Orion Group Holdings Inc
Form 10-Q
November 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to_________
Commission File Number: 1-33891

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

DELAWARE	26-0097459
(State of incorporation)	(I.R.S. Employer Identification Number)

12000 Aerospace Avenue, Suite 300 Houston, Texas	77034
(Address of principal executive offices)	(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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨

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

As of November 2, 2018, 28,966,619 shares of the registrant's common stock, $0.01 par value, were outstanding.

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Part I - Financial Information
Item 1 Financial Statements

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,594	$ 9,086
Accounts receivable:		
Trade, net of allowance of $0 and $0, respectively	81,181	84,953
Retainage	30,216	39,189
Other current	5,415	3,706
Income taxes receivable	395	339
Inventory	3,757	4,386
Costs and estimated earnings in excess of billings on uncompleted contracts	57,411	46,006
Prepaid expenses and other	2,939	4,124
Total current assets	183,908	191,789
Property and equipment, net	144,387	146,278
Inventory, non-current	4,781	4,915
Goodwill	69,483	69,483
Intangible assets, net of amortization	15,634	18,175
Other non-current	6,555	2,645
Total assets	$ 424,748	$ 433,285
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current debt, net of debt issuance costs	$ 40,650	$ 22,756
Accounts payable:		
Trade	31,360	45,194
Retainage	1,717	1,990
Accrued liabilities	17,699	17,873
Taxes payable	—	256
Billings in excess of costs and estimated earnings on uncompleted contracts	24,528	33,923
Total current liabilities	115,954	121,992
Long-term debt, net of debt issuance costs	55,770	63,185
Other long-term liabilities	4,460	3,573
Deferred income taxes	12,682	13,243
Interest rate swap liability	—	26
Total liabilities	188,866	202,019
Stockholders' equity:		
Preferred stock -- $0.01 par value, 10,000,000 authorized, none issued	—	—
Common stock -- $0.01 par value, 50,000,000 authorized, 29,677,843 and 28,860,961 issued; 28,966,619 and 28,149,737 outstanding at September 30, 2018 and December 31, 2017, respectively	296	288
Treasury stock, 711,231 shares, at cost, as of September 30, 2018 and December 31, 2017, respectively	(6,540)	(6,540)

Other comprehensive income (loss)	357	(26)
Additional paid-in capital	179,214	174,697
Retained earnings	62,555	62,847
Total stockholders’ equity	235,882	231,266
Total liabilities and stockholders’ equity	$ 424,748	$ 433,285

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Contract revenues	$125,073	$140,162	$421,682	$416,339
Costs of contract revenues	119,135	129,405	379,154	377,200
Gross profit	5,938	10,757	42,528	39,139
Selling, general and administrative expenses	14,371	16,524	46,249	49,031
Gain on sale of assets, net	(1,028)	(413)	(2,527)	(590)
Other gain from continuing operations	—	—	(5,448)	—
Operating (loss) income from operations	(7,405)	(5,354)	4,254	(9,302)
Other (expense) income				
Other income	1,143	9	1,617	30
Interest income	52	11	100	11
Interest expense	(3,217)	(1,369)	(5,899)	(4,186)
Other expense, net	(2,022)	(1,349)	(4,182)	(4,145)
(Loss) income before income taxes	(9,427)	(6,703)	72	(13,447)
Income tax (benefit) expense	(3,071)	(1,666)	78	(4,309)
Net loss	$(6,356)	$(5,037)	$(6)	$(9,138)
Basic loss per share	$(0.22)	$(0.18)	$—	$(0.33)
Diluted loss per share	$(0.22)	$(0.18)	$—	$(0.33)
Shares used to compute loss per share:				
Basic	28,490,530	27,950,829	28,421,850	27,980,074
Diluted	28,490,530	27,950,829	28,421,850	27,980,074

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

Orion Group Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income
(In Thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net loss	$(6,356)	$(5,037)	$(6)	$(9,138)
Change in fair value of cash flow hedge, net of tax expense of $14 and $138 for the three and nine months ended September 30, 2018, respectively and net of tax expense of $14 and net of tax benefit of $85 for the three and nine months ended September 30, 2017, respectively	37	17	383	127
Total comprehensive (loss) income	$(6,319)	$(5,020)	$377	$(9,011)

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

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

	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Other Comprehensive Income (Loss)	Additional Paid-In Capital	Retained Earnings	Total
Balance, December 31, 2017	28,860,961	$ 288	(711,231)	$(6,540)	$ (26)	$174,697	$62,847	$231,266
Adoption of ASC 606 (Note 2)	—	—	—	—	—	—	(286)	(286)
Stock-based compensation	—	—	—	—	—	1,710	—	1,710
Exercise of stock options	488,303	5	—	—	—	2,810	—	2,815
Issuance of restricted stock	333,864	3	—	—	—	(3)	—	—
Forfeiture of restricted stock	(5,285)	—	—	—	—	—	—	—
Cash flow hedge (net of tax)	—	—	—	—	383	—	—	383
Net loss	—	—	—	—	—	—	(6)	(6)
Balance, September 30, 2018	29,677,843	$ 296	(711,231)	$(6,540)	$ 357	$179,214	$62,555	$235,882

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

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

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(6)	$(9,138)
Adjustments to reconcile net loss to net cash (used in) provided by:		
Operating activities:		
Depreciation and amortization	21,134	22,422
Unamortized debt issuance costs on debt extinguishment	2,164	—
Deferred financing cost amortization	676	942
Deferred income taxes	(561)	(5,478)
Stock-based compensation	1,710	1,800
Gain on sale of property and equipment	(2,527)	(590)
Other gain from continuing operations	(5,448)	—
Change in operating assets and liabilities:		
Accounts receivable	11,036	19,930
Income tax receivable	(56)	(2,203)
Inventory	763	74
Prepaid expenses and other	3,410	1,481
Costs and estimated earnings in excess of billings on uncompleted contracts	(11,405)	(6,859)
Accounts payable	(14,266)	2,225
Accrued liabilities	(1,925)	(836)
Income tax payable	(256)	2,364
Billings in excess of costs and estimated earnings on uncompleted contracts	(9,395)	5,721
Other	(287)	—
Net cash (used in) provided by operating activities	(5,239)	31,855
Cash flows from investing activities:		
Proceeds from sale of property and equipment	2,320	6,361
Purchase of property and equipment	(15,043)	(7,234)
Contributions to CSV life insurance	(424)	(430)
Acquisition of TBC	—	(6,000)
TBC acquisition adjustment	—	(557)
Proceeds from return of investment	94	—
Insurance claim proceeds related to property and equipment	1,346	—
Net cash used in investing activities	(11,707)	(7,860)
Cash flows from financing activities:		
Borrowings from Credit Facility	29,861	52,000
Payments made on borrowings from Credit Facility	(21,361)	(74,438)
Loan costs from Credit Facility	(861)	(210)
Exercise of stock options	2,815	1,007
Net cash provided by (used in) financing activities	10,454	(21,641)
Net change in cash and cash equivalents	(6,492)	2,354
Cash and cash equivalents at beginning of period	9,086	305
Cash and cash equivalents at end of period	$2,594	$2,659

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$2,994	$3,232
Taxes, net of refunds	$472	$1,067

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

Orion Group Holdings, Inc. and Subsidiaries
Notes to 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 Group Holdings, Inc., its subsidiaries and affiliates (hereafter collectively referred to as the "Company"), provide a broad range of specialty construction services in the infrastructure, industrial, and building sectors of the continental United States, Alaska, Canada and the Caribbean Basin. The Company's marine segment services the infrastructure sector through marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its concrete segment services the building sector by providing turnkey concrete construction services including pour and finish, dirt work, layout, forming, rebar, and mesh across the light commercial, structural and other associated business areas. The Company is headquartered in Houston, Texas with offices throughout its operating areas.

