

Orion Marine Group Inc  
Form 10-Q  
November 06, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009  
OR

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

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

Commission file number:  
1-33891

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

DELAWARE  
(State or other jurisdiction of  
Incorporation or organization)

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

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

77034  
(Zip Code)

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

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

Yes  No

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

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "Large Accelerated Filer," "Accelerated Filer," and "Smaller Reporting Company" in Rule 12b-2 of the Exchange Act. (Check one)

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

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

As of November 1, 2009, 26,776,722 shares of the Registrant's common stock, \$0.01 par value, were outstanding.

---

ORION MARINE GROUP, INC.  
 Quarterly Report on Form 10-Q for the period ended September 30, 2009  
 INDEX

PART I FINANCIAL INFORMATION

	Page
Item 1	Financial Statements (Unaudited) Condensed Consolidated Balance Sheets at September 30, 2009 and December 31, 2008 Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008 Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2009 Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008 Notes to Condensed Consolidated Financial Statements
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 3	Quantitative and Qualitative Disclosures About Market Risk
Item 4	Controls and Procedures

PART II OTHER INFORMATION

Item 1	Legal Proceedings	27
Item 1A	Risk Factors	27
Item 4	Submission of Matter to a Vote of Security Holders	27
Item 6	Exhibits	27

SIGNATURES	Exhibits	28
------------	----------	----

10.27 Lease Agreement dated July 16, 2009 between F. Miller Construction, LLC and Reeves Commercial

10.28 Lease Agreement dated September 8, 2009 between F. Miller Construction, LLC and West Calcasieu Port Authority

31.1 Certification of the Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.1

Certification of the Chief Executive Officer  
Pursuant to Rules 13a-14 and 15d-14 of the  
Securities Exchange Act of 1934, as adopted  
pursuant to Section 302 of the Sarbanes-Oxley Act  
of 2002

## Part I – Financial Information

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

	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 108,984	\$ 25,712
Accounts receivable:		
Trade, net of allowance of \$1,203 and \$800, respectively	37,056	37,806
Retainage	11,198	5,719
Other	476	691
Income taxes receivable	2,197	4,017
Note receivable	765	--
Inventory	1,744	738
Deferred tax asset	1,642	1,319
Costs and estimated earnings in excess of billings	9,094	7,228
Prepaid expenses and other	1,834	3,207
Total current assets	174,990	86,437
Property and equipment, net	80,451	84,154
Goodwill	12,096	12,096
Intangible assets, net of accumulated amortization	320	3,556
Other assets	66	79
Total assets	\$ 267,923	\$ 186,322
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$--	\$ 5,909
Accounts payable:		
Trade	20,481	13,276
Retainage	778	389
Accrued liabilities	11,740	8,176
Taxes payable	353	--
Billings in excess of costs and estimated earnings	5,402	11,666
Total current liabilities	38,754	39,416
Long-term debt, less current portion	--	28,216
Other long-term liabilities	409	422
Deferred income taxes	11,383	12,286
Deferred revenue	330	371
Total liabilities	50,876	80,711
Commitments and contingencies		
Stockholders' equity:		
Common stock -- \$0.01 par value, 50,000,000 authorized, 26,788,368 issued; 26,776,722 outstanding at September 30, 2009; 21,577,366 issued; 21,565,720 outstanding at December 31, 2008	268	216
Treasury stock, 11,646 shares, at cost	--	--

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

Additional paid-in capital	150,748	55,388
Retained earnings	66,031	50,007
Total stockholders' equity	217,047	105,611
Total liabilities and stockholders' equity	\$267,923	\$186,322

See notes to unaudited condensed consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Contract revenues	\$81,466	\$62,897	\$222,259	\$182,558
Costs of contract revenues	65,468	50,297	173,112	150,056
Gross profit	15,998	12,600	49,147	32,502
Selling, general and administrative expenses	7,699	7,357	23,638	18,879
Income from operations.....	8,299	5,243	25,509	13,623
Interest (income) expense				
Interest income	(78 )	(107 )	(274 )	(375 )
Interest expense	88	365	525	855
Interest expense, net	10	258	249	480
Income before income taxes	8,289	4,985	25,260	13,143
Income tax expense	2,892	1,221	9,236	4,132
Net income	\$5,397	\$3,764	\$16,024	\$9,011
Basic earnings per share	\$0.22	\$0.18	\$0.71	\$0.42
Diluted earnings per share	\$0.22	\$0.17	\$0.70	\$0.41
Shares used to compute earnings per share:				
Basic	24,241,749	21,557,601	22,485,770	21,562,722
Diluted	24,678,251	21,833,327	22,896,150	21,840,370

See notes to unaudited condensed consolidated financial statements



Orion Marine Group, Inc. and Subsidiaries  
 Condensed Consolidated Statement of Stockholders' Equity  
 (Unaudited)  
 (In Thousands, Except Share Information)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance, January 1, 2009	21,577,365	\$216	(11,646 )	\$--	\$55,388	\$50,007	\$105,611
Stock-based compensation	--	--	--	--	1,059	--	1,059
Stock issued upon exercise of options	375,198	4	--	--	1,872	--	1,876
Tax benefit on exercise of options	--	--	--	--	1,456	--	1,456
Issuance of restricted stock	5,805	--	--	--	--	--	--
Issuance of common stock, net of expenses	4,830,000	48	--	--	90,973	--	91,021
Net income	--	--	--	--	--	16,024	16,024
Balance, September 30, 2009	26,788,368	\$268	(11,646 )	\$--	\$150,748	\$66,031	\$217,047

