

Orion Marine Group Inc
Form 10-Q
November 04, 2013

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, 2013
OR

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

For the transition period from _____ to _____
Commission file number:
1-33891

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

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

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

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

77034
(Zip Code)

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

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

Yes No

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

Yes No

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

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

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

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, 2013, 27,348,097 shares of the Registrant's common stock, \$0.01 par value were outstanding.

1

ORION MARINE GROUP, INC.

Quarterly Report on Form 10-Q for the period ended September 30, 2013

INDEX

PART I FINANCIAL INFORMATION

	Page
Item 1	
Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012</u>	<u>4</u>
<u>Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2013</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
Item 4	
<u>Controls and Procedures</u>	<u>26</u>

PART II OTHER INFORMATION

Item 1	<u>Legal Proceedings</u>	<u>26</u>
Item 1A	<u>Risk Factors</u>	<u>26</u>
Item 6	<u>Exhibits</u>	<u>27</u>

<u>SIGNATURES</u>	<u>28</u>
-------------------	-----------

Part I - Financial Information

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

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$31,155	\$43,084
Accounts receivable:		
Trade, net of allowance of \$0	44,154	45,072
Retainage	9,238	8,213
Other	529	1,712
Income taxes receivable	2,915	3,110
Note receivable	46	46
Inventory	5,458	4,354
Deferred tax asset	399	37
Costs and estimated earnings in excess of billings on uncompleted contracts	25,146	19,245
Asset held for sale	823	920
Prepaid expenses and other	1,010	2,857
Total current assets	120,873	128,650
Property and equipment, net	146,563	150,671
Accounts receivable, long-term	1,410	1,410
Inventory, non-current	915	915
Goodwill	34,817	34,817
Intangible assets, net of amortization	265	627
Other assets	217	225
Total assets	\$305,060	\$317,315
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current debt	\$9,343	\$12,621
Accounts payable:		
Trade	24,369	28,744
Retainage	1,931	2,433
Accrued liabilities	10,960	12,456
Taxes payable	774	252
Billings in excess of costs and estimated earnings on uncompleted contracts	14,643	16,369
Total current liabilities	62,020	72,875
Other long-term liabilities	936	564
Deferred income taxes	16,216	18,496
Deferred revenue	103	146
Total liabilities	79,275	92,081
Commitments and contingencies		
Stockholders' equity:		
Preferred stock -- \$0.01 par value, 10,000,000 authorized, none issued	—	—
Common stock -- \$0.01 par value, 50,000,000 authorized, 27,665,828 and 27,530,221 issued; 27,348,097 and 27,212,489 outstanding at September 30, 2013 and	278	275

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

December 31, 2012, respectively

Treasury stock, 317,731 shares, at cost	(3,003	) (3,003)
Additional paid-in capital	163,346	160,973	
Retained earnings	65,137	66,939	
Equity attributable to common stockholders	225,758	225,184	
Noncontrolling interest	27	50	
Total stockholders' equity	225,785	225,234	
Total liabilities and stockholders' equity	\$305,060	\$317,315	

The accompanying notes are an integral part of these condensed consolidated financial statements

3

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Contract revenues	\$88,992	\$75,386	\$248,131	\$193,408
Costs of contract revenues	83,381	70,493	228,859	191,560
Gross profit	5,611	4,893	19,272	1,848
Selling, general and administrative expenses	7,974	7,185	23,491	21,754
Loss from operations	(2,363	) (2,292	) (4,219	) (19,906
Other income (expense)				
Other income	—	44	614	228
Interest income	—	4	13	23
Interest expense	(111	) (235	) (427	) (638
Other (income) expense, net	(111	) (187	) 200	(387
Loss before income taxes	(2,474	) (2,479	) (4,019	) (20,293
Income tax benefit	(1,500	) (885	) (2,161	) (6,941
Net loss	(974	) (1,594	) \$(1,858	) \$(13,352
Net loss attributable to noncontrolling interest	(31	) —	(56) —
Net loss attributable to Orion common stockholders	\$(943	) \$(1,594	) \$(1,802	) \$(13,352
Basic loss per share	\$(0.03	) \$(0.06	) \$(0.07	) \$(0.49
Diluted income loss per share	\$(0.03	) \$(0.06	) \$(0.07	) \$(0.49
Shares used to compute income loss per share				
Basic	27,318,180	27,138,310	27,273,176	27,126,440
Diluted	27,318,180	27,138,310	27,273,176	27,126,440

The accompanying notes are an integral part of these condensed consolidated financial statements

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	27,530,221	\$275	(317,731)	\$(3,003)	\$160,973	\$66,939	\$ 50	\$225,234
Stock-based compensation					1,636			1,636
Exercise of stock options	135,607	3			737			740
Contribution from non-controlling interest							33	\$33
Net loss						(1,802)	(56)	(1,858)
Balance, September 30, 2013	27,665,828	\$278	(317,731)	\$(3,003)	\$163,346	\$65,137	\$ 27	\$225,785

The accompanying notes are an integral part of these condensed consolidated financial statements

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

	Nine months ended September 30,	
	2013	2012
Cash flows from operating activities		
Net loss	\$(1,858	) \$(13,352
Adjustments to reconcile net loss to net cash provided by Operating activities:		
Depreciation and amortization	16,187	16,038
Deferred financing cost amortization	53	158
Bad debt recoveries	(2	) 1
Deferred income taxes	(2,639	) (4,152
Stock-based compensation	1,636	2,372
Gain on sale of property and equipment	(59	) (156
Change in operating assets and liabilities:		
Accounts receivable	1,078	(12,165
Income tax receivable	195	11,347
Inventory	(1,105	) (197
Note receivable	—	5
Prepaid expenses and other	1,803	668
Costs and estimated earnings in excess of billings on uncompleted contracts	(5,901	) 2,906
Accounts payable	(4,877	) 7,086
Accrued liabilities	(1,122	) 994
Income tax payable	519	—
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,726	) 11,046
Deferred revenue	(43	) (43
Net cash provided by operating activities	2,139	22,556
Cash flows from investing activities:		
Proceeds from sale of property and equipment	191	349
Purchase of property and equipment	(11,751	) (22,344
Net cash used in investing activities	(11,560	) (21,995
Cash flows from financing activities:		
Borrowings from Credit Facility	—	13,000
Payments made on borrowings from Credit Facility	(3,278	) (2,489
Contributions from non-controlling interest	33	—
Exercise of stock options	737	176
Increase in loan costs	—	(14
Net cash (used in) provided by financing activities	(2,508	) 10,673
Net change in cash and cash equivalents	(11,929	) 11,234
Cash and cash equivalents at beginning of period	43,084	38,979
Cash and cash equivalents at end of period	\$31,155	\$50,213
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$393	\$675
Taxes (net of refunds)	\$(267	) \$(14,138

