63,607	61,365	61,367	60,840	60,522

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in millions)				
Other Data:					
Adjusted EBITDA from continuing operations (2)	\$100.4	\$35.2	\$78.7	\$100.1	\$81.8
Net cash flows from operating activities	137.7	21.5	38.7	29.1	48.8
Net cash flows from investing activities	(35.1)	(58.2)	(65.5)	(73.1)	(116.7)
Net cash flows from financing activities	(85.5)	34.2	30.8	15.9	35.1

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

Depreciation and amortization	50.4	56.0	54.8	50.6	43.6
Maintenance expense	44.2	50.1	54.8	51.9	53.5
Capital expenditures	53.7	63.9	84.3	82.0	79.2

- (1) Refer to Note 2, Earnings per Share, in the Company's consolidated financial statements for the years ended December 31, 2018, 2017 and 2016 and above information for additional details regarding these calculations.
- (2) See definition of Adjusted EBITDA from continuing operations in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

30

	As of December 31,				
	2018	2017	2016	2015	2014
	(in millions)				
Balance Sheet Data:					
Cash and cash equivalents	\$34.5	\$15.9	\$11.2	\$14.2	\$42.4
Working capital	43.6	111.9	127.4	124.0	141.7
Total assets	730.3	832.4	893.6	898.1	888.7
Long-term debt, promissory notes and subordinated notes	322.0	428.1	390.4	345.8	319.9
Total stockholder's equity	214.9	221.3	247.9	252.2	256.0

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Overview

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. The Company operates in one reportable segment.

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. Domestically, our work generally is performed in coastal waterways and deep water ports. The U.S. dredging market consists of four primary types of work: capital, coastal protection, maintenance and rivers & lakes. Capital dredging consists primarily of port expansion projects, which involve the deepening of channels and berthing basins to allow access by larger, deeper draft ships and the provision of land fill used to expand port facilities. In addition to port work, capital projects also include coastal restoration and land reclamations, trench digging for pipelines, tunnels, and cables, and other dredging related to the construction of breakwaters, jetties, canals and other marine structures. Coastal protection projects involve moving sand from the ocean floor to shoreline locations where erosion threatens shoreline assets. Maintenance dredging consists of the re-dredging of previously deepened waterways and harbors to remove silt, sand and other accumulated sediments. Due to natural sedimentation, most channels generally require maintenance dredging every one to three years, thus creating a recurring source of dredging work that is typically non-deferrable if optimal navigability is to be maintained. In addition, severe weather such as hurricanes, flooding and droughts can also cause the accumulation of sediments and drive the need for maintenance dredging. Rivers & lakes dredging and related operations typically consist of lake and river dredging, inland levee and construction dredging, environmental restoration and habitat improvement and other marine construction projects.

In the fourth quarter of 2018, the management team proposed, and the board of directors approved, a plan to sell the Company's historical environmental & infrastructure business. The Company has retained a financial advisor to assist with the process and expects to finalize disposition of the environmental & infrastructure business in the first half of 2019. The historical environmental & infrastructure segment has been retrospectively presented as discontinued operations and assets and liabilities held for sale and is no longer reflected in continuing operations. Refer to Note 14, Business Dispositions, to our consolidated financial statements included in Item 15 of this Annual Report on Form 10-K.

In 2017, a strategic review was begun to improve the Company's financial results in both domestic and international operations enabling debt reduction, improvements in return on capital and the continued renewal of our extensive fleet with new and efficient dredges to best serve our domestic and international clients. Management executed a plan to reduce general and administrative and overhead expenses, retire certain underperforming and underutilized assets, write-off pre-contract costs on a project that was never formally awarded and that the Company no longer intends to pursue and closeout the Company's Brazil operations. The cumulative amounts incurred to date as a result of this plan, including amounts presented in discontinued operations, included severance costs of \$3.5 million, asset retirements of \$32.3 million, pre-contract costs of \$6.4 million and closeout costs of \$4.2 million.

The Company's bid market is defined as the aggregate dollar value of domestic dredging projects on which the Company bid or could have bid if not for capacity constraints or other considerations ("bid market"). The Company experienced an average combined bid market share in the U.S. of 46% over the prior three years, including 77%, 40%, 28% and 14% of the domestic capital, coastal protection, maintenance and rivers & lakes sectors, respectively.

The Company's fleet, including 23 dredges, of which two are deployed internationally, 16 material transportation barges, one drillboat, and numerous other support vessels, is the largest and most diverse fleet of any U.S. dredging company. The Company's fleet of dredging equipment can be utilized on one or many types of work and in various geographic locations. This flexible approach to the Company's fleet utilization, driven by the project scope and equipment, enables us to move equipment in response to changes in demand for dredging services to take advantage

of the most attractive opportunities.

The Company's largest domestic customer is the U.S. Army Corps of Engineers (the "Corps"), which has responsibility for federally funded projects related to navigation and flood control of U.S. waterways. Multi-jurisdictional cost sharing arrangements are allowing the Corps to utilize funds from sources other than the federal budget to prioritize additional projects where waterway infrastructure improvements can have an impact to large regions. Although some of a project's funding may ultimately be derived from multiple sources, the Corps maintains the authority over the project and is the Company's customer. In 2018, the Company's revenues earned from contracts with federal government agencies were approximately 75% of total revenue, up from the Company's prior three year average of 64%.

32

Contract Revenues

Most of the Company's contracts are obtained through competitive bidding on terms specified by the party inviting the bid. The types of equipment required to perform the specified service, project site conditions, the estimated project duration, seasonality, location and complexity of a project affect the cost of performing the contract and the price that contractors will bid.

Fixed-price contracts, which comprise substantially all of the Company's revenue, will most often represent a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in the contracts and, therefore, not distinct. The Company capitalizes certain pre-contract and pre-construction costs, and defers recognition over the life of the contract. The Company's performance obligations are satisfied over time and revenue is recognized using contract fulfillment costs incurred to date compared to total estimated costs at completion, also known as cost-to-cost, to measure progress towards completion. Contract modifications are changes in the scope or price (or both) of a contract that are approved by the parties to the contract. The Company recognizes a contract modification when the parties to a contract approve a modification that either creates new, or changes existing, enforceable rights and obligations of the parties to the contract. Contract modifications are included in the transaction price only if it is probable that the modification estimate will not result in a significant reversal of revenue. Revisions in estimated gross profit percentages are recorded in the period during which the change in circumstances is experienced or becomes known. As the duration of most of the Company's contracts is one year or less, the cumulative net impact of these revisions in estimates, individually and in the aggregate across our projects, does not significantly affect our results across annual reporting periods. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined.

Costs and Expenses

The components of costs of contract revenues include labor, equipment (including depreciation, maintenance, insurance and long-term rentals), subcontracts, fuel, supplies, short-term rentals and project overhead. Hourly labor generally is hired on a project-by-project basis. The Company is a party to numerous collective bargaining agreements in the U.S. that govern its relationships with its unionized hourly workforce.

Effective beginning the first quarter of 2018, the Company changed the method of accounting for allocated fixed equipment costs for interim periods such that fixed equipment costs are now recognized as incurred. The Company adopted this change as a result of management's belief that the new method is preferable and results in a more objective measure of quarterly expense that will better support planning and resource allocation decisions by management. The change has been applied retrospectively. The Company's cost structure includes significant annual equipment-related costs, including depreciation, maintenance, insurance and long-term rentals. Previously, the Company allocated fixed equipment costs to interim periods in proportion to revenues recognized over the year. Specifically, at each interim reporting date the Company compared actual revenues earned to date on its dredging contracts to expected annual revenues and recognized equipment costs on the same proportionate basis. In the fourth quarter, any over or under allocated equipment costs were recognized such that the expense for the year equals actual equipment costs incurred during the year.

Primary Factors that Determine Operating Profitability

The Company's results of operations for a calendar or quarterly period are generally determined by the following three factors:

Bid wins and dredge employment—The Company generates revenues when the Company wins a bid for a dredging contract and starts that project. Although the Company’s dredging equipment is subject to downtime for scheduled periodic maintenance and repair, the Company seeks to maximize its revenues by employing its dredging equipment on a full-time basis, allowing for scheduled down time and mobilization. If a dredge is idle (i.e., the dredge is not employed on a dredging project or undergoing scheduled periodic maintenance and repair), the Company does not earn revenue with respect to that dredge during the time period for which it is idle.

Project and dredge mix —The Company’s domestic dredging projects generally involve domestic capital, maintenance, coastal protection and rivers & lakes work and its foreign dredging projects generally involve capital work. In addition, the Company’s projects vary in duration and, in general, projects of longer duration result in less dredge downtime in a given period. Moreover, the Company’s dredges have different physical capabilities and typically work on certain types of dredging projects. Accordingly, the Company’s dredges have different daily revenue generating capacities.

33

The Company generally expects to achieve different levels of gross profit margin (i.e., gross profit divided by revenues) for work performed on the different types of dredging projects and for work performed by different types of dredges. The Company's expected gross margin for a project is based upon the Company's estimates at the time of the bid. Although the Company seeks to bid on and win projects that will maximize its gross margin, the Company cannot control the type of dredging projects that are available for bid from time to time, the type of dredge that is needed to complete these projects, the competitive landscape at the time of bid or the time schedule upon which these projects are required to be completed. As a result, in some quarters the Company works on a mix of dredging projects that, in the aggregate, have relatively high expected gross margins (based on project type and dredges employed) and in other quarters, the Company works on a mix of dredging projects that, in the aggregate, have relatively low expected gross margins (based on project type and dredges employed).

Project execution—The Company seeks to execute all of its projects consistent with or at a higher production than its as-bid project estimates. In general, the Company's ability to achieve its project estimates depends upon many factors including soil conditions, weather, variances from estimated project conditions, equipment mobilization time periods, unplanned equipment downtime or other events or circumstances beyond the Company's control. If the Company experiences any of these events and circumstances, the completion of a project will often be accelerated or delayed, as applicable, and, consequently, the Company will experience project results that are better or worse than its estimates. The Company does its best to estimate for events and circumstances that are not within its control; however, these situations are inherent in dredging.

Critical Accounting Policies and Estimates

Our significant accounting policies are discussed in the Notes to our consolidated financial statements included in Item 15 of this Annual Report on Form 10-K. The application of certain of these policies requires significant judgments or an estimation process that can affect the Company's results of operations, financial position and cash flows, as well as the related footnote disclosures. The Company bases its estimates on historical experience and other assumptions that it believes are reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in the Company's results of operations for the period in which the actual amounts become known. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating the Company's reported financial results.

The Company adopted Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequently issued other Accounting Standard Updates related to Accounting Standards Codification Topic 606 (collectively, "ASC 606") on January 1, 2018 under the modified retrospective method such that the cumulative effect is recognized at the date of initial application. The adoption of ASC 606 resulted in a change in the timing of recognition of both contract revenue and costs from our prior practices. Upon the adoption of ASC 606, the Company recorded a cumulative net adjustment of \$1,950 to the beginning retained earnings balance. Refer to Note 9, Revenue, for further discussion of the adoption of ASC 606.

Cost-to-cost method of revenue recognition— Prior to January 1, 2018, the Company measured completion based on engineering estimates of the physical percentage completed for dredging contracts. Under the new accounting principle, revenue is recognized using contract fulfillment costs incurred to date compared to total estimated costs at completion, also known as cost-to-cost, to measure progress towards completion. Additionally, the Company capitalizes certain pre-contract and pre-construction costs, and defers recognition over the life of the contract. The Company uses contract fulfillment costs incurred to date and engineering estimates of costs at completion. In preparing estimates, the Company draws on its extensive experience in the dredging businesses. The Company utilizes its database of historical dredging information and technical computations to ensure that its estimates are as accurate as possible, given current circumstances. The Company recognizes a contract modification when the parties to a contract approve a modification that either creates new, or changes existing, enforceable rights and obligations of the parties to the contract. Contract modifications are included in the transaction price only if it is probable that the modification estimate will not result in a significant reversal of revenue. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined. Cost and profit estimates are reviewed on a

periodic basis to reflect changes in expected project performance.

Impairment of goodwill—Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. The Company believes that this estimate is a critical accounting estimate because: (i) goodwill is a material asset and (ii) the impact of an impairment could be material to the consolidated balance sheet and consolidated statement of operations. The Company performs its annual impairment test as of July 1 each year.

The Company assesses the fair values of its reporting unit using both a market-based approach and an income-based approach. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows. The income approach is dependent on a number of factors, including estimates of future market growth trends, forecasted revenues and expenses, appropriate discount rates and other variables. The estimates are based on assumptions that the Company believes to be reasonable, but such assumptions are subject to unpredictability and uncertainty. Changes in these estimates and assumptions could

materially affect the determination of fair value, and may result in the impairment of goodwill in the event that actual results differ from those estimates.

The market approach measures the value of a reporting unit through comparison to comparable companies. Under the market approach, the Company uses the guideline public company method by applying estimated market-based enterprise value multiples to the reporting unit's estimated revenue and Adjusted EBITDA. The Company analyzes companies that performed similar services or are considered peers. Due to the fact that there are no public companies that are direct competitors, the Company weighs the results of this approach less than the income approach.

The Company has one operating segment which is also the Company's one reportable segment and reporting unit. The historical environmental & infrastructure segment has been retrospectively presented as discontinued operations and assets and liabilities held for sale and is no longer reflected in continuing operations. The Company performed its annual goodwill impairment test as of July 1, 2018 with no indication of impairment as of the test date. As of the test date, the fair value of the reporting unit was substantially in excess of its carrying value. The Company will perform its next scheduled annual test of goodwill in the third quarter of 2019 should no triggering events occur which would require a test prior to the next annual test. At December 31, 2018 and 2017, the Company's goodwill was \$76.6 million.

Results of Operations—Fiscal Years Ended December 31, 2018, 2017 and 2016

The following table sets forth the components of net income attributable to common stockholders of Great Lakes Dredge & Dock Corporation and Adjusted EBITDA from continuing operations, as defined below, as a percentage of contract revenues for the years ended December 31:

	2018	2017	2016
Contract revenues	100.0 %	100.0 %	100.0 %
Costs of contract revenues	(82.0)	(92.8)	(86.6)
Gross profit	18.0	7.2	13.4
General and administrative expenses	(8.9)	(9.7)	(8.7)
Loss on sale of assets—net	(0.6)	(0.8)	(0.5)
Operating income (loss)	8.5	(3.3)	4.2
Interest expense—net	(5.4)	(4.4)	(3.7)
Equity in loss of joint ventures	—	(0.3)	(0.4)
Loss on extinguishment of debt	—	(0.4)	—
Other expense	(0.4)	—	(0.1)
Income (loss) from continuing operations before income taxes	2.7	(8.4)	—
Income tax (provision) benefit	(0.9)	5.7	—
Income (loss) from continuing operations	1.8	(2.7)	—
Loss from discontinued operations, net of income taxes	(2.8)	(2.7)	(1.4)
Net loss	(1.0)	(5.4)	(1.4)
Adjusted EBITDA from continuing operations	16.2 %	5.9 %	12.3 %

Adjusted EBITDA from continuing operations

Adjusted EBITDA from continuing operations, as provided herein, represents net income attributable to common stockholders of Great Lakes Dredge & Dock Corporation, adjusted for net interest expense, income taxes, depreciation and amortization expense, debt extinguishment, accelerated maintenance expense for new international deployments,

goodwill or asset impairments and gains on bargain purchase acquisitions. Adjusted EBITDA from continuing operations is not a measure derived in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company presents Adjusted EBITDA from continuing operations as an additional measure by which to evaluate the Company's operating trends. The Company believes that Adjusted EBITDA from continuing operations is a measure frequently used to evaluate performance of companies with substantial leverage and that the Company's primary stakeholders (i.e., its stockholders, bondholders and banks) use Adjusted EBITDA from continuing operations to evaluate the Company's period to period performance. Additionally, management believes that Adjusted EBITDA from continuing operations provides a transparent measure of the Company's recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and identify strategies to improve operating performance. For this reason, the Company uses a measure based upon Adjusted EBITDA to assess performance for purposes of determining compensation under the Company's incentive plan. Adjusted EBITDA from continuing operations should not be considered an alternative to, or more meaningful than, amounts determined in accordance with GAAP including: (a) operating income as an indicator of operating

performance; or (b) cash flows from operations as a measure of liquidity. As such, the Company's use of Adjusted EBITDA from continuing operations, instead of a GAAP measure, has limitations as an analytical tool, including the inability to determine profitability or liquidity due to the exclusion of accelerated maintenance expense for new international deployments, goodwill or asset impairments, gains on bargain purchase acquisitions, interest and income tax expense and the associated significant cash requirements and the exclusion of depreciation and amortization, which represent significant and unavoidable operating costs given the level of indebtedness and capital expenditures needed to maintain the Company's business. For these reasons, the Company uses operating income to measure the Company's operating performance and uses Adjusted EBITDA from continuing operations only as a supplement. The following is a reconciliation of Adjusted EBITDA from continuing operations to net income attributable to common stockholders of Great Lakes Dredge & Dock Corporation (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Net loss	\$(6,293)	\$(31,260)	\$(8,177)
Loss from discontinued operations, net of income taxes	(17,309)	(15,892)	(8,719)
Income (loss) from continuing operations	11,016	(15,368)	542
Adjusted for:			
Interest expense—net	33,578	26,032	23,471
Income tax provision (benefit)	5,437	(33,761)	(177)
Depreciation and amortization	50,389	55,962	54,826
Loss on extinguishment of debt	—	2,330	—
Adjusted EBITDA from continuing operations	\$100,420	\$35,195	\$78,662

Components of Contract Revenues

The following table sets forth, by type of work, the Company's contract revenues for the years ended December 31, (in thousands):

Revenues	2018	2017	2016
Capital—U.S.	\$333,037	\$185,113	\$219,914
Capital—foreign	14,088	42,306	59,413
Coastal protection	175,923	191,070	215,041
Maintenance	53,427	134,923	92,274
Rivers & lakes	44,320	38,747	50,826
Total revenues	\$620,795	\$592,159	\$637,468

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

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total revenue was \$620.8 million in 2018, an increase of \$28.6 million, or 4.8%, from 2017 total revenue of \$592.2 million. The increase was largely attributable to an increase in domestic capital and rivers & lakes revenues during 2018 as compared to the prior year. These increases were partially offset by decreases in revenues from foreign capital, coastal protection and maintenance projects during the year ended December 31, 2018 as compared to 2017. The Company categorizes revenue by service type to understand the market in which the Company operates and to assess how the Company is performing on bidding work or projects and is generating revenue from backlog.

Domestic capital dredging revenues increased \$147.9 million, or 79.9%, to \$333.0 million in 2018 when compared to 2017 revenues of \$185.1 million. The increase in domestic capital dredging revenues was primarily related to a greater amount of revenue earned on the Charleston entrance channel deepening projects, coastal restoration projects, LNG projects in Texas and deepening projects on the Delaware River as compared to the prior year. The Company commenced dredging on the Tampa Harbor deepening project during the fourth quarter of 2018 which also contributed to revenue for the year ended December 31, 2018. This increase was partially offset by a greater amount of revenue earned on the Savannah Harbor deepening project in 2017 when compared to the current year. In 2018, the Company earned 67% of its backlog carried forward from December 31, 2017.

Revenues from foreign dredging operations in 2018 totaled \$14.1 million, a decrease of \$28.2 million, or 66.7%, from 2017 revenues of \$42.3 million. For the year ended December 31, 2018, revenue earned on two projects in Bahrain was offset by revenue earned on a project in Saudi Arabia during 2017 that was not replaced during the current year. Delays in the commencement of a large land reclamation project in Bahrain further contributed to the change in revenue for the year ended December 31, 2018 compared to the prior year. During the first quarter of 2018, the Company substantially completed the closeout of its Brazil operations. The absence of projects in Brazil during the current year also contributed to the change in revenue during the current year as compared to 2017. The Company earned 100% of its backlog carried forward from December 31, 2017.