See notes to unaudited condensed consolidated financial statements

5

---

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

	Nine months ended September 30,	
	2009	2008
Cash flows from operating activities		
Net income	\$16,024	\$ 9,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,712	13,862
Deferred financing cost amortization	189	184
Non-cash interest expense	--	22
Bad debt expense	442	50
Deferred income taxes	(1,226 )	(2,187 )
Stock-based compensation	1,059	766
Gain on sale of property and equipment	(245 )	(1,040 )
Excess tax benefit from stock option exercise	(1,456 )	--
Change in operating assets and liabilities:		
Accounts receivable	(4,956 )	(5,701 )
Income tax receivable	3,276	--
Note receivable	(765 )	--
Inventory	(1,006 )	(8 )
Prepaid expenses and other	1,386	(3,282 )
Costs and estimated earnings in excess of billings	(1,866 )	2,930
Accounts payable	7,594	(991 )
Accrued liabilities	3,551	3,357
Income tax payable	353	(6,540 )
Billings in excess of costs and estimated earnings	(6,264 )	5,988
Deferred revenue	(42 )	(42 )
Net cash provided by operating activities	30,760	16,379
Cash flows from investing activities:		
Proceeds from sale of property and equipment	673	3,581
Purchase of property and equipment	(8,389 )	(11,715 )
Acquisition of business (net of cash acquired)	--	(36,713 )
Net cash used in investing activities	(7,716 )	(44,847 )
Cash flows from financing activities:		
Increase in loan costs	--	(80 )
Borrowings on long-term debt	--	35,000
Payments on long-term debt	(34,125 )	--
Proceeds from the sale of common stock	91,345	--
Expenses from the sale of common stock	(324 )	(51 )
Exercise of stock options	1,876	--
Tax benefit from stock option exercises	1,456	--
Net cash provided by financing activities	60,228	34,869
Net change in cash and cash equivalents	83,272	6,401
Cash and cash equivalents at beginning of period	25,712	12,584

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

Cash and cash equivalents at end of period	\$108,984	\$	18,985
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$539	\$	492
Taxes, net of refunds	\$6,831	\$	12,405

See notes to unaudited condensed consolidated financial statements

Orion Marine Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended September 30, 2009

(Unaudited)

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

1. Description of Business and Basis of Presentation

Description of Business

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and financial information included herein have been prepared pursuant to the interim period reporting requirements of Form 10-Q. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Readers of this report should also read our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (“2008 Form 10-K”) as well as Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations also included in our 2008 Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments considered necessary for a fair and comparable statement of the Company’s financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal recurring nature. Interim results of operations for the three and nine months ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

2. Summary of Significant Accounting Principles

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

Note 2 of the Notes to Consolidated Financial Statements in the 2008 Form 10-K.

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

7

---

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

### Revenue Recognition

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

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

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

### Risk Concentrations

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

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

At September 30, 2009, 32.5% of our accounts receivable was due from two customers. No single customer accounted for more than 10% of total receivables at December 31, 2008. In the three months ended September 30, 2009 and 2008, one customer in each period generated revenues in excess of 10% of total revenues, representing 13.7% and 10.8% of total revenues, respectively. In the nine months ended September 30, 2009, one customer generated revenues of 14.5%. No single customer generated revenues in excess of 10% of total revenues in the nine months ended September 30, 2008.

### Cash and cash equivalents

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

All cash and cash equivalents are stated at cost, which approximates market. The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Company maintains cash at various financial institutions that may exceed federally insured limits.

Accounts Receivable

Accounts receivable are stated at the historical carrying value, less write-offs and allowances for doubtful accounts. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is



determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. In the second quarter of 2009, the Company increased its allowance for doubtful accounts by \$400,000 to fully reserve a receivable due to the bankruptcy filing of a customer. As of September 30, 2009 and December 31, 2008, the Company had an allowance for doubtful accounts of \$1.2 million and \$800,000, respectively.

Balances billed to customers but not paid pursuant to retainage provisions in construction contracts generally become payable upon contract completion and acceptance by the owner. Retention at September 30, 2009 totaled \$11.2 million, of which \$1.7 million is expected to be collected beyond September 30, 2010. Retention at December 31, 2008 totaled \$5.7 million.

#### Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes, which prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of certain assets and liabilities. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

FASB ASC 740-10 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold that a tax position must meet before being recognized in the financial statements, and provides guidance on derecognition, measurement, and classification of uncertain tax positions, accounting for and disclosure of interest and penalties, and accounting in interim periods. Since adoption in 2007, the Company has not recorded a liability for uncertain tax positions.

#### Self-Insurance

The Company maintains insurance coverage for its business and operations. Insurance related to property, equipment, automobile, general liability, and a portion of workers' compensation is provided through traditional policies, subject to a deductible. A portion of the Company's workers' compensation exposure is covered through a mutual association, which is subject to supplemental calls. Effective July 1, 2009, the Company renewed its existing policies and increased retentions under its self-insurance programs.

Separately, the Company's employee health care is provided through a trust, administered by a third party. The Company funds the trust based on current claims. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are derived from actuarial studies, known facts, historical trends and industry averages utilizing the assistance of an actuary to determine the best estimate of the ultimate expected loss.

#### Stock-Based Compensation

The Company recognizes compensation expense for equity awards based on FASB ASC 718 – Compensation – Stock Compensation. Compensation expense is recognized based on the fair value of these awards at the date of grant. The computed fair value of these awards is recognized as a non-cash cost over the period the employee provides services, which is typically the vesting period of the award.

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



## Goodwill and Other Intangible Assets

### Goodwill

Goodwill represents the excess of costs over the fair value of the net tangible and intangible assets acquired. Goodwill and the cost of intangible assets with indefinite lives are not amortized, but are instead tested annually, in the fourth quarter of each fiscal year, for possible impairment (or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value). The Company accounts for goodwill in accordance with ASC 350 – Intangibles – Goodwill and Other. No impairment resulted from the test performed in 2008.

### Intangible assets

Intangible assets that have finite lives continue to be subject to amortization. In addition, the Company evaluates the remaining useful life in each reporting period to determine whether events and circumstances warrant a revision of the remaining period of amortization. If the estimate of an intangible asset's remaining life is changed, the remaining carrying value of such asset is amortized prospectively over that revised remaining useful life. As described more fully in Note 4, the Company acquired certain intangible assets as part of the acquisition of the assets of Subaqueous Services, Inc. in February 2008.

### Recently Issued Accounting Pronouncements

On July 1, 2009, the FASB officially launched the FASB ASC 105 -- Generally Accepted Accounting Principles, which established the FASB Accounting Standards Codification ("the Codification"), as the single official source of authoritative, nongovernmental, U.S. GAAP, in addition to guidance issued by the Securities and Exchange Commission. The Codification is designed to simplify U.S. GAAP into a single, topically ordered structure. All guidance contained in the Codification carries an equal level of authority. The Codification is effective for interim and annual periods ending after September 15, 2009. Accordingly, the Company refers to the Codification in respect of the appropriate accounting standards throughout this document as "FASB ASC". Implementation of the Codification did not have any impact on the Company's consolidated financial statements.