The accompanying notes are an integral part of these condensed consolidated financial statements

6

Orion Marine Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Tabular Amounts in thousands, Except for Share and per Share Amounts)
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Orion Marine Group, Inc., its subsidiaries and affiliates (hereafter collectively referred to as “Orion” or the “Company”) provide a broad range of marine construction services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast, Alaska, Canada and in the Caribbean Basin. The Company also has a marketing, but not an operational presence in Australia and the Middle East. 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 Standards 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 the same regulatory environment. We organize, evaluate and manage our financial information around each project when making operating decisions and assessing our overall performance.

Basis of Presentation

The accompanying condensed consolidated financial statements and financial information included herein have been prepared pursuant to the interim period reporting requirements of Form 10-Q. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Readers of this report should also read our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (“2012 Form 10-K”) as well as Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations also included in our 2012 Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal recurring nature. Interim results of operations for the three and nine months ended September 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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.

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

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

Revenue Recognition

The Company records revenue 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. Contract revenue reflects the original contract price adjusted for agreed upon change orders. Contract costs include all direct costs, such as material and labor, and those indirect costs related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Claims for payment that have not been approved by the customer are not recognized as an increase in contract revenue until and unless collection is deemed probable and if the amount can be reasonably estimated. Until approved by the customer, claims are not included as part of the computation of revenue. Incentive fees, if available, are billed to the customer based on the terms and conditions of the contract. The Company records revenue and the unbilled receivable for claims to the extent of costs incurred and to the extent we believe related collection is probable and includes no profit on claims recorded. Changes in the scope of work, job performance, and job conditions, 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, without regard to the percentage of completion. 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 less than one year. Historically, the Company has not combined or segmented contracts.

Classification of Current Assets and Liabilities

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times, cash held by financial institutions may exceed federally insured limits. The Company has not historically sustained losses on our cash balances in excess of federally insured limits. Cash equivalents at September 30, 2013 and December 31, 2012 consisted primarily of money market mutual funds and overnight bank deposits.

Foreign Currencies

Historically, the Company’s exposure to foreign currency fluctuations has not been material and has been limited to temporary field accounts, located in countries where the Company performs work, which amounts were insignificant in either 2013 or 2012.

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, a substantial portion of the Company's operations may be dependent upon 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.

Accounts Receivable

Accounts receivable are stated at the historical carrying value, less write-offs and allowances for doubtful accounts. The Company has significant investments in billed and unbilled receivables as of September 30, 2013. Billed receivables represent amounts billed upon the completion of small contracts and progress billings on large contracts in accordance with contract terms and milestones. Unbilled receivables on fixed-price contracts, which are included in costs in excess of billings, arise as revenues are

recognized under the percentage-of-completion method. Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. Revenue associated with these billings is recorded net of any sales tax, if applicable. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. In establishing an allowance for doubtful accounts, the Company evaluates its contract receivables and costs in excess of billings and thoroughly reviews historical collection experience, the financial condition of its customers, billing disputes and other factors. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. As of September 30, 2013 and December 31, 2012, the Company had not recorded an allowance for doubtful accounts.

Balances billed to customers but not paid pursuant to retainage provisions in construction contracts generally become payable upon contract completion and acceptance of the work by the owner. Retention at September 30, 2013 totaled \$9.2 million, of which \$1.8 million is expected to be collected beyond 2014. Retention at December 31, 2012 totaled \$8.2 million.

At September 30, 2013, and December 31, 2012, the Company had approximately \$1.4 million in long-term receivables. These relate to items that are due the Company for work performed under contract, but are not expected to be collected within one year. Management does not consider these receivables as distressed and currently expects to prevail in its collection litigation efforts. Management continues to evaluate and assess these items for collectability and therefore, no allowance has been recorded.

The Company negotiates change orders and claims with its customers. Unsuccessful negotiations of claims could result in a change to contract revenue that is less than its carrying value, which could result in the recording of a loss. Successful claims negotiations could result in the recovery of previously recorded losses. Significant losses on receivables could adversely affect the Company's financial position, results of operations and overall liquidity.

Advertising Costs

The Company primarily obtains contracts through the open bid process, and therefore advertising costs are not a significant component of expense. Advertising costs are expensed as incurred.

Environmental Costs

Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event the costs are capitalized. Liabilities, if any, are recognized when the expenditure is considered probable and the amount can be reasonably estimated.

Fair Value Measurements

We evaluate and present certain amounts included in the accompanying consolidated financial statements at "fair value" in accordance with GAAP, which requires us to base our estimates on assumptions market participants, in an orderly transaction, would use to price an asset or liability, and to establish a hierarchy that prioritizes the information used to determine fair value. In measuring fair value, we use the following inputs in the order of priority indicated:

Level I – Quoted prices in active markets for identical, unrestricted assets or liabilities.

Level II – Observable inputs other than Level I prices, such as (i) quoted prices for similar assets or liabilities; (ii) quoted prices in markets that have insufficient volume or infrequent transactions; and (iii) inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III – Unobservable inputs to the valuation methodology that are significant to the fair value measurement.

We generally apply fair value valuation techniques on a non-recurring basis associated with (1) valuing assets and liabilities acquired in connection with business combinations and other transactions; (2) valuing potential impairment loss related to long-lived assets; and (3) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets.

Inventory

Inventory consists of parts and small equipment held for use in the ordinary course of business and is valued at the lower of cost (using historical average cost) or market. Where shipping and handling costs are incurred by us, these charges are included in inventory and charged to cost of contract revenue upon use.

Property and Equipment

Property and equipment are recorded at cost. Ordinary maintenance and repairs that do not improve or extend the useful life of the asset are expensed as incurred. Major renewals and betterments of equipment are capitalized and depreciated generally over three to seven years until the next scheduled maintenance.

When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in results of operations for the respective period. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets for financial statement purposes, as follows:

Automobiles and trucks	3 to 5 years
Buildings and improvements	5 to 30 years
Construction equipment	3 to 15 years
Vessels and dredges	1 to 15 years
Office equipment	1 to 5 years

The Company generally uses accelerated depreciation methods for tax purposes where appropriate.