Coastal protection revenues were \$175.9 million in 2018, a decrease of \$15.2 million, or 8.0%, from \$191.1 million in 2017. For the year ended December 31, 2018, the decrease in coastal protection revenue was mostly attributable to a greater amount of revenue earned in the prior year on projects in New York, New Jersey, Virginia, Maryland and North Carolina. This decrease was partially offset by revenue earned during the current year on large projects in Florida, Delaware, Georgia and South Carolina. The Company earned 100% of its backlog carried forward from December 31, 2017.

Revenues from maintenance dredging projects in 2018 were \$53.4 million, a decrease of \$81.5 million, or 60.4%, from \$134.9 million in 2017. The change in maintenance revenue during the current year was mostly attributable to a greater amount of revenue earned in the prior year on projects in Maryland, Florida, Delaware, the Northwest, North Carolina and Massachusetts partially offset by an increase in the current year on projects in Virginia. Maintenance projects in Texas and Maryland also contributed to revenue during 2018. The Company earned 100% of its backlog carried forward from December 31, 2017.

Rivers & lakes revenues were \$44.3 million for 2018, an increase of \$5.6 million, or 14.5%, from \$38.7 million in 2017. The increase in rivers & lakes revenue during the current year was mostly attributable to revenue earned on a large flood mitigation project in Texas, which was the first post-Hurricane Harvey project, as well as revenue earned on a project in Louisiana. The increase in revenue was partially offset by a greater amount of revenue earned on a large lake project in Illinois and on projects in Florida, Mississippi and New Jersey during 2017. The Company earned 79% of its backlog carried forward from December 31, 2017.

Consolidated gross profit for the year ended December 31, 2018 increased by \$68.8 million, or 161.0%, to \$111.5 million from \$42.7 million for the year ended December 31, 2017. Gross profit margin (gross profit divided by revenue) for the full year 2018 was 18.0%, higher than prior year gross profit margin of 7.2%. The higher gross profit

for 2018 was driven by strong performance on domestic capital and rivers & lakes projects and lower plant costs, resulting from the retirement of certain underperforming and underutilized assets, when compared to the prior year. This change was partially offset by lower margin experienced on maintenance and coastal protection projects. Gross profit for 2018 includes \$9.1 million of cost of contract revenues from restructuring charges related to asset retirements and the closeout of the Company's Brazil operations compared to \$23.0 million in the prior year. The majority of these amounts are related to asset retirement charges of \$6.8 million and \$15.8 million in 2018 and 2017, respectively, and in 2017, \$6.4 million of pre-contract costs incurred on a project that was never formally awarded and that the Company no longer plans to pursue.

General and administrative expenses totaled \$55.1 million for the year ended December 31, 2018, down from \$57.2 million for the year ended December 31, 2017. The decrease in general and administrative expense for the full year 2018 as compared to 2017 was attributable to decreases in legal and professional fees, technical and consulting fees and personnel and recruiting fees of \$1.2 million, \$3.7 million and \$0.3 million, respectively, partially offset by an increase in payroll and benefits of \$3.3 million, mostly related to an increase in incentive pay in the current year. General and administrative expense includes \$0.2 and \$1.2 million of charges associated with restructuring for the year ended December 31, 2018 and 2017, respectively, mostly related to severance expense.

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

Operating income for the year ended December 31, 2018 was \$52.6 million compared to an operating loss of \$19.3 million for the year ended December 31, 2017. The change in operating income during the current year was driven by gross profit earned during the year ended December 31, 2018 when compared to the prior year, as noted above. The decrease in general and administrative expenses, noted above, also contributed to the increase in operating income. Further, the Company recorded \$3.7 million and \$4.8 million to loss on sale of assets, mostly related to asset restructuring charges, during the year ended December 31, 2018 and 2017, respectively.

During 2017, the Company and the partner of the TerraSea joint venture agreed to a final resolution of the net advances through additional funding of the joint venture. As a result of this agreement, the Company recorded additional losses of \$1.5 million during the year ended December 31, 2017. The TerraSea joint venture was dissolved in 2017.

The Company's net interest expense for 2018 totaled \$33.6 million compared to \$26.0 million in 2017. The increase in interest expense was primarily attributable to a decrease in the amount of interest expense that was being capitalized during the construction of the Company's dual mode articulated tug/barge trailing suction hopper dredge, the Ellis Island, and an increase in interest expense related to the higher principal on the Company's 8% senior notes ("8% Senior Notes") during the current year. Interest expense related to the revolving credit facility declined during 2018 due to a lower amount of debt outstanding during the current year, resulting from the Company's initiative to reduce outstanding debt.

Income tax provision in 2018 was \$5.4 million, compared to an income tax benefit of \$33.8 million in 2017. The change in income tax provision is related to higher pretax income during the current year, as described above, as well as a \$15.7 million benefit in 2017 attributable to the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017.

For the year ended December 31, 2018, net income from continuing operations was \$11.0 million compared to a net loss of \$15.4 million for the year ended December 31, 2017. The increase in net income from continuing operations for the year ended December 31, 2018 was driven by an increase in operating income, as described above. Further contributing to the change in the current year were a \$2.3 million loss on extinguishment of debt resulting from the prepayment of the Company's 7.375% senior notes during 2017 and a \$1.5 million loss associated with the Company's TerraSea joint venture that negatively impacted net income from continuing operations in the prior year. The increase in net income from continuing operations for 2018 was slightly offset by an increase in interest expense, as described above, and a \$2.3 million charge to other expense for the reversal of the cumulative translation adjustment related to the liquidation of the investment of the Company's Brazil and Australia operations during the current year. The Company's income tax provision was higher during 2018 as result of higher earnings in the current year when compared to 2017 as well as the positive impact of the Tax Cuts and Jobs Act during 2017, as described above.

Adjusted EBITDA from continuing operations (as defined and reconciled on page 36) was \$100.4 million and \$35.2 million for the years ended December 31, 2018 and 2017, respectively. The increase in Adjusted EBITDA from continuing operations of \$65.2 million, or 185.2% during 2018 was driven by higher gross profit, excluding depreciation, and the decrease in general and administrative expenses, as described above. An increase in other expense during the current year was offset by positive changes to loss on sale of assets and equity in loss of joint ventures during the year ended December 31, 2018.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total revenue was \$592.2 million in 2017, a decrease of \$45.3 million, or 7.1%, from 2016 total revenue of \$637.5 million. The decrease was largely attributable to a decline in domestic and foreign capital, coastal protection and rivers & lakes revenues during 2017 as compared to 2016. These decreases were partially offset by an increase in revenues from maintenance projects during the year ended December 31, 2017 as compared to 2016. The Company categorizes revenue by service type to understand the market in which the Company operates and to assess how the Company is performing on bidding work or projects and is generating revenue from backlog.

Domestic capital dredging revenues decreased \$34.8 million, or 15.8%, to \$185.1 million in 2017 compared to 2016 revenues of \$219.9 million. The decrease in domestic capital dredging revenue was mostly attributable to a greater amount of revenue earned on the Savannah Harbor deepening project, a liquefied natural gas (“LNG”) project in Texas and a deepening project on the Delaware River during the year ended 2016 when compared to 2017. The Company experienced delays associated with Hurricane Harvey, Irma, Maria and Jose which caused work stoppage on the Company’s projects in the impacted areas. The decline in revenue from these projects was partially offset by revenue earned during 2017 from coastal restoration projects in Louisiana and Mississippi as well as revenue from the initial stages of mobilization on a deepening project in South Carolina. In 2017, the Company earned 72% of its backlog carried forward from December 31, 2016.

Revenues from foreign dredging operations in 2017 totaled \$42.3 million, a decrease of \$17.1 million, or 28.8%, from 2016 revenues of \$59.4 million. Foreign dredging revenue in 2017 was down compared to 2016 due to a greater amount of revenue earned on projects in Saudi Arabia, Brazil and Bahrain during 2016. The Company earned 100% of its backlog carried forward from December 31, 2016.

Coastal protection revenues were \$191.1 million in 2017, a decrease of \$23.9 million, or 11.1%, from \$215.0 million in 2016. For the year ended December 31, 2017, the decrease in coastal protection revenue was the result of a greater amount of revenue earned in 2016 on large projects in New Jersey and New York for the repair of shorelines damaged as a result of Superstorm Sandy and winter storms as compared to 2017. Further, a greater amount of revenue was earned on projects in Florida during 2016 as compared to 2017. These negative impacts on revenue were partially offset by greater revenue earned on coastal protection projects in Virginia, North Carolina, South Carolina and Maryland during 2017 as compared to 2016. The Company earned 100% of its backlog carried forward from December 31, 2016.

Revenues from maintenance dredging projects in 2017 were \$134.9 million, an increase of \$42.6 million, or 46.2%, from \$92.3 million in 2016. The increase in maintenance revenue during 2017 was largely attributable to work on two large projects in Delaware in addition to projects in Florida, North Carolina, Oregon and California. The increase in revenue from these projects in 2017 was partially offset by a greater amount of revenue earned on projects in Pennsylvania and Florida during 2016. The Company earned 100% of its backlog carried forward from December 31, 2016.

Rivers & lakes revenues were \$38.7 million for 2017, a decrease of \$12.1 million, or 23.8%, from \$50.8 million in 2016. A greater amount of revenue earned on a reservoir project in Kansas and a large lake project in Illinois in 2016 resulted in a decrease in revenue for the year ended December 31, 2017. The decrease in revenue was partially offset by revenue earned on projects in Florida and New Jersey during 2017. The Company earned 63% of its backlog carried forward from December 31, 2016.

Gross profit for the year ended December 31, 2017 decreased by \$42.6 million, or 49.9%, to \$42.7 million from \$85.3 million for the year ended December 31, 2016. Gross profit margin (gross profit divided by revenue) for the full year 2017 was 7.2%, lower than 2016 gross profit margin of 13.4%. The lower gross profit for 2017 was driven by restructuring charges incurred during 2017. The Company recorded \$23.0 million of additional cost of contract revenues related to restructuring which negatively impacted margin for the year ended December 31, 2017. The majority of this amount is related to asset retirement charges of \$15.8 million and \$6.4 million of pre-contract costs incurred on a project that was never formally awarded and that the Company no longer plans to pursue. Further, the Company experienced lower contract margin, specifically on the Company's smaller domestic inland projects, and decreased absorption of fixed costs due to lower utilization of the fleet during 2017 as compared to 2016.

General and administrative expenses totaled \$57.2 million for the year ended December 31, 2017, up from \$55.3 million for the year ended December 31, 2016. An increase in technical and consulting fees and payroll and benefits expenses of \$2.4 million and \$0.8 million during 2017 contributed to the year over year increase. The increase in general and administrative expenses was partially offset by a decrease in legal and professional fees of \$1.9 million and personnel and recruiting costs of \$0.4 million. General and administrative expense for the year ended December 31, 2017 includes \$1.8 million of charges associated with restructuring, mostly related to severance but was offset by the decrease in payroll and benefits expense, as noted above.

Operating loss for the year ended December 31, 2017 was \$19.3 million compared to operating income of \$27.0 million for the year ended December 31, 2016. The change in operating income during 2017 was driven by restructuring charges incurred during the year, as noted above. During 2017, the Company recorded \$4.8 million to loss on sale of assets, mostly related to asset restructuring charges. In comparison, the Company recorded \$3.1 million to loss on sale of assets for the year ended December 31, 2016.

Equity in loss of joint ventures for the year ended December 31, 2017 was \$1.5 million compared to equity in loss of joint ventures of \$2.4 million for the year ended December 31, 2016. During 2017, the Company and the partner of the TerraSea joint venture agreed to a final resolution of the net advances through additional funding of the joint venture. As a result of this agreement, the Company recorded additional losses of \$1.5 million during the year ended December 31, 2017. The TerraSea, Amboy and Lower Main joint ventures were dissolved in 2017.

The Company's net interest expense for 2017 totaled \$26.0 million compared with \$23.5 million in 2016. The increase in interest expense was largely attributable to interest expense related to the higher principal on the Company's 8% Senior Notes and higher interest expense associated with the Company's senior secured revolving credit facility, which had a greater amount outstanding during 2017. The increase in interest expense was partially offset by a decrease in expense related to the Company's senior secured term loan facility, which was paid in full during the fourth quarter of 2016.

Income tax benefit in 2017 was \$33.8 million, up from an income tax benefit of \$0.2 million in 2016. Of this \$33.6 million change, \$15.7 million is attributable to the recent Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. The balance is primarily related to the lower pretax income described above, partially offset by the 2016 revision of the deferred state tax rate which provided an additional benefit in 2016.

For the year ended December 31, 2017, net loss from continuing operations was \$15.4 million compared to net income of \$0.5 million for the year ended December 31, 2016. The change in net income (loss) from continuing operations was negatively impacted by a decrease in operating income and increased interest expense during 2017, as described above. Further contributing to the net loss from continuing operations was a \$2.3 million loss on extinguishment of debt related to the Company's prepayment of the Company's 7.375% senior notes during 2017. These items were partially offset by the positive change in equity loss of joint ventures, as noted above.

Adjusted EBITDA from continuing operations (as defined and reconciled on page 36) was \$35.2 million and \$78.7 million for the years ended December 31, 2017 and 2016, respectively. Restructuring charges incurred during 2017 drove the decrease of \$43.5 million, or 55.3%. Additionally, other changes in consolidated gross profit and in general and administrative described above negatively impacted 2017 EBITDA from continuing operations when compared to 2016. These negative impacts on EBITDA from continuing operations were slightly offset by the positive changes in loss on sale of assets and equity in loss of joint ventures, as described above, as well as, a positive change in other expense.

Bidding Activity and Backlog

The following table sets forth, by type of work, the Company's backlog as of the dates indicated (in thousands):

	December 31, 2018	December 31, 2017	December 31, 2016
Backlog			
Capital - U.S.	\$ 447,139	\$ 383,577	\$ 234,575
Capital - foreign	73,112	8,575	22,025
Coastal protection	81,068	76,460	109,871
Maintenance	56,189	23,662	56,929
Rivers & lakes	49,583	19,046	44,298
Total Backlog	\$ 707,091	\$ 511,320	\$ 467,698

The Company's contract backlog represents its estimate of the revenues that will be realized under the portion of the contracts remaining to be performed. These estimates are based primarily upon the time and costs required to mobilize the necessary assets to and from the project site, the amount and type of material to be dredged and the expected production capabilities of the equipment performing the work. However, these estimates are necessarily subject to variances based upon actual circumstances. Because of these factors, as well as factors affecting the time required to complete each job, backlog is not always indicative of future revenues or profitability. Also, 83% of the Company's 2018 backlog relates to federal government contracts, which can be canceled at any time without penalty to the government, subject to the Company's contractual right to recover the Company's actual committed costs and profit on work performed up to the date of cancellation. The Company's backlog may fluctuate significantly from quarter to quarter based upon the type and size of the projects the Company is awarded from the bid market. A quarterly increase or decrease of the Company's backlog does not necessarily result in an improvement or a deterioration of the Company's business. The Company's backlog includes only those projects for which the Company has obtained a signed contract with the customer.

Approximately 78% of the Company's backlog at December 31, 2018 is expected to be completed and converted to revenue in 2019.

The 2018 domestic dredging bid market totaled \$1,811 million, a 48.9% increase from the 2017 domestic dredging bid market of \$1,216 million. Domestic capital projects awarded during 2018 include harbor deepening projects in Jacksonville, Tampa, Corpus Christi, Boston and on the Delaware River, a coastal restoration project in Mississippi, a terminal deepening project in Massachusetts, the option on the Charleston entrance channel deepening project and a channel widening project in Texas. Additional domestic projects awarded during 2018 include a flood mitigation project in Texas, multiple coastal protection projects in Florida, South Carolina, North Carolina and New York and

maintenance projects in Louisiana, Florida, North Carolina, Georgia, Pennsylvania and on the West Coast. The Company won 45% of the overall 2018 domestic bid market, down from its 49% win rate of the overall 2017 domestic bid market and in line with the Company's prior three-year average win rate of 46%. The award of the flood mitigation project in Texas and deepening projects in Tampa, Jacksonville and Corpus Christi, as well as option on the Charleston entrance channel deepening drove the Company's bid market win rate during the current year. Variability in contract wins from period to period is not unusual. The Company believes trends in its win rate over the prior three year periods provide a historical background against which current year results can be compared.

The Company's December 31, 2018 contracted backlog was \$707.1 million. This represents an increase of \$195.8 million, or 38.3%, over the Company's December 31, 2017 backlog of \$511.3 million. These amounts do not reflect approximately \$115.6 million of domestic low bids pending formal award and additional phases ("options") pending on projects currently in backlog. At December 31, 2017, the amount of domestic low bids pending award was \$69.9 million. Backlog at December 31, 2018 includes deepening projects in Charleston, Jacksonville and Corpus Christi totaling approximately \$394 million.

The Company won 62%, or \$476.4 million, of the domestic capital dredging projects awarded in 2018, compared to 71%, or \$349.0 million, in the prior year. During 2018, the Company was awarded deepening projects in Jacksonville, Corpus Christi, Tampa, on the Delaware River and the option on the entrance channel deepening project in Charleston. In comparison, the awards during the prior year included two deepening projects in Charleston and a coastal restoration project in Mississippi. Domestic capital dredging work made up \$447.1 million, or 63%, of the Company's December 31, 2018 contracted backlog. Domestic capital dredging backlog

at December 31, 2018 was \$63.6 million higher than the prior year. During the current year the Company completed work on a coastal restoration project in Louisiana and the Savannah Harbor deepening project which were both in backlog at December 31, 2017. The Company expects about 65% of its domestic capital backlog at December 31, 2018 to be performed in 2019. Successful expansion of the Panama Canal in recent years continues to put pressure on ports on the East and Gulf Coasts to deepen and widen in anticipation of the neo-Panamax vessels. With several port expansions underway, several other port expansions are entering new phases and several additional projects are being expedited. Deepening projects in Jacksonville, Tampa and Corpus Christi were recently awarded. Further, projects to deepen the Mississippi River and Port of Virginia are being expedited. The nation's governors continue to show commitment to their respective ports through engagement and funding. Finally, Congress has also shown a commitment to ports and waterways, providing record annual budgets for the Corps for port deepening and channel maintenance.

Foreign capital dredging backlog increased to \$73.1 million at December 31, 2018 from \$8.6 million at the end of 2017. During the fourth quarter the Company was awarded a \$73 million project in Bahrain, for which the Company was the low bidder in the second quarter of 2017. The Company expects about 75% of its foreign capital backlog at December 31, 2018 to be performed in 2019. During 2018, the Company completed work on projects in the Middle East which were in backlog at December 31, 2017. During 2018, the Company relocated two of its dredges to our domestic fleet from their previous positions in the international market. The Company expects the international market to be a break-even contributor in 2019, with potential for market improvement in 2020 and beyond.

The Company won 62%, or \$170.6 million, of the coastal protection projects awarded in 2018, compared to 56%, or \$145.1 million, in the prior year. During 2018, the Company was awarded four large coastal protection projects in New York, North Carolina and South Carolina totaling approximately \$152 million. The remaining \$18 million in awards for 2018 is for work on projects in Virginia, South Carolina and Georgia. The Company has contracted backlog related to coastal protection of \$81.1 million at December 31, 2018 compared to \$76.5 million at the end of 2017. During the year ended December 31, 2018, the Company completed coastal protection projects in New Jersey, Delaware, South Carolina and Florida which were in backlog at December 31, 2017. The Company expects substantially all of its coastal protection backlog at December 31, 2018 to be performed in 2019. Coastal protection and storm impacts continue to provide the major impetus for coastal project investment at federal and state levels. With continued funding available for projects in the Northeast from the Superstorm Sandy supplemental appropriations, the Company expects to continue to see an increase in projects let for bid in the coastal protection market. As a result of the extreme storm systems last year involving Hurricanes Harvey, Irma, and Maria, the U.S. Senate Committee on Appropriations passed supplemental appropriations for disaster relief and recovery which includes \$17.4 billion for the Corps to fund projects that will reduce the risk of future damage from flood and storm events. The Corps is beginning to provide visibility on its plans for this money, and it is currently believed that over \$1 billion is expected to be added to its dredging related budget over the next few years. Most of this work is anticipated to be coastal protection related, but some funding may be provided for channel maintenance. During the fourth quarter of 2018, Congress passed an additional \$1.7 billion of supplemental appropriations for disaster relief funding as a result of Hurricane Florence.

