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Great Lakes Dredge & Dock CORP  
Form 10-Q  
May 03, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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)

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

Indicate by check mark whether the registrant has every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|                         |                           |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer         |
| Non-accelerated filer   | Smaller reporting company |
| Emerging growth company |                           |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

| Title of each class               | Trading Symbol(s) | Name of each exchange on which registered |
|-----------------------------------|-------------------|---|
| Common Stock (Par Value \$0.0001) | GLDD              | Nasdaq Stock Market, LLC                  |

As of April 26, 2019, 63,367,995 shares of the Registrant’s Common Stock, par value \$.0001 per share, were outstanding.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly Period ended March 31, 2019

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## PART I — Financial Information

## Item 1. Financial Statements.

## GREAT LAKES DREDGE &amp; DOCK CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except per share amounts)

|  | March<br>31,<br>2019 | December<br>31,<br>2018 |
|--|----------------------|-------------------------|
| <b>ASSETS</b>                                  |                      |                         |
| <b>CURRENT ASSETS:</b>                         |                      |                         |
| Cash and cash equivalents                      | \$122,986            | \$34,458                |
| Accounts receivable—net                        | 34,494               | 64,779                  |
| Contract revenues in excess of billings        | 16,415               | 17,953                  |
| Inventories                                    | 26,629               | 28,112                  |
| Prepaid expenses and other current assets      | 34,392               | 36,617                  |
| Assets held for sale                           | 15,751               | 24,779                  |
| Total current assets                           | 250,667              | 206,698                 |
| PROPERTY AND EQUIPMENT—Net                     | 368,600              | 369,863                 |
| OPERATING LEASE ASSETS                         | 76,594               | —                       |
| GOODWILL AND OTHER INTANGIBLE ASSETS—Net       | 76,576               | 76,576                  |
| INVENTORIES—Noncurrent                         | 62,466               | 61,264                  |
| OTHER  | 16,948               | 15,870                  |
| TOTAL  | \$851,851            | \$730,271               |
| <b>LIABILITIES AND EQUITY</b>                  |                      |                         |
| <b>CURRENT LIABILITIES:</b>                    |                      |                         |
| Accounts payable                               | \$73,051             | \$71,537                |
| Accrued expenses                               | 42,633               | 48,351                  |
| Operating lease liabilities                    | 20,599               | —                       |
| Billings in excess of contract revenues        | 53,855               | 17,793                  |
| Revolving credit facility                      | —                    | 11,500                  |
| Liabilities held for sale                      | 7,948                | 13,940                  |
| Total current liabilities                      | 198,086              | 163,121                 |
| LONG-TERM DEBT                                 | 322,173              | 321,950                 |
| OPERATING LEASE LIABILITIES—Noncurrent         | 55,991               | —                       |
| DEFERRED INCOME TAXES                          | 30,626               | 22,846                  |
| OTHER  | 5,698                | 7,426                   |
| Total liabilities                              | 612,574              | 515,343                 |
| <b>COMMITMENTS AND CONTINGENCIES (Note 10)</b> |                      |                         |
| <b>EQUITY:</b>                                 |                      |                         |

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|   |           |           |
|---|-----------|-----------|
| Common stock—\$.0001 par value; 90,000 authorized, 63,600 and 62,830 shares issued; 63,323 and 62,552 shares outstanding at March 31, 2019 and December 31, 2018, respectively. | 6         | 6         |
| Treasury stock, at cost   | (1,433 )  | (1,433 )  |
| Additional paid-in capital  | 296,774   | 295,135   |
| Accumulated deficit   | (55,001 ) | (74,971 ) |
| Accumulated other comprehensive loss  | (1,069 )  | (3,809 )  |
| Total equity  | 239,277   | 214,928   |
| TOTAL   | \$851,851 | \$730,271 |

See notes to unaudited condensed consolidated financial statements.

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## Great Lakes Dredge &amp; Dock Corporation and Subsidiaries

## Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2019                            | 2018       |
| Contract revenues  | \$192,637                       | \$133,623  |
| Costs of contract revenues   | 142,760                         | 119,493    |
| Gross profit   | 49,877                          | 14,130     |
| General and administrative expenses  | 14,825                          | 13,093     |
| (Gain) loss on sale of assets—net  | 279                             | (199 )     |
| Operating income   | 34,773                          | 1,236      |
| Interest expense—net   | (7,551 )                        | (8,653 )   |
| Other income (expense)   | 172                             | (2,065 )   |
| Income (loss) from continuing operations before income taxes               | 27,394                          | (9,482 )   |
| Income tax (provision) benefit   | (6,846 )                        | 2,475      |
| Income (loss) from continuing operations                                   | 20,548                          | (7,007 )   |
| Loss from discontinued operations, net of income taxes                     | (3,380 )                        | (2,314 )   |
| Net income (loss)  | \$17,168                        | \$(9,321 ) |
| Basic earnings (loss) per share attributable to continuing operations      | \$0.33                          | \$(0.11 )  |
| Basic loss per share attributable to discontinued operations, net of tax   | (0.05 )                         | (0.04 )    |
| Basic earnings (loss) per share  | \$0.28                          | \$(0.15 )  |
| Basic weighted average shares  | 62,882                          | 61,815     |
| Diluted earnings (loss) per share attributable to continuing operations    | \$0.32                          | \$(0.11 )  |
| Diluted loss per share attributable to discontinued operations, net of tax | (0.05 )                         | (0.04 )    |
| Diluted earnings (loss) per share  | \$0.27                          | \$(0.15 )  |
| Diluted weighted average shares  | 64,569                          | 61,815     |

See notes to unaudited condensed consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands)

|  | Three Months Ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 2019                            | 2018        |
| Net income (loss)  | \$ 17,168                       | \$ (9,321 ) |
| Currency translation adjustment—net of tax (1)           | —                               | 1,361       |
| Net change in cash flow derivative hedges—net of tax (2) | 2,740                           | (734 )      |
| Other comprehensive income—net of tax                    | 2,740                           | 627         |
| Comprehensive income (loss)                              | \$ 19,908                       | \$ (8,694 ) |

(1) Net of income tax provision of \$(535) for the three months ended March 31, 2018.

(2) Net of income tax benefit of \$971 and income tax provision of (\$260) for the three months ended March 31, 2019 and 2018, respectively.

See notes to unaudited condensed consolidated financial statements.