Dry-docking costs are capitalized and amortized on the straight-line method over a period ranging from three to 15 years until the next scheduled dry-docking. Dry-docking activities include, but are not limited to, the inspection, refurbishment and replacement of steel, engine components, tailshafts, mooring equipment and other parts of the vessel. Amortization related to dry-docking activities is included as a component of depreciation. These activities and the related amortization periods are periodically reviewed to determine if the estimates are accurate. If warranted, a significant upgrade of equipment may result in a revision to the useful life of the asset, in which case, the change is accounted for prospectively.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheets and reported at the lower of the carrying amount or the fair value, less the costs to sell, and are no longer depreciated. In late 2012, several assets were identified and recorded as held for sale, with an expected disposition date within one year.

Goodwill and Other Intangible Assets

Goodwill

The Company has acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill. Goodwill represents the costs in excess of fair values assigned to the underlying net assets in the acquisition. In accordance with U.S. GAAP, acquired goodwill is not amortized, but is subject to impairment testing at least annually or more frequently if events or circumstances indicate that the asset more likely than not may be impaired. U.S. GAAP guidance was issued that will allow the Company to qualitatively assess the likelihood that the carrying value of its reporting units is less than fair value in lieu of, or prior to, performance of step one of the impairment test process.

Intangible assets

Intangible assets that have finite lives are amortized. In addition, the Company must evaluate the remaining useful life in each reporting period to determine whether events and circumstances warrant a revision of the remaining period of amortization. If the estimate of an intangible asset's remaining life is changed, the remaining carrying value of such asset is amortized prospectively over that revised remaining useful life.

Stock-Based Compensation

The Company recognizes compensation expense for equity awards over the vesting period based on the fair value of these awards at the date of grant. The computed fair value of these awards is recognized as a non-cash cost over the period the employee

provides services, which is typically the vesting period of the award. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of restricted stock grants is equivalent to the fair value of the stock issued on the date of grant.

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

Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by US GAAP, which requires the recognition of income tax expense for the amount of taxes payable or refundable for the current period and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. The Company must make significant assumptions, judgments and estimates to determine its current provision for income taxes, its deferred tax assets and liabilities, and any valuation allowance to be recorded against any deferred tax asset. The current provision for income tax is based upon the current tax laws and the Company's interpretation of these laws, as well as the probable outcomes of any tax audits. The value of any net deferred tax asset depends upon estimates of the amount and category of future taxable income reduced by the amount of any tax benefits that the Company does not expect to realize. Actual operating results and the underlying amount and category of income in future years could render current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus impacting the Company's financial position and results of operations. The Company computes deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740-10 which prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on its consolidated tax return. The Company evaluates and records any uncertain tax positions based on the amount that management deems is more likely than not to be sustained upon examination and ultimate settlement with the tax authorities in the tax jurisdictions in which it operates.

Insurance Coverage

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

The Company maintains two levels of excess loss insurance coverage, totaling \$100 million in excess of primary coverage. The Company's excess loss coverage responds to most of its liability policies when a primary limit of \$1 million has been exhausted; provided that the primary limit for Maritime Employer's Liability is \$10 million and the Watercraft Pollution Policy primary limit is \$5 million.

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

industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from estimates. The Company includes any adjustments to such reserves in its consolidated results of operations in the period in which they become known.

The accrued liability for self-insured claims includes incurred but not reported losses of \$3.7 million and \$3.8 million at September 30, 2013 and December 31, 2012, respectively.

Recent Accounting Pronouncements

In February 2013, the FASB issued amendments to guidance for obligations resulting from joint and several liability arrangements. The amended guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the sum of (1) the amount of the obligation within the scope of this guidance is fixed at the reporting date, as the amount the

reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (2) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments should be applied retrospectively to all prior periods presented for obligations within the scope of guidance that exist at the beginning of an entity's fiscal year of adoption. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (early adoption is permitted). The implementation of the amended accounting guidance is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In March 2013, the FASB issued amendments to address the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The amendments are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013 (early adoption is permitted). The initial adoption had no impact on the Company's consolidated financial position and results of operations.

Internal Revenue Service procedures governing tangible property regulations are expected to be issued in the fourth quarter of 2013. The Company is evaluating the impact of these regulations concerning amounts paid to acquire, produce, or improve tangible property and recovery of basis upon disposition. Additionally, the Company is determining if any change in accounting method will be required and if these procedures will result in an impact to its financial statements. At this time, these revenue procedures are not expected to have a material impact on the Company's consolidated financial position or results of operations.

During the periods presented in these financial statements, the Company implemented other new accounting pronouncements other than those noted above that are discussed in the notes where applicable.

3. Concentration of Risk and Enterprise Wide Disclosures

Accounts receivable include amounts billed to governmental agencies and private customers and do not bear interest. Balances billed to customers but not paid pursuant to retainage provisions generally become payable upon contract completion and acceptance by the owner. The table below presents the concentrations of receivables (trade and retainage) at September 30, 2013 and December 31, 2012, respectively:

	September 30, 2013			December 31, 2012		
Federal Government	\$4,294	8	%	\$7,375	14	%
State Governments	4,759	9	%	1,761	3	%
Local Governments	8,442	16	%	5,532	10	%
Private Companies	35,897	67	%	38,617	73	%
Total receivables	\$53,392	100	%	\$53,285	100	%

At September 30, 2013, no single customer represented more than 10% of total receivables. At December 31, 2012, two private sector customers accounted for 11.7% and 9.9% of total receivables, respectively.

Additionally, the table below represents concentrations of revenue by type of customer for the three and nine months ended September 30, 2013, and 2012.

	Three months ended September 30,				Nine months ended September 30,							
	2013	%	2012	%	2013	%	2012	%				
Federal	\$14,193	16	%	\$17,408	23	%	\$50,685	20	%	\$42,336	22	%

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

State	9,339	10	%	11,623	15	%	21,355	9	%	28,637	15	%
Local	12,359	14	%	7,463	10	%	38,545	16	%	32,057	16	%
Private	53,101	60	%	38,892	52	%	137,546	55	%	90,378	47	%
	\$88,992	100	%	\$75,386	100	%	\$248,131	100	%	\$193,408	100	%

In the three months ended September 30, 2013, a private customer generated 11.9% of revenues and the US Army Corps of Engineers ("USCOE") generated 9.3% of total revenues. In the three months ended September 30, 2012, a private sector

customer generated 11.5% of revenues while the USCOE generated 19.5% of total revenues. For the nine month periods ended September 30, 2013 and 2012, the USCOE generated 13.7% and 16.8% of total revenues, respectively. Also in the nine month period ended September 30, 2012, a private sector customer generated 12.6% of total revenues.