The Company won 13%, or \$82.5 million, of the maintenance dredging projects awarded in 2018 compared to 22%, or \$93.5 million, in 2017. During 2018, the Company was awarded maintenance projects in the South Atlantic, Florida, Maryland, New York, North Carolina and Texas. During the year ended December 31, 2018, the Company continued to work on projects in Virginia, Maryland, Mississippi and Delaware which were in backlog at December 31, 2017. The Company's contracted maintenance dredging backlog at December 31, 2018 of \$56.2 million is \$32.5 million higher than the backlog of \$23.7 million at December 31, 2017. The Company expects about 82% of its maintenance dredging backlog at December 31, 2018 to be performed in 2019. In March 2018, Congress approved and the President signed an omnibus spending bill through fiscal year 2018. The spending bill continues the increases in the budget for the Corps and exceeds the increase in Harbor Maintenance Trust Fund ("HMTF") spending for maintenance dredging as required by the 2014 Water Resources and Development Act. During the fourth quarter of 2018, the President signed America's Water Infrastructure Act of 2018/Water Resources Development Act ("WRDA

2018”) into law. Similar to past versions of the bill, WRDA 2018 language calls for full use of the HMTF for its intended purpose of maintaining future access to the waterways and ports that support our nation’s economy. Further, WRDA 2018 ensures that Harbor Maintenance Tax (“HMT”) funding targets will increase by three percent over the prior year, even if the HMT revenue estimates decrease, to continue annual progress towards full use of the HMT by 2025. Through the increased appropriation of HMTF monies, the Company anticipates an increase in harbor projects to be let for bid throughout 2018 and beyond. Congress has improved spending from the HMTF by providing the Corps with record annual budgets including 94% utilization of the HMTF in FY 2018 and 91% proposed in the FY 2019 budget which was above its commitment.

The Company won 53%, or \$82.2 million, of the rivers & lakes projects in the markets where the group operates during the current year, compared to 8%, or \$2.6 million, in 2017. During the current year, the Company was awarded a \$12 million project in Louisiana as well as a \$70 million project in Texas which is the first major Houston-area flood-control project after Hurricane Harvey. For the year ended December 31, 2018, the Company continued to earn revenue on a lake project in Illinois and completed work on projects in New Jersey and Mississippi, all of which were in backlog at December 31, 2017. The Company has contracted dredging backlog related to rivers & lakes of \$49.6 million at December 31, 2018, which is \$30.6 million higher than the backlog of \$19.0

million at December 31, 2017. The Company expects a substantial portion of its rivers & lakes backlog at December 31, 2018 to be performed in 2019.

Liquidity and Capital Resources

The Company's principal sources of liquidity are net cash flows provided by operating activities, borrowings under the Company's revolving credit facility and proceeds from issuances of long-term debt. See Note 5, Long-Term Debt, to our consolidated financial statements included in Item 15 of this Annual Report on Form 10-K. The Company's principal uses of cash are to meet debt service requirements, finance capital expenditures, and provide working capital and other general corporate purposes.

The Company's net cash provided by operating activities of continuing operations for the years ended December 31, 2018, 2017 and 2016 totaled \$141.7 million, \$34.0 million and \$34.7 million, respectively. Normal increases or decreases in the level of working capital relative to the level of operational activity impact cash flow from operating activities. The increase in cash provided by operating activities of continuing operations in 2018 was driven by a higher net income from continuing operations compared to the prior year and the recovery of investment in working capital during 2018. Cash provided by operating activities for the year ended December 31, 2017 was down compared to 2016 due to lower net income during 2017. This decrease in 2017 was partially offset by a lower investment in working capital during the year ended December 31, 2017 when compared to the year ended December 31, 2016.

The Company's net cash flows used in investing activities of continuing operations for the years ended December 31, 2018, 2017 and 2016 totaled \$35.5 million, \$57.4 million and \$72.8 million, respectively. Investing activities in all periods primarily relate to normal course upgrades and capital maintenance of the Company's dredging fleet. During 2018, the Company received \$4.5 million in cash proceeds from a sale-leaseback of a dredge as well as \$9.4 million in proceeds from the sale of underperforming and underutilized assets identified through the Company's strategic review. The Company spent \$43.3 and \$53.9 million for the years ended December 31, 2017 and 2016, respectively, on the Ellis Island, which was placed in service during the fourth quarter of 2017. Further, the Company bought out two leases for \$14.3 million as part of the restructuring initiative of disposing underperforming assets during the year ended December 31, 2018. In 2017, the Company received \$8.6 million in proceeds from dispositions of property and equipment, mostly related to the refinancing of two dredges.

The Company's net cash flows provided by (used in) financing activities of continuing operations for the years ended December 31, 2018, 2017 and 2016 totaled \$(83.9) million, \$34.5 million and \$32.2 million, respectively. The decrease in cash provided by financing activities primarily relates to the Company's net repayments on its revolving credit facility of \$83.5 million during 2018. Comparatively, the Company had net repayments of \$9.1 million during 2017 and net borrowings of \$84.1 million for the year ended December 31, 2016. Further, the Company issued \$325 million of 8% senior notes during the second quarter of 2017. The Company used a portion of the net proceeds to redeem its \$275 million of 7 3/8% senior notes and repay a portion of the Company's revolver. The Company also paid \$5.0 million in financing fees on the issuance of the 8% Senior Notes during the prior year. During the year ended December 31, 2016, the Company repaid the senior secured term loan facility in full.

Credit agreement

On December 30, 2016, the Company, Great Lakes Dredge & Dock Company, LLC, NASDI Holdings, LLC, Great Lakes Dredge & Dock Environmental, Inc., Great Lakes Environmental & Infrastructure Solutions, LLC and Great Lakes Environmental & Infrastructure, LLC (collectively, the "Credit Parties") entered into a revolving credit and security agreement, as subsequently amended, (the "Credit Agreement") with certain financial institutions from time to

time party thereto as lenders, PNC Bank, National Association, as Agent, PNC Capital Markets, CIBC Bank USA, Suntrust Robinson Humphrey, Inc., Capital One, National Association and Bank of America, N.A., as Joint Lead Arrangers and Joint Bookrunners, Texas Capital Bank, National Association, as Syndication Agent and Woodforest National Bank, as Documentation Agent. The Credit Agreement, which replaced the Company's former revolving credit agreement, provides for a senior secured revolving credit facility in an aggregate principal amount of up to \$250 million, subfacilities for the issuance of standby letters of credit up to a \$250 million sublimit and swingline loans up to a \$25 million sublimit. The maximum borrowing capacity under the Credit Agreement is determined by a formula and may fluctuate depending on the value of the collateral included in such formula at the time of determination. The Credit Agreement also includes an increase option that will allow the Company to increase the senior secured revolving credit facility by an aggregate principal amount of up to \$100 million. This increase is subject to lenders providing incremental commitments for such increase, the Credit Parties having adequate borrowing capacity and provided that no default or event of default exists both before and after giving effect to such incremental commitment increase.

The Credit Agreement also provides for certain actions contemplated in the plan of restructuring with respect to the Company's 2017 and 2018 fiscal years including allowing up to an aggregate of \$20 million of expenses related to the buy-out of operating leases and allowing capital expenditures planned but not incurred by all Credit Parties in fiscal year 2017 to be carried forward to fiscal year 2018; provided that, the aggregate amount of all capital expenditures incurred by all Credit Parties in fiscal years 2017 and 2018 does

not exceed \$135 million. Additionally, the Credit Agreement contains acknowledgments and agreements from the Agent and the required lenders with respect to certain EBITDA add-backs for fiscal years 2017 and 2018 described therein.

The Credit Agreement contains customary representations and affirmative and negative covenants, including a springing financial covenant that requires the Credit Parties to maintain a fixed charge coverage ratio (ratio of earnings before income taxes, depreciation and amortization, net interest expenses, non-cash charges and losses and certain other non-recurring charges, minus capital expenditures, income and franchise taxes, to net cash interest expense plus scheduled cash principal payments with respect to debt plus restricted payments paid in cash) of not more than 1.10 to 1.00. The Company is required to maintain this ratio if its availability under the Credit Agreement falls below \$31.3 million for five consecutive days or \$25.0 million for one day. The Credit Parties are also restricted in the amount of capital expenditures they may make in each of the next three fiscal years. The Credit Agreement also contains customary events of default (including non-payment of principal or interest on any material debt and breaches of covenants) as well as events of default relating to certain actions by the Company's surety bonding providers. The obligations of the Credit Parties under the Credit Agreement will be unconditionally guaranteed, on a joint and several basis, by each existing and subsequently acquired or formed material direct and indirect domestic subsidiary of the Company. Borrowings under the Credit Agreement will be used to refinance existing indebtedness under the Company's former revolving credit agreement, refinance existing indebtedness under the Company's former term loan agreement, pay fees and expenses related to the Credit Agreement, finance acquisitions permitted under the Credit Agreement, finance ongoing working capital and for other general corporate purposes. The Credit Agreement matures on December 30, 2019.

The obligations under the Credit Agreement are secured by substantially all of the assets of the Credit Parties. The outstanding obligations thereunder shall be secured by a valid first priority perfected lien on substantially all of the vessels of the Credit Parties and a valid perfected lien on all domestic accounts receivable and substantially all other assets of the Credit Parties, subject to the permitted liens and interests of other parties (including the Company's surety bonding providers).

Interest on the senior secured revolving credit facility of the Credit Agreement is equal to either a Base Rate option or LIBOR option, at the Company's election. The Base Rate option is (1) the base commercial lending rate of PNC Bank, National Association, as publically announced plus (2)(a) an interest margin of 2.0% or (b) after the date on which a borrowing base certificate is required to be delivered under Section 9.2 of the Credit Agreement (commencing with the fiscal quarter ending December 31, 2017, the "Adjustment Date"), an interest margin ranging between 1.5% and 2.0% depending on the quarterly average undrawn availability on the senior secured revolving credit facility. The LIBOR option is the sum of (1) LIBOR and (2) (a) an interest margin of 3.0% or (b) after the Adjustment Date, an interest rate margin ranging between 2.5% to 3.0% per annum depending on the quarterly average undrawn availability on the senior secured revolving credit facility. The Credit Agreement is subject to an unused fee ranging from 0.25% to 0.375% per annum depending on the amount of average daily outstandings under the senior secured revolving credit facility.

The obligations of Great Lakes under the Credit Agreement are unconditionally guaranteed, on a joint and several basis, by each existing and subsequently acquired or formed material direct and indirect domestic subsidiary of the Company. During a year, the Company frequently borrows and repays amounts under its revolving credit facility. As

of December 31, 2018, the Company had \$11.5 million of borrowings on the revolver and \$37.7 million of letters of credit outstanding, resulting in \$174.6 million of availability under the Credit Agreement. The availability under the Credit Agreement is suppressed by \$26.2 million as of December 31, 2018 as a result of certain limitations set forth in the Credit Agreement.

Surety agreements

Performance and bid bonds are customarily required for dredging and marine construction projects. The Company has a bonding agreement with the Sureties under which the Company can obtain performance, bid and payment bonds. The Company also has outstanding bonds with Travelers Casualty and Surety Company of America and Zurich. Bid bonds are generally obtained for a percentage of bid value and amounts outstanding typically range from \$1 million to \$10 million. At December 31, 2018, the Company had outstanding performance bonds valued at approximately \$1,389.2 million of which \$78.3 million relates to projects accounted for in discontinued operations. The revenue value remaining in backlog related to the projects of continuing operations totaled approximately \$619.4 million.

In connection with the sale of our historical demolition business, the Company was obligated to keep in place the surety bonds on pending demolition projects for the period required under the respective contract for a project and issued Zurich a letter of credit related to this exposure. In February 2017, the Company was notified by Zurich of an alleged default triggered on a historical demolition surety performance bond in the aggregate of approximately \$20 million for failure of the contractor to perform in accordance with the terms of a project. In May 2017, Zurich drew upon the letter of credit in the amount of \$20.9 million. In order to fund the draw on the letter of credit, the Company had to increase the borrowings on its revolving credit facility. As the outstanding letters of credit previously reduced our availability under the revolving credit facility, this draw down on our letter of credit does not impact our liquidity or capital availability.

Pursuant to the terms of sale of our historical demolition business, the Company received an indemnification from the buyer for losses resulting from the bonding arrangement. The Company intends to aggressively pursue enforcement of the indemnification provisions if the buyer of the historical demolition business is found to be in default of its obligations. The Company cannot estimate the amount or range of recoveries related to the indemnification or resolution of the Company's responsibilities under the surety bond. The surety bond claim impact has been included in discontinued operations and is discussed in Note 12, Commitments and Contingencies, to the Company's condensed consolidated financial statements.

Senior notes

In May 2017, the Company issued \$325 million in aggregate principal amount of its 8% Senior Notes due May 15, 2022. Approximately \$283 million of the net proceeds from the issuance of the 8% Senior Notes were used to prepay all of the Company's 7.375% senior notes due February 2019, including a tender premium and accrued and unpaid interest. Interest on the 8% Senior Notes is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2017. The 8% Senior Notes are senior unsecured obligations of the Company and will be guaranteed on a senior unsecured basis by the guarantors and any other subsidiary guarantors that from time to time become parties to the indenture. The terms of the indenture will, among other things, limit the ability of the Company and its restricted subsidiaries to (i) pay dividends, or make certain other restricted payments or investments (ii) incur additional indebtedness and issue disqualified stock (iii) create liens on their assets (iv) transfer and sell assets (v) enter into certain business combinations with third parties or into certain other transactions with affiliates (vi) create restrictions on dividends or other payments by the Company's restricted subsidiaries; and (vii) create guarantees of indebtedness by restricted subsidiaries. These covenants are subject to a number of important limitations and exceptions that are described in the indenture.

Other

The future declaration and payment of 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, its financial results and condition and legal requirements, including restrictions and limitations contained in the Credit Agreement, bonding agreement and the indenture relating to its senior notes. 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 impact of changes in functional currency exchange rates against the U.S. dollar on non-U.S. dollar cash balances are reflected in the cumulative translation adjustment—net within accumulated other comprehensive income (loss). Cash held in non-U.S. dollar currencies primarily is used for project-related and other operating costs in those currencies reducing the Company's exposure to future realized exchange gains and losses.

The Company believes its cash and cash equivalents, its anticipated cash flows from operations and availability under its revolving credit facility and any future revolving credit facility yet to be negotiated will be sufficient to fund the

Company's operations, capital expenditures and the scheduled debt service requirements for the next twelve months. Beyond the next twelve months, the Company's ability to fund its working capital needs, planned capital expenditures, scheduled debt payments and dividends, if any, and to comply with all the financial covenants required under the Credit 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.

Contractual Obligations

The following table summarizes the Company's contractual cash obligations at December 31, 2018. Additional information related to these obligations can be found in Note 5, Long-Term Debt, and Note 12, Commitments and Contingencies, to the Company's consolidated financial statements.

	Obligations coming due in year(s) ending:				
		2020-	2023-	2026 and	
	Total (1)	2019	2022	2025	beyond
Equipment notes payable (2)	\$0.7	\$0.6	\$0.1	\$—	\$ —
Senior notes (3)	413.8	26.0	387.8	—	—
Revolving credit facility (4)	11.5	11.5	—	—	—
Operating lease commitments	101.2	28.1	55.3	17.8	—
Total	\$527.2	\$66.2	\$443.2	\$17.8	\$ —

(1) Excluded from the above table are \$0.2 million in liabilities for uncertain tax positions for which the period of settlement is not determinable.

(2) Represents principal and interest on four capital equipment leases. These capital leases relate to the historical environmental & infrastructure business and are presented in assets and liabilities held for sale. Refer to Note 14, Business Dispositions.

(3) Includes cash interest payments calculated at stated fixed rate of 8.000%.

(4) Represents the Credit Agreement. At December 31, 2018, total outstanding on this facility was \$11.5 million.

Includes cash interest payments calculated at variable rates between 5.25% and 5.46%.

Other Off-Balance Sheet and Contingent Obligations

The Company had outstanding letters of credit relating to foreign contract guarantees and insurance payment liabilities totaling \$37.7 million at December 31, 2018. The Company has granted liens on a substantial portion of its owned operating equipment as security for borrowings under its Credit Agreement and other indebtedness.

The Company finances certain key vessels, office space, and other equipment used in its operations with off-balance sheet operating lease arrangements with unrelated lessors, requiring annual rentals of \$28.1 million in 2019 which will decline to \$2.6 million over the next seven years subject to future lease arrangements. These off-balance sheet leases contain default provisions, which are triggered by an acceleration of debt maturity under the terms of the Company's Credit Agreement. Additionally, the leases typically contain provisions whereby the Company indemnifies the lessors for the tax treatment attributable to such leases based on the tax rules in place at lease inception. The tax indemnifications do not have a contractual dollar limit. To date, no lessors have asserted any claims against the Company under these tax indemnification provisions.

At December 31, 2018, the Company had outstanding performance bonds with a notional amount of \$1,389.2 million of which \$78.3 million relates to projects from the Company's historical environmental & infrastructure businesses. The revenue value remaining in backlog related to the projects in continuing operations totaled \$619.4 million.

In connection with the sale of our historical demolition business, the Company was obligated to keep in place the surety bonds on pending demolition projects for the period required under the respective contract for a project and issued Zurich a letter of credit related to this exposure. In February 2017, the Company was notified by Zurich of an alleged default triggered on a historical demolition surety performance bond in the aggregate of approximately \$20 million for failure of the contractor to perform in accordance with the terms of a project. In May 2017, Zurich drew upon the letter of credit in the amount of \$20.9 million. In order to fund the draw on the letter of credit, the Company had to increase the borrowings on its revolving credit facility. As the outstanding letters of credit previously reduced the Company's availability under the revolving credit facility, the draw down on the Company's letter of credit does not impact its liquidity or capital availability.

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.

The Company considers it unlikely that it would have to perform under any of the aforementioned contingent obligations, other than operating leases.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

A portion of the Company's current operations are conducted outside of the U.S., primarily in the Middle East. It is the Company's policy to hedge foreign currency exchange risk on contracts denominated in currencies other than the U.S. dollar, if available. Currently, the majority of the Company's foreign dredging work is in the Middle East. The currency in Bahrain, the Bahraini Dinar, is linked to the U.S. dollar; therefore, there is no foreign currency exposure on these transactions. At December 31, 2018, the Company had no foreign exchange forward contracts outstanding.

At December 31, 2018, the Company had long-term senior notes outstanding with a recorded face value of \$325.0 million. The fair value of these existing notes, which bear interest at a fixed rate of 8.000%, was \$330.3 million at December 31, 2018 based on market prices. Assuming a 10% decrease in interest rates from the rates at December 31, 2018 the fair value of this fixed rate debt would have increased to \$338.1 million.

A significant operating cost for the Company is diesel fuel, which represents approximately 9% of the Company's costs of contract revenues. The Company uses fuel commodity forward contracts, typically with durations of less than one year, to reduce the impacts of changing fuel prices on operations. The Company does not purchase fuel hedges for trading purposes. Based on the Company's 2019 projected domestic fuel consumption, a 10% increase in the average price per gallon of fuel would have an immaterial effect on fuel expense, after the effect of fuel commodity contracts in place at December 31, 2018. At December 31, 2018 the Company had outstanding arrangements to hedge the price of a portion of its fuel purchases related to domestic dredging work in

backlog, representing approximately 80% of its anticipated domestic fuel requirements through December 2018. As of December 31, 2018, there were 7.8 million gallons remaining on these contracts. Under these agreements, the Company will pay fixed prices ranging from \$1.91 to \$2.34 per gallon. At December 31, 2018, the fair value liability on these contracts was estimated to be \$4.7 million, based on quoted market prices and is recorded in accrued liabilities. A 10% change in forward fuel prices would result in an immaterial change in the fair value of fuel hedges outstanding at December 31, 2018.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements (including financial statement schedules listed under Item 15 of this Report) of the Company called for by this Item, together with the Report of Independent Registered Public Accounting Firm dated February 26, 2019, are set forth on pages 55 to 82 inclusive, of this Report, and are hereby incorporated by reference into this Item. Financial statement schedules not included in this Report have been omitted because they are not applicable or because the information called for is shown in the consolidated financial statements or notes thereto.