## Great Lakes Dredge &amp; Dock Corporation and Subsidiaries

## Condensed Consolidated Statements of Equity

(Unaudited)

(in thousands)

|  | Shares of<br>Common<br>Stock | Common<br>Stock | Shares<br>of<br>Treasury<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income | Total     |
|--|------------------------------|-----------------|-----------------------------------|-------------------|----------------------------------|------------------------|---|-----------|
| BALANCE—January 1, 2019  | 62,830                       | \$ 6            | (278 )                            | \$(1,433 )        | \$295,135                        | \$(74,971 )            | \$(3,809 )                                      | \$214,928 |
| Cumulative effect of recent accounting pronouncements                            | —                            | —               | —                                 | —                 | —                                | 2,802                  | —   | 2,802     |
| Share-based compensation   | 31                           | —               | —                                 | —                 | 2,201                            | —                      | —   | 2,201     |
| Vesting of restricted stock units, including impact of shares withheld for taxes | 453                          | —               | —                                 | —                 | (2,188 )                         | —                      | —   | (2,188 )  |
| Exercise of options and purchases from employee stock plans                      | 286                          | —               | —                                 | —                 | 1,626                            | —                      | —   | 1,626     |
| Net income   | —                            | —               | —                                 | —                 | —                                | 17,168                 | —   | 17,168    |
| Other comprehensive income—net of tax  | —                            | —               | —                                 | —                 | —                                | —                      | 2,740   | 2,740     |
| BALANCE—March 31, 2019   | 63,600                       | \$ 6            | (278 )                            | \$(1,433 )        | \$296,774                        | \$(55,001 )            | \$(1,069 )                                      | \$239,277 |

|  | Shares of<br>Common<br>Stock | Common<br>Stock | Shares<br>of<br>Treasury<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(loss) | Total      |
|--|------------------------------|-----------------|-----------------------------------|-------------------|----------------------------------|------------------------|---|------------|
| BALANCE—January 1, 2018                                | 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                               | 40                           | —               | —                                 | —                 | 1,009                            | —                      | —   | 1,009      |
| Vesting of restricted stock units, including impact of | 430                          | —               | —                                 | —                 | (936 )                           | —                      | —   | (936 )     |

|   |        |      |        |            |           |             |        |           |
|---|--------|------|--------|------------|-----------|-------------|--------|-----------|
| shares withheld for taxes                                   |        |      |        |            |           |             |        |           |
| Exercise of options and purchases from employee stock plans | 118    | —    | —      | —          | 404       | —           | —      | 404       |
| Net loss  | —      | —    | —      | —          | —         | (9,321 )    | —      | (9,321 )  |
| Other comprehensive income—net of tax                       | —      | —    | —      | —          | —         | —           | 627    | 627       |
| BALANCE—March 31, 2018                                      | 62,485 | \$ 6 | (278 ) | \$(1,433 ) | \$290,298 | \$(77,999 ) | \$ 630 | \$211,502 |

See notes to unaudited condensed consolidated financial statements.

## Great Lakes Dredge &amp; Dock Corporation and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2019                            | 2018       |
| <b>OPERATING ACTIVITIES:</b>   |                                 |            |
| Net income (loss)  | \$17,168                        | \$(9,321 ) |
| Loss from discontinued operations, net of income taxes   | (3,380 )                        | (2,314 )   |
| Income (loss) from continuing operations   | \$20,548                        | \$(7,007 ) |
| Adjustments to reconcile net income (loss) to net cash flows provided by operating activities: |                                 |            |
| Depreciation and amortization  | 8,905                           | 14,562     |
| Deferred income taxes  | 7,074                           | (3,740 )   |
| (Gain) loss on sale of assets  | 279                             | (199 )     |
| Other non-cash restructuring items   | —                               | 2,015      |
| Amortization of deferred financing fees  | 868                             | 901        |
| Unrealized foreign currency gain   | —                               | (144 )     |
| Share-based compensation expense   | 2,000                           | 851        |
| Changes in assets and liabilities:   |                                 |            |
| Accounts receivable  | 30,285                          | (29,325)   |
| Contract revenues in excess of billings  | 1,538                           | 26,077     |
| Inventories  | 280                             | 665        |
| Prepaid expenses and other current assets  | (1,678 )                        | 12,704     |
| Accounts payable and accrued expenses  | (935 )                          | (5,094 )   |
| Billings in excess of contract revenues  | 36,062                          | (2,714 )   |
| Other noncurrent assets and liabilities  | 566                             | (4,506 )   |
| Net cash flows provided by operating activities from continuing operations                     | 105,792                         | 5,046      |
| Net cash flows used in operating activities of discontinued operations                         | 2,668                           | (416 )     |
| Cash provided by operating activities  | 108,460                         | 4,630      |
| <b>INVESTING ACTIVITIES:</b>   |                                 |            |
| Purchases of property and equipment  | (7,704 )                        | (7,513 )   |
| Proceeds from dispositions of property and equipment   | 147                             | 5,015      |
| Net cash flows used in investing activities of continuing operations                           | (7,557 )                        | (2,498 )   |
| Net cash flows used in investing activities of discontinued operations                         | (60 )                           | (36 )      |
| Cash used in investing activities  | (7,617 )                        | (2,534 )   |

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|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2019                            | 2018      |
| <b>FINANCING ACTIVITIES:</b>   |                                 |           |
| Repayments of debt   | —                               | (297 )    |
| Taxes paid on settlement of vested share awards                        | (2,188 )                        | (936 )    |
| Exercise of options and purchases from employee stock plans            | 1,626                           | 404       |
| Borrowings under revolving loans                                       | —                               | 17,000    |
| Repayments of revolving loans  | (11,500 )                       | (21,000 ) |
| Net cash flows used in financing activities of continuing operations   | (12,062 )                       | (4,829 )  |
| Net cash flows used in financing activities of discontinued operations | (253 )                          | (409 )    |
| Cash used in financing activities                                      | (12,315 )                       | (5,238 )  |
| Effect of foreign currency exchange rates on cash and cash equivalents | —                               | 26        |
| Net increase (decrease) in cash, cash equivalents and restricted cash  | 88,528                          | (3,116 )  |
| Cash, cash equivalents and restricted cash at beginning of period      | 34,458                          | 17,352    |
| Cash, cash equivalents and restricted cash at end of period            | \$122,986                       | \$14,236  |
| Cash and cash equivalents  | \$122,986                       | \$12,736  |
| Restricted cash included in other long-term assets                     | —                               | 1,500     |
| Cash, cash equivalents and restricted cash at end of period            | \$122,986                       | \$14,236  |
| <b>Supplemental Cash Flow Information</b>                              |                                 |           |
| Cash paid for interest   | \$229                           | \$1,872   |
| Cash (refunded) paid for income taxes                                  | \$(10 )                         | \$54      |
| <b>Non-cash Investing and Financing Activities</b>                     |                                 |           |
| Property and equipment purchased but not yet paid                      | \$6,239                         | \$3,614   |
| Repayments of debt with proceeds from sale-leaseback transactions      | —                               | \$13,034  |

See notes to unaudited condensed consolidated financial statements.