The Company does not believe that the loss of any one of these customers, other than the USCOE, would have a material adverse effect on the Company and its subsidiaries and affiliates.

4. Contracts in Progress

Contracts in progress are as follows at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Costs incurred on uncompleted contracts	\$377,370	\$343,524
Estimated earnings	73,858	64,358
	451,228	407,882
Less: Billings to date	(440,725	) (405,006
	\$10,503	\$2,876
Included in the accompanying consolidated balance sheet under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	25,146	\$19,245
Billings in excess of costs and estimated earnings on uncompleted contracts	(14,643	) (16,369
	\$10,503	\$2,876

Costs and estimated earnings in excess of billings on completed contracts, net of billings totaled \$0.3 million at September 30, 2013.

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 estimated 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.

5. Property and Equipment

The following is a summary of property and equipment at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Automobiles and trucks	\$2,180	\$1,591
Building and improvements	22,828	22,037
Construction equipment	142,131	140,835
Dredges and dredging equipment	100,142	96,927
Office equipment	4,479	4,095
	271,760	265,485
Less: accumulated depreciation	(151,928	) (136,556
Net book value of depreciable assets	119,832	128,929
Construction in progress	11,938	6,949
Land	14,793	14,793

\$146,563

\$150,671

For the three months ended September 30, 2013, and 2012 , depreciation expense was \$5.3 million and \$5.3 million, respectively, and for the nine month period, depreciation expense was \$15.8 million and \$16.0 million in 2013 and 2012, respectively. Substantially all depreciation expense is included in the cost of contract revenue in the Company's Condensed Consolidated Statements of Operations. The assets of the Company are pledged as collateral under the Company's Credit Agreement (as defined in Note 10).

In the third quarter 2013, part of the assets held for sale were sold to third party vendors, generating proceeds of approximately \$81,000, and the Company elected to reduce the value of certain assets by approximately \$15,000 to their current estimated market value. The Company continues to actively market the assets remaining as held for sale.

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

6. Inventory

Inventory at September 30, 2013 and December 31, 2012, of \$5.5 million and \$4.4 million respectively, consists of spare parts and small equipment held for use in the ordinary course of business.

Non-current inventory at September 30, 2013 and December 31, 2012 totaled \$0.9 million in each period and consisted primarily of spare engines components kept on hand for the Company's dredging assets.

7. Fair Value

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. Due to their short term nature, the Company believes that the carrying value of its accounts receivables, other current assets, accounts payables and other current liabilities approximate their fair values. The Company has a note receivable in the amount of \$46,000, for which it believes that the carrying value approximates its fair value, and which bears interest at 10%. In addition, the Company has a long-term receivable in the amount of \$1.4 million, which it believes that the carrying value of this receivable approximates its fair value.

The fair value of the Company's reporting units (as needed for purposes of determining indications of impairment to the carrying value of goodwill) is determined using a weighted average of valuations based on market multiples, discounted cash flows, and consideration of our market capitalization. In 2012, the Company acquired the assets of West Construction, which included an earnout provision, based on achievement of certain targets, which was measured at its fair value at acquisition and re-assessed on a quarterly basis. In the second quarter of 2013, the Company determined that the earnout would not be payable at the measurement date, and reduced its liability of \$271,000 to zero, which is included as a component of other income in the Company's statement of operations for the nine month period.

The fair value of the Company's debt at September 30, 2013 and December 31, 2012 approximated its carrying value of \$9.3 million and \$12.6 million, respectively, as interest is based on current market interest rates for debt with similar risk and maturity. If the Company's debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

8. Goodwill and Intangible Assets

Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Beginning balance, January 1	\$34,817	\$32,168
Additions	—	2,649
Ending balance	\$34,817	\$34,817

No indicators of goodwill impairment were identified during the nine months ended September 30, 2013.

Intangible assets

The tables below present the activity and amortizations of finite-lived intangible assets:

14

	Nine months ended September 30,	
	2013	2012
Intangible assets, January 1	\$7,602	\$6,900
Additions	—	—
Total intangible assets, end of period	7,602	6,900
Accumulated amortization	\$(6,975)	\$(6,900)
Current year amortization	(362))
Total accumulated amortization	(7,337)	(6,900)
Net intangible assets, end of period	\$265	\$—

Intangible assets that were acquired in 2012 as part of the purchase of West Construction amortize over a period of one to three years, as follows:

	2013	2014	2015
Amortization	\$59	\$111	\$97

9. Accrued Liabilities

Accrued liabilities at September 30, 2013 and December 31, 2012 consisted of the following:

	September 30, 2013	December 31, 2012
Accrued salaries, wages and benefits	\$3,617	\$3,552
Accrual for self-insurance liabilities	3,662	3,806
Property taxes	2,101	2,458
Other accrued expenses	1,580	2,640
	\$10,960	\$12,456

10. Long-term Debt and Line of Credit

The Company has a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC.

The Credit Agreement, as amended from time to time, provides for borrowings under a revolving line of credit and swingline loans, an accordion, and a term loan (together, the "Credit Facility"). The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance working capital, repay indebtedness, fund acquisitions, and for other general corporate purposes. Interest is computed based on the designation of the loans, and bear interest at either a prime-based interest rate or a LIBOR-based interest rate. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. In April 2013, the maturity of its Credit Facility was extended from June 30, 2013 to June 30, 2014.

Provisions of the revolving line of credit and accordion

The Company has a maximum borrowing availability under the revolving line of credit and swingline loans (as defined in the Credit Agreement) of \$35 million, with a \$20 million sublimit for the issuance of letters of credit. An

additional \$25 million is available subject to the Lender's discretion.

Revolving loans may be designated as prime rate based loans (“ABR Loans”) or Eurodollar Loans, at the Company’s request, and may be made in an integral multiple of \$500,000, in the case of an ABR Loan, or \$1 million in the case of a Eurodollar

15

Loan. Swingline loans may only be designated as ABR Loans, and may be made in amounts equal to integral multiples of \$100,000. The Company may convert, change or modify such designations from time to time.