### Accounting pronouncements adopted prior to Codification

In June 2009, the FASB issued SFAS No. 167 -- Amendments to FASB Interpretation No. 46R (SFAS No. 167). SFAS 167 amends FIN 46R to require ongoing analysis to determine whether a company holds a controlling financial interest in a variable interest entity ("VIE"). The amendments include a new approach for determining who should consolidate a VIE, requiring a qualitative rather than a quantitative analysis. SFAS 167 also changes when it is necessary to reassess who should consolidate a VIE. Previously an enterprise was required to reconsider whether it was the primary beneficiary of a VIE only when specific events had occurred. The new standard requires continuous reassessment of an enterprise's interest in the VIE to determine its primary beneficiary. This statement will be effective for us in 2010. Early adoption is prohibited. We do not believe that the adoption of SFAS 167 will have a significant effect on the Company's consolidated financial statements. As of September 30, 2009, SFS 167 had not been added to the Codification.

The Company adopted the provisions of FASB ASC 855 – Subsequent Events as of June 30, 2009. FASB ASC 855 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance-sheet date.

The Company discloses the fair value of its financial instruments in its interim financial statements, in accordance with FASB ASC 825 -- Financial Instruments, which it adopted in June 2009. Adoption of this section of the Codification did not have a material effect on our unaudited condensed consolidated financial statements. The

appropriate disclosures related to adoption are included in Note 8, below.

The Company accounts for business combinations in accordance with FASB ASC 805 -- Business Combinations, which is effective for business combinations for which the acquisition date is after January 1, 2009. FASB ASC 805 had no effect on the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2009.

The Company adopted the provisions of FASB ASC 260 -- Earnings Per Share, effective January 1, 2009, which required that all unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, be included in the basic Earnings Per Share (EPS) calculation. Prior-year EPS numbers have been adjusted retrospectively on a consistent basis with 2009 reporting. This standard did not affect earnings per share for any period presented.

The Company accounts for its intangible assets under the provisions of FASB ASC 350 -- Intangibles – Goodwill and Other, and, effective January 1, 2009, adopted provisions within that topic that clarify accounting for defensive intangible assets subsequent to initial measurement, and applies to acquired intangible assets which an entity has no intention of actively using, or intends to discontinue use of, the intangible asset but holds it to prevent others from obtaining access to it (i.e., a defensive intangible asset). Also effective January 1, 2009, the Company adopted provisions within FASB ASC 350 that amend the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset, which requires a consistent approach between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of an asset. Adoption of these provisions did not have a material impact on the Company’s consolidated results of operations or financial condition.

The Company measures the fair value and discloses its fair value measurements in accordance with FASB ASC 820 -- Fair Value Measurements and Disclosures, and adopted provisions under FASB ASC 820 regarding the fair value measurement of nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring bases, and provisions under FASB ASC 820 that clarify the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. Adoption of these provisions did not have a material effect on our consolidated financial statements.

Accounting Standard Updates (“ASU”) issued after June 30, 2009

ASU No. 2009-12. In September 2009, the FASB amended Subtopic 820-10 -- Fair Value Measurements and Disclosures – Overall, to allow a reporting entity to measure the fair value of an investment on the basis of net asset value per share, as of the reporting entity’s measurement date, in certain limited conditions. The amendments in this update are effective for interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements that have not been issued. Adoption of these amendments is not expected to affect the Company’s consolidated financial statements.

### 3. Offering of Common Stock

In August 2009, pursuant to a shelf registration statement on Form S-3, the Company completed a public offering of 4,830,000 million shares of its common stock at \$19.70 per share. The Company received proceeds, net of underwriting commissions, of \$91.3 million (\$18.91 per share), and paid approximately \$524,000 in related offering expenses. The underwriters contributed \$200,000 to offset a portion of the Company’s expenses. A portion of the offering proceeds was used to repay the Company’s outstanding debt of approximately \$29.9 million.

Proceeds received from the sale of securities	\$95,151
Less:	
Underwriters’ commission	(3,806 )
	91,345
Offering related expenses	(524 )
Expense credit received from underwriters	200
Total proceeds, net of expenses	\$91,021

Use of proceeds:	
Repayment of outstanding debt	29,966
Balance retained in working capital, September 30, 2009	\$61,055

Proceeds are expected to be used for capital expenditures, possible future acquisitions and general corporate purposes.

4. Acquisition of the Assets of Subaqueous Services, Inc.

In February 2008, a wholly-owned subsidiary of the Company purchased substantially all of the assets (with the exception of working capital) and related business (principally consisting of project contracts) of Subaqueous Services, Inc., a Florida corporation (“SSI”) for \$35 million in cash. Additionally, the Company paid approximately \$1.7 million for net under-billings and retained funds held under certain project contracts. The Company funded the acquisition using its acquisition line of \$25 million and a draw on its accordion facility of \$10 million, and cash on hand for the payments referenced above.

The Company accounted for the purchase of the assets of SSI as a business combination. The following represents the Company’s allocation of the purchase price to the assets acquired:

Property and equipment	\$18,500
Intangible assets	6,900
Goodwill	9,615
	\$35,015

The following pro forma condensed financial results of operations are presented as if the acquisition described above had been completed at the beginning of the first quarter of 2008:

	Nine months ended September 30, 2008
Revenue	\$185,336
Income before taxes	\$12,369
Net income	\$8,533
Earnings per share:	
Basic	\$0.40
Diluted	\$0.39

5. Contracts in Progress

Contracts in progress are as follows at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Costs incurred	\$222,450	\$196,363
Estimated earnings	66,494	54,711
	\$288,944	251,074
Less: Billings to date	(285,252 )	(255,512 )

	\$3,692	\$(4,438 )
Included in the accompanying consolidated balance sheet under the following captions:		
Costs and estimated earnings in excess of billings	\$9,094	\$7,228
Billings in excess of costs and estimated earnings	(5,402 )	(11,666 )
	\$3,692	\$(4,438 )

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



Costs and estimated earnings in excess of billings arise when revenue has been recognized, but the amounts have not, or cannot, by the terms of the contract, been billed to the customer. Billings in excess of costs and estimated earnings arise when amounts billed to the customer exceed revenue recognized on the project.