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. Basis of presentation

The unaudited condensed consolidated financial statements and notes herein should be read in conjunction with the audited consolidated financial statements of Great Lakes Dredge & Dock Corporation and Subsidiaries (the “Company” or “Great Lakes”) and the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. The condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the SEC’s rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. In the opinion of management, all adjustments, which are of a normal and recurring nature (except as otherwise noted), that are necessary to present fairly the Company’s financial position as of March 31, 2019, and its results of operations for the three months ended March 31, 2019 and 2018 and cash flows for the three months ended March 31, 2019 and 2018 have been included.

The Company adopted 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”) on January 1, 2019. The Financial Accounting Standards Board (“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 Company adopted ASC 842 using the package of practical expedients that allowed entities to retain the classification of lease contracts existing as of the date of adoption. Additionally, the Company has elected to combine lease and non-lease components, such as common area maintenance costs, in calculating the operating lease assets and operating lease liabilities for all asset groups except for the Company’s dredges. Further, the Company adopted ASC 842 using the transition method under which entities initially applied ASC 842 at the adoption date and recognized 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 were not adjusted to apply ASC 842. Upon the adoption of ASC 842, the Company recorded a cumulative net adjustment of \$2,802 to the beginning retained earnings balance.

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 is generally hired on a project-by-project basis. Costs of contract revenues vary significantly depending on the type and location of work performed and assets utilized.

The Company has one operating segment which is also the Company’s 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.

The condensed consolidated results of operations and comprehensive income for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

Recent accounting pronouncements

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.

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.

The computations for basic and diluted earnings (loss) per share are as follows:

| (shares in thousands)  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2019                            | 2018       |
| Income (loss) from continuing operations                       | \$ 20,548                       | \$(7,007 ) |
| Loss from discontinued operations, net of income taxes         | (3,380 )                        | (2,314 )   |
| Net income (loss)  | 17,168                          | (9,321 )   |
| Weighted-average common shares outstanding — basic             | 62,882                          | 61,815     |
| Effect of stock options and restricted stock units             | 1,687                           | —          |
| Weighted-average common shares outstanding — diluted           | 64,569                          | 61,815     |
| Earnings (loss) per share from continuing operations — basic   | \$ 0.33                         | \$(0.11 )  |
| Earnings (loss) per share from continuing operations — diluted | \$ 0.32                         | \$(0.11 )  |

For the three months ended March 31, 2018 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 the period:

| (shares in thousands)                              | Three Months Ended<br>March 31,<br>2018 |
|--|---|
| Effect of stock options and restricted stock units | 781                                     |

For the three months ended March 31, 2019 and 2018 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)                              | Three Months Ended<br>March 31, |       |
|--|---------------------------------|-------|
|  | 2019                            | 2018  |
| Effect of stock options and restricted stock units | 66                              | 1,906 |

### 3. Leases

The Company leases certain operating equipment and office facilities. Leases with an initial term greater than twelve months are recorded on the Company's balance sheet as an operating lease asset and operating lease liability and are measured at the present value of lease payments over the lease term. Substantially all of the Company's leases are classified as operating leases. Leases with an initial term of twelve months or less with purchase options or extension options that are not reasonably certain to be exercised are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term.

The exercise of lease renewal options is at the Company's sole discretion and is considered in the measurement of operating lease assets and operating lease liabilities when it is reasonably certain the Company will exercise the option. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.



Lease cost

The Company's lease costs are recorded in cost of contract revenues and general and administrative expenses. For the three months ended March 31, 2019, lease costs are as follows:

|                       | Three Months Ended<br>March 31, 2019 |
|-----------------------|--------------------------------------|
| Operating lease cost  | \$ 6,239                             |
| Short-term lease cost | 15,568                               |
| Total lease cost      | \$ 21,807                            |

Lease terms and commitments

The Company's maturity analysis of its operating lease liabilities, recorded on the balance sheet, as of March 31, 2019 is as follows:

|   |          |
|---|----------|
| 2019  | \$19,091 |
| 2020  | 23,055   |
| 2021  | 18,942   |
| 2022  | 13,501   |
| 2023  | 8,827    |
| Thereafter  | 9,150    |
| Minimum lease payments                            | 92,566   |
| Imputed interest                                  | 15,976   |
| Present value of minimum operating lease payments | \$76,590 |

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

|      |          |
|------|----------|
| 2019 | \$26,554 |
| 2020 | 22,349   |
| 2021 | 18,430   |
| 2022 | 13,552   |

|  |          |
|--|----------|
| 2023   | 9,041    |
| Thereafter   | 8,697    |
| Total<br>minimum<br>operating<br>lease<br>payments | \$98,623 |

As most of the Company's leases do not provide an implicit rate, the Company used our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. At the date of adoption, the Company used the incremental borrowing rate as of December 31, 2018, for operating leases that commenced prior to that date.

Additional information related to the Company's leases as of March 31, 2019 is as follows:

|                                       |                      |
|---------------------------------------|----------------------|
|                                       | March<br>31,<br>2019 |
|                                       | 4.3                  |
| Weighted average remaining lease term | years                |
| Weighted average discount rate        | 6.8 %                |

Supplemental information related to leases during the three months ended March 31, 2019 is as follows:

|   |                                      |
|---|--------------------------------------|
|   | Three Months Ended<br>March 31, 2019 |
| Operating cash flows from operating leases                                    | \$ (6,420 )                          |
| Operating lease liabilities arising from obtaining new operating lease assets | \$ 69                                |

## 4. Accrued expenses

Accrued expenses at March 31, 2019 and December 31, 2018 are as follows:

|                               | March<br>31,<br>2019 | December<br>31,<br>2018 |
|-------------------------------|----------------------|-------------------------|
| Insurance                     | \$ 13,926            | \$ 13,724               |
| Interest                      | 9,903                | 3,448                   |
| Contract reserves             | 4,732                | 1,709                   |
| Payroll and employee benefits | 5,071                | 15,298                  |
| Fuel hedge contracts          | 999                  | 4,710                   |
| Income and other taxes        | 756                  | 1,175                   |
| Other                         | 7,246                | 8,287                   |
| Total accrued expenses        | \$42,633             | \$ 48,351               |

## 5. Long-term debt

## 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 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 fiscal year. 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 were 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 publicly 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 March 31, 2019, the Company had no borrowings on the revolver, \$37,748 of letters of credit outstanding and \$206,008 of availability under the Credit Agreement. The availability under the Credit Agreement is suppressed by \$6,244 as of March 31, 2019 as a result of certain limitations set forth in the Credit Agreement.