Borrowings are subject to a borrowing base, which is calculated as the sum of 80% of eligible accounts receivable, plus 90% of adjusted cash balances, as defined in the Credit Agreement. At September 30, 2013, our borrowing base reflected no limitation in borrowing availability.

At September 30, 2013, no amounts were outstanding under the revolver. Outstanding letters of credit, which totaled \$742,000 at September 30, 2013, reduced our maximum borrowing availability to approximately \$34.3 million.

Provisions of the term loan

At September 30, 2013, the term loan component of the Credit Facility totaled \$9.3 million and is secured by specific dredge assets of the Company. Principal payments on the term loan, in the amount of \$389,000, are due quarterly.

Financial covenants

Restrictive financial covenants under the Credit Facility include:

A Tangible Net Worth covenant, with the minimum Tangible Net Worth requirement of a base amount of \$180 million as of June 30, 2012, plus 50% of accumulated consolidated quarterly net income (if positive), plus 75% of all issuances of equity interests by Borrower during that quarter;

A Profitability Covenant such that the Company shall not sustain a consolidated net loss for two consecutive fiscal quarters, commencing with the quarter ending September 30, 2012.

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

The Company is subject to a commitment fee, at a current rate of 0.25% of the unused portion of the maximum available to borrow under the Credit Facility. The commitment fee is payable quarterly in arrears.

Interest at September 30, 2013, was based on the Eurodollar-option interest rate of 2.19%. For the year ended December 31, 2012, the weighted average interest rate was 2.40%.

At September 30, 2013, the Company was in compliance with its financial covenants and expects to be in compliance in 2013.

The Company expects to meet its future internal liquidity and working capital needs, and maintain its equipment fleet through capital expenditure purchases and major repairs, from funds generated by its operating activities for at least the next 12 months. The Company believes that its cash position is adequate for general business requirements and to service its debt.

11. Income Taxes

The Company's effective tax rate is based on expected income, statutory rates and tax planning opportunities available to it. For interim financial reporting, the Company estimates its annual tax rate based on projected taxable income (or loss) for the full year and records a quarterly tax provision in accordance with the anticipated annual rate. The effective rate for the nine months ended September 30, 2013 and 2012 was 53.8% and 34% in each period, respectively. This differed from the Company's statutory rate of 35% primarily due to state income taxes and the non-deductibility of certain permanent items, such as incentive stock compensation expense. In the third quarter of 2013, the Company recorded a benefit of approximately \$0.8 million related to the reconciliation of its 2012 provision

to the tax return, which affected the 2013 tax rate. This benefit was offset by other reconciliations affecting timing differences, such that, overall, the Company's federal net loss carryforward remained essentially unchanged.

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

	Current	Deferred	Total
Three months ended September 30, 2013			
U.S. Federal	\$340	\$(1,465)	\$(1,125)
State and local	52	(427)	(375)
	\$392	\$(1,892)	\$(1,500)
Three months ended September 30, 2012			
U.S. Federal	\$463	\$(1,337)	\$(874)
State and local	(61)	50	(11)
	\$402	\$(1,287)	\$(885)
Nine months ended September 30, 2013			
U.S. Federal	340	(2,079)	\$(1,739)
State and local	\$138	(560)	(422)
	\$478	\$(2,639)	\$(2,161)
Nine months ended September 30, 2012			
U.S. Federal	\$(2,721)	(3,788)	\$(6,509)
State and local	(68)	(364)	(432)
	\$(2,789)	\$(4,152)	\$(6,941)

In assessing the realizability of deferred tax assets at September 30, 2013, the Company considered whether it was more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets depends upon the generation of future taxable income, which includes the reversal of deferred tax liabilities related to depreciation, during the periods in which these temporary differences become deductible. As of September 30, 2013, the Company believes that all of the deferred tax assets will be utilized and therefore has not recorded a valuation allowance.

The Company has a net operating loss carryforward ("NOL") of approximately \$2.4 million for state income tax reporting purposes due to the losses sustained in various states in 2011 and 2012. The Company believes it will be able to utilize these NOL's against future income, due to expiration dates well into the future, and therefore no valuation allowance has been established. For federal tax reporting purposes, the Company carried all of its 2011 NOL back to 2009 and 2010 and received approximately \$13.1 million in cash against these tax years in 2012. Part of the loss generated in 2012 was carried back to 2010, and the Company's income tax receivable reflects this estimate. Approximately \$4.8 million remains as a tax carryforward, which the Company believes it will be able to utilize before expiration.

The Company does not believe that its tax positions will significantly change due to any settlement and/or expiration of statutes of limitations prior to September 30, 2014.

12. Earnings (Loss) Per Share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period. The exercise price for certain stock options awarded by the Company exceeds the average market price of the Company's common stock. Such stock options are antidilutive and are not included in the computation of earnings (loss) per share. During the periods presented, no potential common stock equivalents were included as the effect of such would be anti-dilutive.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Basic:				
Weighted average shares outstanding	27,318,180	27,138,310	27,273,176	27,126,440
Diluted:				
Total basic weighted average shares outstanding	27,318,180	27,138,310	27,273,176	27,126,440
Effect of dilutive securities:				
Common stock options	—	—	—	—
Total weighted average shares outstanding assuming dilution	27,318,180	27,138,310	27,273,176	27,126,440
Anti-dilutive stock options	2,092,881	2,334,053	2,092,881	2,334,053
Shares of common stock issued from the exercise of stock options	38,507	33,513	135,607	35,739

13. Stock-Based Compensation

The Company's stock incentive plan, known as the 2011 Long Term Incentive Plan, or the "2011 LTIP", was approved by shareholders in May 2011 and is administered by the Compensation Committee of the Company's Board of Directors. The 2011 LTIP authorized 3,000,000 shares to be issued under this plan. In general, the 2011 LTIP provides 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 are generally are 10 years from the date of issuance. Options generally vest over a three to five year period.

In the three months ended September 30, 2013 and 2012, compensation expense related to stock based awards outstanding was \$501,000 and \$846,000, respectively, and for the nine month period, compensation expense was \$1.6 million and \$2.4 million, respectively.

In August 2013, the Company granted options to purchase 15,081 shares of common stock, with a fair value of \$4.31 per share.

In the three months ended September 30, 2013, 38,507 options were exercised, generating proceeds to the Company of approximately \$231,000, and for the nine month period, 135,607 options were exercised, generating proceeds of \$737,000. In the three months ended September 30, 2012, the Company received proceeds of approximately \$162,200 upon the exercise of 33,513 options, and for the nine months ended September 30, 2012, the Company received approximately \$175,200 upon the exercise of 35,739 options.