Quarterly Results of Operations (Unaudited)

The following tables set forth our unaudited quarterly results of operations for 2018 and 2017. We have prepared this unaudited information on a basis consistent with the audited consolidated financial statements contained in this report and this unaudited information includes all adjustments, consisting only of normal recurring adjustments that we consider necessary for a fair presentation of our results of operations for the quarters presented. The historical environmental & infrastructure segment has been retrospectively presented as discontinued operations and is no longer reflected in continuing operations. You should read this quarterly financial data along with the Condensed Consolidated Financial Statements and the related notes to those statements included in our Quarterly Reports on Form 10-Q filed with the Commission. The operating results for any quarter are not necessarily indicative of the results for the annual period or any future period.

	Quarter Ended			
	March 31, Unaudited	June 30, Unaudited	September 30, Unaudited	December 31, Unaudited
(dollars in millions except shares in thousands and per share data)				
2018				
Contract revenues	\$ 133.6	\$ 135.3	\$ 178.7	\$ 173.2
Costs of contract revenues	(119.5)	(113.1)	(139.1)	(137.6)
Gross profit	14.1	22.1	39.6	35.6
General and administrative expenses	(13.1)	(12.2)	(14.3)	(15.4)
Gain (loss) on sale of assets — net	0.2	1.1	(1.5)	(3.5)
Operating income	1.2	11.0	23.7	16.7
Interest expense — net	(8.7)	(9.0)	(8.1)	(7.9)
Other income (expense)	(2.1)	0.0	0.1	(0.6)
Income (loss) before income taxes	(9.5)	2.0	15.7	8.2
Income tax (provision) benefit	2.5	(0.8)	(3.9)	(3.2)
Income (loss) from continuing operations	(7.0)	1.2	11.9	5.0
Loss from discontinued operations, net of income taxes	(2.3)	(2.2)	(0.2)	(12.7)
Net income (loss)	\$(9.3)	\$(1.0)	\$ 11.7	\$ (7.7)
Basic earnings (loss) per share attributable to income (loss) from continuing operations	\$(0.11)	0.02	\$ 0.19	\$ 0.08

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

Basic loss per share attributable to loss from discontinued operations, net of tax	(0.04)	(0.04)	(0.00)	(0.20)
Basic earnings (loss) per share	\$(0.15)	\$(0.02)	\$ 0.19	\$(0.12)
Basic weighted average shares	61.8	62.3	62.4	62.5
Diluted earnings (loss) per share attributable to income (loss) from continuing operations	\$(0.11)	\$0.02	\$ 0.19	\$ 0.08
Diluted loss per share attributable to loss from discontinued operations, net of tax	(0.04)	(0.04)	(0.01)	(0.20)
Diluted earnings (loss) per share	\$(0.15)	\$(0.02)	\$ 0.18	\$(0.12)
Diluted weighted average shares	61.8	62.7	63.3	63.8

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

	Quarter Ended			
	March 31, Unaudited	June 30, Unaudited	September 30, Unaudited	December 31, Unaudited
(dollars in millions except shares in thousands and per share data)				
2017				
Contract revenues	\$ 153.1	\$ 152.5	\$ 133.9	\$ 152.7
Costs of contract revenues	(140.0)	(136.5)	(114.3)	(158.7)
Gross profit (loss)	13.1	16.0	19.6	(5.9)
General and administrative expenses	(13.9)	(14.3)	(15.3)	(13.7)
Gain (loss) on sale of assets — net	0.0	(0.3)	0.0	(4.6)
Operating income (loss)	(0.8)	1.4	4.3	(24.2)
Interest expense — net	(5.6)	(6.4)	(6.4)	(7.6)
Equity in loss of joint ventures	0.0	(1.5)	0.0	(0.0)
Loss on extinguishment of debt	—	(2.3)	—	—
Other income (expense)	0.0	0.1	0.1	(0.2)
Loss before income taxes	(6.3)	(8.7)	(2.0)	(32.0)
Income tax benefit	2.0	4.2	0.3	27.2
Loss from continuing operations	(4.3)	(4.5)	(1.7)	(4.9)
Income (loss) from discontinued operations, net of income taxes	(13.3)	0.6	(1.5)	(1.7)
Net loss	\$(17.6)	\$(3.9)	\$(3.2)	\$(6.5)
Basic loss per share attributable to loss from continuing operations	\$(0.07)	\$(0.07)	\$(0.03)	\$(0.08)
Basic earnings (loss) per share attributable to income (loss) from discontinued operations, net of tax	\$(0.21)	\$0.00	\$(0.02)	\$(0.03)
Basic loss per share	\$(0.28)	\$(0.07)	\$(0.05)	\$(0.11)
Basic weighted average shares	61.1	61.3	61.5	61.6
Diluted loss per share attributable to loss from continuing operations	\$(0.07)	\$(0.07)	\$(0.03)	\$(0.08)
Diluted earnings (loss) per share attributable to income (loss) from discontinued operations, net of tax	\$(0.21)	\$0.00	\$(0.02)	\$(0.03)
Diluted loss per share	\$(0.28)	\$(0.07)	\$(0.05)	\$(0.11)
Diluted weighted average shares	61.1	61.3	61.5	61.6

Note: Items may not sum due to rounding.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
Disclosure Controls and Procedures.

a) Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act") as of December 31, 2018. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act (a) 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 (b) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as designed and implemented, were effective as of December 31, 2018. Notwithstanding the foregoing, a control system, no matter how well designed, implemented and operated can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

b) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

c) Management's annual report on internal control over financial reporting

The management of Great Lakes Dredge & Dock Corporation, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f), and 15d-15(f) under the Securities Exchange Act of 1934). Management has used the framework set forth in the report entitled Internal Control—Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the effectiveness of the Company's internal control over financial reporting.

The phrase internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and overseen by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with general accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Neither internal control over financial reporting nor disclosure controls and procedures can provide absolute assurance of achieving financial reporting objectives because of their inherent limitations. Internal control over financial

reporting and disclosure controls are processes that involve human diligence and compliance, and are subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting and disclosure controls also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented, detected or reported on a timely basis by internal control over financial reporting or disclosure controls. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design safeguards for these processes that will reduce, although may not eliminate, these risks.

Our independent registered public accounting firm, Deloitte & Touche LLP, who audited Great Lakes' consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on Great Lakes' internal control over financial reporting, which is included herein.

Management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Great Lakes Dredge & Dock Corporation:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Great Lakes Dredge & Dock Corporation and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2018, of the Company and our report dated February 26, 2019, expressed an unqualified opinion on those financial statements and financial statement schedule.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Chicago, Illinois

February 26, 2019

50

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our executive officers is incorporated by reference herein from the discussion under Item 1. Business—Executive Officers of the Registrant in this Annual Report on Form 10-K.

Code of Ethics

The Company has adopted a written code of business conduct and ethics that applies to all of its employees, including its principal executive officer, principal financial officer, controller, and persons performing similar functions. The Company's code of ethics can be found on its website at www.gldd.com. The Company will post on our website any amendments to or waivers of the code of business conduct and ethics for executive officers or directors, in accordance with applicable laws and regulations.

The remaining information called for by this Item 10 is incorporated by reference herein from the discussions under the headings "Election of Directors," "Board of Directors and Corporate Governance" and "Security Ownership of Certain Beneficial Owners and Management" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference herein from the discussions under the headings "Executive Compensation Tables", "Compensation Discussion and Analysis", "Board of Directors and Corporate Governance" and "CEO Pay Ratio" in the definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 of Form 10-K is incorporated by reference herein from the discussion under the heading "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of Form 10-K is incorporated by reference herein from the discussions under the headings "Board of Directors and Corporate Governance" and "Change of Control of the Company" and "Certain Relationships and Related Transactions" in the definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated by reference herein from the discussion under the heading "Matters Related to Independent Registered Public Accounting Firm" in the definitive Proxy Statement for the 2019 Annual Meeting of Stockholders.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report

1. Financial Statements

The financial statements are set forth on pages 55 to 82 of this Report and are incorporated by reference in Item 8 of this Report.

2. Financial Statement Schedules

All other schedules, except Schedule II—Valuation and Qualifying Accounts on page 83, are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

3. Exhibits

The exhibits required to be filed by Item 601 of Regulation S-K are listed in the “Exhibit Index” which is attached hereto and incorporated by reference herein.

Item 16. Form 10-K Summary

None.

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	Page
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017, AND FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016	54
<u>Consolidated Balance Sheets</u>	55
<u>Consolidated Statements of Operations</u>	56
<u>Consolidated Statements of Comprehensive Loss</u>	57
<u>Consolidated Statements of Equity</u>	58
<u>Consolidated Statements of Cash Flows</u>	59
<u>Notes to Consolidated Financial Statements</u>	61

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Great Lakes Dredge & Dock Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Great Lakes Dredge & Dock Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for revenue in 2018 due to the adoption of Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Topic 606).

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Chicago, Illinois

February 26, 2019

We have served as the Company's auditor since 1991

54

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

Great Lakes Dredge & Dock Corporation and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2018 and 2017

(in thousands, except per share amounts)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$34,458	\$15,852
Accounts receivable—net	64,779	51,940
Contract revenues in excess of billings	17,953	77,907
Inventories	28,112	34,432
Prepaid expenses	4,710	5,031
Other current assets	31,907	38,605
Assets held for sale	24,779	38,417
Total current assets	206,698	262,184
PROPERTY AND EQUIPMENT—Net	369,863	396,925
GOODWILL	76,576	76,576
INVENTORIES—Noncurrent	61,264	54,023
ASSETS HELD FOR SALE— Noncurrent	5,110	29,561
OTHER	10,760	13,088
TOTAL	\$730,271	\$832,357
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$71,537	\$65,153
Accrued expenses	48,351	51,926
Billings in excess of contract revenues	17,793	2,586
Revolving credit facility	11,500	—
Current portion of long-term debt	—	1,212
Liabilities held for sale	13,940	29,373
Total current liabilities	163,121	150,250
LONG-TERM DEBT	321,950	333,141
REVOLVING CREDIT FACILITY	—	95,000
DEFERRED INCOME TAXES	22,846	25,561
LIABILITIES HELD FOR SALE— Noncurrent	146	773
OTHER	7,280	6,336
Total liabilities	515,343	611,061
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY:		
Common stock—\$.0001 par value; 90,000 authorized, 62,830 and 61,897 shares issued; 62,552 and 61,619 outstanding at December 31, 2018 and December 31, 2017, respectively.	6	6
Treasury stock, at cost	(1,433)	(1,433)

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

Additional paid-in capital	295,135	289,821
Accumulated deficit	(74,971)	(67,101)
Accumulated other comprehensive income (loss)	(3,809)	3
Total equity	214,928	221,296
TOTAL	\$730,271	\$832,357

See notes to consolidated financial statements.

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

Great Lakes Dredge & Dock Corporation and Subsidiaries

Consolidated Statements of Operations

For the Years Ended December 31, 2018, 2017 and 2016

(in thousands, except per share amounts)

	2018	2017	2016
CONTRACT REVENUES	\$620,795	\$592,159	\$637,468
COSTS OF CONTRACT REVENUES	509,335	549,429	552,130
GROSS PROFIT	111,460	42,730	85,338
OPERATING EXPENSES:			
GENERAL AND ADMINISTRATIVE EXPENSES	55,108	57,235	55,271
LOSS ON SALE OF ASSETS—Net	3,731	4,789	3,089
Total operating income (loss)	52,621	(19,294)	26,978
OTHER EXPENSE:			
Interest expense—net	(33,578)	(26,032)	(23,471)
Equity in loss of joint ventures	—	(1,484)	(2,365)
Loss on extinguishment of debt	—	(2,330)	—
Other income (expense)	(2,590)	11	(777)
Total other expense	(36,168)	(29,835)	(26,613)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES			
TAXES	16,453	(49,129)	365
INCOME TAX (PROVISION) BENEFIT	(5,437)	33,761	177
INCOME (LOSS) FROM CONTINUING OPERATIONS			
Loss from discontinued operations, net of income taxes	(17,309)	(15,892)	(8,719)
NET LOSS	\$(6,293)	\$(31,260)	\$(8,177)
Basic earnings (loss) per share attributable to income (loss) from continuing operations			
Basic earnings (loss) per share attributable to income (loss) from continuing operations	\$0.18	\$(0.25)	\$0.01
Basic loss per share attributable to loss on discontinued operations, net of income taxes			
Basic loss per share attributable to loss on discontinued operations, net of income taxes	(0.28)	(0.26)	(0.14)
Basic loss per share	\$(0.10)	\$(0.51)	\$(0.13)
Basic weighted average shares	62,236	61,365	60,744
Diluted earnings (loss) per share attributable to income (loss) from continuing operations			
Diluted earnings (loss) per share attributable to income (loss) from continuing operations	\$0.17	\$(0.25)	\$0.01
Diluted loss per share attributable to loss on discontinued operations, net of income taxes			
Diluted loss per share attributable to loss on discontinued operations, net of income taxes	(0.27)	(0.26)	(0.14)
Diluted loss per share	\$(0.10)	\$(0.51)	\$(0.13)
Diluted weighted average shares	63,607	61,365	61,367

See notes to consolidated financial statements.

56

Great Lakes Dredge & Dock Corporation and Subsidiaries

Consolidated Statements of Comprehensive Loss

For the Years Ended December 31, 2018, 2017 and 2016

(in thousands)

	2018	2017	2016
Net loss	\$(6,293)	\$(31,260)	\$(8,177)
Currency translation adjustment—net of tax (1)	1,513	(41)	508
Net unrealized (gain) loss on derivatives—net of tax (2)	(5,325)	1,189	330
Other comprehensive income (loss)—net of tax	(3,812)	1,148	838
Comprehensive loss	\$(10,105)	\$(30,112)	\$(7,339)

(1) Net of income tax (provision) benefit of (1,017), \$44 and (338) for the years ended December 31, 2018, 2017 and 2016, respectively.

(2) Net of income tax benefit of \$775, \$1,048 and \$216 for the years ended December 31, 2018, 2017 and 2016, respectively.

See notes to consolidated financial statements.

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

Great Lakes Dredge & Dock Corporation and Subsidiaries

Consolidated Statements of Equity

For the Years Ended December 31, 2018, 2017 and 2016

(in thousands)

Great Lakes Dredge & Dock Corporation shareholders

	Shares of Common Stock	Common Stock	Shares of Treasury Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE—January 1, 2016	60,709	\$ 6	(278)	(1,433)	\$283,247	\$ (27,664)	\$ (1,983)	\$252,173
Share-based compensation	148	—	—	—	2,455	—	—	2,455
Vesting of restricted stock units, including impact of shares withheld for taxes	74	—	—	—	(171)	—	—	(171)
Exercise of stock options and purchases from employee stock plans	309	—	—	—	905	—	—	905
Excess income tax benefit from share-based compensation	—	—	—	—	(133)	—	—	(133)
Net loss	—	—	—	—	—	(8,177)	—	(8,177)
Other comprehensive income—net of tax	—	—	—	—	—	—	838	838
BALANCE—December 31, 2016	61,240	\$ 6	(278)	(1,433)	\$286,303	\$ (35,841)	\$ (1,145)	\$247,890
Share-based compensation	248	—	—	—	2,963	—	—	2,963
Vesting of restricted stock units, including impact of shares withheld for taxes	147	—	—	—	(328)	—	—	(328)
Exercise of stock options and purchases from employee stock purchase plan	262	—	—	—	883	—	—	883
Net loss	—	—	—	—	—	(31,260)	—	(31,260)
Other comprehensive income—net of tax	—	—	—	—	—	—	1,148	1,148
BALANCE—December 31, 2017	61,897	\$ 6	(278)	(1,433)	\$289,821	\$ (67,101)	\$ 3	\$221,296
Cumulative effect of recent accounting pronouncements	—	—	—	—	—	(1,577)	—	(1,577)
Share-based compensation	132	—	—	—	5,425	—	—	5,425
Vesting of restricted stock units, including impact of	520	—	—	—	(1,205)	—	—	(1,205)

shares withheld for taxes

Exercise of stock options and purchases from employee stock purchase plan	281	—	—	—	1,094	—	—	1,094
Net loss	—	—	—	—	—	(6,293)	—	(6,293)
Other comprehensive loss—net of tax	—	—	—	—	—	—	(3,812)	(3,812)
BALANCE—December 31, 2016	2,830	\$ 6	(278)	\$(1,433)	\$295,135	\$(74,971)	\$(3,809)	\$214,928

See notes to consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2018, 2017 and 2016

(in thousands)

	2018	2017	2016
OPERATING ACTIVITIES:			
Net loss	\$(6,293)	\$(31,260)	\$(8,177)
Loss from discontinued operations, net of income taxes	(17,309)	(15,892)	(8,719)
Income (loss) from continuing operations	11,016	(15,368)	542
Adjustments to reconcile net loss to net cash flows provided by operating activities:			
Depreciation and amortization	50,389	55,962	54,826
Equity in loss of joint ventures	—	1,484	2,365
Loss on extinguishment of 7 3/8% senior subordinated notes	—	2,330	—
Cash distributions from joint ventures	—	340	—
Deferred income taxes	5,760	(32,836)	(494)
Loss on dispositions of property and equipment	3,731	4,789	3,089
Other non-cash restructuring items	2,337	15,678	—
Amortization of deferred financing fees	3,504	3,280	2,439
Unrealized foreign currency (gain) loss	(231)	(206)	474
Unrealized net (gain) loss from mark-to-market valuations of derivatives	—	1,747	(6,135)
Share-based compensation expense	4,643	2,917	2,651
Excess income tax benefit from share-based compensation	—	—	133
Changes in assets and liabilities:			
Accounts receivable	(8,364)	5,354	15,129
Contract revenues in excess of billings	54,881	10,939	(14,183)
Inventories	(921)	(2,163)	(6,239)
Prepaid expenses and other current assets	11,976	(1,868)	(6,583)
Accounts payable and accrued expenses	(1,480)	(16,179)	(8,813)
Billings in excess of contract revenues	7,524	(567)	(730)
Other noncurrent assets and liabilities	(3,093)	(1,658)	(3,751)
Net cash flows provided by operating activities of continuing operations	141,672	33,976	34,720
Net cash flows (used) provided in operating activities of discontinued operations	(4,019)	(12,457)	3,950
Cash provided by operating activities	137,653	21,518	38,670
INVESTING ACTIVITIES:			
Purchases of property and equipment	(49,422)	(65,996)	(82,849)
Proceeds from dispositions of property and equipment	13,880	8,586	10,049
Net cash flows used in investing activities of continuing operations	(35,542)	(57,410)	(72,800)
Net cash flows (used) provided by investing activities of discontinued operations	425	(742)	7,259
Cash used in investing activities	(35,117)	(58,152)	(65,541)

	2018	2017	2016
FINANCING ACTIVITIES:			
Proceeds from issuance of debt	—	325,000	—
Repayments of debt	(298)	(276,148)	(45,662)
7 3/8% senior notes tender premium	—	(744)	—
Deferred financing fees	—	(5,022)	(6,818)
Taxes paid on settlement of vested share awards	(1,205)	(328)	(171)
Exercise of stock options and purchases from employee stock plans	1,094	883	905
Excess income tax benefit from share-based compensation	—	—	(133)
Borrowings under revolving loans	29,000	124,925	288,611
Repayments of revolving loans	(112,500)	(134,036)	(204,500)
Net cash flows (used) provided in financing activities of continuing operations	(83,909)	34,530	32,232
Net cash flows used in financing activities of discontinued operations	(1,547)	(361)	(1,422)
Cash (used) provided in financing activities	(85,456)	34,169	30,810
Effect of foreign currency exchange rates on cash and cash equivalents	26	115	79
Net increase (decrease) in cash, cash equivalents and restricted cash	17,106	(2,350)	4,018
Cash, cash equivalents and restricted cash at beginning of period	17,352	19,702	15,684
Cash, cash equivalents and restricted cash at end of period	\$34,458	\$17,352	\$19,702
Cash and cash equivalents			
Cash and cash equivalents	\$34,458	\$15,852	\$11,167
Restricted cash included in other long-term assets	—	1,500	8,535
Cash, cash equivalents and restricted cash at end of period	\$34,458	\$17,352	\$19,702
Supplemental Cash Flow Information			
Cash paid for interest	\$30,855	\$34,789	\$26,563
Cash paid for income taxes	\$290	\$365	\$200
Non-cash Investing and Financing Activities			
Property and equipment purchased but not yet paid	\$7,303	\$4,255	\$8,795
Repayments of debt with proceeds from sale-leaseback transactions	\$13,034	\$—	\$—

See notes to consolidated financial statements.