The tools used by the chief operating decision maker ("CODM") to allocate resources and assess performance are based on two reportable and operating segments: marine, which operates under the Orion Marine Group brand and logo, and concrete, which operates under the TAS Commercial Concrete brand and logo.
Although we describe the business in this report in terms of the services the Company provides, its base of customers and the areas in which it operates, the Company has determined that its operations currently comprise two reportable segments pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, Segment Reporting.
In making this determination, the Company considered the similar economic characteristics of its operations that comprise its marine segment. For the marine segment, the methods used, and the internal processes employed, to deliver marine construction services are similar throughout the segment, including standardized estimating, project controls and project management. This segment has the same customers with similar funding drivers, and it complies with regulatory environments driven through Federal agencies such as the U.S. Army Corps of Engineers, U.S. Fish and Wildlife Service, U.S. Environmental Protection Agency and U.S. Occupational Safety and Health Administration ("OSHA"), among others. Additionally, the segment is driven by macro-economic considerations including the level of import/export seaborne transportation, development of energy-related infrastructure, cruise line expansion and operations, marine bridge infrastructure development, waterway pipeline crossings and the maintenance of waterways. These considerations, and others, are key catalysts for future prospects and are similar across the segment.

For the concrete segment, the Company also considered the similar economic characteristics of these operations. The methods used, and the internal processes employed, to deliver concrete construction services are similar throughout the segment, including standardized estimating, project controls and project management. This segment complies with regulatory environments such as OSHA. Additionally, this segment is driven by macro-economic considerations, including movements in population, commercial real estate development, institutional funding and expansion, and recreational development, specifically in metropolitan areas of Texas. These considerations, and others, are key catalysts for future prospects and are similar across the segment.
Basis of Presentation
The accompanying 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 ("U.S. GAAP") have been condensed or omitted. Readers of this report should also read the Company's consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K

for the fiscal year ended December 31, 2017 ("2017 Form 10-K") as well as Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations also included in its 2017 Form 10-K.

In the opinion of management, the accompanying unaudited 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 nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

2. Summary of Significant Accounting Principles

The preparation of consolidated financial statements in conformity with 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. Please refer to Note 2 of the Notes to Consolidated Financial Statements included in the Company's 2017 Form 10-K for a discussion of other significant estimates and assumptions affecting our consolidated financial statements which are not discussed below.

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

- Revenue recognition from construction contracts;
- Accounts receivable and allowance for doubtful accounts;
- Goodwill and other long-lived assets, testing for indicators of impairment;
- Income taxes;
- Self-insurance; and
- Stock-based compensation

Revenue Recognition

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018, using the modified retrospective method. The Company recognized the cumulative effect of initially adopting Topic 606 guidance as an adjustment to the beginning balance of retained earnings. Contracts with customers that were not substantially complete in both the Company’s marine and concrete segments were evaluated in order to determine the impact as of the date of adoption. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company’s revenue is derived from contracts to provide marine construction, dredging, turnkey concrete services, and other specialty services. The Company’s projects are typically short in duration and usually span a period of less than one year. The Company determines the appropriate accounting treatment for each contract before work begins and generally records revenue on contracts over time.

Performance obligations are promises in a contract to transfer distinct goods or services to the customer and are the unit of account under Topic 606. The Company's contracts and related change orders typically represent a single performance obligation because individual goods and services are not separately identifiable and the Company provides a significant integrated service. Revenue is recognized over time because control is continuously transferred to the customer. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using its best estimate of the stand-alone selling price of each distinct good or service. Progress is measured by the percentage of actual 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 costs include all direct costs, such as material and labor, and those indirect costs incurred that are related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Upfront costs, such as incurring costs to mobilize personnel and equipment prior to satisfying a performance obligation are capitalized and amortized over the contract performance period.

Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and reported revenue and are recognized in the period in which the revisions are determined. The effect of changes in estimates of contract revenue or contract costs is recognized as an adjustment to recognized revenue on a cumulative catch-up basis. When losses on uncompleted contracts are anticipated, the entire loss is recognized 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.

Contract revenue is derived from the original contract price as modified by agreed-upon change orders and estimates of variable consideration related to incentive fees and change orders or claims for which price has not yet been agreed by the customer. The Company estimates variable consideration based on the most likely amount to which it expects to be entitled. Variable consideration is included in the estimated transaction price to the extent it is probable that a significant reversal of cumulative recognized revenue will not occur. As of September 30, 2018, approximately $15.5 million of claims against customers has been recognized and is reflected on the Company's Consolidated Balance Sheet under "Costs and estimated earnings in excess of billings on uncompleted contracts." The Company believes collection of these claims is probable, although the full amount of the recorded claims may not be collected.

Contract assets and liabilities include the following:

- Accounts Receivable: Trade, net of allowance - Represent amounts billed and currently due from customers and are stated at their net estimated realizable value.
- Accounts Receivable: Retainage - Represent amounts which have not been billed to customers or paid pursuant to retainage provisions in construction contracts, which generally become payable upon contract completion and acceptance by the customer.
- Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts - Represent revenues recognized in excess of amounts billed, which management believes will be billed and collected within one year of the completion of the contract (i.e. Contract Assets) and are recorded as a current asset.
- Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts - Represent billings in excess of revenues recognized (i.e. Contract Liabilities) and are recorded as a current liability.

The Company's evaluation of its construction contracts under the new standard focused on the following areas which have the most significant impact on the amount and timing of revenue recognized:

- Performance Obligations - Construction contracts with customers, including those related to contract modifications, were reviewed to determine if there were any multiple performance obligations. Based on our review, a limited number of contracts in the marine segment and no contracts in the concrete segment were identified as having multiple performance obligations. The net impact on retained earnings as of January 1, 2018 and gross profit for the nine months ended September 30, 2018 were not material.
- Upfront Costs - These costs were required to be capitalized as assets and were recorded as part of "Costs and estimated earnings in excess of billings on uncompleted contracts" in the Company's Consolidated Balance Sheets and amortized over the expected duration of the contract as part of "Costs of contract revenues" in the Company's Consolidated Statements of Operations. If the expected completion date of the contract changes, the amortization period will be recalculated and adjusted prospectively. The amortization of such costs for the Company are generally comprised of initial costs incurred to mobilize equipment and labor to a job site or other upfront costs such as bonds or insurance prior to the "notice-to-proceed" date, which had been expensed as incurred in prior periods. Based on the Company's review, certain contracts in the marine segment were identified as having material upfront costs. The Company also reviewed contracts for the concrete segment and while certain contracts within the segment were identified as having upfront costs, they were not considered material.