At September 30, 2013, total unrecognized compensation expense related to unvested stock and options was approximately \$3.7 million, which is expected to be recognized over a period of 2.9 years.

14. Subsidiaries with Noncontrolling Owners' Interest

The Company acquired a two-thirds ownership interest in a foreign entity ("OMG-ME") as part of its acquisition of the assets of West Construction, Inc. in October 2012. The Company fully consolidates OMG-ME in its financial statements and records the remaining one-third ownership in its results of operations as "Net loss attributable to noncontrolling interest".

15. 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.

19

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, including unforeseen productivity delays, levels of government funding or other governmental budgetary constraints, and contract cancellation at the discretion of the customer. 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, 2012 ("2012 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 2012 audited consolidated financial statements and notes thereto included in its 2012 Form 10-K, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2012 Form 10-K and with our unaudited financial statements and related notes appearing elsewhere in this quarterly report.

Overview

We are a leading marine specialty contractor serving the heavy civil marine infrastructure market. We provide a broad range of marine construction and specialty services on, over and under the water along the Gulf Coast, the Atlantic Seaboard, the West Coast, Canada and the Caribbean Basin, as well as have a marketing, but not an operational presence in Australia and the Middle East. Our customers include federal, state and municipal governments, the combination of which accounted for approximately 40% of our revenue in the three months ended September 30, 2013, 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 and strategies are affected by such factors as our backlog, current utilization of equipment and other resources, our 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 result in inefficiencies in contract performance, which can impact the timing of revenue recognition and ultimate 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.

Third quarter 2013 recap and 2013 Outlook

Demand for marine infrastructure solutions continued to be strong in the third quarter, and provided steady bid opportunities, particularly in the private sector. In addition, we were able to sustain construction equipment utilization throughout the quarter. Revenues increased by 18% as compared with the third quarter last year, and by 6% compared with the second quarter of 2013.

We continue to see new bid opportunities in the private sector, reflecting increases in capital projects, both in new construction and refurbishment of existing infrastructure, driven in part by energy related infrastructure, the cruise industry, and preparation for larger ships transiting the expanded Panama Canal, which is scheduled for completion in 2015. Bridge projects funded by various state departments of transportation, as well as projects led by local port authorities, remain a steady source of bid opportunities. However, current and future lettings from the US Army Corps of Engineers ("USCOE") remain inconsistent and uncertain, until such time as a budget or long-term continuing resolution is passed. The Company continues to monitor the progress of The Water Resources Development Act (WRDA) of 2013, which includes language to correct the funding gap between the Harbor Maintenance Trust Fund receipts and expenditures for dredging projects.

Regarding coastal restoration opportunities, the second portion of the two-part federal trial in New Orleans, which will determine the amount of oil released in the 2010 gulf oil spill, is underway. Once the trial is over, Clean Water Act fines will then be levied against the responsible parties, 80% of which will go towards funding the RESTORE Act, which will fund coastal restoration opportunities in the five Gulf Coast States.

In the long-term, we continue to see positive trends in demands for our services in our end markets, including:

• General demand to repair and improve degrading US marine infrastructure;

• Renewed focus on coastal rehabilitation along the Gulf Coast

• Expected increases in cargo volume and future demands from larger ships transiting the Panama Canal will require ports along the Gulf Coast and Atlantic Seaboard to perform additional dredging services and expand port infrastructure; and

• Improving economic conditions and increased activity in the petrochemical industry will necessitate capital expenditures, including larger projects as well as maintenance call-out work.

We continue to concentrate on our core business objectives; to manage our business effectively and efficiently, continue to maintain a strong backlog while maintaining our pricing discipline; to closely monitor the costs of our operations; and to maintain our strong balance sheet.

Consolidated Results of Operations

Backlog Information

Our contract backlog represents our estimate of the revenues we expect to realize under the portion of contracts remaining to be performed. Given the typical duration of our contracts, which is generally less than a year, our backlog at any point in time usually represents only a portion of the revenue that we expect to realize during a twelve month period. Many projects that make up our backlog may be canceled at any time without penalty; however, we can generally recover actual committed costs and profit on work performed up to the date of cancellation. Although we have not been materially adversely affected by contract cancellations or modifications in the past, we may be in the

future, especially in economically uncertain periods. Consequently, backlog is not necessarily indicative of future results. In addition to our backlog under contract, we also have a substantial number of projects in negotiation or pending award at any time.

Backlog at September 30, 2013 was \$216.4 million, as compared with \$184.1 million at December 31, 2012.

21

Three months ended September 30, 2013 compared with three months ended September 30, 2012

	Three months ended September 30,					
	2013		2012			
	Amount	Percent	Amount	Percent		
	(dollar amounts in thousands)					
Contract revenues	\$88,992	100.0	% \$75,386	100.0		%
Cost of contract revenues	83,381	93.7	70,493	93.5		
Gross profit	5,611	6.3	4,893	6.5		
Selling, general and administrative expenses	7,974	9.0	7,185	9.5		
Operating loss	(2,363	) (2.7	) (2,292	) (3.0)
Other income (expense)						
Other income	—	—	44	0.1		
Interest income	—	—	4	—		
Interest (expense)	(111	) (0.1	) (235	) (0.3)
Other income, (expense) net	(111	) (0.1	) (187	) (0.2)
Loss before income taxes	(2,474	) (2.8	) (2,479	) (3.2)
Income tax benefit	(1,500	) (1.7	) (885	) (1.2)
Net loss	(974	) (1.1	) (1,594	) (2.0)
Net loss attributable to noncontrolling interest	(31) —	—	—		
Net loss attributable to Orion common stockholders	\$(943	) (1.1	) \$(1,594	) (2.0)%

Contract Revenues. Revenues for the three months ended September 30, 2013 increased approximately 18% as compared with the third quarter of 2012, as a result of an increased volume of work. During the quarter we mobilized to, and continued work on, several large construction projects particularly for private sector customers. Revenue generated from private sector customers represented 60% of total revenues in the period, as compared with 52% in the prior year period. Contract revenue generated from public sector customers represented 40% of total revenues in the third quarter of 2013, as compared with 48% in the comparable period last year. We view these shifts in revenue from one sector to another as normal in our business.

