Great Lakes Dredge & Dock CORP
Form 10-Q
November 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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:

001-33225

Great Lakes Dredge & Dock Corporation

(Exact name of registrant as specified in its charter)

Delaware	**20-5336063**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2122 York Road, Oak Brook, IL	**60523**
(Address of principal executive offices)	(Zip Code)

(630) 574-3000

(Registrant s telephone number, including area code)

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of November 10, 2007, 58,459,824 shares of the Registrant s Common Stock, par value $.0001 per share, were outstanding.

Great Lakes Dredge & Dock Corporation and Subsidiaries

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

Securities Exchange Act of 1934

For the Quarterly Period ended September 30, 2007

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PART I Financial Information

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except share and per share amounts)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and equivalents	$ 29,710	$ 3,640
Accounts receivable, net	101,750	89,505
Contract revenues in excess of billings	7,360	9,561
Inventories	29,596	21,082
Prepaid expenses and other current assets	31,452	30,458
Total current assets	199,868	154,246
Property and equipment, net	268,899	239,337
Goodwill	97,447	98,747
Other intangible assets, net	1,071	1,268
Inventories	18,726	13,353
Investments in joint ventures	10,285	9,996
Other assets	9,869	11,412
Total assets	$ 606,165	$ 528,359
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 66,565	$ 57,826
Accrued expenses	22,052	30,192
Billings in excess of contract revenues	8,642	19,195
Current maturities of long-term debt		4,085
Total current liabilities	97,259	111,298
Long-term debt	189,500	190,600
Deferred income taxes	82,779	84,825
Other	9,156	11,109
Total liabilities	378,694	397,832
Commitments and contingencies (Note 13)		
Minority interest	2,002	2,005
Stockholders equity:		
Common stock $.0001 par value; 90,000,000 authorized, 58,459,824 shares issued and outstanding and 39,985,678 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	5	4
Additional paid-in capital	260,670	168,830
Accumulated deficit	(35,585)	(39,030)
Accumulated other comprehensive income (loss)	379	(1,282)
Total stockholders equity	225,469	128,522

Total liabilities and stockholders equity	$	606,165	$	528,359

See notes to unaudited condensed consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Contract revenues	$ 116,460	$ 81,698	$ 358,817	$ 304,185
Costs of contract revenues	103,114	72,215	313,594	265,532
Gross profit	13,346	9,483	45,223	38,653
General and administrative expenses	9,528	6,262	26,737	20,692
Subpoena-related expenses	26	170	97	599
Amortization of intangible assets	66	65	197	245
Operating income	3,726	2,986	18,192	17,117
Interest expense, net	(3,375)	(5,124)	(14,217)	(17,340)
Equity in earnings of joint ventures	790	693	1,689	1,275
Minority interests	22	(35)	3	(160)
Income (loss) before income taxes	1,163	(1,480)	5,667	892
Income tax (expense) benefit	(519)	510	(2,380)	(418)
Net income (loss)	$ 644	$ (970)	$ 3,287	$ 474
Redeemable preferred stock dividends	$	$ (2,137)	$	$ (6,176)
Net income (loss) available to common shareholders	$ 644	$ (3,107)	$ 3,287	$ (5,702)
Basic earnings (loss) per share	0.01	(0.33)	0.07	(0.61)
Basic weighted average shares	56,265	9,288	45,694	9,288
Diluted earnings (loss) per share	0.01	(0.33)	0.07	(0.61)
Diluted weighted average shares	57,190	9,288	50,106	9,288

See notes to unaudited condensed consolidated financial statements.

Great Lakes Dredge & Dock Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands, except per share amounts)