Costs and estimated earnings in excess of billings, net of billings in excess of costs and estimated earnings on completed contracts was \$144,212 and \$277,880 at September 30, 2009 and December 31, 2008, respectively.

## 6. Property and Equipment

The following is a summary of property and equipment at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Automobiles and trucks	\$1,301	\$1,472
Building and improvements	12,226	12,015
Construction equipment	90,853	88,063
Dredges and dredging equipment	44,533	42,458
Office equipment	1,593	1,123
	\$150,506	145,131
Less: accumulated depreciation	(79,359 )	(69,092 )
Net book value of depreciable assets	71,147	76,039
Construction in progress	4,075	2,886
Land	5,229	5,229
	\$80,451	\$84,154

For the three and nine months ended September 30, 2009, depreciation expense was \$4.0 million and \$11.7 million, respectively. Depreciation expense for the three and nine months ended September 30, 2008 was \$3.9 million and \$11.2 million, respectively. The assets of the Company are pledged as collateral under the Company's credit facility, which had been repaid in full at September 30, 2009. Debt outstanding at December 31, 2008 totaled \$34.1 million.

## 7. Inventory

Inventory at September 30, 2009 and December 31, 2008, of \$1.7 million and \$738,000, respectively, consists of parts and small equipment held for use in the ordinary course of business.

## 8. Fair Value of Other Financial Instruments

On June 30, 2009, we adopted changes issued by the FASB for fair value disclosures of financial instruments. This guidance requires quarterly fair value disclosures for financial instruments in addition to the annual disclosure. Due to their short term nature, we believe that the carrying value of our accounts receivables, other current assets, accounts payables and other current liabilities approximate their fair values. We have a note receivable in the amount of \$765,000 from a customer providing for payments over a ten month period. Due to the short-term payment schedule, we believe that the carrying value of the note receivable approximates its fair value.

The table below summarizes the carrying amount and fair value of our debt payable (including current maturities) at December 31, 2008. Our debt was repaid in full in August 2009.

	September 30, 2009	December 31, 2008
Carrying amount:		
Debt payable (including current maturities)	--	\$34,125
Fair value:		
Debt payable (including current maturities)	--	\$33,415

The fair value of the debt payable was based on borrowing rates available to the Company for bank loans with similar terms, average maturities and credit risk.

## 9. Non-monetary transaction

During the first quarter of 2009, the Company entered into a non-monetary exchange with an unrelated party, whereby the Company provides marine construction services, including dredging and sheet pile work in exchange for delivery of seven new pushboats to add to the Company's fleet. The total value of the work contracted and the fair value of the boats, when delivered to the Company, is approximately \$1.8 million. All work performed by the Company, and delivery of all push boats is to be completed by December 31, 2009. At September 30, 2009, the Company had performed work with a value of approximately \$1.2 million, had taken delivery of four pushboats, and construction was underway on the remaining three boats with an equivalent value expended.

## 10. Goodwill and Intangible Assets

## Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Beginning balance, January 1	\$ 12,096	\$ 2,481
Additions	--	9,615
Ending balance	\$ 12,096	\$ 12,096

## Intangible assets

The Company acquired certain finite-lived intangible assets as part of the acquisition of the assets of SSI, as described in Note 4, above. In the three months ended September 30, 2009, the Company recorded amortization expense of \$764,000 and in the three months ended September 30, 2008, the Company recorded amortization expense of \$1.2 million related to these assets. For the nine month periods the Company recorded amortization expense of \$3.0 million and \$2.6 million in 2009 and 2008, respectively. Amortization for the balance of 2009 is \$8,300, for 2010 is \$33,000 and for 2011 is \$5,600.

## 11. Accrued Liabilities

Accrued liabilities at September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Accrued salaries, wages and benefits.....	\$6,609	\$3,856
Accrual for self-insurance liabilities.....	2,452	2,143
Other accrued expenses.....	2,679	2,177
	\$11,740	\$8,176

## 12. Debt and Line of Credit

The Company has a credit agreement with several participating banks. In February 2008, the Company borrowed \$35 million to fund the purchase of the assets of SSI, and amended its credit facility to reflect the borrowing. In August 2009, the Company repaid the outstanding balance on the credit facility of \$29.9 million from proceeds received from its common stock offering (Note 3, above). The Company has available to borrow up to \$15 million under an acquisition term loan facility and up to \$8.5 million under a revolving line of credit. All provisions under the credit facility mature on September 30, 2010.

The revolving line of credit is subject to a borrowing base and availability on the revolving line of credit is reduced by any outstanding letters of credit. At September 30, 2009, the Company had outstanding letters of credit of \$910,000, thus reducing the balance available to the Company on the revolving line of credit to approximately \$7.6 million. The Company is subject to a monthly commitment fee on the unused portion of the revolving line of credit at a current rate of 0.20% of the unused balance. As of September 30, 2009, no amounts had been drawn under the revolving line of credit.

The credit facility is secured by the bank accounts, accounts receivable, inventory, equipment and other assets of the Company and its subsidiaries and places restrictions on the Company as to its ability to incur additional debt, pay dividends, advance loans, and engage in other actions. The credit facility also requires the Company to maintain certain financial ratios as follows:

- A minimum net worth in the amount of not less than the sum of \$40.0 million plus 50% of consolidated net income earned in each fiscal quarter ended after December 31, 2006 plus adjustments for certain equity transactions;
- A minimum fixed charge coverage ratio of not less than 1.30 to 1.0 from December 31, 2006 and each fiscal quarter thereafter; and
- A total leverage ratio not greater than 3.0 to 1.0 from December 31, 2006 and each fiscal quarter thereafter.

At September 30, 2009, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of its credit facility. Historically, the Company has not relied on debt financing to fund its operations or working capital.

The Company is in negotiations to renew its credit facility prior to the September 30, 2010 expiration.

## 13. Income Taxes

The Company's effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available to it. For interim financial reporting, the Company estimates its annual tax rate based on projected taxable income for the full year and records a quarterly tax provision in accordance with the anticipated annual rate. The effective rate for the three and nine months ended September 30, 2009 was 34.9% and 36.6%, respectively, and differed from the Company's statutory rate primarily due to permanent differences and state income taxes.