The following table summarizes the cumulative effect of the changes made to the Company's unaudited Consolidated Balance Sheet as of January 1, 2018 from the adoption of Topic 606:

	Balance at December 31, 2017	Adjustments Due to Topic 606	Balance at January 1, 2018
Assets			

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 46,006	$ 1,383	$ 47,389
Liabilities			
Billings in excess of costs and estimated earnings on uncompleted contracts	$ 33,923	$ 1,745	$ 35,668
Deferred income taxes	13,243	(76)	13,167
Equity			
Retained earnings	$ 62,847	$ (286)	$ 62,561

Remaining performance obligations represent the transaction price of firm orders or other written contractual commitments from customers for which work has not been performed, or is partially completed and excludes unexercised contract options and potential orders. As of September 30, 2018, the aggregate amount of the remaining performance obligations was approximately $426.0 million. Of this amount, the Company expects to recognize $352.3 million, or 83%, in the next 12 months and the remaining balance thereafter.

The following tables summarize the impact of adopting Topic 606 on the Company's unaudited Consolidated Balance Sheet as of September 30, 2018 and Statement of Operations for the nine months ended September 30, 2018:

	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher (Lower)
Assets			
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 57,411	$ 58,232	$ (821)
Liabilities			
Billings in excess of costs and estimated earnings on uncompleted contracts	$ 24,528	$ 25,731	$ (1,203)
Deferred income taxes	12,682	12,545	137
Equity			
Retained earnings	$ 62,555	$ 62,310	$ 245

	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher (Lower)
Contract revenues	$ 421,682	$ 420,479	$ 1,203
Cost of contract revenues	379,154	378,333	821
Gross profit	42,528	42,146	382
Income tax expense	78	(59)	137
Net loss	$ (6)	$ (251)	$ 245
Basic loss per share	$—	$ (0.01)	$ 0.01
Diluted loss per share	$—	$ (0.01)	$ 0.01

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 its cash balances in excess of federally insured limits. Cash equivalents at September 30, 2018 and December 31, 2017 consisted primarily of overnight bank deposits.

Risk Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk principally consist of 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 portion of the Company's operations is 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 allowances for doubtful accounts. The Company has significant investments in billed and unbilled receivables as of September 30, 2018 and December 31, 2017. Billed receivables represent amounts billed upon the completion of small contracts and progress billings on large contracts in accordance with contract terms and milestone achievements. Unbilled receivables on contracts, which are included in costs in excess of billings, arise as revenues are recognized over time. Unbilled amounts on 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, 2018 and December 31, 2017, 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 by the owner. Retainage at September 30, 2018 totaled $30.2 million, of which $5.9 million is expected to be collected beyond September 30, 2019. Retainage at December 31, 2017 totaled $39.2 million.

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 amounts recorded, 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 an 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. Environmental liabilities, if any, are recognized when the expenditure is considered probable and the amount can be reasonably estimated. The Company did not recognize any environmental liabilities as of September 30, 2018 or December 31, 2017.

Fair Value Measurements

The Company evaluates and presents certain amounts included in the accompanying consolidated financial statements at “fair value” in accordance with U.S. GAAP, which requires the Company to base its estimates on assumptions that 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. Refer to Note 8 for more information regarding fair value determination.

The Company generally applies 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

Current 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 net realizable value. Where shipping and handling costs are incurred by the Company, these charges are included in inventory and charged to cost of contract revenue upon use. Non-current inventory consists of spare parts (including engines, cutters and gears) that require special order or long-lead times for manufacture or fabrication, but must be kept on hand to reduce downtime. Refer to Note 7 for more information regarding inventory.

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 other equipment	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 using the straight-line method over a period ranging from three to 15 years. Dry-docking costs 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 costs 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 the carrying amount of an asset or asset group 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 sheet and reported at the lower of the carrying amount or the fair value, less the costs to sell, and are no longer depreciated. There were no assets classified as held for sale as of September 30, 2018 or December 31, 2017.

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 identifiable assets acquired and liabilities assumed in the acquisition. In accordance with U.S. GAAP, acquired goodwill is not amortized, but is subject to impairment testing at least annually at a reporting unit level (as of October 31 of each year) or more frequently if events or circumstances indicate the asset may be impaired. The Company determined its operations comprise two reporting units for goodwill impairment testing, which match its two operating segments for financial reporting. Tests of impairment require a two-step process to be performed to analyze whether or not goodwill has been impaired. The first step of this test used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount. The second step, if necessary, quantifies the impairment.

The Company assesses the fair value of its reporting units based on a weighted average of valuations based on market multiples, discounted cash flows and consideration of its market capitalization. The key assumptions used in the discounted cash flow valuations are discount rates, weighted average cost of capital and perpetual growth rates applied to cash flow projections. Also inherent in the discounted cash flow valuation models are past performance, projections and assumptions in current operating plans and revenue growth rates over the next five years. These assumptions contemplate business, market and overall economic conditions. Other considerations are assumptions that market participants may use in analysis of comparable companies. The underlying assumptions used for determining fair value, as discussed above, require significant judgment and are susceptible to change from period to period and could potentially cause a material impact to the income statement. In the future, the Company's estimated fair value could be negatively impacted by extended declines in its stock price, changes in macroeconomic indicators, sustained operating losses and other factors which may affect its assessment of fair value.

See Note 9 for additional discussion of goodwill and related goodwill impairment testing.

Intangible Assets

Intangible assets that have finite lives are amortized. In addition, the Company evaluates the remaining useful life of intangible assets 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. Intangible assets that have indefinite lives are not amortized, but are subject to impairment testing at least annually or more frequently if events or circumstances indicate the asset may be impaired.

The Company has one indefinite-lived intangible asset, a trade name, which is tested for impairment annually on October 31, or whenever events or circumstances indicate the carrying amount of the trade name may not be recoverable. Impairment is calculated as the excess of the trade name's carrying value over its fair value. The fair value of the trade name is determined using the relief from royalty method, a variation of the income approach. This method assumes that if a company owns intellectual property, it does not have to "rent" the asset and is, therefore, "relieved" from paying a royalty. Once a supportable royalty rate is determined, the rate is then applied to the projected revenues over the expected remaining life of the intangible asset to estimate the royalty savings. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates, discount rates and other variables.

See Note 9 for additional discussion of intangible assets and trade name impairment testing.

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 Black-Scholes option-pricing model requires the use of subjective assumptions in the computation. Changes in these assumptions can cause significant fluctuations in the fair value of the option award. The fair value of restricted stock grants is equivalent to the fair value of the stock issued on the date of grant and is measured as the closing price of the stock 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. This assessment is updated on a periodic basis. See Note 14 for further discussion of the Company’s stock-based compensation plan.

Income Taxes

The Company determines its consolidated income tax provision using the asset and liability method prescribed by U.S. 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 assets and liabilities 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 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 of 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.

See Note 12 for additional discussion of income taxes and the Tax Cuts and Jobs Act (the "Act"), which was enacted and signed into law on December 22, 2017.

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 marine segment maintains five levels of excess loss insurance coverage, totaling $200 million in excess of primary coverage. The marine segment's excess loss coverage responds to most of its policies when a primary limit of $1 million has been exhausted; provided that the primary limit for Contingent Maritime Employer’s Liability is $10 million and the Watercraft Pollution Policy primary limit is $5 million. The concrete segment maintains five levels of excess loss insurance coverage, totaling $200 million in excess of primary coverage. The concrete segment's excess loss coverage responds to most of its policies when a primary limit of $1 million has been exhausted.