	Nine Months Ended September 30, 2007	2006
Operating Activities		
Net income	$ 3,287	$ 474
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	20,141	18,768
Earnings of joint ventures	(1,689)	(1,275)
Distribution from equity joint ventures	1,400	650
Minority interest	(3)	160
Deferred income taxes	829	(4,110)
Gain on dispositions of property and equipment	(556)	(768)
Amortization of financing fees	2,185	1,395
Changes in assets and liabilities:		
Accounts receivable	(12,245)	11,990
Contract revenues in excess of billings	2,201	(3,917)
Inventories	(13,887)	(5,067)
Prepaid expenses and other current assets	(4,204)	(7,360)
Accounts payable and accrued expenses	2,861	3,731
Billings in excess of contract revenues	(10,553)	5,791
Other noncurrent assets and liabilities	308	2,210
Net cash flows from operating activities	(9,925)	22,672
Investing Activities		
Purchases of property and equipment	(77,175)	(21,011)
Dispositions of property and equipment	28,378	1,502
Loan to related party		(1,407)
Repayment from related party	1,703	
Net cash flows from investing activities	(47,094)	(20,916)
Financing Activities		
Repayments of long-term debt	(19,685)	(4,462)
Borrowings under revolving loans, net of repayments	14,500	5,500
Cash proceeds from conversion of warrants	91,768	
Financing fees	(2,101)	(361)
Repayment of capital lease debt	(1,393)	(1,027)
Net cash flows from financing activities	83,089	(350)
Net change in cash and equivalents	26,070	1,406
Cash and equivalents at beginning of period	3,640	601
Cash and equivalents at end of period	$ 29,710	$ 2,007
Supplemental Cash Flow Information		
Cash paid for interest	$ 8,891	$ 12,440
Cash paid for taxes	$ 6,757	$ 3,043
NON CASH INVESTING ACTIVITY	$ 2,546	

See notes to unaudited condensed consolidated financial statements.

GREAT LAKES DREDGE & DOCK CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in thousands, except per share amounts)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information. Accordingly, these financial statements do not include all the information in the notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as of and for the dates presented. The unaudited condensed consolidated financial statements and notes herein should be read in conjunction with the audited consolidated financial statements of Great Lakes Dredge & Dock Corporation and Subsidiaries (the Company) and the notes thereto, included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2006.

The financial results for the Company are compared with the results for the equivalent periods of GLDD Acquisitions Corp., which merged with a subsidiary of Aldabra Acquisition Corporation (Aldabra) on December 26, 2006. Following a holding company merger, the surviving company was renamed Great Lakes Dredge & Dock Corporation. The merger was accounted for as the acquisition of Aldabra and was treated as a recapitalization. Accordingly, the Company s core operating activities were not affected by the merger.

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

2. Comprehensive income

Total comprehensive income (loss) is comprised of the Company s net income (loss) and net unrealized gains (losses) on cash flow hedges as discussed in Note 5 below. Total comprehensive income (loss) for the three months ended September 30, 2007 and 2006 was $781 and $(2,553), respectively. Total comprehensive income (loss) for the nine months ended September 30, 2007 and 2006 was $4,948 and ($629), respectively.

3. Stockholders Equity

As of September 30, 2007, all of the Company s warrants to purchase common stock had been exercised or redeemed resulting in cash proceeds to the Company of $91,768. As a result of the exercise of the warrants, Stockholders Equity increased by this amount at September 30, 2007.

4. Earnings per share

As indicated in Note 1, the merger with Aldabra was considered a reverse acquisition, and accordingly the weighted average shares outstanding for all prior periods reflect the shares that were issued to acquire GLDD Acquisitions Corp. common stock. As a result, 9,288 shares were deemed to be outstanding at the beginning of the earliest period presented.

The Company accrued dividends on its redeemable preferred stock in 2006, which reduced the net income available to common stockholders. Such preferred stock and all accrued dividends were exchanged for common stock in connection with the December 2006 merger. As a result of the merger, 18.4 million warrants to purchase the Company s common stock were exercisable at the merger date. At September 30, 2007, all of these warrants had been exercised or redeemed. The potentially dilutive impact of these shares prior to the redemption date is included in the calculation of diluted earnings per share based on the application of the treasury stock method.

Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. Great Lakes has no dilutive securities outstanding at September 30, 2007. The computations for basic and diluted earnings per share from continuing operations are as follows:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Numerator:				
Net income (loss) - numerator for basic earnings per share	$ 644	$ (970)	$ 3,287	$ 474
Redeemable Preferred Stock dividends		(2,137)		(6,176)
Net earnings adjusted for preferred stock dividends numerator basic earnings per share	$ 644	$ (3,107)	$ 3,287	$ (5,702)
Denominator:				
Denominator for basic earnings per share - weighted average shares	56,265	9,288	45,694	9,288
Effect of dilutive securities:				
Dilutive impact of warrants to purchase common stock	925		4,413	
Denominator for diluted earnings per share adjusted weighted average shares	57,190	9,288	50,106	9,288
Basic earnings (loss) per share	$ 0.01	$ (0.33)	$ 0.07	$ (0.61)
Diluted earnings (loss) per share	$ 0.01	$ (0.33)	$ 0.07	$ (0.61)

5. Risk management activities

The Company uses derivative instruments to manage commodity price, interest rate, and foreign currency exchange risks. Such instruments are not used for trading purposes. As of September 30, 2007, the Company was party to various swap arrangements to hedge the price of a portion of its diesel fuel purchase requirements for work in its backlog to be performed through June 2008. As of September 30, 2007, there were 3.2 million gallons remaining on these contracts. Under these agreements, the Company will pay fixed prices ranging from $1.72 to $2.19 per gallon. At September 30, 2007, the fair value asset on these contracts was estimated to be $625, based on quoted market prices, and is recorded in current assets. At December 31, 2006, the fair value liability on these contracts was estimated to be $2,114 based on quoted market prices, and is recorded in accrued liabilities. Ineffectiveness related to these fuel hedge arrangements was determined to be immaterial. The remaining gains included in accumulated other comprehensive income at September 30, 2007 will be reclassified into earnings over the next nine months, corresponding to the period during which the hedged fuel is expected to be utilized.

In February 2004, the Company entered into an interest rate swap arrangement, which is effective through December 15, 2013, to swap a notional amount of $50 million from a fixed rate of 7.75% to a floating LIBOR-based rate in order to manage the interest rate paid with respect to the Company s 7¾% senior subordinated debt. The current portion of the fair value asset (liability) of the swap at September 30, 2007 and

December 31, 2006 was $105 and ($201), respectively, and is recorded in current assets and accrued liabilities. The long term portion of the fair value liability of the swap at September 30, 2007 and December 31, 2006 was $1,259 and $1,279, respectively and is recorded in other long term liabilities. The swap is not accounted for as a hedge; therefore, the changes in fair value are recorded as adjustments to interest expense in each reporting period.

The carrying values of other financial instruments included in current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. The carrying value of the Company s variable rate debt (primarily bank debt) approximates fair values, based on prevailing market rates. The fair value of the Company s $175,000 of 7¾% senior subordinated notes was $168,000 at September 30, 2007 and December 31, 2006, based on quoted market prices.

6. Accounts receivable

Accounts receivable at September 30, 2007 and December 31, 2006 are as follows:

	September 30, 2007	December 31, 2006
Completed contracts	$ 33,364	$ 18,252
Contracts in progress	52,346	60,522
Retainage	17,547	11,488
	103,257	90,262
Allowance for doubtful accounts	(1,507)	(757)
	$ 101,750	$ 89,505

7. Contracts in progress

The components of contracts in progress at September 30, 2007 and December 31, 2006 are as follows:

	September 30, 2007	December 31, 2006
Costs and earnings in excess of billings:		
Costs and earnings for contracts in progress	$ 97,949	$ 172,263
Amounts billed	(91,156)	(163,821)
Costs and earnings in excess of billings for contracts in progress	6,793	8,442
Costs and earnings in excess of billings for completed contracts	567	1,119
	$ 7,360	$ 9,561
Prepaid contract costs (included in prepaid expenses and other current assets)	$ 3,113	$ 7,602
Billings in excess of costs and earnings:		
Amounts billed	$ (166,549)	$ (216,218)
Costs and earnings for contracts in progress	157,907	197,023
	$ (8,642)	$ (19,195)

8. Intangible assets

The net book value of intangible assets is as follows:

As of September 30, 2007:	Estimated Life	Cost	Accumulated Amortization	Net
Demolition customer relationships	7 years	1,093	700	393
Software and databases	7-10 years	1,209	531	678
		$ 2,302	$ 1,231	$ 1,071

As of December 31, 2006	Cost	Accumulated Amortization	Net
Customer contract backlog	4,237	4,237	
Demolition customer relationships	1,093	609	484
Software and databases	1,209	425	784
Total	$ 6,539	$ 5,271	$ 1,268