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF December 31, 2018 AND 2017 AND FOR THE

YEARS ENDED December 31, 2018, 2017 AND 2016

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

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Great Lakes Dredge & Dock Corporation and its subsidiaries (the “Company” or “Great Lakes”) are in the business of marine construction, primarily dredging. The Company’s primary customers are domestic and foreign government agencies, as well as private entities.

Principles of Consolidation and Basis of Presentation—The consolidated financial statements include the accounts of Great Lakes Dredge & Dock Corporation and its majority-owned subsidiaries. All intercompany accounts and transactions are eliminated in consolidation. The equity method of accounting is used for investments in unconsolidated investees in which the Company has significant influence, but not control. Other investments, if any, are carried at cost.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue and Cost Recognition on Contracts— Prior to January 1, 2018, the Company measured completion based on engineering estimates of the physical percentage completed for dredging contracts. Under the new accounting principle, revenue is recognized using contract fulfillment costs incurred to date compared to total estimated costs at completion, also known as cost-to-cost, to measure progress towards completion. Additionally, the Company capitalizes certain pre-contract and pre-construction costs, and defers recognition over the life of the contract. Fixed-price contracts, which comprise substantially all of the Company’s revenue, will most often represent a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in the contracts and, therefore, not distinct. The Company’s performance obligations are satisfied over time and revenue is recognized using the cost-to-cost method, described above. Contract modifications are changes in the scope or price (or both) of a contract that are approved by the parties to the contract. The Company recognizes a contract modification when the parties to a contract approve a modification that either creates new, or changes existing, enforceable rights and obligations of the parties to the contract. Contract modifications are included in the transaction price only if it is probable that the modification estimate will not result in a significant reversal of revenue. Revisions in estimated gross profit percentages are recorded in the period during which the change in circumstances is experienced or becomes known. As the duration of most of the Company’s contracts is one year or less, the cumulative net impact of these revisions in estimates, individually and in the aggregate across our projects, does not significantly affect our results across annual reporting periods. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined.

The components of costs of contract revenues include labor, equipment (including depreciation, maintenance, insurance and long-term rentals), subcontracts, fuel, supplies, short-term rentals and project overhead. Hourly labor generally is hired on a project-by-project basis. The Company is a party to numerous collective bargaining agreements in the U.S. that govern its relationships with its unionized hourly workforce.

Effective beginning the first quarter of 2018, the Company changed the method of accounting for allocated fixed equipment costs for interim periods such that fixed equipment costs are now recognized as incurred. The Company adopted this change as a result of management's belief that the new method is preferable and results in a more objective measure of quarterly expense that will better support planning and resource allocation decisions by management. The change has been applied retrospectively. The Company's cost structure includes significant annual equipment-related costs, including depreciation, maintenance, insurance and long-term rentals. Previously, the Company allocated fixed equipment costs to interim periods in proportion to revenues recognized over the year. Specifically, at each interim reporting date the Company compared actual revenues earned to date on its dredging contracts to expected annual revenues and recognized equipment costs on the same proportionate basis. In the fourth quarter, any over or under allocated equipment costs were recognized such that the expense for the year equals actual equipment costs incurred during the year.

Classification of Current Assets and Liabilities—The Company includes in current assets and liabilities amounts realizable and payable in the normal course of contract completion, unless completion of such contracts extends significantly beyond one year.

Cash Equivalents—The Company considers all highly liquid investments with a maturity at purchase of three months or less to be cash equivalents.

Accounts Receivable—Accounts receivable represent amounts due or billable under the terms of contracts with customers, including amounts related to retainage. The Company anticipates collection of retainage generally within one year, and accordingly presents retainage as a current asset. The Company provides an allowance for estimated uncollectible accounts receivable when events or conditions indicate that amounts outstanding are not recoverable.

Inventories—Inventories consist of pipe and spare parts used in the Company’s dredging operations. Pipe and spare parts are purchased in large quantities; therefore, a certain amount of pipe and spare part inventories is not anticipated to be used within the current year and is classified as long-term. Spare part inventories are stated at weighted average historical cost, and are charged to expense when used in operations. Pipe inventory is recorded at cost and amortized to expense over the period of its use.

Property and Equipment—Capital additions, improvements, and major renewals are classified as property and equipment and are carried at depreciated cost. Maintenance and repairs that do not significantly extend the useful lives of the assets or enhance the capabilities of such assets are charged to expenses as incurred. Depreciation is recorded over the estimated useful lives of property and equipment using the straight-line method and the mid-year depreciation convention. The estimated useful lives by class of assets are:

Class	Useful Life (years)
Buildings and improvements	10
Furniture and fixtures	5-10
Vehicles, dozers, and other light operating equipment and systems	3-5
Heavy operating equipment (dredges and barges)	10-30

Leasehold improvements are amortized over the shorter of their remaining useful lives or the remaining terms of the leases.

Goodwill and Other Intangible Assets—Goodwill represents the excess of acquisition cost over fair value of the net assets acquired. Other identifiable intangible assets may represent developed technology and databases, customer relationships, and customer contracts acquired in business combinations. Goodwill is tested annually for impairment in the third quarter of each year, or more frequently should circumstances dictate. GAAP requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The Company assesses the fair values of its reporting unit using both a market-based approach and an income-based approach. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows. The income approach is dependent on a number of factors, including estimates of future market growth trends, forecasted revenues and expenses, appropriate discount rates and other variables. The estimates are based on assumptions that the Company believes to be reasonable, but such assumptions are subject to unpredictability and uncertainty. Changes in these estimates and assumptions could materially affect the determination of fair value, and may result in the impairment of goodwill in the event that actual results differ from those estimates.

The market approach measures the value of a reporting unit through comparison to comparable companies. Under the market approach, the Company uses the guideline public company method by applying estimated market-based enterprise value multiples to the reporting unit’s estimated revenue and Adjusted EBITDA. The Company analyzes

companies that performed similar services or are considered peers. Due to the fact that there are no public companies that are direct competitors, the Company weighs the results of this approach less than the income approach.

The Company has one operating segment which is also the Company's one reportable segment and reporting unit of which the Company tests goodwill for impairment. The historical environmental & infrastructure segment has been retrospectively presented as discontinued operations and assets and liabilities held for sale and is no longer reflected in continuing operations. The Company performed its most recent annual test of impairment as of July 1, 2018 with no indication of impairment as of the test date. The Company will perform its next scheduled annual test of goodwill in the third quarter of 2019 should no triggering events occur which would require a test prior to the next annual test.

Long-Lived Assets—Long-lived assets are comprised of property and equipment and intangible assets subject to amortization. Long-lived assets to be held and used are reviewed for possible impairment whenever events indicate that the carrying amount of such assets may not be recoverable by comparing the undiscounted cash flows associated with the assets to their carrying amounts. If such a review indicates an impairment, the carrying amount would be reduced to fair value. No triggering events were identified in 2018 or

2017. If long-lived assets are to be disposed, depreciation is discontinued, if applicable, and the assets are reclassified as held for sale at the lower of their carrying amounts or fair values less estimated costs to sell.

Self-insurance Reserves—The Company self-insures costs associated with its seagoing employees covered by the provisions of Jones Act, workers' compensation claims, hull and equipment liability, and general business liabilities up to certain limits. Insurance reserves are established for estimates of the loss that the Company may ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. In determining its estimates, the Company considers historical loss experience and judgments about the present and expected levels of cost per claim. Trends in actual experience are a significant factor in the determination of such reserves.

Income Taxes—The provision for income taxes includes federal, foreign, and state income taxes currently payable and those deferred because of temporary differences between the financial statement and tax basis of assets and liabilities. Recorded deferred income tax assets and liabilities are based on the estimated future tax effects of differences between the financial and tax basis of assets and liabilities, given the effect of currently enacted tax laws. In 2017, the U.S. government enacted comprehensive tax legislation referred to as the Tax Cuts and Jobs Act. Refer to Note 7, Income Taxes.

Hedging Instruments—At times, the Company designates certain derivative contracts as a cash flow hedge as defined by GAAP. Accordingly, the Company formally documents, at the inception of each hedge, 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 highly-probable forecasted transactions.

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 may be 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 for forecasted future 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, it would be on a prospective basis and any hedges in place would be recognized in accumulated other comprehensive income (loss) until all the related forecasted transactions are completed or are probable of not occurring.

Foreign Currency Translation—The financial statements of the Company's foreign subsidiaries where the operations are primarily denominated in the foreign currency are translated into U.S. dollars for reporting. Balance sheet accounts are translated at the current foreign exchange rate at the end of each period and income statement accounts are translated at the average foreign exchange rate for each period. Gains and losses on foreign currency translations are reflected as a currency translation adjustment, net of tax, in accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in other income (expense). During 2018, the Company substantially completed the liquidation of the investment in its Brazil and Australia operations. Refer to Note 6, Fair Value Measurements, for further discussion of the closeout.

Recent Accounting Pronouncements—The Company adopted Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequently issued other Accounting Standard Updates related to Accounting Standards Codification Topic 606 (collectively, “ASC 606”) on January 1, 2018 under the modified retrospective method such that the cumulative effect is recognized at the date of initial application. The adoption of ASC 606 resulted in a change in the timing of recognition of both contract revenue and costs from our prior practices. Upon the adoption of ASC 606, the Company recorded a cumulative net adjustment of \$1,950 to the beginning retained earnings balance. Refer to Note 9, Revenue, for further discussion of the adoption of ASC 606.

The Company adopted Accounting Standard Update No. 2016-18 (“ASU 2016-18”), Statement of Cash Flows (Topic 230): Restricted Cash on January 1, 2018. The amendments require that the statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore amounts generally described as restricted cash or restricted cash equivalents should be included with the cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The impact of the adoption of ASU 2016-18 has been applied retrospectively and the prior periods presented have been recast.

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update No. 2018-02 (“ASU 2018-02”), Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The new guidance allows entities to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the Tax Cut and Jobs Act. The Company elected to early adopt ASU 2018-02 during the quarter ended March 31, 2018.

In January 2017, the FASB issued Accounting Standard Update No. 2017-04 (“ASU 2017-04”), Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendment removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. The guidance is effective for fiscal years beginning after December 15, 2019. The Company does not anticipate that the adoption of ASU 2017-04 will have a material effect on the Company’s consolidated financial statements.

In February 2016, the FASB issued Accounting Standard Update No. 2016-02 (“ASU 2016-02”), Leases (Topic 842) and subsequently issued other Accounting Standard Updates related to the Accounting Standards Codification Topic 842 (collectively, “ASC 842”). The FASB issued ASC 842 to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. The Company adopted ASC 842 as of January 1, 2019 using the package of practical expedients that allow entities to retain the classification of lease contracts existing as of the date of adoption. Further, the Company adopted ASC 842 using the transition method under which entities initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this method, the comparative periods presented in the financial statements prior to the adoption date would not be adjusted to apply ASC 842. The Company expects the adoption of ASC 842 to result in a material increase of approximately \$80,000 to \$90,000 to assets and liabilities on its consolidated balance sheets. The Company does not anticipate the adoption of ASC 842 to have a material effect on its consolidated statements of operations and statements of cash flows.

2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to common stockholders 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.

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

The computations for basic and diluted earnings (loss) per share for the years ended December 31, 2018, 2017 and 2016 are as follows:

(shares in thousands)	2018	2017	2016
Income (loss) from continuing operations	11,016	(15,368)	542
Loss on discontinued operations, net of income taxes	(17,309)	(15,892)	(8,719)
Net loss	\$(6,293)	\$(31,260)	\$(8,177)
Weighted-average common shares outstanding — basic	62,236	61,365	60,744
Effect of stock options and restricted stock units	1,371	—	623
Weighted-average common shares outstanding — diluted	63,607	61,365	61,367
Earnings (loss) per share from continuing operations — basic	\$0.18	\$(0.25)	\$0.01
Earnings (loss) per share from continuing operations — diluted	\$0.17	\$(0.25)	\$0.01

For the years ended December 31, 2018, 2017 and 2016 the following amounts of stock options (“NQSO”) and restricted stock units (“RSU”) were excluded from the diluted weighted-average common shares outstanding as the Company incurred a loss during these periods:

(shares in thousands)	2018	2017	2016
Effect of stock options and restricted stock units	—	716	—

For the years ended December 31, 2018, 2017 and 2016 the following amounts of NQSOs and RSUs were excluded from the calculation of diluted earnings per share based on the application of the treasury stock method, as such NQSOs and RSUs were determined to be anti-dilutive:

(shares in thousands)	2018	2017	2016
Effect of stock options and restricted stock units	1,285	2,476	1,594

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 are as follows:

2018	2017
------	------

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

Land	\$9,992	\$9,992
Buildings and improvements	5,071	5,071
Furniture and fixtures	14,087	12,453
Operating equipment	710,128	783,211
Total property and equipment	739,278	810,727
Accumulated depreciation	(369,415)	(413,802)
Property and equipment — net	\$369,863	\$396,925

Operating equipment of \$3,537 and \$8,460 was classified as held for sale, excluded from property and equipment, as of December 31, 2018 and 2017, respectively.

Depreciation expense was \$50,389, \$55,962 and \$54,826, for the years ended December 31, 2018, 2017 and 2016, respectively.

For more information about changes in assets held for sale and depreciation expense related to the Company's restructuring refer to Note 11, Restructuring Charges.

4. ACCRUED EXPENSES

Accrued expenses at December 31, 2018 and 2017 are as follows:

	2018	2017
Payroll and employee benefits	\$ 15,298	\$ 7,658
Insurance	13,724	21,943
Fuel hedge contracts	4,710	—
Interest	3,448	4,210
Contract reserves	1,709	2,720
Income and other taxes	1,175	1,764
Accrued rent	496	6,519
Other	7,791	7,112
Total accrued expenses	\$ 48,351	\$ 51,926

5. LONG-TERM DEBT

Long-term debt at December 31, 2018 and 2017 is as follows:

	2018	2017
Revolving credit facility	\$ 11,500	\$ 95,000
Notes payable	—	13,296
8% senior notes	321,950	321,057
Subtotal	333,450	429,353
Current portion of revolving credit facility	(11,500)	—
Current portion of notes payable	—	(1,212)
Total	\$ 321,950	\$ 428,141

Credit agreement

On December 30, 2016, the Company, Great Lakes Dredge & Dock Company, LLC, NASDI Holdings, LLC, Great Lakes Dredge & Dock Environmental, Inc., Great Lakes Environmental & Infrastructure Solutions, LLC and Great Lakes Environmental & Infrastructure, LLC (collectively, the "Credit Parties") entered into a revolving credit and

security agreement, as subsequently amended, (the “Credit Agreement”) with certain financial institutions from time to time party thereto as lenders, PNC Bank, National Association, as Agent, PNC Capital Markets, CIBC Bank USA, Suntrust Robinson Humphrey, Inc., Capital One, National Association and Bank of America, N.A., as Joint Lead Arrangers and Joint Bookrunners, Texas Capital Bank, National Association, as Syndication Agent and Woodforest National Bank, as Documentation Agent. The Credit Agreement, which replaced the Company’s former revolving credit agreement, provides for a senior secured revolving credit facility in an aggregate principal amount of up to \$250,000, subfacilities for the issuance of standby letters of credit up to a \$250,000 sublimit and swingline loans up to a \$25,000 sublimit. The maximum borrowing capacity under the Credit Agreement is determined by a formula and may fluctuate depending on the value of the collateral included in such formula at the time of determination. The Credit Agreement also includes an increase option that will allow the Company to increase the senior secured revolving credit facility by an aggregate principal amount of up to \$100,000. This increase is subject to lenders providing incremental commitments for such increase, the Credit Parties having adequate borrowing capacity and provided that no default or event of default exists both before and after giving effect to such incremental commitment increase.

The Credit Agreement also provides for certain actions contemplated in the plan of restructuring with respect to the Company’s 2017 and 2018 fiscal years including allowing up to an aggregate of \$20 million of expenses related to the buy-out of operating leases and allowing capital expenditures planned but not incurred by all Credit Parties in fiscal year 2017 to be carried forward to fiscal year 2018; provided that, the aggregate amount of all capital expenditures incurred by all Credit Parties in fiscal years 2017 and 2018 does not exceed \$135 million. Additionally, the Credit Agreement contains acknowledgments and agreements from the Agent and the required lenders with respect to certain EBITDA add-backs for fiscal years 2017 and 2018 described therein.

The Credit Agreement contains customary representations and affirmative and negative covenants, including a springing financial covenant that requires the Credit Parties to maintain a fixed charge coverage ratio (ratio of earnings before income taxes, depreciation and amortization, net interest expenses, non-cash charges and losses and certain other non-recurring charges, minus capital expenditures, income and franchise taxes, to net cash interest expense plus scheduled cash principal payments with respect to debt plus restricted payments paid in cash) of not more than 1.10 to 1.00. The Company is required to maintain this ratio if its availability under the Credit Agreement falls below \$31,250 for five consecutive days or \$25,000 for one day. The Credit Parties are also restricted in the amount of capital expenditures they may make in each of the next three fiscal years. The Credit Agreement also contains customary events of default (including non-payment of principal or interest on any material debt and breaches of covenants) as well as events of default relating to certain actions by the Company's surety bonding providers. The obligations of the Credit Parties under the Credit Agreement will be unconditionally guaranteed, on a joint and several basis, by each existing and subsequently acquired or formed material direct and indirect domestic subsidiary of the Company. Borrowings under the Credit Agreement have been or will be used to refinance existing indebtedness under the Company's former revolving credit agreement, refinance existing indebtedness under the Company's former term loan agreement, pay fees and expenses related to the Credit Agreement, finance acquisitions permitted under the Credit Agreement, finance ongoing working capital and for other general corporate purposes. The Credit Agreement matures on December 30, 2019.

The obligations under the Credit Agreement are secured by substantially all of the assets of the Credit Parties. The outstanding obligations thereunder shall be secured by a valid first priority perfected lien on substantially all of the vessels of the Credit Parties and a valid perfected lien on all domestic accounts receivable and substantially all other assets of the Credit Parties, subject to the permitted liens and interests of other parties (including the Company's surety bonding provider).

Interest on the senior secured revolving credit facility of the Credit Agreement is equal to either a Base Rate option or LIBOR option, at the Company's election. The Base Rate option is (1) the base commercial lending rate of PNC Bank, National Association, as publically announced plus (2)(a) an interest margin of 2.0% or (b) after the date on which a borrowing base certificate is required to be delivered under Section 9.2 of the Credit Agreement (commencing with the fiscal quarter ending December 31, 2017, the "Adjustment Date"), an interest margin ranging between 1.5% and 2.0% depending on the quarterly average undrawn availability on the senior secured revolving credit facility. The LIBOR option is the sum of (1) LIBOR and (2) (a) an interest margin of 3.0% or (b) after the Adjustment Date, an interest rate margin ranging between 2.5% to 3.0% per annum depending on the quarterly average undrawn availability on the senior secured revolving credit facility. The Credit Agreement is subject to an unused fee ranging from 0.25% to 0.375% per annum depending on the amount of average daily outstandings under the senior secured revolving credit facility.