#### Senior Notes and subsidiary guarantors

In May 2017, the Company issued \$325,000 of 8.000% senior notes ("8% Senior Notes") due May 15, 2022. The interest is paid semi-annually.

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.

#### 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

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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:

| Description          | At<br>March<br>31,<br>2019 | Fair Value Measurements at Reporting Date<br>Using<br>Quoted Prices in<br>Active Markets for<br>Identifiable<br>(Level 1) |                 |  | Significant<br>Unobservable Inputs<br>(Level 3) |
|----------------------|----------------------------|---|-----------------|--|---|
|                      |                            | Significant<br>Observable Inputs<br>(Level 2)   | Other<br>Inputs |  |   |
| Fuel hedge contracts | \$ 999                     | \$ —  | \$ 999          |  | \$ —  |

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

Fuel hedge contracts

The Company is exposed to certain market risks, primarily commodity price risk as it relates to 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 could have an adverse impact on cash flows associated with its domestic dredging contracts. The Company's goal is to hedge approximately 80% of the fuel requirements for work in domestic backlog.

As of March 31, 2019, 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 March 2020. As of March 31, 2019, there were 11.2 million gallons remaining on these contracts which represent approximately 80% of the Company's forecasted domestic fuel purchases through March 2020. Under these swap agreements, the Company will pay fixed prices ranging from \$1.91 to \$2.34 per gallon.

At March 31, 2019 and December 31, 2018, the fair value assets of the fuel hedge contracts were estimated to be \$999 and \$4,710, respectively, and are recorded in accrued expenses. For fuel hedge contracts considered to be highly effective, the losses reclassified to earnings from changes in fair value of derivatives, net of cash settlements and taxes, for the three months ended March 31, 2019 were \$891. The remaining gains and losses included in accumulated other comprehensive loss at March 31, 2019 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 values of fuel hedges are corroborated using inputs that are readily observable in public markets; therefore, the Company determines fair value 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 March 31, 2019 and December 31, 2018 is as follows:

|   |                        | Fair Value at |              |
|---|------------------------|---------------|--------------|
|   |                        | March 31,     | December 31, |
|   | Balance Sheet Location | 2019          | 2018         |
| Liability derivatives:                        |                        |               |              |
| Derivatives designated as hedging instruments |                        |               |              |
| Fuel hedge contracts                          | Accrued expenses       | \$999         | \$ 4,710     |

Accumulated other comprehensive income

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

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|  | Three Months Ended |          |
|--|--------------------|----------|
|  | March 31,          |          |
|  | 2019               | 2018     |
| Cumulative translation adjustments—net of tax                        | \$ —               | \$ 1,361 |
| Derivatives:   |                    |          |
| Reclassification of derivative (gains) losses to earnings—net of tax | 891                | (732 )   |
| Change in fair value of derivatives—net of tax                       | 1,849              | (2 )     |
| Net change in cash flow derivative hedges—net of tax                 | 2,740              | (734 )   |
| Total other comprehensive income                                     | \$ 2,740           | \$ 627   |



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

| Statement of Operations Location |                                | Three Months Ended |                |
|----------------------------------|--------------------------------|--------------------|----------------|
|                                  |                                | 2019               | March 31, 2018 |
| <b>Derivatives:</b>              |                                |                    |                |
| Fuel hedge contracts             | Costs of contract revenues     | \$ 1,207           | \$ (992 )      |
|                                  | Income tax (provision) benefit | 316                | (260 )         |
|                                  |                                | \$ 891             | \$ (732 )      |

During the three months ended March 31, 2018, the Company substantially completed the closeout of its Brazil operations. 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   |                    | Three Months Ended |   |
|------------------------------------|--------------------|--------------------|---|
|                                    |                    | March 31, 2018     |   |
| Cumulative translation adjustment: | Other expense      | \$ (2,015          | ) |
|                                    | Income tax benefit | 527                |   |
|                                    |                    | \$ (1,487          | ) |

#### 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 revolving credit agreement approximates fair value. In May 2017, the Company issued a total of \$325,000 of 8% senior notes due May 15, 2022, which were outstanding at March 31, 2019 (see Note 5, Long-term debt). The 8% Senior Notes are senior unsecured obligations of the Company and its subsidiaries that guarantee the 8% Senior Notes. The fair value of the senior notes was \$340,438 at March 31, 2019, 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. Share-based compensation

On May 11, 2017, the Company's stockholders approved the Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan (the "Incentive Plan"), which previously had been approved by the Company's board of directors subject to stockholder approval. The Incentive Plan permits the granting of stock options, stock appreciation rights, restricted stock and restricted stock units to the Company's 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.

During the three months ended March 31, 2019, the Company granted 490 thousand restricted stock units to certain employees. In addition, all non-employee directors on the Company's board of directors are paid a portion of their board-related compensation in stock grants or restricted stock units. Compensation cost charged to expense related to share-based compensation arrangements was \$2,000 and \$851 for the three months ended March 31, 2019 and 2018, respectively.

#### 8. Revenue

At March 31, 2019, the Company had \$575,189 of remaining performance obligations, which the Company refers to as total backlog. Approximately 66% of the Company's backlog will be completed in 2019 with the remaining balance expected to be completed by 2020.

#### Revenue by category

The following series of tables presents our revenue disaggregated by several categories.