9. Investment in Joint Ventures

The Company has a 50% ownership interest in Amboy Aggregates (Amboy), whose primary business is the dredge mining and sale of fine aggregate. The Company accounts for its investment in Amboy using the equity method. The following table includes Amboy s summarized financial information for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	$ 6,778	$ 7,181	$ 18,019	$ 17,576
Gross Profit	$ 1,861	$ 1,806	$ 4,680	$ 4,215
Net income	$ 1,580	$ 1,386	$ 3,378	$ 2,550
Great Lakes 50% share	$ 790	$ 693	$ 1,689	$ 1,275

Amboy has a revolving loan with a bank for up to $3,000 which contains certain restrictive covenants, including limitations on the amount of distributions to its joint venture partners. It is the intent of the joint venture partners to periodically distribute Amboy s earnings, to the extent allowed by Amboy s bank agreement. The Company does not guarantee any of the outstanding borrowings and accrued interest under the facility.

The Company and its Amboy joint venture partner own a 50% interest in land, which is adjacent to the Amboy property and is used in connection with the Amboy operations. The Company s recorded share of the property is $1,047 and is reflected in investments in joint ventures.

For the nine months ended September 30, 2007 and 2006, the Company received distributions from Amboy totaling $1,400 and $650, respectively.

10. Accrued expenses

Accrued expenses at September 30, 2007 and December 31, 2006 are as follows:

	September 30, 2007	December 31, 2006
Insurance	$ 6,566	$ 8,798
Payroll and employee benefits	6,525	9,159
Interest	4,470	1,003
Equipment leases	1,520	1,284
Income and other taxes	1,119	5,897
Fuel hedge liability		2,113
Other	1,852	1,938
	$ 22,052	$ 30,192

11. Income Taxes

Effective January 1, 2007, Great Lakes adopted FASB Interpretation No. 48, Accounting for Uncertainties in Income Taxes (FIN 48). FIN 48 requires a company to evaluate whether the tax position taken by a company will more likely than not be sustained upon examination by the appropriate taxing authority. It also provides guidance on how a company should measure the amount of benefit that the company is to recognize in its financial statements. The Company also adopted FASB Staff Position No. FIN 48-1, Definition of *Settlement* in FASB Interpretation No. 48

As a result of the implementation of FIN 48, the Company recognized a $1,458 decrease in the liability for unrecognized tax benefits. This was accounted for as an increase in retained earnings of $158 and an adjustment to goodwill of $1,300. At January 1, 2007, the Company had $1,939 in unrecognized tax benefits, the recognition of which would have an impact of $862 on the effective tax rate. During the quarter ended September 30, 2007, the Company recorded additional unrecognized tax benefits of $117, bringing the nine month total to $312. The Company does not anticipate the total amount of unrecognized tax benefits will significantly change over the next twelve months.

The Company s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. At January 1, 2007, the Company had approximately $523 accrued for interest and penalties, net of tax. An additional amount of $36, net of tax, was accrued for interest and penalties during the third quarter, bringing the 2007 year to date total to $110.

The Company files income tax returns at the U.S. federal level and in various state and foreign jurisdictions. U.S. federal income tax years prior to 2004 are closed and no longer subject to examination. With few exceptions, the statute of limitations in state taxing jurisdictions in which the Company operates has expired for all years prior to 2003. The Company has been notified that the Internal Revenue Service will examine the 2005 tax return. The examination is expected to start before the end of the year. In foreign jurisdictions in which the Company operates all significant years prior to 2003 are closed and are no longer subject to examination. Ongoing, routine examinations of post-2002 years in Egypt, India and Mexico are not expected to result in any material adjustments.

12. Segment information

The Company operates in two reportable segments: dredging and demolition. 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 as follows:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Dredging				
Contract revenues	$ 93,707	$ 69,449	$ 310,989	$ 268,170
Operating income	3,162	2,073	15,992	13,845
Demolition				
Contract revenues	$ 22,753	$ 12,249	$ 47,828	$ 36,015
Operating income	564	913	2,200	3,272
Total				
Contract revenues	$ 116,460	$ 81,698	$ 358,817	$ 304,185
Operating income	3,726	2,986	18,192	17,117

In addition, foreign dredging revenue of $42,126 for the 2007 third quarter and $95,105 for the nine months ended September 30, 2007 was primarily attributable to work done in Bahrain. The majority of the Company s long-lived assets are marine vessels and related equipment. At any point in time, the Company may employ certain assets outside of the U.S., as needed, to perform work on the Company s foreign projects.