As of December 31, 2018, the Company had \$11,500 of borrowings on the revolver and \$37,749 of letters of credit outstanding, resulting in \$174,555 of availability under the Credit Agreement. The availability under the Credit Agreement is suppressed by \$26,196 as of December 31, 2018 as a result of certain limitations set forth in the Credit Agreement.

Prior revolving credit agreement and term loan facility

In conjunction with the Credit Agreement entered into on December 30, 2016, the senior revolving credit agreement with an aggregate principal amount of up to \$199,000 and the senior secured term loan facility consisting of a term loan in an aggregate principal amount of \$50,000 was paid in full. Depending on the Company's consolidated leverage ratio, previous borrowings under the revolving credit facility bore interest at the option of the Company at either a LIBOR rate plus a margin of between 1.50% to 2.50% per annum or a base rate plus a margin of between 0.50% to 1.50% per annum. The previous borrowings under the term loan facility bore interest at a fixed rate of 4.655% per annum.

Senior notes and subsidiary guarantors

The Company has outstanding \$325,000 of 8.000% senior notes ("8% Senior Notes") due May 15, 2022. In May 2017, the Company issued the 8% Senior Notes at 100% of face value resulting in net proceeds of \$321,653, net of underwriting fees. In connection with the issuance of the 8% Senior Notes, the Company retired all of its \$275,000 of 7.375% senior notes due February 2019 for \$282,638, which included a tender premium and accrued and unpaid interest. The Company used the remaining net proceeds from the debt offering to reduce the Company's indebtedness under its Credit Agreement.

The Company's obligations under these Senior Notes are guaranteed by certain of the Company's 100% owned domestic subsidiaries. Such guarantees are full, unconditional and joint and several. The parent company issuer has no independent assets or operations and all non-guarantor subsidiaries have been determined to be minor.

Other

The Company enters into note arrangements to finance certain vessels and ancillary equipment. In February 2018, the Company completed a sale-leaseback of a vessel yielding net proceeds of \$4,500. Included in this transaction was the retirement of the asset and related equipment note, and the transaction resulted in a deferred gain.

The scheduled principal payments through the maturity date of the Company's long-term debt, excluding equipment notes and capital leases, at December 31, 2018, are as follows:

Years Ending December 31,	
2019	\$ 11,500
2020	—
2021	—
2022	325,000
2023	—
Thereafter	—
Total	\$ 336,500

The Company incurred amortization of deferred financing fees for its long term debt of \$3,504, \$3,280 and \$2,438 for each of the years ended December 31, 2018, 2017 and 2016. Such amortization is recorded as a component of interest expense.

6. FAIR VALUE MEASUREMENTS

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

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

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

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

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. At times, the Company holds certain derivative contracts that it uses to manage foreign currency risk or commodity price risk. The Company does not hold or issue derivatives for speculative or trading purposes. The fair values of these financial instruments are summarized as follows:

Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for					
		Identifiable Assets	Significant Observable Inputs (Level 1) (Level 2)	Other Significant Unobservable Inputs (Level 3)	Significant Unobservable Inputs (Level 3)
Description	At December 31, 2018				
Fuel hedge contracts	\$ 4,710	\$ —	\$ 4,710	\$	—

Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for					
		Identifiable Assets	Significant Observable Inputs (Level 1) (Level 2)	Other Significant Unobservable Inputs (Level 3)	Significant Unobservable Inputs (Level 3)
Description	At December 31, 2017				
Fuel hedge contracts	\$ 2,501	\$ —	\$ 2,501	\$	—

Foreign exchange contracts

The Company has various exposures to foreign currencies that fluctuate in relation to the U.S. dollar. The Company periodically enters into foreign exchange forward contracts to hedge this risk. At December 31, 2018 and 2017 there were no outstanding contracts.

Fuel hedge contracts

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

As of December 31, 2018, the Company was party to various swap arrangements to hedge the price of a portion of its diesel fuel purchase requirements for work in its backlog to be performed through December 2019. As of December 31, 2018, there were 7.8 million gallons remaining on these contracts which represent approximately 80% of the Company's forecasted domestic fuel purchases through December 2019. Under these swap agreements, the Company will pay fixed prices ranging from \$1.91 to \$2.34 per gallon.

At December 31, 2018, the fair value liability of the fuel hedge contracts was estimated to be \$4,710 and is recorded in accrued expenses. At December 31, 2017, the fair value asset of the fuel hedge contracts was estimated to be \$2,501, and is recorded in other current assets. For fuel hedge contracts considered to be highly effective, the gains reclassified to earnings from changes in fair value of derivatives, net of cash settlements and taxes, for the year ended December 31, 2018 were \$1,569. The remaining gains and losses included in the accumulated other comprehensive income (loss) at December 31, 2018 will be reclassified into earnings over the next twelve months, corresponding to the period during which the hedged fuel is expected to be utilized. Changes in the fair value of fuel hedge contracts not considered highly effective are recorded as cost of contract revenues in the Statement of Operations. The fair value of fuel hedges are corroborated using inputs that are readily observable in public markets; therefore, the Company determines fair values of these fuel hedges using Level 2 inputs.

The Company is exposed to counterparty credit risk associated with non-performance of its various derivative 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.

The fair value of the fuel hedge contracts outstanding as of December 31, 2018 and 2017 is as follows:

	Balance Sheet Location	Fair Value at December 31,	
		2018	2017
Asset derivatives:			
Derivatives designated as hedging instruments			
Fuel hedge contracts	Other current assets	\$—	\$2,501
Liability derivatives:			
Derivatives designated as hedging instruments			
Fuel hedge contracts	Accrued expenses	\$4,710	\$—

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

Assets and liabilities measured at fair value on a nonrecurring basis

All other nonfinancial assets and liabilities measured at fair value in the financial statements on a nonrecurring basis are subject to fair value measurements and disclosures. Nonfinancial assets and liabilities included in our consolidated balance sheets and measured on a nonrecurring basis consist of goodwill and long-lived assets, including other acquired intangibles. Assets included within assets held for sale are reclassified from property and equipment at fair value less cost to sell. Goodwill and long-lived assets are measured at fair value to test for and measure impairment, if any, at least annually for goodwill or when necessary for both goodwill and long-lived assets.

Accumulated other comprehensive income (loss)

Changes in the components of the accumulated balances of other comprehensive income (loss) are as follows:

	2018	2017	2016
Cumulative translation adjustments—net of tax	\$1,513	\$(41)	\$508
Derivatives:			
Reclassification of derivative (gains) losses to earnings—net of tax	(1,569)	(218)	30
Change in fair value of derivatives—net of tax	(3,756)	1,407	300
Net unrealized (gain) loss on derivatives—net of tax	(5,325)	1,189	330
Total other comprehensive income (loss)	\$(3,812)	\$1,148	\$838

Adjustments reclassified from accumulated balances of other comprehensive income (loss) to earnings are as follows:

	Statement of Operations Location	2018	2017	2016
Derivatives:				
Fuel hedge contracts	Costs of contract revenues	\$(2,125)	\$(358)	\$50
	Income tax (provision) benefit	(556)	140	20
		\$(1,569)	\$(218)	\$30

The Company substantially completed the liquidation of the investment in its Brazil and Australia operations during 2018. This liquidation resulted in the reversal of the Company's cumulative translation adjustment. Adjustments reclassified from accumulated balances of other comprehensive income (loss) to earnings are as follows:

	Statement of Operations Location	2018	2017	2016
Cumulative translation adjustment:	Other expense	\$ (2,337)	\$ —	\$ —
	Income tax benefit	612	—	—
		\$ (1,725)	\$ —	\$ —

Other financial instruments

The carrying value of financial instruments included in current assets and current liabilities approximates fair value due to the short-term maturities of these instruments. Based on timing of the cash flows and comparison to current market interest rates, the carrying value of our senior revolving credit agreement approximates fair value. In May 2017, the Company issued a total of \$325,000 of 8.000% senior notes due May 15, 2022, which were outstanding at December 31, 2018 (See Note 5, Long-Term Debt). The 8% Senior Notes are senior unsecured obligations of the Company and its subsidiaries that guarantee the Senior Notes. The fair value of the senior notes was \$330,281 at December 31, 2018, which is a Level 1 fair value measurement as the senior notes value was obtained using quoted prices in active markets. It is impracticable to determine the fair value of outstanding letters of credit or performance, bid and payment bonds due to uncertainties as to the amount and timing of future obligations, if any.

7. INCOME TAXES

The Company's income tax benefit from continuing and discontinued operations for the year ended December 31, 2018 is as follows:

	2018	2017	2016
Income tax provision (benefit) from continuing operations	\$5,437	\$(33,761)	\$(177)
Income tax benefit from discontinued operations	(6,162)	(10,052)	(5,615)
Income tax benefit	\$(725)	\$(43,813)	\$(5,792)

The Company's income (loss) from continuing operations before income tax from domestic and foreign continuing operations for the years ended December 31, 2018, 2017 and 2016 is as follows:

	2018	2017	2016
Domestic operations	\$26,878	\$(12,263)	\$12,039
Foreign operations	(10,425)	(36,866)	(11,674)
Total income (loss) from continuing operations before income tax	\$16,453	\$(49,129)	\$365

The provision (benefit) for income taxes from continuing operations as of December 31, 2018, 2017 and 2016 is as follows:

	2018	2017	2016
Federal:			
Current	\$—	\$(248)	\$260
Deferred	3,702	(31,957)	(129)
State:			
Current	48	29	54
Deferred	1,687	(1,598)	(508)
Foreign:			
Current	—	13	146
Deferred	—	—	—
Total	\$5,437	\$(33,761)	\$(177)

The Company's income tax benefit from continuing operations reconciles to the provision at the statutory U.S. federal income tax rate of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016 as follows:

	2018	2017	2016
Tax provision (benefit) at statutory U.S. federal income tax rate	\$3,455	\$(17,194)	\$128
State income tax — net of federal income tax benefit	937	(1,746)	(227)

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

Impact of Tax Cuts and Job Act	—	(15,720)	—
Change in state law regarding NOL carryforwards	658	—	—
Nondeductible officer compensation	201	—	—
Change in deferred state tax rate	—	—	(1,043)
Research and development tax credits	(218)	(170)	(253)
Changes in unrecognized tax benefits	14	10	10
Changes in valuation allowance	116	1,152	821
Other	274	(93)	387
Income tax provision (benefit)	\$5,437	\$(33,761)	\$(177)

On December 22, 2017, the U.S. government enacted comprehensive tax legislation referred to as the Tax Act. The Tax Act makes broad and complex changes to the U.S. tax code, including but not limited to (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (AMT); (6) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; (7) creating a new limitation on deductible interest

expense; and (8) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The Company completed its calculation of the income tax effect of the Tax Act for the year ended December 31, 2017, from continuing operations. As the Company was in a net deferred tax liability position as of the date of enactment of the Tax Act, the impact to the Company was a deferred income tax benefit of \$15,720, primarily as a result of the reduction in the U.S. federal income tax rate. The other changes in tax law do not materially impact the Company for the year.

At December 31, 2018 and 2017, the Company had loss carryforwards for federal income tax purposes of \$168,650 and \$207,875 respectively, which expire between 2034 and 2037.

At December 31, 2018 and 2017, the Company had gross net operating loss carryforwards for state income tax purposes totaling \$190,901 and \$209,877, respectively, which expire between 2023 and 2028. Due to changes in state tax law enacted during the year in a certain state, a valuation allowance in the amount of \$767 was established in 2016 for state net operating loss carryforwards. In 2017, the valuation allowance was increased by \$1,152 and by \$116 in 2018.

The Company also has foreign gross net operating loss carryforwards of approximately \$9,533 and \$7,637 as of December 31, 2018 and 2017, of which \$2,876 expires between 2018 and 2028. The remaining amount of \$6,657 may be carried forward indefinitely. At December 31, 2018 and 2017, a full valuation allowance has been established for the deferred tax asset of \$2,338 and \$1,962 related to foreign net operating loss carryforwards, respectively, as the Company believes it is more likely than not that the net operating loss carryforwards will not be realized.

As of December 31, 2018 and 2017, the Company had \$157 in unrecognized tax benefits, the recognition of which would have an impact of \$124 on the effective tax rate.

The Company does not expect that total unrecognized tax benefits will significantly increase or decrease within the next 12 months. Below is a tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of each period.

	2018	2017	2016
Unrecognized tax benefits — January 1	\$157	\$157	\$157
Gross increases — tax positions in prior period	—	—	—
Gross increases — current period tax positions	—	—	—
Gross decreases — expirations	—	—	—
Gross decreases — tax positions in prior period	—	—	—
Unrecognized tax benefits — December 31,	\$157	\$157	\$157

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2018 and 2017, the Company had approximately \$71 and \$53, respectively, of interest and penalties recorded.

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 2015 are closed and no longer subject to examination. In 2016, the Internal Revenue Service completed an examination of the Company's 2011 and 2012 U.S. federal income tax returns. The examinations

did not result in any material adjustments. With few exceptions, the statute of limitations in state taxing jurisdictions in which the Company operates has expired for all years prior to 2014. In foreign jurisdictions in which the Company operates, years prior to 2013 are closed and are no longer subject to examination.

The Company's deferred tax assets (liabilities) at December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets:		
Accrued liabilities	\$9,287	\$8,119
Federal NOLs	35,417	43,654
Foreign NOLs	2,338	1,962
State NOLs	10,796	12,382
Tax credit carryforwards	2,159	1,941
Charitable contribution	910	1,340
Valuation allowance	(4,786)	(4,294)
Total deferred tax assets	56,121	65,104
Deferred tax liabilities:		
Depreciation and amortization	(78,967)	(89,966)
Other liabilities	—	(699)
Total deferred tax liabilities	(78,967)	(90,665)
Net noncurrent deferred tax liabilities	\$(22,846)	\$(25,561)

Deferred tax assets relate primarily to reserves and other liabilities for costs and expenses not currently deductible for tax purposes as well as net operating loss and other carryforwards. Deferred tax liabilities relate primarily to the cumulative difference between book depreciation and amounts deducted for tax purposes. The Company evaluates its ability to realize deferred tax assets by considering all available positive and negative evidence. This evidence includes the Company's cumulative earnings or losses in recent years. The Company further considers the impact on these cumulative earnings or losses of discontinued operations and other divested operations and joint ventures, restructuring charges and other nonrecurring adjustments that are not indicative of the Company's ability to generate taxable income in future periods. The Company also considers sources of taxable income, such as the amount and timing of realization of its deferred tax liabilities relative to the timing of expiration of loss carryforwards. When it is estimated to be more likely than not that all or some portion of deferred tax assets will not be realized, the Company establishes a valuation allowance for the amount of such deferred tax assets considered to be unrealizable. After evaluating the positive and negative evidence for future realization of deferred tax assets, the Company recorded valuation allowances for foreign net operating loss carryforwards, foreign tax credits and certain state net operating loss carryforwards to reduce the balance of these deferred tax assets at December 31, 2018 and 2017 as it was more likely than not that the balance of these tax items would not be realized. By contrast, after evaluating the positive and negative evidence, the Company concluded that it was more likely than not that the deferred federal income tax asset recorded at December 31, 2018 and 2017 would ultimately be realized and determined that no valuation allowance was required.

8. SHARE-BASED COMPENSATION

The Company's 2017 Long-Term Incentive Plan ("Incentive Plan") permits the granting of stock options, stock appreciation rights, restricted stock and restricted stock units to its employees and directors for up to 3.3 million shares of common stock, plus an additional 1.7 million shares underlying equity awards issued under the 2007 Long-Term Incentive Plan. The Company may also issue share-based compensation as inducement awards to new employees upon approval of the Board of Directors.

Compensation cost charged to expense related to share-based compensation arrangements was \$4,643, \$2,917 and \$2,651, for the years ended December 31, 2018, 2017 and 2016, respectively.

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 ten 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 from historical exercise data providing a reasonable basis upon which to estimate the expected life. The volatility assumptions were based on historical volatility of Great Lakes. There is not an active market for options on the Company's common stock and, as such, implied volatility for the

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

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. No NQSO awards were granted in 2018, 2017 and 2016.

A summary of stock option activity under the Incentive Plan as of December 31, 2018, and changes during the year ended December 31, 2018, is presented below:

Options	Weighted Average		Weighted-Average	
	Shares	Exercise Price	Remaining	Aggregate Intrinsic
Outstanding as of January 1, 2018	1,377	\$ 6.34		
Granted	—	—		
Exercised	(62)	4.78		
Forfeited or Expired	(155)	5.60		
Outstanding as of December 31, 2018	1,160	\$ 6.52	2.8	\$ 646
Vested at December 31, 2018	1,160	\$ 6.52	2.8	\$ 646

Restricted stock units

RSUs can either vest in equal portions over the three year vesting period or 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 December 31, 2018, and changes during the year ended December 31, 2018, is presented below:

Nonvested Restricted Stock Units	Weighted-Average	
	Shares	Grant-Date Fair Value
Outstanding as of January 1, 2018	2,196	\$ 5.06
Granted	2,051	4.83
Vested	(758)	4.95
Forfeited	(501)	5.44
Outstanding as of December 31, 2018	2,988	\$ 4.88
Expected to vest at December 31, 2018	2,084	\$ 4.63

As of December 31, 2018, there was \$4,827 of total unrecognized compensation cost related to non-vested RSUs granted under the Plan. That cost for non-vested RSUs is expected to be recognized over a weighted-average period of 1.9 years.

The Incentive Plan permits the employee to use vested shares from RSUs to satisfy the grantee's U.S. federal income tax liability resulting from the issuance of the shares through the Company's retention of that number of common shares having a market value as of the vesting date equal to such tax obligation up to the minimum statutory withholding requirements. The amount related to shares used for such tax withholding obligations was approximately \$1,205 and \$328 for the years ended December 31, 2018 and 2017, respectively.

Director compensation

The Company uses a combination of cash and share-based compensation to attract and retain qualified candidates to serve on our Board of Directors. Compensation is paid to non-employee directors. Directors who are employees receive no additional compensation for services as members of the Board or any of its committees. Share-based compensation is paid pursuant to the Incentive Plan. Each non-employee director of the Company receives an annual retainer of \$155, payable quarterly in arrears, and is generally paid 50% in cash and 50% in common stock or deferred restricted stock units of the Company. Directors may elect to receive some or all of the cash retainer in common stock or deferred restricted stock units. In 2018, the Chairman of the Board received an additional \$100 of annual compensation, paid 100% in common stock.

In the years ended December 31, 2018, 2017 and 2016, 156 thousand, 207 thousand and 86 thousand shares, respectively, of the Company's common stock or restricted stock units were issued to non-employee directors under the Incentive Plan.

9. REVENUE

The Company's revenue is derived from contracts for services with federal, state, local and foreign governmental entities and private customers. Revenues are generally derived from the enhancement or preservation of navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock.

Prior to January 1, 2018, the Company measured completion based on engineering estimates of the physical percentage completed for dredging contracts. Under the new accounting principle, the Company measures progress toward completion on all contracts utilizing the cost-to-cost method. Additionally, the Company capitalizes certain pre-contract and pre-construction costs, and defers recognition over the life of the contract. At December 31, 2018, the impact of this change in accounting principle on the Consolidated Balance Sheets is as follows:

	December 31, 2018
ASSETS	
Contract revenues in excess of billings	\$(18,334)
Other current assets	8,953
Other	4,176
LIABILITIES AND EQUITY	
Accrued expenses	(5,306)
Billings in excess of contract revenues	5,834
Deferred taxes	(1,468)
Accumulated deficit	\$(4,265)

For the year ended December 31, 2018, the impact of this change in accounting principle on the Consolidated Statements of Operations is as follows:

	2018
Contract revenues	\$(14,696)
Cost of contract revenues	(11,360)
Income tax benefit	867
Loss from continuing operations	(2,469)
Net loss	\$(2,469)
Comprehensive loss	\$(2,469)

Performance obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account upon which the Company's revenue is calculated. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue as the performance obligation is satisfied. Fixed-price contracts, which comprise substantially all of the Company's revenue, will most often represent a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in the contracts and, therefore, not distinct.