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 Company's contract revenues by type of work, for the periods indicated, were as follows:

| Revenues           | Three Months Ended<br>March 31, |           |
|--------------------|---------------------------------|-----------|
|                    | 2019                            | 2018      |
| Dredging:          |                                 |           |
| Capital—U.S.       | \$92,744                        | \$76,952  |
| Capital—foreign    | 8,329                           | 5,523     |
| Coastal protection | 33,743                          | 41,861    |
| Maintenance        | 29,649                          | 7,803     |
| Rivers & lakes     | 28,172                          | 1,484     |
| Total revenues     | \$192,637                       | \$133,623 |

The Company's contract revenues by type of customer, for the periods indicated, were as follows:

| Revenues                   | Three Months Ended<br>March 31, |           |
|----------------------------|---------------------------------|-----------|
|                            | 2019                            | 2018      |
| Dredging:                  |                                 |           |
| Federal government         | \$170,155                       | \$76,694  |
| State and local government | 14,103                          | 46,625    |
| Private                    | 50                              | 4,781     |
| Foreign                    | 8,329                           | 5,523     |
| Total revenues             | \$192,637                       | \$133,623 |

Contract balances

Accounts receivable at March 31, 2019 and December 31, 2018 are as follows:

|                                 | March<br>31,<br>2019 | December<br>31,<br>2018 |
|---------------------------------|----------------------|-------------------------|
| Completed contracts             | \$3,911              | \$8,592                 |
| Contracts in progress           | 24,655               | 48,418                  |
| Retainage                       | 6,128                | 7,969                   |
|                                 | 34,694               | 64,979                  |
| Allowance for doubtful accounts | (200 )               | (200 )                  |
| Total accounts receivable—net   | \$34,494             | \$64,779                |

The components of contracts in progress at March 31, 2019 and December 31, 2018 are as follows:

|  | March 31,<br>2019 | December<br>31,<br>2018 |
|--|-------------------|-------------------------|
| <b>Costs and earnings in excess of billings:</b>                   |                   |                         |
| Costs and earnings for contracts in progress                       | \$415,987         | \$433,093               |
| Amounts billed   | (401,038)         | (416,956)               |
| Costs and earnings in excess of billings for contracts in progress | 14,949            | 16,137                  |
| Costs and earnings in excess of billings for completed contracts   | 3,578             | 3,928                   |
| Total contract revenues in excess of billings                      | \$18,527          | \$20,065                |
| <b>Current portion of contract revenues in excess of billings</b>  |                   |                         |
|  | \$16,415          | \$17,953                |
| <b>Long-term contract revenues in excess of billings</b>           |                   |                         |
|  | 2,112             | 2,112                   |
| Total contract revenues in excess of billings                      | \$18,527          | \$20,065                |
| <b>Billings in excess of costs and earnings:</b>                   |                   |                         |
| Amounts billed   | \$(477,464)       | \$(260,691)             |
| Costs and earnings for contracts in progress                       | 423,609           | 242,898                 |
| Total billings in excess of contract revenues                      | \$(53,855 )       | \$(17,793 )             |

Revenue recognized for the three months ended March 31, 2019, that was included in the billings in excess of contract revenues balance at the beginning of the year was \$16,125.

At March 31, 2019 and December 31, 2018, costs to fulfill a contract with a customer recognized as an asset were \$11,318 and \$13,129, respectively, and are recorded in other current assets and other noncurrent assets. These costs relate to pre-contract and pre-construction activities. During the three months ended March 31, 2019 and 2018, the company amortized \$2,751 and \$2,497 respectively, of pre-construction costs.

#### 9. 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 year ended March 31, 2018 are summarized as follows:

Three Months Ended  
March 31, 2018

|   |          |
|---|----------|
| Costs of contract revenues—depreciation | \$ 2,992 |
| Costs of contract revenues—other        | 1,267    |
| General and administrative expenses     | 7        |
| Loss on sale of assets—net              | (7 )     |
| Other expense                           | 2,015    |
| Total                                   | \$ 6,274 |

The Company had accrued severance expense of \$76 and \$662 at March 31, 2019 and December 31, 2018, respectively, which are expected to be settled in 2019. Accrued severance is included in accrued expenses.

## 10. 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, 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 March 31, 2019, the Company had outstanding performance bonds with a notional amount of approximately \$1,291,106 of which \$110,126 relates to projects from the Company’s historical environmental & infrastructure businesses. The revenue value remaining in backlog related to these projects totaled approximately \$505,995.

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 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.

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. Legal actions 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 and \$250.

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. 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. In December 2018, EPA proposed a tolling agreement to provide additional time for EPA to assess the case and possible resolution. EPA and Great Lakes negotiated and executed a tolling agreement that suspends the running of any statute of limitations until May 15, 2019. 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.

11. 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 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 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 assets held for sale as of March 31, 2019 are provisions of \$14,425 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:

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2019                            | 2018      |
| Revenue   | \$ 9,184                        | \$ 12,970 |
| Loss before income taxes from discontinued operations | (4,193 )                        | (3,134 )  |



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|  |             |             |
|--|-------------|-------------|
| Loss on disposal of assets held for sale               | (315 )      | —           |
| Income tax benefit                                     | 1,128       | 820         |
| Loss from discontinued operations, net of income taxes | \$ (3,380 ) | \$ (2,314 ) |

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

|   | March<br>31, 2019 | December<br>31, 2018 |
|---|-------------------|----------------------|
| Assets:                                 |                   |                      |
| Accounts receivable—net                 | \$ 11,388         | \$ 13,943            |
| Contract revenues in excess of billings | 2,793             | 9,971                |
| Other current assets                    | 1,570             | 865                  |
| Assets held for sale                    | \$ 15,751         | \$ 24,779            |
|   |                   |                      |
| Property and equipment—net              | 6,672             | 6,612                |
| Operating lease assets                  | 1,603             | —                    |
| Goodwill                                | 7,000             | 7,000                |
| Other intangible assets—net             | 372               | 372                  |
| Other assets                            | 697               | 1,699                |
| Reserve for loss on disposal            | (14,425)          | (14,110 )            |
| Assets held for sale—noncurrent         | \$ 1,919          | \$ 1,573             |
|   |                   |                      |
| Liabilities:                            |                   |                      |
| Accounts payable                        | \$ 2,863          | \$ 8,343             |
| Accrued expenses                        | 3,417             | 4,380                |
| Operating lease liabilities             | 376               | —                    |
| Other current liabilities               | 1,292             | 1,217                |
| Liabilities held for sale               | \$ 7,948          | \$ 13,940            |
|   |                   |                      |
| Other liabilities                       | 48                | 146                  |
| Operating lease liabilities—noncurrent  | 1,227             | —                    |
| Liabilities held for sale—noncurrent    | \$ 1,275          | \$ 146               |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
Cautionary note regarding forward-looking statements

Certain statements in this Quarterly Report on Form 10-Q may constitute "forward-looking" statements as defined in Section 27A of the Securities Act of 1933 (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), the Private Securities Litigation Reform Act of 1995 (the "PSLRA") or in releases made by the Securities and Exchange Commission ("SEC"), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Great Lakes Dredge & Dock Corporation and its subsidiaries ("Great Lakes" or the "Company"), 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 Great Lakes' 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 its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any forward-looking statements. Great Lakes' future financial condition 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 Quarterly Report on Form 10-Q are made only as of the date hereof and Great Lakes does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

#### General

The Company is the largest provider of dredging services in the United States. In addition, the Company is the only U.S. dredging service provider with significant international operations. The mobility of the Company's fleet enables the Company to move equipment in response to changes in demand for dredging services.