Gross Profit. Gross profit was \$5.6 million in the third quarter ended September 30, 2013, as compared with \$4.9 million in the third quarter last year. The improvement was primarily related to better utilization of equipment, resulting from an increased amount of work in the quarter, offset in part by costs incurred for differing site conditions. Gross margin in the third quarter was 6.3%, as compared with 6.5% last year, reflecting the mix of contracts in progress. As measured by cost, our self performance was 85% in the third quarter of 2013 and 84% in the third quarter last year. A higher level of job self-performance typically reflects less reliance on third party subcontractors, and generally results in higher margins.

Selling, General and Administrative Expense. Selling, general and administrative ("SG&A") expenses were \$8.0 million, an increase of \$0.8 million, or 11.0% as compared with the prior year period. The increase was primarily related to additional overhead expenses related to the acquisition of West Construction in late 2012.

Other income, net of expense. Other expense in the third quarter of 2013 and 2012 was primarily interest on our borrowings.

Income Tax Benefit. We have estimated our annual effective tax rate at 53.8% for 2013. This differs from the statutory rate of 35%, due to permanent differences, including incentive stock option expense, and to state income

taxes. Our effective rate for the in the period ended September 30, 2012 was 35.7%. In the third quarter of 2013, the Company recorded a benefit of approximately \$0.8 million related to the reconciliation of its 2012 provision to the tax return, which affected the 2013 tax rate.. This benefit was offset by other reconciliations affecting timing differences, such that, overall, the Company's federal net loss carryforward remained essentially unchanged.

Nine months ended September 30, 2013 compared with nine months ended September 30, 2012

	Nine months ended September 30,				
	2013		2012		
	Amount	Percent	Amount	Percent	
	(dollar amounts in thousands)				
Contract revenues	\$248,131	100.0	% 193,408	100.0	%
Cost of contract revenues	228,859	92.2	191,560	99.0	
Gross profit (loss)	19,272	7.8	1,848	1.0	
Selling, general and administrative expenses	23,491	9.5	21,754	11.2	
Operating loss	(4,219	) (1.7	) (19,906	) (10.2)
Other income (expense)					
Other income	614	0.2	228	0.1	
Interest income	13	—	23	—	
Interest (expense)	(427	) (0.2	) (638	) (0.3)
Other income, (expense) net	200	0.1	(387	) (0.2)
Loss before income taxes	(4,019	) (1.6	) (20,293	) (10.4)
Income tax benefit	(2,161	) (0.9	) (6,941	) (3.6)
Net loss	(1,858	) (0.7	) (13,352	) (6.8)
Net loss attributable to noncontrolling interest	(56) —	—	—	
Net loss attributable to Orion common stockholders	\$(1,802	) (0.7	) \$(13,352	) (6.8)%

Contract Revenues. Revenues for the nine months ended September 30, 2013 increased approximately 28.3%, resulting from increased volume of work. Revenues in the prior year period were substantially impacted by gaps between projects, as well as a slowdown in lettings of Federal projects, particularly those involving dredging services. In the first nine months of the current year, revenue generated from private customers represented 55% of total revenues in the period, as compared with 47% in the same period last year. Contract revenue generated from public sector customers represented 45% of total revenues in the first nine months of 2013, as compared with 53% in the comparable period last year.

Gross Profit. Gross profit was \$19.3 million in the nine months ended September 30, 2013, as compared with a \$1.8 million million in the comparable period last year. The improvement was primarily related to better utilization of equipment, and to certain cost savings on jobs in progress or nearing completion. In the prior year, margins were depressed due to underutilization of dredging assets, and to crews idled between projects. Gross margin in the first nine months of 2013 was 7.8% , as compared with 1.0% last year. As measured by cost, our self performance was 84% in the both periods.

Selling, General and Administrative Expense. Selling, general and administrative ("SG&A") expenses were \$23.5 million, an increase of \$1.7 million, or 8.0%, as compared with the prior year period, The increase was primarily related to additional overhead expenses related to the acquisition of West Construction in late 2012.

Other income, net of expense. For the nine month period ended September 30, 2013, we recorded other income, net of expense of \$614,000. During the second quarter of 2013, we determined that parameters necessary for the earnout portion of the purchase price related to the acquisition of West Construction in late 2012 would not be met. Accordingly, we reduced our liability of \$271,000 to zero, which is included as a component of other income for the year to date. The balance of other income related to miscellaneous recoveries, net of interest expense. In the first nine months of 2012, we recorded net expense of \$400,000, which was primarily interest on our borrowings.

Income Tax Benefit. We have estimated our annual effective tax rate at 34.6% for 2013. This differs from the statutory rate of 35%, due to permanent differences, including incentive stock option expense, and to state income taxes. Our effective rate for the nine month period ended September 30, 2012 was 34.2%. In the third quarter of 2013, the Company recorded a benefit of approximately \$0.8 million related to the reconciliation of its 2012 provision to the tax return, which affected the 2013 tax rate.. This benefit was offset by other reconciliations affecting timing differences, such that, overall, the Company's federal net loss carryforward remained essentially unchanged.

Liquidity and Capital Resources

Our primary liquidity needs are to finance our working capital, fund 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 (as defined below).

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At September 30, 2013, our working capital was \$58.9 million, as compared with \$55.8 million at December 31, 2012. As of September 30, 2013, we had cash on hand of \$31.2 million. Availability under our revolving credit facility was subject to a borrowing base, which did not limit our borrowing availability of approximately \$34.3 million.

We expect to meet our future internal liquidity and working capital needs, and maintain our equipment fleet through capital expenditure purchases and major repairs, from funds generated in our operating activities for at least the next 12 months. We believe our cash position is adequate for our general business requirements discussed above and to service our debt.

The following table provides information regarding our cash flows and our capital expenditures for the nine months ended September 30, 2013 and 2012:

	Nine months ended September 30,	
	2013	2012
Cash flows provided by operating activities	\$2,139	\$22,556
Cash flows used in investing activities	\$(11,560)	\$(21,995)
Cash flows (used in) provided by financing activities	\$(2,508)	\$10,673
Capital expenditures (included in investing activities above)	\$(11,751)	\$(22,344)

Operating Activities. In the first nine months of 2013, our operations provided approximately \$2.1 million in net cash inflows, as compared with cash provided by operations in the prior year period of \$22.6 million. The change in cash between periods was related to:

- a decrease in our net loss of approximately \$11.6 million;
- a decrease in trade accounts receivable balances, reflecting collections on accounts as well as the timing of billings to customers, as compared with a net increase in receivables in the prior year period, which resulted in a net inflow of cash between periods of \$13.2 million;
- net outflow of cash of \$21.6 million between periods related to billings to and payments from customers for costs that cannot be billed, or receipt of payments for items such as mobilization at project commencement;
- receipt in the prior year of \$14 million in cash related to prior year tax refunds and the carryback of prior year tax losses;
- changes in other working capital components, including trade payables, which are related to the composition of projects in process, and which resulted in a net outflow of cash between 2013 and 2012 of \$12.5 million
- changes in non-cash components of approximately \$2.1 million, primarily related to changes in our net deferred tax liability, resulting from an increase in our net operating loss carryforwards in the current year.