13. Commitments and contingencies

At September 30, 2007, the Company was contingently liable, in the normal course of business, for $45,211 in undrawn letters of credit, primarily relating to foreign contract performance guarantees.

The Company finances certain key vessels used in its operations and office facilities with operating lease arrangements with unrelated lessors, requiring annual rentals decreasing from $14,000 to $10,000 over the next five years. Certain of these operating leases contain default provisions that are triggered by an acceleration of debt maturity under the terms of the Company s Credit Agreement. Additionally, the leases typically contain provisions whereby the Company indemnifies the lessors for the tax treatment attributable to such leases based on the tax rules in place at lease inception. The tax indemnifications do not have a contractual dollar limit. To date, no lessors have asserted any claims against the Company under these tax indemnification provisions.

On July 6, 2007 the Company entered into a sale-leaseback with GATX Third Aircraft Corporation (GATX) for the dredge Terrapin Island. The Company sold the vessel to GATX for $25,500 and paid down its revolver with the proceeds. The Company will lease the vessel through July 2017 under a long term operating lease.

On June 12, 2007, the Company entered into a new credit agreement (the Credit Agreement) with LaSalle Bank National Association, as Swing Line Lender, Sole Lead Arranger and Administrative Agent, and the financial institutions party thereto as lenders. The new Credit Agreement, which refinanced and replaced the Company s former credit agreement and paid off its equipment debt, provides for a revolving credit facility of up to $155,000 in borrowings and includes sublimits for the issuance of letters of credit and swingline loans. The revolving credit facility matures on June 12, 2012. The revolving credit facility bears interest at rates selected at the option of Great Lakes, equal to either LIBOR plus an applicable margin or the Base Rate plus an applicable margin. The applicable margins for LIBOR loans and Base Rate loans are currently 2.50% and 0.75%, respectively. Beginning on December 12, 2007, the applicable margins are subject to adjustment based upon the Company s ratio of total debt to EBITDA (each as defined in the Credit Agreement). The Credit Agreement also requires the payment of a 0.50% non-use fee. The obligations of Great Lakes under the Credit Agreement are unconditionally guaranteed by its direct and indirect domestic subsidiaries. The obligations under the Credit Agreement are secured by a perfected first priority lien on certain equipment of Great Lakes subsidiary, Great Lakes Dredge & Dock Company, LLC (GLDD Company); a perfected second priority lien on certain other equipment of GLDD Company, subject to a perfected first priority lien in favor of Great Lakes bonding company; a perfected first priority lien on the inter-company receivables of Great Lakes and its direct and indirect domestic subsidiaries and having an equal priority to the liens of Great Lakes bonding company; and a perfected second priority lien on the accounts receivable of Great Lakes and its direct and indirect subsidiaries that relate to bonded projects. The Credit Agreement contains various covenants and restrictions including (i) limitations on dividends to $5 million per year, (ii) limitations on redemptions and repurchases of capital stock, (iii) limitations on the incurrence of indebtedness, liens, leases and investments, and (iv) maintenance of certain financial covenants. As of September 30, 2007, the Company had $14,500 of borrowings outstanding on the revolver. In addition, $24,000 of letters of credit was outstanding and there was $116,500 of availability on the facility.

Borrowings under the Company s Credit Agreement are secured by first lien mortgages on certain operating equipment of the Company with a net book value of approximately $97,000 at December 31, 2006. Additionally, the Company obtains its performance and bid bonds through an underwriting and indemnity agreement with a surety company that has been granted a security interest in a separate portion of the Company s operating equipment with a net book value of approximately $80,000 at December 31, 2006. The net book value of equipment serving as collateral under these agreements at September 30, 2007 does not materially differ from the values at December 31, 2006. These agreements contain provisions requiring the Company to maintain certain financial ratios and restricting the Company s ability to pay dividends, incur indebtedness, create liens, and take certain other actions. The Company was in compliance with all required covenants at September 30, 2007.