	Current	Deferred	Total
Three months ended September 30, 2009:			
U.S. Federal	\$ 3,009	\$ (58 )	\$ 2,951
State and local	248	(307 )	(59 )
	\$ 3,257	\$ (365 )	\$ 2,892
Three months ended September 30, 2008:			
U.S. Federal	\$ 2,342	\$ (899 )	\$ 1,443
State and local	60	(282 )	(222 )
	\$ 2,402	\$ (1,181 )	\$ 1,221

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

	Current	Deferred	Total
Nine months ended September 30, 2009:			
U.S. Federal	\$9,786	\$(986 )	\$8,800
State and local	676	(240 )	436
	\$10,462	\$(1,226 )	\$9,236
Nine months ended September 30, 2008:			
U.S. Federal	\$5,603	\$(1,988 )	\$3,615
State and local	716	(199 )	517
	\$6,319	\$(2,187 )	\$4,132

The Company does not believe that its uncertain tax positions will significantly change due to the settlement and expiration of statutes of limitations prior to September 30, 2010.

## 14. Earnings Per Share

On January 1, 2009, the Company adopted changes issued by the FASB to the calculation of earnings per share. These changes state that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method for all periods presented. Under our stock-based compensation programs, certain employees are granted stock and performance awards, which entitle those employees to receive nonforfeitable dividends during the vesting period on a basis equivalent to any dividends paid to holders of the Company's common stock. As such, these unvested stock and performance awards meet the definition of a participating security. Under the two-class method, all earnings, whether distributed or undistributed, are allocated to each class of common stock and participating securities based on their respective rights to receive dividends. Prior to the adoption of these changes, stock and performance awards were considered potential shares of common stock and were included only in the diluted EPS calculation under the treasury stock method as long as their effect was not anti-dilutive. EPS data for prior periods presented were revised to reflect these changes.

Basic earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period. For the three months and nine months ended September 30, 2009, respectively, 26,677 and 209,848 common stock equivalents were not included in the diluted earnings per share calculation, as the effect of these shares would have been anti-dilutive. In each of the three and nine months ended September 30, 2008, 569,740 common stock equivalents were not included in the diluted earnings per share calculation, as the effect of these shares would have been anti-dilutive.

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

	Three months ended September 30, 2009		Nine months ended September 30, 2008	
Weighted average number of common shares outstanding:	24,241,749	21,557,601	22,485,770	21,562,722
Weighted average number of potentially dilutive common stock equivalents:	436,502	275,726	410,380	277,648
Total weighted average shares outstanding assuming dilution	24,678,251	21,833,327	22,896,150	21,840,370

## 15. Stock-Based Compensation

The Compensation Committee of the Company's Board of Directors is responsible for the administration of the Company's two stock incentive plans (the "LTIP" and the "2005 Plan"). In general, the plans provide for grants of restricted stock and stock options to be issued with a per-share price equal to the fair market value of a share of common stock on the date of grant. Option terms are specified at each grant date, but generally are 10 years. Options generally vest over a three to five year period. Total shares of common stock that may be delivered under the LTIP and the 2005 Plan may not exceed 2,943,946.

## Restricted stock

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

As part of their 2009 compensation package, the independent directors of the Company each received an equity award of either restricted stock or options with a fair value on the date of grant of \$35,000. In June 2009, upon receipt of the award, three directors elected to receive stock, which is restricted from sale in total for a period of three years. One director elected to receive options, which grant is also restricted from exercise for a period of three years, and is included in the discussion of stock options below. Compensation related to the grants of restricted stock totaled \$105,000, which is expensed ratably over the three-year vesting period.

The table below summarizes the restricted stock activity under the LTIP and the 2005 Plan at September 30, 2009:

	Number of shares	Weighted Average Fair Value of Shares
Non-vested shares outstanding at January 1, 2009	64,287	\$ 1.65
Granted	5,805	\$ 18.09
Vested	(27,579 )	\$ 0.02
Forfeited/repurchased shares	--	
Non-vested shares outstanding at September 30, 2009	42,513	\$ 4.95

Stock options

During 2009, the Company granted options to purchase 26,677 shares of common stock to individual employees and as part of the compensation package to the independent directors of the Company. The Company uses the Black-Scholes option pricing model to estimate the fair value of its stock-based awards. The fair value of the options granted during 2009 was determined using the following weighted average assumptions:

Expected life of options	3 years
Expected volatility	67.8%
Risk-free interest rate	1.5%
Dividend yield	0.0%
Exercise price	\$19.89
Grant date fair value	\$9.06

In March 2008, the Company granted options to purchase 15,000 shares of common stock and used the Black-Scholes option pricing model to estimate the fair value of stock-based awards. The fair value of the awards granted in March 2008 was determined using the following assumptions:

Expected life of options	6 years
Expected volatility	36.7%
Risk-free interest rate	2.92%
Dividend yield	0.0%
Exercise price	\$13.20
Grant date fair value	\$5.35



Stock option activity during the nine months ended September 30, 2009 consists of the following:

	Number of Options	Weighted Average Exercise Price
Stock options outstanding at January 1, 2009	1,328,340	\$8.35
Granted	26,677	\$19.89
Exercised	(375,198 )	\$5.00
Forfeited	(22,139 )	\$11.26
Stock options outstanding at September 30, 2009	957,680	\$9.92
Stock options exercisable at September 30, 2009	316,799	\$13.07

As of September 30, 2009, the aggregate intrinsic value of stock options outstanding and stock options exercisable was \$10.2 million and \$2.4 million, respectively. The weighted average contractual term of outstanding options was 8.38 years and the weighted average remaining contractual term of the exercisable options was 7.77 years at September 30, 2009. Proceeds received by the Company for the exercise of stock options in the three and nine months ended September 30, 2009 was \$0.2 million and \$1.9 million, respectively. No options were exercised in the three and nine months ended September 30, 2008.

For the three and nine months ended September 30, 2009, compensation expense related to equity awards for the periods was \$350,000 and \$1.1 million, respectively, and for the comparable periods in 2008 was \$258,000 and \$766,000.

At September 30, 2009, there was \$1.9 million of unrecognized compensation cost, net of estimated forfeitures, related to the Company's non-vested equity awards, which is expected to be recognized over a weighted average period of 1.48 years.