Changes in working capital are normal within our business and are not necessarily indicative of any fundamental change within working capital components or trend in the underlying business.

Investing Activities. Capital asset additions and betterments to our fleet were \$11.7 million in the first nine months of 2013, as compared with \$22.3 million in 2012, which included the purchase of approximately 18 acres of land and buildings in Tampa, Florida.

Financing Activities. In the prior year period, we funded the purchase of land and buildings in Tampa, Florida from our Credit Facility through draws totaling \$13.0 million, of which \$10.9 million was converted to a term loan. We have made scheduled installment payments on the term loan which which has reduced the balance to \$9.3 million.

Sources of Capital

The Company has a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC.

The Credit Agreement, as amended from time to time, provides for borrowings under a revolving line of credit and swingline loans, an accordion, and a term loan (together, the "Credit Facility"). The Credit Facility is guaranteed by the subsidiaries of the Company, secured by the assets of the Company, including stock held in its subsidiaries, and may be used to finance working capital, repay indebtedness, fund acquisitions, and for other general corporate purposes. Interest is computed based on the designation of the loans, and bear interest at either a prime-based interest rate or a LIBOR-based interest rate. Principal balances drawn under the Credit Facility may be prepaid at any time, in whole or in part, without premium or penalty. Amounts repaid under the revolving line of credit may be re-borrowed. All of the components of the Credit Facility mature on June 30, 2013. On April 30, 2013, the Company extended the maturity of its Credit Facility to June 30, 2014.

Provisions of the revolving line of credit and accordion

The Company has a maximum borrowing availability under the revolving line of credit and swingline loans (as defined in the Credit Agreement) of \$35 million, with a \$20 million sublimit for the issuance of letters of credit. An additional \$25 million is available subject to the Lender's discretion.

Revolving loans may be designated as prime rate based loans ("ABR Loans") or Eurodollar Loans, at the Company's request, and may be made in an integral multiple of \$500,000, in the case of an ABR Loan, or \$1 million in the case of a Eurodollar Loan. Swingline loans may only be designated as ABR Loans, and may be made in amounts equal to integral multiples of \$100,000. The Company may convert, change or modify such designations from time to time.

Borrowings are subject to a borrowing base, which is calculated as the sum of 80% of eligible accounts receivable, plus 90% of adjusted cash balances, as defined in the Credit Agreement. At September 30, 2013, our borrowing base reflected no limitation in borrowing availability.

At September 30, 2013, no amounts were outstanding under the revolver. Outstanding letters of credit, which totaled \$742,000 at September 30, 2013, reduced our maximum borrowing availability to approximately \$34.3 million.

Provisions of the term loan

At September 30, 2013, the term loan component of the Credit Facility totaled \$9.3 million and is secured by specific dredge assets of the Company. Principal payments on the term loan, in the amount of \$389,000, are due quarterly.

Financial covenants

Restrictive financial covenants under the Credit Facility include:

A Tangible Net Worth covenant, with the minimum Tangible Net Worth requirement of a base amount of \$180 million as of June 30, 2012, plus 50% of accumulated consolidated quarterly net income (if positive), plus 75% of all issuances of equity interests by Borrower during that quarter;

A Profitability Covenant such that the Company shall not sustain a consolidated net loss for two consecutive fiscal quarters, commencing with the quarter ending September 30, 2012.

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

The Company is subject to a commitment fee, at a current rate of 0.25% of the unused portion of the maximum available to borrow under the Credit Facility. The commitment fee is payable quarterly in arrears.

Interest at September 30, 2013, was based on a Eurodollar-option interest rate of 2.19%. For the year ended December 31, 2012, the weighted average interest rate was 2.40%.

At September 30, 2013, the Company was in compliance with its financial covenants and expects to be in compliance in 2013.

The Company expects to meet its future internal liquidity and working capital needs, and maintain its equipment fleet through capital expenditure purchases and major repairs, from funds generated by its operating activities for at least the next 12 months. The Company believes our cash position is adequate for general business requirements and to service its debt.

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

25

capitalization, working capital, past performance and external factors, including the capacity of the overall surety market. At September 30, 2013, we believe our capacity under our current bonding arrangement was in excess of \$400 million, of which we had approximately \$100 million in surety bonds outstanding. We believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity.

Effect of Inflation

We are subject to the effects of inflation through increases in the cost of raw materials, and other items such as fuel. Due to the relative short-term duration of our projects, we are generally able to include anticipated price increases in the cost of our bids.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Commodity price risk

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

Interest rate risk

At September 30, 2013, we had \$9.3 million in outstanding borrowings under our revolving credit facility, with a weighted average interest rate over the three month period of 2.75%. Our objectives in managing interest rate risk are to lower our overall borrowing costs and limit interest rate changes on our earnings and cash flows. To achieve this, we closely monitor changes in interest rates and we utilize cash from operations to reduce our debt position, if warranted.

Item 4. Controls and Procedures

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.

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 15 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 2012 Form 10-K

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

There were no sales of equity securities in the period ended September 30, 2013.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosure

None.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Orion Marine Group, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).
3.2	Amended and Restated Bylaws of Orion Marine Group, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).
4.1	Registration Rights Agreement between Friedman, Billings, Ramsey & Co., Inc. and Orion Marine Group, Inc. dated May 17, 2007 (incorporated herein by reference to Exhibit 4.1 to the Company's Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).
10.1	Credit Agreement dated as of June 25, 2012 between Orion Marine Group, Inc. and Wells Fargo Bank, National Association, as Administrative Agent; Wells Fargo Securities, LLC as Sole Lead Arranger and Bookrunner
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 20
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

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

* filed herewith

+ management or compensatory arrangement

27

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.

By:
November 4, 2013

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

By:
November 4, 2013

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