Dredging generally involves the enhancement or preservation of 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 ("bid market"). The Company experienced an average combined bid market share in the U.S. of 42% over the prior three years, including 62%, 50%, 18% and 33% of the domestic capital, coastal protection, maintenance and rivers & lakes

sectors, respectively.

The Company's largest domestic dredging 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. In the first three months of 2019, the Company's dredging revenues earned from contracts with federal government agencies, including the Corps as well as other federal entities such as the U.S. Coast Guard and the U.S. Navy were approximately 88% of dredging revenues, above the Company's prior three year average of 68%.

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 11, Business dispositions, to our condensed consolidated financial statements.

The Company has one operating segment which is also the Company's one reportable segment and reporting unit.

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The Company's vessels are subject to periodic dry dock inspections to verify that the vessels have been maintained in accordance with the rules of the U.S Coast Guard and the American Bureau of Shipping ("ABS") and that recommended repairs have been satisfactorily completed. Dry dock frequency is a statutory requirement mandated by the U.S Coast Guard and the ABS. The Company's vessels dry-dock every two to three years or every five years, depending on the vessel type and also on an as-needed basis for occasional unscheduled repairs. The planned dry docking of certain vessels will begin to have an impact on the Company's results beginning in the second quarter of 2019 and continuing into the third quarter of 2019.

## Results of operations

The following tables set forth the components of net income (loss) and Adjusted EBITDA from continuing operations, as defined below, as a percentage of contract revenues for the three months ended March 31, 2019 and 2018:

|  | Three Months Ended |         |
|--|--------------------|---------|
|  | March 31,          |         |
|  | 2019               | 2018    |
| Contract revenues  | 100.0 %            | 100.0 % |
| Costs of contract revenues                                   | (74.1 )            | (89.4 ) |
| Gross profit   | 25.9               | 10.6    |
| General and administrative expenses                          | 7.7                | 9.8     |
| (Gain) loss on sale of assets—net                            | 0.1                | (0.1 )  |
| Operating income   | 18.1               | 0.9     |
| Interest expense—net   | (3.9 )             | (6.5 )  |
| Other income (expense)                                       | 0.1                | (1.5 )  |
| Income (loss) from continuing operations before income taxes | 14.3               | (7.1 )  |
| Income tax (provision) benefit                               | (3.6 )             | 1.9     |
| Income (loss) from continuing operations                     | 10.7               | (5.2 )  |
| Loss from discontinued operations, net of income taxes       | (1.8 )             | (1.7 )  |
| Net income (loss)  | 8.9                | (6.9 )  |
| Adjusted EBITDA from continuing operations                   | 22.8 %             | 10.3 %  |

Adjusted EBITDA from continuing operations, as provided herein, represents net income (loss), 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 and investors 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 from continuing operations 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 (loss):

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2019                            | 2018       |
| (in thousands)   |                                 |            |
| Net income (loss)                                      | \$ 17,168                       | \$(9,321 ) |
| Loss from discontinued operations, net of income taxes | (3,380 )                        | (2,314 )   |
| Income (loss) from continuing operations               | 20,548                          | (7,007 )   |
| Adjusted for:  |                                 |            |
| Interest expense—net                                   | 7,551                           | 8,653      |
| Income tax provision (benefit)                         | 6,846                           | (2,475 )   |
| Depreciation and amortization                          | 8,905                           | 14,562     |
| Adjusted EBITDA from continuing operations             | \$ 43,850                       | \$ 13,733  |

The Company's contract revenues by type of work, for the periods indicated, were as follows:

|                                       | Three Months Ended<br>March 31, |           |          |
|---------------------------------------|---------------------------------|-----------|----------|
| Revenues (in thousands)               | 2019                            | 2018      | Change   |
| Dredging:                             |                                 |           |          |
| Capital—U.S.                          | \$92,744                        | \$76,952  | 20.5 %   |
| Capital—foreign                       | 8,329                           | 5,523     | 50.8 %   |
| Coastal protection                    | 33,743                          | 41,861    | (19.4 )% |
| Maintenance                           | 29,649                          | 7,803     | 280.0 %  |
| Rivers & lakes                        | 28,172                          | 1,484     | N/M      |
| Total revenues                        | \$192,637                       | \$133,623 | 44.2 %   |
| N/M = Not meaningful due to magnitude |                                 |           |          |

For the three months ended March 31, 2019, total revenue was \$192.6 million, up from revenue of \$133.6 million for the same period in the prior year, representing an increase of \$59.0 million or 44%. For the three months ended March 31, 2019, the Company experienced an increase in domestic capital, maintenance, rivers & lakes and foreign revenues. These increases were partially offset by a decrease in coastal protection revenues as compared to the same period in the prior year.

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. Domestic capital dredging for the three months ended March 31, 2019 was \$92.7 million compared to \$77.0 million for the same period in 2018, representing an increase of \$15.7 million, or 20%. For the three months ended March 31, 2019, the higher domestic capital dredging revenues were primarily driven by revenue earned from deepening projects in Charleston, Tampa, and Jacksonville as well as a greater amount of revenue earned on a deepening project on the Delaware River during the current year as compared to the same period in the prior year. This increase was partially offset by a greater amount of revenue earned on coastal restoration projects and the

Savannah Harbor deepening project during the first quarter of 2018.

Foreign capital projects typically involve land reclamations, channel deepening and port infrastructure development. For the three months ended March 31, 2019, foreign capital revenue was \$8.3 million which is \$2.8 million, or 51%, higher than revenue of \$5.5 million during the first three months of 2018. The increase in revenue for the three months ended March 31, 2019 was driven by revenue earned on a project in Bahrain that commenced during the first quarter of 2019. During the first quarter of 2018, the Company substantially completed the closeout of its Brazil operations.