The Company capitalizes certain pre-contract and pre-construction costs, and defers recognition over the life of the contract. The Company's performance obligations are satisfied over time and revenue is recognized using contract fulfillment costs incurred to date compared to total estimated costs at completion, also known as cost-to-cost, to measure progress towards completion. As the Company's performance creates an asset that customer controls, this method provides a faithful depiction of the transfer of an asset to the customer. Generally, the Company has an enforceable right to payment for performance completed to date.

The Company typically satisfies its performance obligations upon completion of service. The majority of the Company's contracts are completed in a year or less. At December 31, 2018, the Company had \$707,091 of remaining performance obligations, which the Company refers to as total backlog. Approximately 76% of the Company's backlog will be completed in 2019 with the remaining balance expected to be completed by 2020.

Transaction price

The transaction price is calculated using the Company's estimated costs to complete a project. These costs are based on the types of equipment required to perform the specified service, project site conditions, the estimated project duration, seasonality, location and complexity of a project.

The nature of the Company's contracts gives rise to several types of variable consideration, including pay on quantity dredged for dredging projects and contract modifications for both dredging and environmental & infrastructure projects. Estimated pay quantity is the amount of material the Company expects to dredge for which it will receive payment. Estimated quantity to be dredged is calculated using engineering estimates based on current survey data and the Company's knowledge based on historical project experience. Contract modifications are changes in the scope or price (or both) of a contract that are approved by the parties to the contract. The Company recognizes a contract modification when the parties to a contract approve a modification that either creates new, or changes existing, enforceable rights and obligations of the parties to the contract. Contract modifications are included in the transaction price only if it is probable that the modification estimate will not result in a significant reversal of revenue. Contract modifications are routine in the performance of the Company's contracts. In most instances, contract modifications are for services that are not distinct, and, therefore, are accounted for as part of the existing contract.

Revisions in estimated gross profit percentages are recorded in the period during which the change in circumstances is experienced or becomes known. As the duration of most of the Company's contracts is one year or less, the cumulative net impact of these revisions in estimates, individually and in the aggregate across our projects, does not significantly affect our results across annual reporting periods. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined.

Revenue by category

Domestically, our work generally is performed in coastal waterways and deep water ports. The U.S. dredging market consists of four primary types of work: capital, coastal protection, maintenance and rivers & lakes. Foreign projects typically involve capital work.

The following table sets forth, by type of work, the Company's contract revenues for the years ended December 31, 2018, 2017 and 2016:

Revenues	2018	2017	2016
Capital—U.S.	\$333,037	\$185,113	\$219,914
Capital—foreign	14,088	42,306	59,413

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

Coastal protection	175,923	191,070	215,041
Maintenance	53,427	134,923	92,274
Rivers & lakes	44,320	38,747	50,826
Total revenues	\$620,795	\$592,159	\$637,468

The following table sets forth, by type of customer, the Company's contract revenues for the years ended December 31, 2018, 2017 and 2016:

Revenues	2018	2017	2016
Federal government	\$468,421	\$375,276	\$409,941
State and local government	93,499	145,196	126,395
Private	44,787	29,381	41,719
Foreign	14,088	42,306	59,413
Total revenues	\$620,795	\$592,159	\$637,468

Foreign dredging revenue was \$14,088, \$42,306 and \$59,413 for the years ended December 31, 2018, 2017 and 2016 respectively, and was mostly attributable to work done in the Middle East.

Contract balances

Billings on contracts are generally submitted after verification with the customers of physical progress and are recognized as accounts receivable in the balance sheet. For billings that do not match the timing of revenue recognition, the difference between

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

amounts billed and recognized as revenue is reflected in the balance sheet as either contract revenues in excess of billings or billings in excess of contract revenues. Certain pre-contract and pre-construction costs are capitalized and reflected as contract assets in the balance sheet. Customer advances, deposits and commissions are reflected in the balance sheet as contract liabilities.

Accounts receivable at December 31, 2018 and December 31, 2017 are as follows:

	2018	2017
Completed contracts	\$8,592	\$10,658
Contracts in progress	48,418	28,212
Retainage	7,969	17,545
	64,979	56,415
Allowance for doubtful accounts	(200)	—
Total accounts receivable—net	\$64,779	\$56,415
Current portion of accounts receivable—net	\$64,779	\$51,940
Long-term accounts receivable and retainage	—	4,475
Total accounts receivable—net	\$64,779	\$56,415

The components of contracts in progress at December 31, 2018 and December 31, 2017 are as follows:

	2018	2017
Costs and earnings in excess of billings:		
Costs and earnings for contracts in progress	\$433,093	\$507,037
Amounts billed	(416,956)	(451,829)
Costs and earnings in excess of billings for contracts in progress	16,137	55,208
Costs and earnings in excess of billings for completed contracts	3,928	22,699
Total contract revenues in excess of billings	\$20,065	\$77,907
Current portion of contract revenues in excess of billings	\$17,953	\$77,907
Long-term contract revenues in excess of billings	2,112	—
Total contract revenues in excess of billings	\$20,065	\$77,907
Billings in excess of costs and earnings:		
Amounts billed	\$(260,691)	\$(301,788)
Costs and earnings for contracts in progress	242,898	299,202
Total billings in excess of contract revenues	\$(17,793)	\$(2,586)

For amounts included in billings in excess of contract revenues balance at the beginning of the year, the Company recognized nearly all of the related revenue during the year ended December 31, 2018.

At December 31, 2018 and January 1, 2018, costs to fulfill contracts with customers recognized as an asset were \$13,129 and \$6,754, respectively, and are recorded in other current assets and other noncurrent assets. These costs relate to pre-contract and pre-construction activities. During the year ended December 31, 2018, the company amortized \$15,411 of pre-construction costs, respectively.

The Company derived revenues and gross profit from foreign project operations for the years ended December 31, 2018, 2017, and 2016, as follows:

	2018	2017	2016
Contract revenues	\$14,088	\$42,306	\$59,413
Costs of contract revenues	(19,866)	(73,958)	(66,729)
Gross profit	\$(5,778)	\$(31,652)	\$(7,316)

In 2018, 2017 and 2016, foreign revenues were primarily from work done in the Middle East. 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. As of December 31, 2018 and 2017, long-lived assets with a net book value of \$30,601 and \$47,563, respectively, were located outside of the U.S.

The Company's primary customer is the U.S. Army Corps of Engineers (the "Corps"), which has responsibility for federally funded projects related to waterway navigation and flood control. In 2018, 2017 and 2016, 75.5%, 63.4% and 64.3%, respectively, of contract revenues were earned from contracts with federal government agencies, including the Corps, as well as other federal entities such as the U.S. Coast Guard and U.S. Navy. At December 31, 2018 and 2017, approximately 65.3% and 42.8%, respectively, of accounts receivable, including contract revenues in excess of billings and retainage, were due on contracts with federal government agencies. The Company depends on its ability to continue to obtain federal government contracts, and indirectly, on the amount of federal funding for new and current government dredging projects. Therefore, the Company's operations can be influenced by the level and timing of federal funding.

Revenue from foreign projects has been concentrated in the Middle East which comprised less than 10% in 2018, 2017 and 2016. At December 31, 2018 and 2017, less than 10% of total accounts receivable, including retainage and contract revenues in excess of billings, were due on contracts in the Middle East. There is a dependence on future projects in the Middle East, as vessels are currently located there. However, some of the vessels located in Middle East can be moved back to the U.S. or all can be moved to other international markets as opportunities arise.

10. RETIREMENT PLANS

The Company sponsors two 401(k) savings plans, one covering substantially all non-union salaried employees ("Salaried Plan"), a second covering its hourly employees ("Hourly Plan"). Under the Salaried Plan and the Hourly Plan, individual employees may contribute a percentage of compensation and the Company will match a portion of the employees' contributions. The Salaried Plan also includes a discretionary profit-sharing component, permitting the Company to make discretionary employer contributions to all eligible employees of these plans. Additionally, the Company sponsors a Supplemental Savings Plan in which the Company makes contributions for certain key executives. The Company's expense for matching, discretionary and Supplemental Savings Plan contributions for 2018, 2017 and 2016, was \$5,060, \$2,616 and \$2,686, respectively.

The Company also contributes to various multiemployer pension plans pursuant to collective bargaining agreements. In 2018, 2017 and 2016, the Company contributed \$4,207, \$4,699 and \$4,793 respectively to all of the multiemployer plans that provide pension benefits in our continuing operations. The information available to the Company about the multiemployer plans in which it participates, whether via request to the plan or publicly available, is generally dated due to the nature of the reporting cycle of multiemployer plans and legal requirements under the Employee Retirement Income Security Act ("ERISA") as amended by the Multiemployer Pension Plan Amendments Act ("MPPAA"). Based upon these plans' most recently available annual reports, the Company's contributions to these plans were less than 5% of each plan's total contributions.

The Company does not expect any future increased contributions to have a material negative impact on its financial position, results of operations or cash flows for future years. The risks of participating in multiemployer plans are different from single employer plans as assets contributed are available to provide benefits to employees of other employers and unfunded obligations from an employer that discontinues contributions are the responsibility of all remaining employers. In addition, in the event of a plan's termination or the Company's withdrawal from a plan, the

Company may be liable for a portion of the plan's unfunded vested benefits. However, information from the plans' administrators is not available to permit the Company to determine its share, if any, of unfunded vested benefits.

11. RESTRUCTURING CHARGES

In 2017, a strategic review was begun to improve the Company's financial results in both domestic and international operations enabling debt reduction, improvements in return on capital and the continued renewal of our extensive fleet with new and efficient dredges to best serve our domestic and international clients. Management executed a plan to reduce general and administrative and overhead expenses, retire certain underperforming and underutilized assets, write-off pre-contract costs on a project that was never formally awarded and that the Company no longer intends to pursue and closeout the Company's Brazil operations. The cumulative amounts incurred to date for restructuring charges, including amounts presented in discontinued operations, include severance of \$3,549, asset retirements of \$32,309, pre-contract costs of \$6,441 and closeout costs of \$4,194. Restructuring activities were substantially completed in 2018.

Restructuring charges recognized for the above actions for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Costs of contract revenues—depreciation	\$6,759	\$6,859
Costs of contract revenues—other	2,292	16,102
General and administrative expenses	185	1,189
Loss on sale of assets—net	4,572	4,691
Other expense	2,337	—
Total	16,145	28,841

The Company accrued severance expense of \$662 and \$1,403 at December 31, 2018 and December 31, 2017, respectively, which are expected to be settled in 2019. Accrued severance is included in accrued expenses.

12. COMMITMENTS AND CONTINGENCIES

Commercial commitments

Performance and bid bonds are customarily required for dredging and marine construction projects, as well as some environmental & infrastructure projects. The Company has bonding agreements with Argonaut Insurance Company, Berkley Insurance Company, Chubb Surety and Liberty Mutual Insurance Company under which the Company can obtain performance, bid and payment bonds. The Company also has outstanding bonds with Travelers Casualty and Surety Company of America and Zurich American Insurance Company (“Zurich”). Bid bonds are generally obtained for a percentage of bid value and amounts outstanding typically range from \$1,000 to \$10,000. At December 31, 2018, the Company had outstanding performance bonds with a notional amount of approximately \$1,389,239, of which \$78,314 relates to projects from the Company’s historical environmental & infrastructure businesses. The revenue value remaining in backlog related to the projects of continuing operations totaled approximately \$619,426.

In connection with the sale of our historical demolition business, the Company was obligated to keep in place the surety bonds on pending demolition projects for the period required under the respective contract for a project and issued Zurich a letter of credit related to this exposure. In February 2017, the Company was notified by Zurich of an alleged default triggered on a historical demolition surety performance bond in the aggregate of approximately \$20,000 for failure of the contractor to perform in accordance with the terms of a project. In May 2017, Zurich drew upon the letter of credit in the amount of \$20,881. In order to fund the draw on the letter of credit, the Company had to increase the borrowings on its revolving credit facility. As the outstanding letters of credit previously reduced the Company’s availability under the revolving credit facility, the draw down on the Company’s letter of credit does not impact its liquidity or capital availability.

Pursuant to the terms of sale of our historical demolition business, the Company received an indemnification from the buyer for losses resulting from the bonding arrangement. The Company intends to aggressively pursue enforcement of the indemnification provisions if the buyer of the historical demolition business is found to be in default of its obligations. The Company cannot estimate the amount or range of recoveries related to the indemnification or

resolution of the Company's responsibilities under the surety bond. The surety bond claim impact has been included in discontinued operations and is discussed in Note 14, Business Combinations and Dispositions.

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.

Legal proceedings and other contingencies

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.

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 to the Company. 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 records an accrual when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe any of these proceedings, individually or in the aggregate, would be expected to have a material effect on results of operations, cash flows or financial condition.

On April 23, 2014, the Company completed the sale of NASDI, LLC (“NASDI”) and Yankee Environmental Services, LLC (“Yankee”), which together comprised the Company’s historical demolition business, to a privately owned demolition company. Under the terms of the divestiture, the Company retained certain pre-closing liabilities relating to the disposed business. Certain of these liabilities and a legal action brought by the Company to enforce the buyer’s obligations under the sale agreement are described below.

On January 14, 2015, the Company and our subsidiary, NASDI Holdings, LLC, brought an action in the Delaware Court of Chancery to enforce the terms of the Company's agreement to sell NASDI and Yankee. Under the terms of the agreement, the Company received cash of \$5,309 and retained the right to receive additional proceeds based upon future collections of outstanding accounts receivable and work in process existing at the date of close. The Company seeks specific performance of the buyer’s obligation to collect and to remit the additional proceeds, and other related relief. Defendants have filed counterclaims alleging that the Company misrepresented the quality of its contracts and receivables prior to the sale. The Company denies defendants’ allegations and intends to vigorously defend against the counterclaims.

The Company is in the process of negotiating a Consent Order with the Florida Department of Environmental Protection regarding alleged impacts to a seagrass habitat in connection with a project in Charlotte County, Florida. The Company estimates the range of potential loss related to this matter as between \$200,000 and \$250,000.

In September 2018, the EPA Region 4 informed the Company of the EPA’s intent to file an administrative complaint against the Company relating to a project the Company performed at PortMiami from 2013-2015, although no complaint has been filed to date, to the Company’s knowledge. The EPA is alleging violations of Section 103 of the Marine Protection, Research, and Sanctuaries Act (“MPRSA”) and failure to report violations of the MPRSA. The Company disagrees with the EPA on whether a violation occurred and, if a violation did occur, the appropriate penalty calculation, and we will defend ourselves vigorously.

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

Lease obligations

The Company leases certain operating equipment and office facilities under long-term operating leases expiring at various dates through 2025. The equipment leases contain renewal or purchase options that specify prices at the then fair value upon the expiration of the lease terms. The leases also contain default provisions that are triggered by an acceleration of debt maturity under the terms of the Company’s Credit Agreement, or, in certain instances, cross default to other equipment leases and certain lease arrangements require that the Company maintain certain financial ratios comparable to those required by its Credit Agreement. Additionally, the leases typically contain provisions whereby the Company indemnifies the lessors for the tax treatment attributable to such leases based on the tax rules in place at lease inception. The tax indemnifications do not have a contractual dollar limit. To date, no lessors have asserted any claims against the Company under these tax indemnification provisions.

Future minimum operating lease payments at December 31, 2018, are as follows:

2019	\$26,554
2020	22,349
2021	18,430
2022	13,552
2023	9,041
Thereafter	8,697
Total minimum operating lease payments	\$98,623

Total rent expense under long-term operating lease arrangements for the years ended December 31, 2018, 2017 and 2016 was \$21,160, \$26,664 and \$20,006, respectively. This excludes expenses for equipment and facilities rented on a short-term, as-needed

80

basis. For more information about charges to rent expense during 2018 related to the Company's restructuring refer to Note 11, Restructuring Charges.

13. RELATED-PARTY TRANSACTIONS

The Company's historical environmental & infrastructure segment operated out of two facilities owned by the former owner of Terra Contracting, LLC until November 11, 2016, when the lease was terminated. The Company paid \$195 on rent on these properties in 2016.

Further, the Company's historical environmental & infrastructure segment operated out of two facilities owned by Magnus Real Estate Group, LLC, which was owned by the former owners of Magnus Pacific Corporation. In March 2017, one of the properties was sold to a non-related party. In 2018, 2017 and 2016, the Company paid rent of \$222, \$263 and \$506, respectively, for these two properties.

14. BUSINESS DISPOSITIONS

Discontinued operations

Businesses or asset groups are reported as discontinued operations when the Company commits to a plan to divest the business or group and the sale of the business or asset group is deemed probable within the next twelve months. Further, the disposal must represent a strategic shift that has (or will have) a major effect on the Company's operations and financial results. In the fourth quarter, the management team proposed, and the Board of Directors approved, a plan to sell the Company's historical environmental & infrastructure business. The Company has retained a financial advisor to assist with the process and expects to finalize disposition of the environmental & infrastructure business in the first half of 2019. The disposal group of the historical environmental & infrastructure business has therefore been classified as discontinued operations and assets and liabilities held for sale for all periods presented.

Included in the results of discontinued operations for the year ended December 31, 2018 is a provision of \$14,110 to reduce the net assets of the historical environmental & infrastructure business to fair value less costs to sell. Fair values were determined using expected sales terms and an evaluation of working capital. The loss on disposition of assets held for sale is subject to change prior to completion of the disposition and could differ materially from the Company's estimate.

To the extent the Company incurs liabilities for exit costs, including severance, other employee benefit costs and operating lease obligations, the liabilities will be measured at fair value and recorded when incurred.

The results of the business have been reported in discontinued operations as follows:

	2018	2017	2016
Revenue	\$76,843	\$112,607	\$133,637

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

Loss before income taxes from discontinued operations	\$(9,361)	\$(25,944)	\$(14,334)
Preliminary loss on disposal of assets held for sale	(14,110)	—	—
Income tax benefit	6,162	10,052	5,615
Loss from discontinued operations, net of income taxes	\$(17,309)	\$(15,892)	\$(8,719)

The major classes of assets and liabilities of businesses reported as discontinued operations are shown below:

81

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

	2018	2017
Assets:		
Accounts receivable—net	\$13,943	\$23,593
Contract revenues in excess of billings	9,971	12,881
Other current assets	865	1,943
Assets held for sale	\$24,779	\$38,417
Property and equipment—net	6,612	10,369
Goodwill	7,000	7,000
Other intangible assets—net	372	907
Other assets	1,699	2,825
Reserve for loss on disposal	(14,110)	—
Assets held for sale—noncurrent	\$1,573	\$21,101
Liabilities:		
Accounts payable	\$8,343	\$22,505
Accrued expenses	4,380	4,292
Other current liabilities	1,217	2,576
Liabilities held for sale	13,940	29,373
Other liabilities	146	773
Liabilities held for sale—noncurrent	\$146	\$773

On April 23, 2014, the Company entered into an agreement and completed the sale of NASDI, LLC and Yankee Environmental Services, LLC, its two former subsidiaries that comprised the historical demolition business. Under the terms of the agreement, the Company received cash of \$5,309 and retained the right to receive additional proceeds based upon future collections of outstanding accounts receivable and work in process existing at the date of close, including recovery of outstanding claims for additional compensation from customers, and net of future payments of accounts payable existing at the date of close, including any future payments of obligations associated with outstanding claims. The amount and timing of the working capital settlement and the amount and timing of the realization of additional net proceeds may be impacted by the litigation with the buyer of the historical demolition business (see Note 12, Commitment and Contingencies). However, management believes that the ultimate resolution of these matters will not be material to the Company's consolidated financial position or results of operations.