Great Lakes has a $24 million International Letter of Credit Facility with Wells Fargo HSBC Trade Bank. This facility is used for performance and advance payment guarantees on foreign contracts, including the Diyaar contract. The Company s obligations under the agreement are guaranteed by the Company s foreign accounts receivable. In addition, the Export-Import Bank of the United States (Ex-Im) has issued a guarantee under the Ex-Im Bank s Working Capital Guarantee Program which covers 90% of the obligations owing under the facility. There were $21,200 letters of credit outstanding on this facility at September 30, 2007.

The performance and bid bonds issued under the bonding agreement are customarily required for dredging and marine construction projects, as well as some demolition projects. Bid bonds are generally obtained for a percentage of bid value and aggregate amounts outstanding typically range from $5,000 to $10,000. Performance bonds typically cover 100% of the contract value with no maximum bond amounts. At September 30, 2007, the Company had outstanding performance bonds valued at approximately $288,421; however the revenue value remaining in backlog related to these projects totaled approximately $164,853 at September 30, 2007.

Certain foreign projects performed by the Company have warranty periods, typically spanning no more than one to three years beyond project completion, whereby the Company retains responsibility to maintain the project site to certain specifications during the warranty period. Generally, any potential liability of the Company is mitigated by insurance, shared responsibilities with consortium partners, and/or recourse to owner-provided specifications.

The Company considers it unlikely that it would have to perform under any of these aforementioned contingent obligations and performance has never been required in any of these circumstances in the past.

As is customary with negotiated contracts and modifications or claims to competitively-bid contracts with the federal government, the government has the right to audit the books and records of the Company to ensure compliance with such contracts, modifications or claims and the applicable federal laws. The government has the ability to seek a price adjustment based on the results of such audit. Any such audits have not had and are not expected to have a material impact on the financial position, operations or cash flows of the Company.

As described in the Legal Proceedings discussion in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as updated by our Quarterly Report on Form 10-Q for the quarters ending March 31, 2007, June 30, 2007 and September 30, 2007, the Company is involved in various legal proceedings in the normal course of business, including:

(i) the service of a subpoena to produce documents in connection with a federal grand jury convened in the United States District Court for the District of South Carolina;

(ii) personal injury lawsuits filed by our hourly workforce residing in Texas; and

(iii) class action lawsuits, a mass tort lawsuit and a limitation of liability proceeding relating to litigation filed in the U.S. District Court for the Eastern District of Louisiana, on behalf of Louisiana citizens who allegedly suffered property damage from the floodwaters that flooded New Orleans and surrounding areas when Hurricane Katrina hit the area on August 29, 2005.

During the third quarter of 2007, the Company received no further communications from the Justice Department with regard to the federal grand jury investigation. However, the matter continues to remain open and the Company is continuing to incur legal costs though at a much reduced level from 2004 and 2005.

During the third quarter of 2007, no additional personal injury lawsuits were filed against the Company in Texas. The Company continues to record self-insurance reserves, which represent its best estimate of the outcomes of outstanding claims and the Company does not believe that it is reasonably possible there will be a material adverse impact to the Company s financial position or results of operations or cash flows related to outstanding claims. However, the occurrence in the future of new claims of a similar nature is not possible to predict and while the Company does not believe that additional claims would have a material impact on the Company s financial position, it is possible they could be material to the results of operations and cash flows in future periods. The Company has recorded expenses of $2,400 for these claims during the nine month period ended September 30, 2007 compared to $3,300 for the same 2006 period.