Coastal protection projects involve moving sand from the ocean floor to shoreline locations where erosion threatens shoreline assets. Coastal protection revenue for the three months ended March 31, 2019 was \$33.7 million, down \$8.2 million or 19%, from \$41.9 million for the first three months of 2018. The decrease in coastal protection revenue for the three months ended March 31, 2019 was mostly attributable to a greater amount of revenue earned on projects in South Carolina in the same period in the prior year. Additionally, revenue for the first quarter of 2018 included projects in Florida and Georgia that did not repeat during the current year period. This decrease was partially offset by revenue earned on a project in North Carolina that commenced during the first quarter of 2019 and a greater amount of revenue earned during the current year on projects in New Jersey and New York as compared to the same period in 2018.



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. Maintenance revenue for the first three months of 2019 was \$29.6 million, an increase of \$21.8 million, or 280%, compared to \$7.8 million for the comparable period in the prior year. The increase in maintenance dredging revenues for the first three months of 2019 was mostly attributable to revenue earned on projects in Georgia, Florida and Mississippi. This increase was partially offset by a greater amount of revenue earned on projects in Maryland compared to the same period in the prior year and revenue earned on projects in Delaware and Virginia during the first quarter of 2018 that did not repeat during the current year.

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. Rivers & lakes revenue for the three months ended March 31, 2019 was \$28.2 million, up \$26.7 million, from \$1.5 million in the first three months of 2018. The increase in rivers & lakes revenue for the three months ended March 31, 2019 was mostly attributable to revenue earned during the first quarter of 2019 on a large flood mitigation project in Texas as a result of Hurricane Harvey, as well as revenue earned on a project in Louisiana.

Consolidated gross profit for the three months ended March 31, 2019 was \$49.9 million, up \$35.8 million, or 254%, compared to \$14.1 million in the same period of the prior year. Gross profit margin for the three months ended March 31, 2019 was up to 25.9% from 10.6% in the first three months of 2018. The higher gross profit experienced in the first quarter of 2019 was driven by strong performance on the Company's domestic capital, maintenance and rivers & lakes projects when compared to the prior year period. Lower plants costs resulting from the retirement of certain underperforming and underutilized assets, and greater fixed cost coverage also contributed to the increased profit during the current year. The three months ended March 31, 2018 included \$4.3 million of restructuring charges related to asset retirements and the closeout of the Company's Brazil operations.

General and administrative expenses for the three months ended March 31, 2019 and 2018 totaled \$14.8 million and \$13.1 million, respectively. The \$1.7 million increase in general and administrative expenses for the first three months of 2019 was attributable to a \$2.2 million increase in payroll and benefits expense related to incentive compensation as a result of improved gross profit, as noted above. This increase in expense was offset by a \$0.7 million decrease in legal and professional fees during the first quarter of 2019 as compared to the same period in the prior year.

Operating income for the three months ended March 31, 2019 was \$34.8 million up \$33.5 million, from operating income of \$1.2 million in the same prior year period. The change in operating income for the first quarter of 2019 was a result of higher gross profit partially offset by higher general and administrative expense compared to the same period in the prior year, as described above.

Net interest expense for the three months ended March 31, 2019 was \$7.6 million, down \$1.1 million, or 13%, from interest expense of \$8.7 million for the same period in the prior year. The decrease in interest expense for the three months ended March 31, 2019 was attributable to a decrease of \$1.1 million in interest expense associated with the Company's senior secured revolving credit facility as compared to the same period in the prior year. All other interest expense incurred by the Company was mostly in line with the same period in the prior year.

For the three months ended March 31, 2019 and 2018, the Company had an income tax provision of \$6.8 million and an income tax benefit of \$2.5 million, respectively. The effective tax rate for the three months ended March 31, 2019 was 25.0%, mostly in line with the effective tax rate of 26.1% for the same period of 2018.

Net income from continuing operations for the three months ended March 31, 2019 was \$20.5 million up \$27.5 million, from a net loss from continuing operations of \$7.0 million for the same period in the prior year. Diluted earnings (loss) per share attributable to continuing operations were \$0.32 and (\$0.11) for the three months ended March 31, 2019 and 2018, respectively. The change in net income from continuing operations for the three months ended March 31, 2019 was driven by the increase in operating income and decrease in interest expense during the current year, as described above. Further, the prior year was negatively impacted by a \$2.0 million charge to other income (expense) for the reversal of a cumulative translation adjustment related to the closeout of the Company's Brazil operations during the first quarter of 2018. These items were partially offset by an increase in the income tax provision, as noted above, during the first three months of 2019 when compared to the same period in the prior year.

Adjusted EBITDA from continuing operations (as defined on page 22) for the three months ended March 31, 2019 was \$43.9 million, up \$30.2 million, or 220%, from Adjusted EBITDA from continuing operations of \$13.7 million for the same prior year period. The change in Adjusted EBITDA from continuing operations during the first three months of 2019 was attributable to higher gross profit, excluding depreciation, and a positive change related to the \$2.0 million charge to other income (expense), as described above. These

positive factors were partially offset by higher general & administrative expenses incurred during the first quarter of 2019, as described above.

#### Bidding activity and backlog

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

|                        | March<br>31,<br>2019 | December 31,<br>2018 | March<br>31,<br>2018 |
|------------------------|----------------------|----------------------|----------------------|
| Backlog (in thousands) |                      |                      |                      |
| Dredging:              |                      |                      |                      |
| Capital - U.S.         | \$376,114            | \$ 447,139           | \$383,132            |
| Capital - foreign      | 64,827               | 73,112               | 6,225                |
| Coastal protection     | 75,034               | 81,068               | 43,211               |
| Maintenance            | 36,548               | 56,189               | 25,586               |
| Rivers & lakes         | 22,666               | 49,583               | 16,734               |
| Total Backlog          | \$575,189            | \$ 707,091           | \$474,888            |

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, 79% of the Company's March 31, 2019 dredging 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.

The domestic dredging bid market for the three months ended March 31, 2019 was \$218.8 million, a decrease of \$113.8 million, compared to the first three months of 2018. Total domestic dredging bid market for the current year period included awards for a coastal protection project in New York, hopper maintenance work on the West Coast and a capital project related to the Wilmington Harbor expansion. The bid market for the three months ended March 31, 2019 decreased compared to the prior year due to a greater number of larger capital projects let to bid in the prior year, which included the Boston Harbor deepening project, and rivers & lakes projects. This was partially offset by slightly higher maintenance and coastal protection projects awarded in the quarter ended March 31, 2019. For the contracts awarded in the current year, the Company won 32%, or \$20.1 million, of the coastal protection projects, no domestic capital projects, 14%, or \$15.0 million, of the maintenance projects and no rivers & lakes projects through March 31, 2019. The Company won 16% of the overall domestic bid market for the first three months of 2019, which is below the Company's prior three year average of 42%. Variability in contract wins from quarter to quarter is not unusual and one quarter's win rate is generally not indicative of the win rate the Company is likely to achieve for a full year.