If a claim arises and a potential insurance recovery is probable, the impending gain is recognized separately from the related loss. The recovery will only be recognized up to the amount of the loss once the recovery of the claim is deemed probable and any excess gain will fall under contingency accounting and will only be recognized once it is realized. The Company does not net insurance recoveries against the related claim liability as the amount of the claim liability is determined without consideration of the anticipated insurance recoveries from third parties.

Separately, the Company’s marine segment employee health care is paid for by general assets of the Company and currently administered by a third party. 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. Any adjustments to such reserves are included in the Consolidated Results of Operations in the period in which they become known. The Company's concrete segment employee health care is provided through two policies. A fully-funded policy is offered primarily to salaried employees and their dependents while a partially self-funded plan with an appropriate stop-loss is offered primarily to hourly employees and their dependents. The self-funded plan is funded to the maximum exposure and, as a result, is expected to receive a partial refund after the policy expiration.

The accrued liability for insurance includes incurred but not reported claims of $5.5 million and $5.2 million at September 30, 2018 and December 31, 2017, respectively.

Recent Accounting Pronouncements

The FASB issues accounting standards and updates (each, an "ASU") from time to time to its ASC, which is the primary source of U.S. GAAP. The Company regularly monitors ASUs as they are issued and considers applicability to its business. All ASUs are adopted by their respective due dates and in the manner prescribed by the FASB. The following are those recently issued ASUs most likely to affect the presentation of the Company's consolidated financial statements:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize lease assets (i.e. right-to-use assets) on the balance sheet. These are assets that represent the lessee's right to use or control the use of specified assets for the lease terms and lease liabilities, which are lessee's obligations to make lease payments arising from leases measured on a discounted basis, for all leases with terms longer than 12 months. Leases with terms of 12 months or less will be accounted for similar to existing guidance for operating leases. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. The Company will adopt the new standard on January 1, 2019 using the optional transition method under ASU 2018-11 and elect the available practical expedients. This method allows the Company an option to allow transition of the new lease guidance at the effective date and recognize a cumulative-effect adjustment to the opening balance of retained earnings at the effective date. The Company has developed a detailed plan to implement the new standard and, through a cross-functional steering committee, is assessing the impact of the new standard for all contractual arrangements that may qualify as leases. The Company expects the adoption of the new standard to have a material and equal increase to assets and liabilities on its Consolidated Balance Sheets, primarily as a result of operating leases currently not recognized on its balance sheet.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). The FASB issued this update to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The amendments in this update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The guidance should be applied on a prospective basis and is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted, but the Company does not anticipate the new standard will materially impact the financial statements unless goodwill impairment is recognized in the future.

In January 2018, the FASB issued ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842. The FASB issued this update to provide an optional transition on practical expedient that, if elected, would not require companies to reconsider its accounting for existing or expired land easements before the adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. The Company is currently in the process of assessing the effects of adoption on its financial statements, but it does not anticipate the new standard will materially impact the financial statements.

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. Revenue

Contract revenues are recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The following table represents a disaggregation of the Company’s contract revenues by service line for the marine and concrete segments:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Marine Segment		
Construction	$ 46,113	$ 141,348
Dredging	13,053	53,536
Specialty Services	4,313	12,083
Marine segment contract revenues	$ 63,479	$ 206,967
Concrete Segment		
Light Commercial	$ 48,458	$ 167,140

Structural	13,054	47,166
Other	82	409
Concrete segment contract revenues	$ 61,594	$ 214,715
Total contract revenues	$ 125,073	$ 421,682

Although the Company has disaggregated its contract revenues in terms of services provided, it believes its operations comprise two reportable segments pursuant to FASB ASC Topic 280, Segment Reporting. In making this determination, the Company considered the similar characteristics of its operations as discussed in Note 1. Additionally, as discussed, both the marine and concrete segments have limited contracts with multiple performance obligations. The Company's contracts often combine multiple

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services, such as engineering, dredging, diving and construction, into one distinct finished product which is transferred to the customer. These contracts are often estimated and bid as one project and evaluated on performance as one project, not by individual services performed by each. Both the marine and concrete segments have a single CODM for the entire segment, not by service lines of the segments. Resources are allocated by segment, and financial and budgetary information is compiled and reviewed by segment, not service line.

Marine Segment
Construction services include construction, restoration, maintenance, dredging and repair of marine transportation facilities, marine pipelines, bridges and causeways and marine environmental structures. Dredging services generally enhance or preserve the navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. Specialty services include design, salvage, demolition, surveying, towing, diving and underwater inspection, excavation and repair.

Concrete Segment
Structural services include elevated concrete pouring for products such as columns, elevated beams and structural walls. Light commercial services include horizontally poured concrete for products such as sidewalks, ramps, tilt walls and trenches. Other services comprise labor related to concrete pouring such as rebar installation and pumping services and typically support the segment's structural and light commercial services.

4. 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 current receivables (trade and retainage) at September 30, 2018 and December 31, 2017, respectively:

	September 30, 2018			December 31, 2017		
Federal Government	$6,168	5	%	$3,509	3	%
State Governments	2,740	2	%	4,503	3	%
Local Governments	13,781	12	%	18,256	15	%
Private Companies	88,708	81	%	97,874	79	%
Total current receivables	$111,397	100	%	$124,142	100	%

At September 30, 2018 and December 31, 2017, no single customer accounted for more than 10% of total current receivables.

Additionally, the table below represents concentrations of contract revenue by type of customer for the three and nine months ended September 30, 2018 and 2017, respectively:

	Three months ended September 30,						Nine months ended September 30,					
	2018	%		2017	%		2018	%		2017	%	
Federal Government	$18,072	15	%	$14,464	10	%	$47,170	11	%	$52,556	13	%
State Governments	7,674	6	%	9,185	7	%	25,947	6	%	33,910	8	%
Local Governments	25,546	20	%	28,246	20	%	69,298	17	%	72,802	17	%
Private Companies	73,781	59	%	88,267	63	%	279,267	66	%	257,071	62	%
Total contract revenues	$125,073	100	%	$140,162	100	%	$421,682	100	%	$416,339	100	%

For the three months ended September 30, 2018 and September 30, 2017, no single customer accounted for more than 10% of total contract revenues. Additionally, for the nine months ended September 30, 2018 and September 30, 2017, no single customer accounted for more than 10% of total contract revenues.

The Company does not believe that the loss of any one of its customers would have a material adverse effect on the Company or its subsidiaries and affiliates since no single specific customer sustains such a large portion of receivables or contract revenue over time.

In addition, the concrete segment primarily purchases concrete from select suppliers. The loss of one of these suppliers could adversely impact short-term operations.

5. Contracts in Progress

Contracts in progress are as follows at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Costs incurred on uncompleted contracts	$ 742,836	$ 668,848
Estimated earnings	130,965	120,751
	873,801	789,599
Less: Billings-to-date	(840,918)	(777,516)
	$ 32,883	$ 12,083
Included in the accompanying Consolidated Balance Sheet under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 57,411	$ 46,006
Billings in excess of costs and estimated earnings on uncompleted contracts	(24,528)	(33,923)
	$ 32,883	$ 12,083

As of September 30, 2018 and December 31, 2017, included in cost and estimated earnings in excess of billings on uncompleted projects is approximately $15.5 million related to claims and unapproved change orders. Revenue recognized for the three and nine months ended September 30, 2018 that was included in "Billings in excess of costs and estimated earnings on uncompleted contracts" (i.e. Contract Liabilities) as of December 31, 2017 was approximately $4.7 million and $24.3 million, respectively.