As discussed in Note 12, Commitments and Contingencies, the Company was notified by Zurich of an alleged default triggered on a historical demolition surety performance bond in the aggregate of approximately \$20,000 for failure of the contractor to perform in accordance with the terms of a project. Zurich could be obligated to reimburse the loss, damage and expense that may arise from the alleged default. The Company estimated its exposure to a surety bond claim, including associated expense to be \$20,900 and has recorded this amount in discontinued operations for the year ended December 31, 2017.

Great Lakes Dredge & Dock Corporation
 Schedule II—Valuation and Qualifying Accounts
 For the Years Ended December 31, 2018, 2017 and 2016
 (In thousands)

Description	Beginning			Ending
	Balance	Additions	Deductions	balance
Year ended December 31, 2016				
Allowances deducted from assets to which they apply:				
Allowances for doubtful accounts	\$ 578	\$ —	\$ (320)	\$ 258
Valuation allowance for deferred tax assets	6,101	1,032	—	7,133
Total	\$ 6,679	\$ 1,032	\$ (320)	\$ 7,391
Year ended December 31, 2017				
Allowances deducted from assets to which they apply:				
Allowances for doubtful accounts	\$ 258	\$ —	\$ (258)	\$ —
Valuation allowance for deferred tax assets	7,133	1,152	(3,991)	4,294
Total	\$ 7,391	\$ 1,152	\$ (4,249)	\$ 4,294
Year ended December 31, 2018				
Allowances deducted from assets to which they apply:				
Allowances for doubtful accounts	\$ —	\$ 200	\$ —	\$ 200
Valuation allowance for deferred tax assets	4,294	492	—	4,786
Total	\$ 4,294	\$ 692	\$ —	\$ 4,986

I. EXHIBIT INDEX

Number	Document Description
<u>2.1</u>	Amended and Restated Agreement and Plan of Merger dated as of December 22, 2003, among Great Lakes Dredge & Dock Corporation, GLDD Acquisitions Corp., GLDD Merger Sub, Inc. and Vectura Holding Company LLC. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on January 6, 2004 (Commission file no. 333-64687)).
<u>2.2</u>	Agreement and Plan of Merger by and among GLDD Acquisitions Corp., Aldabra Acquisition Corporation, and certain shareholders of Aldabra Acquisition Corporation and GLDD Acquisitions Corp., dated as of June 20, 2006. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on June 22, 2006 (Commission file no. 333-64687)).
<u>3.1</u>	Amended and Restated Certificate of Incorporation of Great Lakes Dredge & Dock Holdings Corp., effective December 26, 2006 (now renamed Great Lakes Dredge & Dock Corporation). (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Registration Statement on Form 8-A12B filed with the Commission on December 26, 2006 (Commission file no. 001-33225)).
<u>3.2</u>	Amended and Restated Bylaws of Great Lakes Dredge & Dock Corporation, dated as of May 14, 2015. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 20, 2015 (Commission file no. 001-33225)).
<u>3.3</u>	Certificate of Ownership and Merger of Great Lakes Dredge & Dock Corporation with and into Great Lakes Dredge & Dock Holdings Corp. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on December 29, 2006 (Commission file no. 001-33225)).
<u>4.1</u>	Indenture, dated May 24, 2017, by and among the Company, certain subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 24, 2017 (Commission file no. 001-33225)).
<u>4.2</u>	Specimen Common Stock Certificate for Great Lakes Dredge & Dock Corporation. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K filed with the Commission on March 22, 2007 (Commission file no. 001-33225)).
<u>10.1</u>	Agreement of Indemnity, dated as of April 7, 2015, by and among Great Lakes Dredge & Dock Corporation, Great Lakes Dredge & Dock Company, LLC, Great Lakes Environmental & Infrastructure Solutions, LLC, Magnus Pacific, LLC, Terra Contracting, LLC, Terra Fluid Management, LLC and Liberty Mutual Insurance Company and its subsidiaries and affiliates. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 6, 2015 (Commission file no. 001-33225)).
<u>10.2</u>	Agreement of Indemnity, dated as of April 13, 2015, by and among Great Lakes Dredge & Dock Corporation, Great Lakes Dredge & Dock Company, LLC, Great Lakes Environmental & Infrastructure Solutions, LLC, Magnus Pacific, LLC, Terra Contracting, LLC, Terra Fluid Management, LLC and Berkley Insurance Company and/or Berkley Regional Insurance Company. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 6, 2015 (Commission file no. 001-33225)).

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

Number	Document Description
<u>10.3</u>	Agreement of Indemnity, dated as of April 7, 2015, by and among Great Lakes Dredge & Dock Corporation, Great Lakes Dredge & Dock Company, LLC, Great Lakes Environmental & Infrastructure Solutions, LLC, Magnus Pacific, LLC, Terra Contracting, LLC, Terra Fluid Management, LLC and Argonaut Insurance Company. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 6, 2015 (Commission file no. 001-33225)).
<u>10.4</u>	Agreement of Indemnity, dated as of April 7, 2015, by and among Great Lakes Dredge & Dock Corporation, Great Lakes Dredge & Dock Company, LLC, Great Lakes Environmental & Infrastructure Solutions, LLC, Magnus Pacific, LLC, Terra Contracting, LLC, Terra Fluid Management, LLC and Westchester Fire Insurance Company or any of its affiliates, including any other company that is part of or added to ACE Holdings, Inc. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 6, 2015 (Commission file no. 001-33225)).
<u>10.5</u>	Amended and Restated Management Equity Agreement dated December 26, 2006 by and among Aldabra Acquisition Corporation, Great Lakes Dredge & Dock Holdings Corp. and each of the other persons identified on the signature pages thereto. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on December 29, 2006 (Commission file no. 001-33225)).†
<u>10.6</u>	Amended and Restated Employment Agreement between Great Lakes Dredge & Dock Corporation and David E. Simonelli, dated as of May 8, 2014. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on August 4, 2015 (Commission file no. 001-33225)).†
<u>10.7</u>	Amended and Restated Employment Agreement with Jonathan W. Berger, dated as of May 8, 2014. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 8-K filed with the Commission on May 13, 2014 (Commission file no. 001-33225)).†
<u>10.8</u>	Employment Agreement between Great Lakes Dredge & Dock Corporation and Christopher P. Shea. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 10-K filed with the Commission on February 28, 2017 (Commission file no. 001-33225)). †
<u>10.9</u>	First Amendment to Employment Agreement between Great Lakes Dredge & Dock Corporation and Christopher P. Shea, dated as of July 31, 2018 (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q, filed with the Commission on November 6, 2018 (Commission file no. 001-33225)). †
<u>10.10</u>	Separation Agreement, dated January 18, 2017, between Great Lakes Dredge & Dock Corporation and Jonathan W. Berger. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 10-K filed with the Commission on February 28, 2017 (Commission file no. 001-33225)).†
<u>10.11</u>	Employment Agreement between Great Lakes Dredge & Dock Corporation and Lasse Petterson, dated as of April 28, 2017. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 1, 2017 (Commission file no. 001-33225)).†
<u>10.12</u>	Second Amended and Restated Employment Agreement between Great Lakes Dredge & Dock Corporation and Kathleen M. LaVoy, dated as of December 21, 2016. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 4, 2018 (Commission file no. 001-33225)). †

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

Number	Document Description
<u>10.13</u>	Second Amended and Restated Great Lakes Dredge & Dock Company, LLC Annual Bonus Plan effective as of January 1, 2012 (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on January 17, 2012 (Commission file no. 001-33225)).†
<u>10.14</u>	401(k) Savings Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K filed with the Commission on March 30, 2005 (Commission file no. 333-64687)).†
<u>10.15</u>	Amended and Restated Great Lakes Dredge & Dock Corporation Supplemental Savings Plan effective January 1, 2014. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K filed with the Commission on March 11, 2014 (Commission file no.001-33225)).†
<u>10.16</u>	Form of Investor Rights Agreement among Aldabra Acquisition Corporation, Great Lakes Dredge & Dock Holdings Corp., Madison Dearborn Capital Partners IV, L.P., certain stockholders of Aldabra Acquisition Corporation and certain stockholders of GLDD Acquisitions Corp. (Incorporated by reference to Great Lakes Dredge & Dock Holding Corp.'s Registration Statement on Form S-4 filed with the Commission on August 24, 2006 (Commission file no. 333-136861-01)).
<u>10.17</u>	Great Lakes Dredge & Dock Corporation 2007 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Definitive Proxy Statement on Schedule 14A, filed with the Commission on April 4, 2012 (Commission file no. 001-33225)).†
<u>10.18</u>	Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 17, 2017 (Commission file no. 001-33225)).†
<u>10.19</u>	Form of Great Lakes Dredge & Dock Corporation Restricted Stock Unit Award Agreement pursuant to the Great Lakes Dredge & Dock Corporation 2007 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on July 1, 2011 (Commission file no. 001-33225)).†
<u>10.20</u>	Form of Great Lakes Dredge & Dock Corporation Performance Vesting RSU Award Agreement pursuant to the Great Lakes Dredge & Dock Corporation 2007 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on July 1, 2011 (Commission file no. 001-33225)).†
<u>10.21</u>	Form of Great Lakes Dredge & Dock Corporation Restricted Stock Unit Award Agreement pursuant to the Great Lakes Dredge & Dock Corporation 2007 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 3, 2016 (Commission file no. 001-33225)).†
<u>10.22</u>	Form of Great Lakes Dredge & Dock Corporation Performance Vesting RSU Award Agreement pursuant to the Great Lakes Dredge & Dock Corporation 2007 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 3, 2016 (Commission file no. 001-33225)).†
<u>10.23</u>	Form of Great Lakes Dredge & Dock Corporation Cash Performance Award Agreement pursuant to the Great Lakes Dredge & Dock Corporation 2007 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 3, 2016 (Commission file no. 001-33225)).†

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

Number	Document Description
<u>10.24</u>	Form of Great Lakes Dredge & Dock Corporation Restricted Stock Unit Award Agreement pursuant to the Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 4, 2018 (Commission file no. 001-33225)). †
<u>10.25</u>	Form of Great Lakes Dredge & Dock Corporation Performance-Based Restricted Stock Unit Award Agreement (Three Year Form) pursuant to the Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 4, 2018 (Commission file no. 001-33225)). †
<u>10.26</u>	Form of Great Lakes Dredge & Dock Corporation Performance-Based Restricted Stock Unit Award Agreement (Two Year Form) pursuant to the Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 4, 2018 (Commission file no. 001-33225)). †
<u>10.27</u>	Restricted Stock Unit Award Agreement, dated as of March 9, 2016, by and between Great Lakes Dredge & Dock Corporation and Jonathan W. Berger (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 3, 2016 (Commission file no. 001-33225)). †
<u>10.28</u>	Performance Vesting RSU Award Agreement, dated as of March 9, 2016, by and between Great Lakes Dredge & Dock Corporation and Jonathan W. Berger (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 3, 2016 (Commission file no. 001-33225)). †
<u>10.29</u>	Cash Performance Award Agreement, dated as of March 9, 2016, by and between Great Lakes Dredge & Dock Corporation and Jonathan W. Berger (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on May 3, 2016 (Commission file no. 001-33225)). †
<u>10.30</u>	Great Lakes Dredge & Dock Corporation Director Deferral Plan (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K filed with the Commission on February 28, 2018 (Commission file no. 001-33225)). †
<u>10.31</u>	Share Purchase Agreement dated November 4, 2014 among Great Lakes Environmental and Infrastructure Solutions, LLC and Magnus Pacific Corporation. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K/A filed with the Commission on September 24, 2015 (Commission file no. 001-33225)).##
<u>10.32</u>	Amendment to the Share Purchase Agreement, dated as of September 8, 2016, by and among Magnus Pacific Corporation, now known as Great Lakes Environmental and Infrastructure, LLC and Great Lakes Environmental and Infrastructure Solutions, LLC. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on November 2, 2016 (Commission file no. 001-33225)).##
<u>10.33</u>	Purchase Agreement, dated November 19, 2014, by and among the Company, certain subsidiary guarantors named therein and Deutsche Bank Securities Inc., as the initial purchaser. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on November 24, 2014 (Commission file no. 001-33225)).

10.34 Purchase Agreement, dated May 18, 2017, by and among the Company, certain subsidiary guarantors named therein and Deutsche Bank Securities Inc., as representative of the initial purchasers named therein. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 24, 2017 (Commission file no. 001-33225)).

- | Number | Document Description |
|--------------|--|
| <u>10.35</u> | Registration Rights Agreement, dated January 28, 2011, by and among the Company, certain subsidiary guarantors named therein and the initial purchasers named therein. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on January 28, 2011 (Commission file no. 001-33225)). |
| <u>10.36</u> | Registration Rights Agreement, dated November 24, 2014, by and among the Company, certain subsidiary guarantors named therein and Deutsche Bank Securities Inc., as the initial purchaser. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on November 24, 2014 (Commission file no. 001-33225)). |
| <u>10.37</u> | Registration Rights Agreement, dated May 24, 2017, by and among the Company, certain subsidiary guarantors named therein and Deutsche Bank Securities Inc., as representative of the initial purchasers named therein. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 24, 2017 (Commission file no. 001-33225)). |
| <u>10.38</u> | Revolving Credit and Security Agreement dated as of December 30, 2016 by and among Great Lakes Dredge & Dock Corporation, as Borrower, each other Credit Party party hereto from time to time, the financial institutions which are now or which hereafter become a party hereto as lenders, PNC Capital Markets, The PrivateBank and Trust Company, Capital One, National Association, Suntrust Robinson Humphrey, Inc., and Bank of America, N.A., as joint lead arrangers and joint bookrunners, Texas Capital Bank, National Association, as syndication agent, Woodforest Nation Bank, as documentation agent, and PNC Bank, National Association, as agent for lenders. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 10-K filed with the Commission on February 28, 2017 (Commission file no. 001-33225)).## |
| <u>10.39</u> | Waiver and Amendment No. 1 to the Revolving Credit and Security Agreement, dated as of February 27, 2017, by and among Great Lakes Dredge & Dock Corporation, as Borrower, each other Credit Party party hereto from time to time, the financial institutions which are now or which hereafter become a party hereto as lenders, PNC Capital Markets, The PrivateBank and Trust Company, Capital One, National Association, Suntrust Robinson Humphrey, Inc., and Bank of America, N.A., as joint lead arrangers and joint bookrunners, Texas Capital Bank, National Association, as syndication agent, Woodforest Nation Bank, as documentation agent, and PNC Bank, National Association, as agent for lenders. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 10-K filed with the Commission on February 28, 2017 (Commission file no. 001-33225)). |
| <u>10.40</u> | Second Amendment to Amended and Restated Credit Agreement, dated May 18, 2017, by and among the Company, the subsidiaries of the Company named therein, and PNC Bank, N.A. as lender and agent, and certain other lenders named therein. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 24, 2017 (Commission file no. 001-33225)). |
| <u>10.41</u> | Consent and Amendment No. 3 to Amended and Restated Credit Agreement, dated December 6, 2017, by and among the Company, the subsidiaries of the Company named therein, and PNC Bank, N.A. as lender and agent, and certain other lenders named therein. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K filed with the Commission on February 28, 2018 (Commission file no. 001-33225)).## |

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

Number	Document Description
<u>10.42</u>	Agreement of Indemnity, dated as of September 7, 2011, by and among Great Lakes Dredge & Dock Corporation, Great Lakes Dredge & Dock Company, LLC, Lydon Dredging and Construction Company, Ltd., Fifty-Three Dredging Corporation, Dawson Marine Services Company, Great Lakes Dredge & Dock Environmental, Inc. f/k/a Great Lakes Caribbean Dredging, Inc., NASDI, LLC, NASDI Holdings Corporation, Yankee Environmental Services, LLC, Great Lakes Dredge & Dock (Bahamas) Ltd. and Zurich American Insurance Company and its subsidiaries and affiliates. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K filed with the Commission on March 29, 2013 (Commission file no. 001-33225)).
<u>10.43</u>	First Rider to the General Agreement of Indemnity, dated as of June 4, 2012, by and among Great Lakes Dredge & Dock Corporation, Great Lakes Dredge & Dock Company, LLC, Lydon Dredging and Construction Company, Ltd., Fifty-Three Dredging Corporation, Dawson Marine Services Company, Great Lakes Dredge & Dock Environmental, Inc. f/k/a Great Lakes Caribbean Dredging, Inc., Great Lakes Dredge & Dock (Bahamas) Ltd. and Zurich American Insurance Company and its subsidiaries and affiliates. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Quarterly Report on Form 10-Q filed with the Commission on August 4, 2015 (Commission file no. 001-33225)).
<u>10.44</u>	Loan Agreement dated as of November 4, 2014 by and among Great Lakes Dredge & Dock Corporation, as Borrower, the Lenders from time to time party hereto and Bank of America, N.A., as Administrative Agent. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Annual Report on Form 10-K/A filed with the Commission on September 24, 2015 (Commission file no. 001-33225)).##
<u>10.45</u>	Vessel Construction Agreement, dated January 10, 2014 by and between Eastern Shipbuilding Group, Inc. and Great Lakes Dredge & Dock Company, LLC. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 10-K filed with the Commission on March 11, 2014 (Commission file no. 001-33225)).##
<u>10.46</u>	Amendment to Vessel Construction Agreement, dated December 23, 2016 by and between Eastern Shipbuilding Group, Inc. and Great Lakes Dredge & Dock Company, LLC. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 10-K filed with the Commission on February 28, 2017 (Commission file no. 001-33225)).##
<u>10.47</u>	Agreement dated December 27, 2016. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on December 30, 2016 (Commission file no. 001-33225)).
<u>14.1</u>	Code of Business Conduct and Ethics. (Incorporated by reference to Great Lakes Dredge & Dock Corporation's Current Report on Form 8-K filed with the Commission on May 18, 2016 (Commission file no. 001-33225)).
<u>21.1</u>	Subsidiaries of Great Lakes Dredge & Dock Corporation. *
<u>23.1</u>	Consent of Deloitte & Touche LLP. *
<u>31.1</u>	Certification Pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
<u>31.2</u>	Certification Pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

89

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

Number	Document Description
<u>32.2</u>	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

101.INS XBRL Instance Document. *

101.SCH XBRL Taxonomy Extension Schema. *

101.CAL XBRL Taxonomy Extension Calculation Linkbase. *

101.DEF XBRL Taxonomy Extension Definition Linkbase. *

101.LAB XBRL Taxonomy Extension Label Linkbase. *

101.PRE XBRL Taxonomy Extension Presentation Linkbase. *

*Filed herewith

€Compensatory plan or arrangement

##Portions of this exhibit have been previously granted confidential treatment by the Securities and Exchange Commission.

SIGNATURES

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

Great Lakes Dredge & Dock Corporation
(registrant)

By: /s/ Mark W. Marinko
Mark W. Marinko
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

Date: February 26, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capabilities and on the dates indicated.

Signature	Date	Title
/s/ Lasse J. Petterson Lasse J. Petterson	February 26, 2019	Chief Executive Officer and Director (Principal Executive Officer) Senior Vice President and Chief Financial Officer
/s/ Mark W. Marinko Mark W. Marinko	February 26, 2019	(Principal Financial Officer and Principal Accounting Officer)
/s/ Carl A. Albert Carl A. Albert	February 26, 2019	Director
/s/ Lawrence R. Dickerson Lawrence R. Dickerson	February 26, 2019	Director
/s/ Ryan J. Levenson Ryan J. Levenson	February 26, 2019	Director
/s/ Kathleen M. Shanahan Kathleen M. Shanahan	February 26, 2019	Director
/s/ Ronald R. Steger Ronald R. Steger	February 26, 2019	Director
/s/ D. Michael Steuert D. Michael Steuert	February 26, 2019	Director
/s/ Michael J. Walsh Michael J. Walsh	February 26, 2019	Director