The Company's contracted dredging backlog was \$575.2 million at March 31, 2019 compared to \$707.1 million of backlog at December 31, 2018. These amounts do not reflect approximately \$101.7 million of domestic low bids pending formal award and additional phases ("options") pending on projects currently in backlog at March 31, 2019. At December 31, 2018 the amount of domestic low bids and options pending award was \$115.6 million.

Domestic capital dredging backlog at March 31, 2019 was \$71.0 million lower than at December 31, 2018. For the three months ended March 31, 2019, the Company continued to earn revenue on a coastal restoration project in Mississippi, and deepening projects in Charleston, Tampa, and Jacksonville as well as on a deepening project on the Delaware River which were in backlog at December 31, 2018. The Company expects additional phases of multiple large deepening and other capital projects to bid in the second half of 2019. The projects coming into the pipeline include additional phases of work in Charleston, Savannah, Corpus Christi and Mississippi as well as new projects in Virginia, Texas and Louisiana. Further, several liquefied natural gas petro chemical and crude oil projects are creating the need for port development in support of energy exports. The Company expects several of these private client projects to be bid in 2019.

Foreign capital dredging backlog at March 31, 2019 was \$8.3 million lower than at December 31, 2018. During the first three months of 2019, the Company continued to earn revenue on a project in the Middle East which was in backlog at December 31, 2018. During 2018, the Company relocated two of its dredges to our domestic fleet from their previous positions in the international market to meet increased demand in the U.S. market.

Coastal protection dredging backlog at March 31, 2019 was \$6.0 million lower than at December 31, 2018. In the first three months of 2019, the Company was awarded a \$20 million coastal protection project in North Carolina. During the first three months of 2019, the Company continued to earn revenue on coastal protection projects in New York and South Carolina which were in backlog at December 31, 2018. 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 in prior years 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 expected that approximately \$1.8 billion will be allocated to dredging-related work. 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.

Maintenance dredging backlog was down \$19.6 million from December 31, 2018. During the first three months of 2019, the Company was awarded a \$10.3 million maintenance project in South Carolina and a \$4.7 million project on the Mississippi River. During the first three months of 2019, the Company continued to earn revenue on projects in the South Atlantic, Georgia, and Florida which were in backlog at December 31, 2018. 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 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 which was above its commitment.

Rivers & lakes backlog at March 31, 2019 was down by \$26.9 million from backlog at December 31, 2018. For the three months ended March 31, 2019, the Company continued to earn revenue on a large project in Texas and a project in Louisiana which were in backlog at December 31, 2018.

#### Liquidity and capital resources

The Company’s principal sources of liquidity are net cash flows provided by operating activities and proceeds from previous issuances of long-term debt. The Company’s principal uses of cash are to meet debt service requirements, finance capital expenditures, provide working capital and other general corporate purposes.

The Company’s cash provided by operating activities of continuing operations for the three months ended March 31, 2019 and 2018 totaled \$105.8 million and \$5.0 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 the first three months of 2019 compared to the same period in the prior year was driven by billings and collections on large projects during the first quarter of 2019 as well

as a greater investment in working capital during the prior year period. Further, this increase was also driven by an increase of \$27.6 million in net income from continuing operations in the first quarter of 2019 compared to the same period in the prior year.

The Company's cash flows used in investing activities for the first three months of 2019 and 2018 totaled \$7.6 million and \$2.5 million, respectively. Investing activities primarily relate to normal course upgrades and capital maintenance of the Company's dredging fleet. During the three months ended March 31, 2018, the Company received \$4.5 million in cash proceeds from a sale-leaseback of a dredge.

The Company's cash flows used in financing activities for the three months ended March 31, 2019 and 2018 totaled \$12.1 million and \$4.8 million, respectively. The increase in cash used in financing activities primarily relates to changes in the net repayments on Company's revolving credit facility in the current period of \$11.5 million compared to \$4.0 million in the same period in the prior year.

## Senior notes

In May 2017, the Company issued \$325 million in aggregate principal amount of its 8% Senior Notes due May 15, 2022. 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.

## Commitments, contingencies and liquidity matters

Refer to Note 5, Long-term debt, in the Notes to Condensed Consolidated Financial Statements for discussion of the Company's Credit Agreement. Additionally, refer to Note 10, Commitments and contingencies, in the Notes to Condensed Consolidated Financial Statements for discussion of the Company's surety agreements.

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 under the Credit Agreement and bonding agreement, depends on its future operating performance and cash flows, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond the Company's control.

## Critical accounting policies and estimates

In preparing its consolidated financial statements, the Company follows GAAP, which is described in Note 1, Basis of presentation, to the Company's December 31, 2018 Consolidated Financial Statements included on Form 10-K. The application of these principles requires significant judgments or an estimation process that can affect the results of operations, financial position and cash flows of the Company, as well as the related footnote disclosures. The Company continually reviews its accounting policies and financial information disclosures. Except as noted in Note 1, Basis of presentation, of the company's financial statements, there have been no material changes in the Company's critical accounting policies or estimates since December 31, 2018.

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

The market risk of the Company's financial instruments as of March 31, 2019 has not materially changed since December 31, 2018. The market risk profile of the Company on December 31, 2018 is disclosed in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures.

a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act") as of March 31, 2019. 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 SEC's rules and forms.

Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2019 in providing such a reasonable assurance.

b) Changes in internal control over financial reporting.

There have been 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 March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



PART II — Other Information

Item 1. Legal Proceedings.

See Note 10, Commitments and contingencies, in the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

There have been no material changes during the three months ended March 31, 2019 to the risk factors previously disclosed in Item 1A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Number Document Description

- 10.1 Restricted Stock Unit Award Notice pursuant to the Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan. \*†
- 10.2 Performance-Based Restricted Stock Unit Award Notice pursuant to the Great Lakes Dredge & Dock Corporation 2017 Long-Term Incentive Plan. \*†
- 31.1 Certification Pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 31.2 Certification Pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*
- 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

\*\* Furnished herewith

† Compensatory plan or arrangement

SIGNATURE

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

Great Lakes Dredge & Dock Corporation  
(registrant)

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: May 3, 2019