6. Property and Equipment

The following is a summary of property and equipment at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Automobiles and trucks	$ 1,802	$ 1,940
Building and improvements	43,247	38,062
Construction equipment	156,611	166,203
Vessels and other equipment	95,525	85,113
Office equipment	7,839	8,039
	305,024	299,357
Less: Accumulated depreciation	(199,198)	(191,407)
Net book value of depreciable assets	105,826	107,950
Construction -in- progress	2,698	245
Land	35,863	38,083
	$ 144,387	$ 146,278

For the three months ended September 30, 2018 and 2017, depreciation expense was $6.1 million and $6.2 million, respectively. For the nine months ended September 30, 2018 and 2017, depreciation expense was $18.6 million and $18.7 million, respectively. Substantially all depreciation expense is included in the cost of contract revenue in the Company's Consolidated Statements of Operations. Substantially all of the assets of the Company are pledged as collateral under the Company's Credit Agreement (as defined in Note 11).

Substantially all of the Company's long-lived assets are located in the United States.

See Note 2 to the Company's consolidated financial statements for further discussion of property and equipment.

7. Inventory

Current inventory at September 30, 2018 and December 31, 2017, of $3.8 million and $4.4 million, respectively, consisted primarily of spare parts and small equipment held for use in the ordinary course of business.

Non-current inventory at September 30, 2018 and December 31, 2017 of $4.8 million and $4.9 million, respectively, consisted primarily of spare engine components or items which require longer lead times for sourcing or fabrication for certain of the Company's assets to reduce equipment downtime.

8. Fair Value

Recurring Fair Value Measurements

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 the carrying value of its accounts receivable, other current assets, accounts payable and other current liabilities approximate their fair values.

The Company classifies financial assets and liabilities into the following three levels based on the inputs used to measure fair value in the order of priority indicated:

- Level 1- fair values are based on observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2 - fair values are based on pricing inputs other than quoted prices in active markets for identical assets and liabilities and are either directly or indirectly observable as of the measurement date; and
- Level 3- fair values are based on unobservable inputs in which little or no market data exists

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value requires judgment and may affect the placement of assets and liabilities within the fair value hierarchy levels.

The following table sets forth by level within the fair value hierarchy the Company's recurring financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

		Fair Value Measurements		
	Carrying Value	Level 1	Level 2	Level 3
September 30, 2018				
Assets:				
Cash surrender value of life insurance policy	$ 2,158	$ —	$ 2,158	$ —
Derivatives	$ 483	$ —	$ 483	$ —
December 31, 2017				
Assets:				
Cash surrender value of life insurance policy	$ 1,712	$ —	$ 1,712	$ —
Liabilities:				
Derivatives	$ 38	$ —	$ 38	$ —

Our concrete segment has life insurance policies with a combined face value of $11.1 million as of September 30, 2018. The policies are invested in mutual funds and the fair value measurement of the cash surrender balance associated with these policies is determined using Level 2 inputs within the fair value hierarchy and will vary with investment performance. These assets are included in the "Other non-current" asset section in the Consolidated Balance Sheets.

The Company's derivatives, which are comprised of interest rate swaps, are valued using a discounted cash flow analysis that incorporates observable market parameters, such as interest rate yield curves and credit risk adjustments that are necessary to reflect the probability of default by us or the counterparty. These derivatives are classified as a Level 2 measurement within the fair value hierarchy. See Note 11 for additional information on the Company's derivative instrument.

Non-Recurring Fair Value Measurements

The Company generally applies 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.

Other Fair Value Measurements

The fair value of the Company's debt at September 30, 2018 and December 31, 2017 approximated its carrying value of $97.3 million and $88.8 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 a Level 2 measurement in the fair value hierarchy.

9. Goodwill and Intangible Assets

Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended September 30, 2018 and December 31, 2017, respectively:

	September 30, 2018	December 31, 2017
Beginning balance, January 1	$ 69,483	$ 66,351
Additions	—	3,132
Ending balance	$ 69,483	$ 69,483

At September 30, 2018, goodwill totaled $69.5 million, of which $33.8 million relates to the marine segment and $35.7 million relates to the concrete segment.

As discussed previously in Note 2, goodwill is reviewed at a reporting unit level for impairment annually as of October 31 or whenever circumstances arise that indicate a possible impairment might exist. Test of impairment requires a two-step process to be performed to analyze whether or not goodwill has been impaired. The first step of this test used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount. The second step, if necessary, quantifies the impairment.

During the three months ended September 30, 2018, the Company identified potential indicators of impairment to goodwill for both its marine and concrete reporting units, including operating losses within each segment and adjusted forecasted earnings for the full fiscal year. As such, the Company performed a qualitative assessment and certain sensitivity analysis to determine whether it was more likely than not that goodwill was impaired. After evaluating all events, circumstances and factors which could affect the significant inputs used to determine fair value, the Company determined it was not more likely than not that an impairment existed at either reporting unit. The Company did not progress to subsequent steps of impairment testing and plans to perform its annual impairment testing as of October 31.

Intangible assets

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

	Nine months ended September 30,	
	2018	2017
Intangible assets, January 1	$35,240	$34,362
Additions	—	878
Total intangible assets, end of period	35,240	35,240
Accumulated amortization, January 1	$(23,955)	$(19,220)
Current year amortization	(2,541)	(3,745)
Total accumulated amortization	(26,496)	(22,965)
Net intangible assets, end of period	$8,744	$12,275

Finite-lived intangible assets were acquired as part of the purchases of TAS and Tony Bagliore Concrete, Inc. (TBC), which includes customer relationships. Customer relationships for TAS were valued at approximately $18.1 million and are currently being amortized over eight years. Customer relationships for TBC were valued at approximately $0.7 million and are currently being amortized over seven years. Both of these assets are amortized using an accelerated method based on the pattern in which the economic benefits of the assets are consumed. For the nine months ended September 30, 2018, $2.5 million of amortization expense was recognized for these assets. Future expense remaining of approximately $8.7 million will be amortized as follows:

2018	847
2019	2,642
2020	2,071
2021	1,520
Thereafter	1,664
	$8,744

Additionally, the Company has one indefinite-lived intangible asset, a trade name, as described in Note 2. During the three months ended September 30, 2018, the Company identified potential indicators of impairment at its concrete reporting unit, including operating losses and adjusted forecasted earnings for the full fiscal year. As such, the Company performed a qualitative assessment and certain sensitivity analysis to determine whether it was more likely than not that the indefinite-lived intangible asset was impaired. After evaluating all events, circumstances and factors which could affect the significant inputs used to determine fair value, the Company determined it was not more likely than not that an impairment existed. The Company did not progress to subsequent steps of impairment testing and plans to perform its annual impairment testing as of October 31.

At September 30, 2018, the trade name was valued at approximately $6.9 million.