During the third quarter of 2007, Great Lakes continued to defend itself against various lawsuits filed in the U.S. District Court for the Eastern District of Louisiana, on behalf of Louisiana citizens who allegedly suffered property damage from the floodwaters that flooded New Orleans and surrounding areas when Hurricane Katrina hit the area on August 29, 2005 (the Katrina Claims). As previously reported, several of those class action complaints were dismissed with prejudice by the District Court and those plaintiffs have filed an appeal to the U.S. Court of Appeals for the Fifth Circuit. Briefing on the appeal is expected to be completed by the end of December 2007 (assuming no extensions of time). In addition, and as previously reported, Great Lakes filed for exoneration or limitation of liability under the Limitation of Liability Act in the U.S. District Court for the Eastern District of Louisiana. On April 20, 2007, the District Court set July 30, 2007 as the deadline by which all Katrina Claims against Great Lakes were to be filed in the limitation of liability proceeding; any claims not filed by that time should be barred by the court. On September 7, 2007, Great Lakes filed a motion to dismiss all claims against it in the limitation proceeding. Briefing will be completed in November on the motion to dismiss. Great Lakes maintains $150 million in insurance coverage for the Katrina Claims. Great Lakes does not believe it is reasonably possible that the Katrina Claims will have a material adverse impact on its financial condition or results of operations and cash flows.

Except as described above, the Company is not currently a party to any material legal proceedings or environmental claims.

14. Effects of recently issued accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Great Lakes is currently evaluating the impact of adopting SFAS 157 on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 which expands the scope of what companies may carry at fair value. It is effective for financials statements issued after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on the consolidated financial statements.

15. Subsequent Events

Subsequent to quarter end, on October 19, 2007 the Company signed a definitive agreement to purchase dredging equipment from Dragaport Ltda. (Dragaport). Dragaport is a Brazilian engineering and civil construction company, specializing in dredging activities. The terms of the agreement with Dragaport provide for Great Lakes Dredge & Dock Company, LLC, a wholly owned subsidiary of Great Lakes to purchase from Dragaport two 5600 cubic meter hopper dredges, the Macapa and Boa Vista 1 , for the aggregate price of $25 million. These dredges are currently flagged and located in Brazil. The Company s intent is to reflag these vessels under Marshall Island law and deploy them to the Middle East to work on projects currently in backlog. The acquisitions of the dredges are expected to be financed with cash on hand and borrowings under the Company s senior credit facility by the end of 2007.

16. Supplemental Unaudited condensed consolidating financial information

Included in the Company s long-term debt is $175,000 of 7¾% senior subordinated notes which will mature on December 15, 2013. The payment obligations of the Company under the senior subordinated notes are guaranteed by the Company s domestic subsidiaries (the Subsidiary Guarantors). Such guarantees are full, unconditional and joint and several. The following supplemental financial information sets forth, on a combined basis, the balance sheets, statements of operations and statements of cash flows for the Subsidiary Guarantors, the Company s non-guarantor subsidiary and for the Issuer (GLD Corporation).

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2007

UNAUDITED

(in thousands)

	Guarantor Subsidiaries	Other Subsidiary	GLD Corporation	Eliminations	Consolidated Totals
ASSETS					
CURRENT ASSETS:					
Cash and equivalents	$ 29,700	$ 10	$	$	$ 29,710
Accounts receivable net	101,750				101,750
Receivables from affiliates	7,737	2,797	88,169	(98,703)	
Contract revenues in excess of billings	7,360				7,360
Inventories	29,596				29,596
Prepaid expenses and other current assets	22,193		9,259		31,452
Total current assets	198,336	2,807	97,428	(98,703)	199,868
PROPERTY AND EQUIPMENT Net	268,899				268,899
GOODWILL	97,447				97,447
OTHER INTANGIBLE ASSETS Net	1,071				1,071
INVESTMENTS IN SUBSIDIARIES	2,807		375,351	(378,158)	
NOTES RECEIVABLE FROM AFFILIATES			22,702	(22,702)	
INVENTORIES	18,726				18,726
INVESTMENTS IN JOINT VENTURES	10,285				10,285
OTHER ASSETS	2,288		7,581		9,869
TOTAL	$ 599,859	$ 2,807	$ 503,062	$ (499,563)	$ 606,165
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$ 66,555	$	$ 10	$	$ 66,565
Payables to affiliates	98,703			(98,703)	
Accrued expenses	17,319		4,733		22,052
Billings in excess of contract revenues	8,642				8,642
Current portion of Long-Term Debt					
Total current liabilities	191,219		4,743	(98,703)	97,259
LONG-TERM DEBT			189,500		189,500
NOTES PAYABLE TO AFFILIATES	22,702			(22,702)	
DEFERRED INCOME TAXES	1,308		81,471		