#### 16. Commitments and Contingencies

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

The Company has been named as one of a substantial number of defendants in numerous individual claims and lawsuits brought by the residents and landowners of New Orleans, Louisiana and surrounding areas in the United States District Court for the Eastern District of Louisiana. These suits have been classified as a subcategory of suits under the more expansive proceeding, *In re Canal Breaches Consolidation Litigation*, Civil Action No: 05-4182, (E.D. La, 2005), which was instituted in late 2005. While not technically class actions, the individual claims and lawsuits are being prosecuted in a manner similar to that employed for federal class actions. The claims are based on flooding and related damage from Hurricane Katrina. In general, the claimants state that the flooding and related damage resulted from the failure of certain aspects of the levee system constructed by the Corps of Engineers, and the claimants seek recovery of alleged general and special damages. The Corps of Engineers has contracted with various private dredging companies, including us, to perform maintenance dredging of the waterways. In accordance with a court ruling (*In re Canal Breaches Consolidation Litigation*, Civil Action No: 05-4182, "Order and Reasons," March 9, 2007 (E.D. La, 2007)), we believe that we have no liability under these claims unless we deviated from our contracted scope of work on a project. In September of 2007, however, the plaintiffs appealed this decision to the United States

Court of Appeals for the Fifth Circuit, where the appeal is currently pending. Additionally, plaintiffs in other cases included in this subcategory of suits continue to seek trial court determinations contrary to those reached in the “Order and Reasons” described above.

17. Enterprise Wide Disclosures

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

The following table represents concentrations of revenue by type of customer for the three and nine months ended September 30, 2009 and 2008.

	Three months ended September 30,				Nine months ended September 30,			
	2009	%	2008	%	2009	%	2008	%
Federal.....	\$8,316	10	\$7,183	11	\$36,373	17	\$22,427	12
State.....	2,946	4	9,825	16	20,158	9	24,529	14
Local.....	28,628	35	13,593	22	65,009	29	51,303	28
Private.....	41,576	51	32,296	51	100,719	45	84,299	46
	\$81,466	100	\$62,897	100	\$222,259	100	\$182,558	100

Revenues generated from projects located in the Caribbean Basin totaled 18.5% and 14.6%, and 3.4% and 2.4% of total revenues for the three and nine months ended September 30, 2009 and 2008, respectively.

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

18. Subsidiary Guarantors

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

19. Subsequent Events

The Company evaluated its September 30, 2009 financial statements for subsequent events through November 6, 2009, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors, including those described under "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K") may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements in this quarterly report on Form 10-Q speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly.

MD&A provides a narrative analysis explaining the reasons for material changes in the Company's (i) financial condition since the most recent fiscal year-end, and (ii) results of operations during the current fiscal year-to-date period and current fiscal quarter as compared to the corresponding periods of the preceding fiscal year. In order to better understand such changes, this MD&A should be read in conjunction with the Company's fiscal 2008 audited consolidated financial statements and notes thereto included in its 2008 Form 10-K, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2008 Form 10-K and with our unaudited financial statements and related notes appearing elsewhere in this quarterly report.

Overview

We are a leading marine specialty contractor serving the heavy civil marine infrastructure market. We provide a broad range of marine construction and specialty services on, over and under the water along the Gulf Coast, the Atlantic Seaboard and the Caribbean Basin. Our customers include federal, state and municipal governments, the combination of which accounted for approximately 49% of our revenue in the three months ended September 30, 2009, as well as private commercial and industrial enterprises. We are headquartered in Houston, Texas.

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

competitive considerations. The timing and location of awarded contracts may result in unpredictable fluctuations in the results of our operations.

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

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

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

Recent Developments. In August 2009, we completed a public offering of the sale of over 4.8 million common shares at a price of \$19.70 per share. Net of offering expenses, we received proceeds of \$91.0 million, and repaid all of our debt outstanding in the amount of approximately \$30.0 million.

On April 17, 2009, the U.S. Environmental Protection Agency (“EPA”) concluded that carbon dioxide and five other greenhouse gases, are a danger to public health and welfare, thus providing a basis for EPA regulation and control of emissions of such gases. The EPA finding is subject to public comment before an official ruling is made. Further, on September 26, 2009, the House of Representatives passed a climate change bill to reduce United States greenhouse gas emissions.

As more fully discussed in our 2008 Form 10-K, passage of climate control legislation or adoption of regulations that restrict emissions of greenhouse gases could have an adverse effect on our operations and demand for our services. The Company will continue to monitor the impact of EPA’s actions, the House bill referenced above, and subsequent legislative actions on its business as more information as to the type and nature of potential regulation becomes available.

In addition to its proposed rule regarding safety hazards related to the operation of hoisting equipment, such as cranes, discussed in more detail in our 2008 Annual Report on Form 10-K, the US Occupational Safety and Health Administration (“OSHA”) is expected to promulgate a rule which will impose stricter and more OSHA standards on certain of the Company’s marine operations, including standards on the control of hazardous energy, so-called “lock-out, tag-out”. While the Company does not currently expect that OSHA’s final rule will materially, adversely impact its operations or financial condition, we are continuing to monitor potential impacts as OSHA’s promulgation of the rule progresses.

Outlook. We continue to see good bidding opportunities in our end markets as the economy begins to stabilize. Sources of bid opportunities available to us include:

- Gulf Coast and Southeast Atlantic ports, which are expected to continue with expansion plans, with supplemental funding available from the American Recovery and Reinvestment Act (the “Stimulus package”).
- Bridge maintenance, alterations, and construction, which should be a priority for states, with funding from highway transportation programs and through the Stimulus package.
  - Funds available from the civil works budget and Stimulus package of the US Army Corps of Engineers.
- The continuation of the highway transportation program for highway construction, including bridges over water.

The proceeds received in the August 2009 common stock offering will allow us to pursue our core business strategies; expand and fill in our service areas; pursue strategic acquisitions and reinvest in our business through additions to and redevelopment of our equipment fleet.

During the nine months ended September 30, 2009, our operations provided cash from operations of \$30.8 million and our cash position at September 30, 2009 exceeded \$108.9 million. Our operations are not currently dependent on external short-term funding and we have not utilized the \$7.6 million available to us under our revolving credit facility.