10. Accrued Liabilities

Accrued liabilities at September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
Accrued salaries, wages and benefits	$ 6,898	$ 9,632
Accrual for insurance liabilities	5,492	5,233
Property taxes	1,747	513
Capital lease liability	1,310	—
Sales taxes	1,881	1,836
Interest	34	46
Other accrued expenses	337	613
Total accrued liabilities	$ 17,699	$ 17,873

11. Long-term Debt, Line of Credit and Derivatives

The Company entered into an amended syndicated credit agreement (the "Credit Agreement" also known as the "Fourth Amendment") on July 31, 2018 with Regions Bank, as administrative agent and collateral agent, and the following co-syndication agents: Bank of America, N.A., BOKF, NA dba Bank of Texas, KeyBank National Association, NBH Bank, IBERIABANK, Trustmark National Bank, First Tennessee Bank NA, and Branch Banking and Trust Company. With the execution of the Credit Agreement (known to Regions Bank and co-syndication agents as the Fourth Amendment), the prior indebtedness was treated as an extinguishment of debt and accounted for under the guidelines of ASC 470-05, Debt, Modifications and Extinguishments. The primary purpose of the Credit Agreement was to provide the Company with greater financing flexibility by providing a new amortization schedule, an extended maturity date, increased availability under the revolving line of credit, and a reduction in overall costs.

The Credit Agreement, which may be amended from time to time, provides for borrowings under a revolving line of credit and swingline loans with a commitment amount of $100 million and a term loan with a commitment amount of $60 million (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 general corporate and working capital purposes, to finance capital expenditures, to refinance existing indebtedness, to finance permitted acquisitions and associated fees and to pay for all related expenses to the Credit Facility. Interest is due and is computed based on the designation of the loan, with the option of a Base Rate Loan (the base rate plus the Applicable Margin) or an Adjusted LIBOR Rate Loan (the adjusted LIBOR rate plus the Applicable Margin). Interest is due on the last day of each quarter end for Base Rate Loans and at the end of the LIBOR rate period for Adjusted LIBOR Rate Loans. 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. The Credit Facility matures on July 31, 2023.

Total debt issuance costs, which included underwriter fees, legal fees and syndication fees, were approximately $0.9 million and have been capitalized as non-current deferred charges and amortized using the effective interest rate method over the duration of the loan. Prior unamortized debt issuance costs of $2.2 million for the extinguishment of debt were recognized as interest expense as of July 31, 2018. The quarterly weighted average interest rate for the Credit Facility as of September 30, 2018 was 3.69%.

The Company's obligations under debt arrangements consisted of the following:

	September 30, 2018			December 31, 2017		
	Principal	Debt Issuance Costs(1)	Total	Principal	Debt Issuance Costs(1)	Total
Revolving line of credit	$38,000	$ (324)	$37,676	$10,000	$(317)	$9,683
Term loan - current	3,000	(26)	2,974	13,500	(427)	13,073
Total current debt	41,000	(350)	40,650	23,500	(744)	22,756
Term loan - long-term	56,250	(480)	55,770	65,250	(2,065)	63,185
Total debt	$97,250	$ (830)	$96,420	$88,750	$(2,809)	$85,941

(1) Total debt issuance costs, include underwriter fees, legal fees, syndication fees, and any other fees related to the execution of the Credit Agreement and/or prior indebtedness at September 30, 2018 and December 31, 2017 respectively.

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 $100.0 million. The letter of credit sublimit is equal to the lesser of $20.0 million and the aggregate unused amount of the revolving commitments then in effect. The swingline sublimit is equal to the lesser of $5.0 million and the aggregate unused amount of the revolving commitments then in effect.

Revolving loans may be designated as Base Rate Loans or Adjusted LIBOR Rate Loans, at the Company's request, and must be made in an aggregate minimum amount of $1.0 million and integral multiples of $250,000 in excess of that amount. Swingline loans must be made in an aggregate minimum amount of $250,000 and integral multiples of $50,000 in excess of that amount. The Company may convert, change or modify such designations from time to time.

The Company is subject to a Commitment Fee for the unused portion of the maximum available to borrow under the revolving line of credit. The Commitment Fee, which is due quarterly in arrears, is equal to the Applicable Margin of the actual daily amount by which the Aggregate Revolving Commitments exceed the Total Revolving Outstanding. The revolving line of credit termination date is the earlier of the Credit Facility termination date, July 31, 2023, or the date the outstanding balance is permanently reduced to zero. The Company has the intent and ability to repay the amounts outstanding on the revolving line of credit within one year, therefore, any outstanding balance is classified as current.

As of September 30, 2018, the outstanding balance for all borrowings under the revolving line of credit was $38.0 million and was designated as an adjusted LIBOR Rate Loan at an average rate of 3.98%. There was also $0.7 million in outstanding letters of credit as of September 30, 2018, which reduced the maximum borrowing availability on the revolving line of credit to $61.3 million.

Provisions of the term loan

The original principal amount of $60.0 million for the term loan commitment is paid off in quarterly installment payments (as stated in the Credit Agreement). At September 30, 2018, the outstanding term loan component of the Credit Facility totaled $59.3 million and was secured by specific assets of the Company. The table below outlines the total remaining payment amounts annually for the term loan through maturity of the Credit Facility:

2018	$750

2019	3,000
2020	3,750
2021	4,500
2022	5,250
2023	42,000
	$59,250

During the three months ended September 30, 2018, the Company made the scheduled quarterly principal payment of $0.7 million, which reduced the outstanding principal balance to $59.3 million as of September 30, 2018. The current portion of debt is $3.0 million and the non-current portion is $56.3 million. As of September 30, 2018, the term loan was designated as an Adjusted LIBOR Rate Loan with an interest rate of 4.00%.

Financial covenants

Restrictive financial covenants under the Credit Facility include:
- A consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to not be less than 1.25 to 1.00.
- A consolidated Leverage Ratio as of the end of any fiscal quarter to not exceed 3.00 to 1.00.

As of September 30, 2018, the Company was in compliance with all financial covenants.

In addition, the Credit Facility contains events of default that are usual and customary for similar arrangements, including non-payment of principal, interest or fees; breaches of representations and warranties that are not timely cured; violation of covenants; bankruptcy and insolvency events; and events constituting a change of control.

The Company expects to meet its future internal liquidity and working capital needs, and maintain or replace 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 and available borrowings together with cash flow from its operations is
adequate for general business requirements and to service its debt.

Derivative Financial Instruments

On September 16, 2015, the Company entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on 50% of the aggregate principal amount of the Regions Term Loan outstanding, beginning with a notional amount of $67.5 million. There are a total of five sequential interest rate swaps to achieve the hedged position and each year on August 31, with the exception of the final swap, the existing interest rate swap is scheduled to expire and will be immediately replaced with a new interest rate swap until the expiration of the final swap on July 31, 2020. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting, and as such, the effective portion of unrealized changes in market value are recorded in accumulated other comprehensive income (loss) and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings. The change in fair market value of the swaps for the nine months ended September 30, 2018 was $0.4 million, net of tax. The fair market value of the swaps as of September 30, 2018 was $0.5 million and net of tax was $0.4 million, which is reflected as an asset included in the balance of "Other non-current assets" on the Consolidated Balance Sheets. See Note 8 for more information regarding the fair value of the Company's derivative instruments.

12. 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. Income tax expense included in the Company’s Consolidated Statements of Operations were as follows (in thousands, except percentages):

	Three months ended September 30,	Nine months ended

			September 30,	
	2018	2017	2018	2017
Income tax (benefit) expense	$(3,071)	$(1,666)	$78	$(4,309)
Effective tax rate	32.6 %	24.9 %	108.9 %	32.1 %

The effective rate for the three and nine months ended September 30, 2018 differed from the Company's statutory federal rate of 21% driven by the non-deductibility of certain permanent items, such as incentive stock compensation expense, return to provision adjustment and the $2.2 million of unamortized debt issuance costs for the extinguishment of debt, which was treated as a discrete item and tax effected at a rate of 23%. For the nine months ended September 30, 2018, the Company recorded a $5.4 million gain related to the settlement of a legal matter. The gain was also treated as a discrete item and tax effected at a rate of 23%.

The effective tax rate for the three and nine months ended September 30, 2017 differed from the Company’s statutory federal rate of 35% primarily due to state income taxes, the non-deductibility of certain permanent items, and stock compensation expense items treated as discrete.

The Company assessed the realizability of its deferred tax assets at September 30, 2018, and 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.

The Company does not expect that unrecognized tax benefits as of September 30, 2018 for certain federal income tax matters will significantly change due to any settlement and/or expiration of statutes of limitations over the next 12 months. The final outcome of these uncertain tax positions is not yet determinable. The Company's uncertain tax benefits, if recognized, would affect its effective tax rate.

Enactment of Tax Reform

The Act made broad and complex changes to the U.S. tax code that significantly affected the Company's income tax rate. The Act, among other things, reduced the U.S. federal corporate income tax rate from 35% to 21%; limited the use of foreign tax credits to reduce U.S. income tax liability; repealed the corporate alternative minimum tax ("AMT") and changed how existing AMT credits can be realized; allowed immediate expensing for qualified assets; created a new limitation on deductible interest expense; repealed the domestic production activities deduction; and limited the deductibility of certain executive compensation and other deductions.

In accordance with Staff Accounting Bulletin 118 (“SAB 118”), the Company recognized provisional tax impacts related to the re-measurement of its net deferred tax liabilities and the addition of a partial valuation allowance recorded against existing foreign tax credit carryforwards not expected to be utilized in future tax years during the year ended December 31, 2017. As of September 30, 2018, the Company has not made any measurement-period adjustments that materially impacted its 2018 effective tax rate. Such adjustments may be necessary in future periods due to additional guidance that may be issued, changes in assumptions made and the finalization of U.S. income tax positions with the filing of the Company's 2017 U.S. income tax return which will allow for the ability to conclude whether any further adjustments are necessary to its deferred tax assets and liabilities. Any adjustments to these provisional amounts will be reported as a component of income tax expense (benefit) in the reporting period in which any such adjustments are identified but no later than the fourth quarter of 2018. The Company will continue to analyze the Act in order to finalize any related impacts within the measurement period.

13. Earnings (Loss) Per Share

Basic (loss) earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted (loss) 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. For the three months ended September 30, 2018 and September 30, 2017, the Company had 1,981,879 and 2,364,018 securities, respectively, that were potentially dilutive in future earnings per share calculations. For the nine months ended September 30, 2018 and September 30, 2017, the Company had 1,973,753 and 2,281,805 securities, respectively, that were potentially dilutive in future earnings per share calculations. Such dilution will be dependent on the excess of the market price of the Company's stock over the exercise price and other components of the treasury stock method.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Basic:				
Weighted average shares outstanding	28,490,530	27,950,829	28,421,850	27,980,074
Diluted:				
Total basic weighted average shares outstanding	28,490,530	27,950,829	28,421,850	27,980,074
Effect of dilutive securities:				
Common stock options	—	—	—	—
Total weighted average shares outstanding assuming dilution	28,490,530	27,950,829	28,421,850	27,980,074
Shares of common stock issued from the exercise of stock options	256,833	13,710	488,303	173,518

14. Stock-Based Compensation

The Compensation Committee of the Company's Board of Directors is responsible for the administration of the Company's stock incentive plans, which include the 2017 Long Term Incentive Plan, or the "2017 LTIP", which was approved by shareholders in May 2017 and authorized the maximum aggregate number of shares of common stock to be issued at 2,400,000. In general, the Company's 2017 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 10 years from the date of issuance. Options generally vest over a three to five year period.

The Company applies a 3.2% and a 5.5% forfeiture rate, which gets compounded over the vesting terms of the individual award, to its restricted stock and option grants, respectively, based on historical analysis.

In the three months ended September 30, 2018 and 2017, compensation expense related to stock-based awards outstanding was $0.6 million, respectively. In the nine months ended September 30, 2018 and 2017, compensation expense related to stock-based awards outstanding was $1.7 million and $1.8 million, respectively.

In May 2018, the Company granted certain executives options to purchase 366,905 shares of common stock and used the Black Scholes option pricing model to estimate the fair value of these options using the following assumptions:

Grant-date fair value	$2.78	
Risk-free interest rate	2.65	%
Expected volatility	51.8	%
Expected term of options (in years)	3.0	
Dividend yield	—	%

The risk-free interest rate is based on interest rates on U.S. Treasury zero-coupon issues that match the contractual terms of the stock option grants. The expected term represents the period in which the Company's equity awards are expected to be outstanding.

Also, in May 2018, independent directors as well as certain officers and executives of the Company were awarded 331,095 shares of restricted common stock. This total number of shares included 60,320 shares, which were awarded to the independent directors and vested immediately on the date of grant, as well as 67,023 shares of performance-based stock awarded to certain executives. The performance-based stock will potentially vest at the end of fiscal year 2021, with 100% of the shares to be earned based on the achievement of an objective, tiered return on invested capital measured over a three-year performance period. The Company evaluates the probability of achieving this each reporting period. The fair value of all shares awarded on the date of the grant was $7.46 per share.

In July 2018, the Company granted an executive of the Company options to purchase 7,310 of shares of common stock and used the Black Scholes option pricing model to estimate the fair value of these options, which was calculated to be $3.42 per share. The assumptions utilized in the Black Scholes option pricing model were not materially different from the assumptions utilized for options granted in May 2018. Also, in July 2018, this executive was awarded 2,769 shares of restricted common stock. The fair value of all shares awarded on the date of the grant was $9.03 per share.

In the three months ended September 30, 2018, 256,833 options were exercised, generating proceeds to the Company of $1.5 million. In the three months ended September 30, 2017, 13,710 options were exercised, generating proceeds to the Company of approximately $0.1 million. In the nine months ended September 30, 2018, 488,303 options were exercised, generating proceeds to the Company of $2.8 million. In the nine months ended September 30, 2017, 173,518 options were exercised, generating proceeds to the Company of $1.0 million.

At September 30, 2018, total unrecognized compensation expense related to unvested stock and options was approximately $4.6 million, which is expected to be recognized over a period of approximately two years.

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 other proceedings, individually or in the aggregate, would be expected to have a material adverse effect on results of operations, cash flows or financial condition.