## Consolidated Results of Operations

Three months ended September 30, 2009 compared with three months ended September 30, 2008

	2009		Three months ended September 30, 2008		
	Amount	Percent	Amount	Percent	
Contract revenues	\$81,466	100.0	% \$62,897	100.0	%
Costs of contract revenues	65,468	80.4	50,297	80.0	
Gross profit	15,998	19.6	12,600	20.0	
Selling, general and administrative expenses	7,699	9.4	7,357	11.7	
Income from operations	8,299	10.2	5,243	8.3	
Interest (income) expense					
Interest (income)	(78 )	(0.0 )	(107 )	(0.2 )	
Interest expense	88	0.1	365	0.6	
Interest expense, net	10	0.1	258	0.4	
Income before income taxes	8,289	10.1	4,985	7.9	
Income tax expense	2,892	3.5	1,221	1.9	
Net income	\$5,397	6.6	% \$3,764	6.0	%

**Contract Revenues.** Revenues are driven by the progress schedules, size, composition, scope, and number of projects under contract at any given time. In the three months ended September 30, 2009, revenues increased approximately 29.5% as compared with the same period last year. Contract revenue generated from government agencies, including federal, state and local municipalities represented 49% of total revenues in the third quarter of 2009, with projects in the private sector comprising 51% of revenue, which was similar in composition with the third quarter of 2008. In the current year quarter, we benefitted from favorable conditions, including the acceleration of progress schedules on certain projects. In the third quarter of 2008, construction was impacted by an active hurricane season, which shut down all projects at some time in the three month period, and resulted in a shift of revenue into later periods.

**Gross Profit.** Gross profit increased approximately \$3.4 million, or 27.0%, in the third quarter of 2009 as compared with the corresponding period last year. Gross margins between the two periods were essentially even, at 19.6% and 20%, in 2009 and 2008, respectively. The improvement in gross profit was due primarily to the increase in revenues. The change in gross margin was due principally to a larger component of outside subcontracting costs and material purchases, such as concrete and steel, resulting from the mix of projects in our portfolio of contracts during the period.

**Selling, General and Administrative Expense.** Selling, general and administrative expenses increased \$0.3 million in the three months ended September 30, 2009 as compared with the prior year period, primarily related to overhead costs for additional personnel.

**Income Tax Expense** Our effective rate for the three months ended September 30, 2009 was 34.9% and differed from the Company's statutory rate of 35% primarily due to state income taxes, to other permanent differences, and to the reconciliation to our federal tax return. Our effective rate for the three months ended September 30, 2008 was 24.5% and differed from the Company's statutory rate of 35% primarily due to the benefit of the domestic production activities deduction on the Company's tax return and to true-ups of federal and state deferred taxes.

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

Nine months ended September 30, 2009 compared with Nine months ended September 30, 2008

	2009		Nine months ended September 30, 2008		
	Amount	Percent	Amount	Percent	
Contract revenues	\$222,259	100.0	% \$182,558	100.0	%
Costs of contract revenues	173,112	77.9	150,056	82.2	
Gross profit	49,147	22.1	32,502	17.8	
Selling, general and administrative expenses	23,638	10.6	18,879	10.3	
Income from operations	25,509	11.5	13,623	7.5	
Interest (income) expense					
Interest (income)	(274 )	(0.1 )	(375 )	(0.2 )	
Interest expense	525	0.2	855	0.5	
Interest expense, net	249	0.1	480	0.3	
Income before income taxes	25,260	11.4	13,143	7.2	
Income tax expense	9,236	4.2	4,132	2.3	
Net income	\$16,024	7.2	% \$9,011	4.9	%

**Contract Revenues.** Revenues for the nine months ended September 30, 2009 increased approximately 21.7% as compared with the same period last year. The increase, as compared with last year, was attributable, in part, to our expansion late in the first quarter of 2008 of our dredging and other construction capabilities along the Atlantic Seaboard, and to favorable conditions which allowed us to accelerate certain progress schedules. Contract revenue generated from government agencies, including federal, state and local municipalities represented 55% of total revenues in the first nine months of 2009, with projects in the private sector comprising 45% of revenue, as compared with the nine months of 2008, when the mix of customers included 54% from government agencies and 46% from the private sector.

**Gross Profit.** Gross profit increased approximately \$16.6 million, or 51.2%, in the first nine months of 2009 as compared with the corresponding period last year. The improvement in gross profit was due to the increase in revenues, as well as our ability to release certain cost contingencies, resulting from improved project execution and performance. Gross margin for the nine months ended September 30, 2009 was 22.1%, as compared with 17.8% in the prior year period. In the prior year period, unforeseen site conditions on two dredging projects in the first half of 2008 resulted in project delays and adversely affected gross profit and margins. We self-performed approximately 89% of our work in the current year period, as compared with 87% in the comparable period of 2008.

**Selling, General and Administrative Expense.** Selling, general and administrative expenses increased \$4.7 million in the nine months ended September 30, 2009 as compared with the prior year period. The increase in expense was due to overheads and amortization of intangible assets related to the acquisition of the assets of Subaqueous Services, Inc. in February 2008, and to an increase in our reserve for doubtful accounts. In the nine months ended September 30, 2008, we recovered in full a previously reserved receivable and benefitted from lower group medical and workers' compensation expenses.

**Income Tax Expense** Our effective rate for the nine months ended September 30, 2009 was 36.6% and differed from the Company's statutory rate of 35% primarily due to the impact of certain permanent deductions available on our federal tax return, offset by increases in state income taxes. Our effective rate for the nine months ended September 30, 2008 was 31.4% and differed from the Company's statutory rate of 35% primarily due to the benefit of the



domestic production activities deduction on the Company's tax return in that year and to true-ups of federal and state deferred taxes.

#### Liquidity and Capital Resources

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

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At September 30, 2009, our working capital was \$136.2 million compared to \$47.0 million at December 31, 2008, of which \$61 million was related to the balance of the proceeds received from the sale of common stock in August 2009. As of September 30, 2009, we had cash on hand and availability under our revolving credit facility of \$116.5 million.

At September 30, 2009, our operations provided cash from operations of \$30.8 million. Our operations are not currently dependent on external short-term funding, and we have not utilized our available borrowing of \$7.6 million under our revolving credit facility.