A pending legal matter was settled for a $5.5 million and $0.5 million, respectively, during the first quarter of 2018. Settlement amounts were recorded in "Other gain from continuing operations" in the Consolidated Statements of Operations, "Prepaid expenses and other" (current portion of the notes receivable) and "Other non-current assets" (non-current portion of the notes receivable) in the Consolidated Balance Sheets. As of September 30, 2018, the current portion of the note receivable was $0.8 million and the non-current portion was $3.8 million. Legal fees related to this matter were expensed as incurred during the respective reporting period.

As a result of charges brought in September 2015 and October 2016 by the Houston Police Department, Environmental Enforcement, two subsidiaries of the Company were recently indicted by a duly organized Grand Jury of Harris County, Texas for separate but related violations of the Texas Water Code, allegedly arising from the handling of construction concrete at certain work sites. Specifically, both were charged with unlawfully, intentionally or knowingly discharging a waste or pollutant. The Company is subject to a maximum fine in each case of $250,000, but has already declined a $7,500 plea bargain in the first case. In the second case, a project supervisor was also indicted. None of these allegations nor the costs of defense, taken separately or as a whole, is expected to be material to the Company. The Company considers all of these allegations without merit and it will vigorously defend itself and its employee.

16. Segment Information

The Company currently operates in two reportable segments: marine and concrete. The Company's financial reporting systems present various data for management to run the business, including profit and loss statements prepared according to the segments presented. Management uses operating income to evaluate performance between the two segments. Segment information for the periods presented is provided as follows:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Marine				
Contract revenues	$ 63,479	$ 68,383	$ 206,967	$ 197,566
Operating (loss) income	(5,559)	(9,837)	4,348	(26,160)
Depreciation and amortization expense	(4,746)	(5,075)	(14,772)	(15,417)
Total Assets	$ 269,501	$ 248,960	$ 269,501	$ 248,960
Property, Plant and Equipment, net	125,231	131,630	125,231	$ 131,630
Concrete				
Contract revenues	$ 61,594	$ 71,779	$ 214,715	$ 218,773
Operating (loss) income	(1,846)	4,483	(94)	16,858
Depreciation and amortization expense	(2,176)	(2,229)	(6,362)	(7,005)
Total Assets	$ 155,247	$ 177,746	$ 155,247	$ 177,746
Property, Plant and Equipment, net	19,156	17,149	19,156	17,149

Intersegment revenues between the Company's two reportable segments for the three and nine months ended September 30, 2018 were less than $0.1 million and $2.4 million, respectively. There were no intersegment revenues for the three and nine months ended September 30, 2017. The marine segment had foreign revenues of $2.0 million and $3.0 million for the three months ended September 30, 2018 and 2017, respectively, and $10.3 million and $3.9 million for the nine months ended September 30, 2018 and 2017, respectively. These revenues are derived from projects in the Caribbean Basin, and were paid in U.S. dollars. There was no foreign revenue for the concrete segment.

17. Related Party Transactions

Upon the completion of the acquisition of TAS in August 2015, the Company entered into a lease arrangement with an entity in which an employee owns an interest. This lease is for office space and yard facilities used by the concrete segment. Annual lease expense was approximately $0.8 million, of which approximately less than $0.1 million and $0.5 million represented lease expense during the three and nine months ended September 30, 2017, respectively. Due to the resignation of this employee, these transactions ceased to be related party transactions as of July 31, 2017 and therefore, no related party lease expense existed after this date.

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” a to Orion Group Holdings, 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 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 and other difficulties encountered in project execution, 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 2017 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 2017 audited consolidated financial statements and notes thereto included in our 2017 Form 10-K, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our 2017 Form 10-K and with our unaudited consolidated financial statements and related notes appearing elsewhere in this quarterly report.

Overview

Orion Group Holdings, Inc., its subsidiaries and affiliates (hereafter collectively referred to as the "Company"), provides a broad range of specialty construction services in the infrastructure, industrial and building sectors of the continental United States, Alaska, Canada and the Caribbean Basin. The Company’s marine segment services the infrastructure sector through marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its concrete segment services the building sector by providing turnkey concrete construction services including pour and finish, dirt work, layout, forming, rebar, and mesh across the light commercial, structural and other associated business areas. The Company is headquartered in Houston, Texas with offices throughout its operating areas.

Our contracts are obtained primarily through competitive bidding in response to “requests for proposals” by federal, state and local agencies and through negotiation and competitive bidding with private parties and general contractors. Our bidding activity and strategies are affected by such factors as our backlog, current utilization of equipment and other resources, job location, 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. We generally record revenue on construction contracts over time, measured by the percentage of actual contract costs incurred to date to total estimated costs for each contract. 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, work stoppages and other costs 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 have a negative impact on our contract performance, which can adversely affect the timing of revenue recognition and ultimate contract profitability. We plan our operations and bidding activity with these factors in mind and they generally have not had a material adverse impact on the results of our operations in the past.

Third quarter 2018 recap and 2019 Outlook

During the third quarter, the Company experienced unanticipated delays in commencing certain work due to customer schedules. The Company also experienced significant production delays in its concrete segment, primarily due to continuous rain throughout its market areas in Texas, particularly during September. As a result, the timing of certain projects and opportunities changed and the Company saw significant revenue and operating profit shortfalls in both segments for the third quarter. Although the results for the third quarter were lower than expected, the Company remains confident in its strategic plan, its long-term market outlook and its fundamental business drivers. Looking toward 2019, the Company remains focused on its strategic plan and believes its long-term outlook is strong, with solid prospects for continued bottom line growth in the future.

Marine Segment

Demand for our marine construction services remains strong. We continue to see solid demand to help maintain and expand the
infrastructure that facilitates the movement of goods and people on or over waterways. Specifically, we continue to see bid opportunities from our private sector energy-related customers as they expand their marine facilities related to the storage, transportation and refining of domestically produced energy. Over the long-term, we expect to see some bid opportunities in this sector from petrochemical-related customers, energy exporters and liquefied natural gas facilities. Opportunities from local port authorities also remain solid, many of which are related to the completion of the Panama Canal expansion project. Additionally, we expect to see some bid opportunities related to coastal restoration funded through the Resource and Ecosystems Sustainability, Tourist Opportunities, Revived Economies of the Gulf Coast States Act (the "RESTORE Act") and new U.S. Army Corps of Engineers ("USACE") disaster recovery projects in Texas throughout 2018. We believe our current equipment fleet will allow us to better meet market demand for projects from both our public and private customers in the future.

In the long-term, we see positive trends in demands for our services in our end markets, including:
- General demand to repair and improve degrading U.S. marine infrastructure;
- Improving economic conditions and increased activity in the petrochemical industry and energy-related companies will necessitate capital expenditures, including larger projects, as well as maintenance call-out work;
- Expected increases in cargo volume and future demands from larger ships transiting the Panama Canal that will require ports along the Gulf Coast and Atlantic Seaboard to expand port infrastructure as well as perform additional dredging services;
-

The Water Resources Reform and Development Act (the "WRRDA Act") authorizing expenditures for the conservation and development of the nation's waterways as well as addressing funding deficiencies within the Harbor Maintenance Trust Fund;

- Renewed focus on coastal rehabilitation along the Gulf Coast, particularly through the use of RESTORE Act funds based on fines collected related to the 2010 Gulf of Mexico oil spill;
- Funding for highways and transportation under the FAST Act, which provides authority through 2020; and
- Nearly $5 billion of federal funding provided by the USACE in connection with disaster recovery in Texas