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

The following table provides information regarding our cash flows for the nine months ended September 30, 2009 and 2008 (unaudited):

	Nine months ended September 30,	
	2009	2008
Cash flows provided by operating activities.....	\$30,760	\$16,379
Cash flows used in investing activities.....	\$(7,716 )	\$(44,847 )
Cash flows provided by financing activities.....	\$60,228	\$34,869

**Operating Activities.** During the nine months ended September 30, 2009, our operating activities provided \$30.8 million of cash as compared with \$16.4 million for the nine months ended September 30, 2008. The change of \$14.4 million was due to a \$5.0 million increase in net income, increases in non-cash items affecting net income, such as depreciation and amortization expense associated with the equipment and intangible assets acquired from SSI, and an increase in non-cash stock-based compensation related to grants of options during 2008, which aggregated \$8.1 million. The balance of the \$14.4 million change between periods was primarily due to decreases in prepaid items and taxes payable.

**Investing Activities.** Our capital asset additions totaled \$8.4 million in the nine months ended September 30, 2009, as compared with \$11.7 million in the prior year period. In February 2008, we purchased substantially all of the assets of SSI for a total purchase price of \$35 million, plus \$1.7 million related to the acquisition of projects under contract by SSI, for total cash related to the acquisition of \$36.7 million.

**Financing Activities.** In August 2009, we completed our public offering of common stock, receiving proceeds, net of expenses, of approximately \$91.0 million. With a portion of the proceeds, we repaid the outstanding balance on our credit facility. In addition, we received proceeds from stock option exercises, including the related excess tax benefits. Cash provided by financing activities in the prior year period was attributable to our borrowing of \$35.0 million under of line of credit to fund the assets purchased from SSI.

## Sources of Capital

In addition to our cash balances and cash provided by operations, we have a credit facility available to us to finance capital expenditures and working capital needs.

The Company has a credit agreement with several participating banks. In February 2008, the Company borrowed \$35 million to fund the purchase of the assets of SSI, and amended its credit facility to reflect the borrowing. In August 2009, the Company repaid the outstanding balance on the credit facility of \$29.9 million from proceeds received from its common stock offering (Note 3, above). The Company has the availability to borrow up to \$15 million under an acquisition term loan facility and up to \$8.5 million under a revolving line of credit. All provisions under the credit facility mature on September 30, 2010.

The revolving line of credit is subject to a borrowing base and availability on the revolving line of credit is reduced by any outstanding letters of credit. At September 30, 2009, the Company had outstanding letters of credit of \$910,000, thus reducing the balance available to the Company on the revolving line of credit to approximately \$7.6 million. The Company is subject to a monthly commitment fee on the unused portion of the revolving line of credit at a current rate of 0.20% of the unused balance. As of September 30, 2009, no amounts had been drawn under the revolving line of credit.

The credit facility is secured by the bank accounts, accounts receivable, inventory, equipment and other assets of the Company and its subsidiaries and places restrictions on the Company as to its ability to incur additional debt, pay dividends, advance loans, and engage in other actions. The credit facility also requires the Company to maintain certain financial ratios as follows:

- A minimum net worth in the amount of not less than the sum of \$40.0 million plus 50% of consolidated net income earned in each fiscal quarter ended after December 31, 2006 plus adjustments for certain equity transactions;
- A minimum fixed charge coverage ratio of not less than 1.30 to 1.0 from December 31, 2006 and each fiscal quarter thereafter; and
- A total leverage ratio not greater than 3.0 to 1.0 from December 31, 2006 and each fiscal quarter thereafter.

At September 30, 2009, the Company was in compliance with all its financial covenants with a sufficient margin as to not impair its ability to incur additional debt or violate the terms of its credit facility. Historically, the Company has not relied on debt financing to fund its operations or working capital.

The Company is in negotiations to renew its credit facility prior to the September 30, 2010 expiration.

## Bonding Capacity

We are generally required to provide various types of surety bonds that provide additional security to our customers for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends on our capitalization, working capital, past performance and external factors, including the capacity of the overall surety market. At September 30, 2009, we believe our capacity under our current bonding arrangement was in excess of \$400 million, of which we had approximately \$188 million in surety bonds outstanding. Despite the prevailing economic conditions, we believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity. During the quarter ended September 30, 2009, approximately 49% of projects, measured by revenue, required us to post a bond.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Management is actively involved in monitoring exposure to market risk and continues to develop and utilize appropriate risk management techniques. Our exposure to significant market risks includes outstanding borrowings under our floating rate credit agreement and fluctuations in commodity prices for concrete, steel products and fuel. An increase in interest rates of 1% would have increased interest expense by approximately \$42,000 for the three months ended September 30, 2009 and \$208,000 for the nine month period. Although we attempt to secure firm quotes from our suppliers, we generally do not hedge against increases in prices for concrete, steel or fuel. Commodity price risks may have an impact on our results of operations due to the fixed-price nature of many of our contracts.

As of September 30, 2009, we had no outstanding debt drawn under our credit agreement and there were no borrowings outstanding under our revolving credit facility; however, there were letters of credit issued in the amount of \$910,000 which lower the amount available to us on the revolving facility to approximately \$7.6 million.

Item 4. Controls and Procedures

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

PART II – Other Information

Item 1. Legal Proceedings

For information about litigation involving us, see Note 16 to the condensed consolidated financial statements in Part I of this report, which we incorporate by reference into this Item 1 of Part II.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our 2008 Form 10-K

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

None

Item 6. Exhibits

10.24\*Lease Agreement dated May 14, 2009 by and between Orion Marine Group, Inc. and Aerospace Operating Associates, LP.

10.25\*Amendment to Lease Agreement dated April 8, 2009 by and between Orion Construction, LP and Signet Maritime Corporation.

10.26\* Schedule of Changes to Compensation of Non-employee Directors, effective for 2009

31.1\*Certification of the Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2\*Certification of the Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1\*Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*filed herewith

SIGNATURES

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

ORION MARINE GROUP, INC.

November 6, 2009	By:/s/ J. Michael Pearson J. Michael Pearson President and Chief Executive Officer
November 6, 2009	By:/s/ Mark R. Stauffer Mark R. Stauffer Executive Vice President and Chief Financial Officer