

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Orion Group Holdings Inc  
Form 10-K  
March 24, 2017  
Table of Contents

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2016

OR

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

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

Commission file number: 1-33891

ORION GROUP HOLDINGS, INC.

Delaware

26-0097459

State of Incorporation

IRS Employer Identification Number

12000 Aerospace Suite 300

Houston, Texas 77034

(713) 852-6500

Address of Principal Executive Office Telephone number (including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, \$0.01 par value per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:  Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act:  Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K  Yes  No

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

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

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

Edgar Filing: Orion Group Holdings Inc - Form 10-K

There were 27,791,476 shares of common stock outstanding as of March 24, 2017. The aggregate market value of the Registrant's common equity held by non-affiliates was approximately \$147.0 million as of June 30, 2016, the last business day of the Registrant's most recently completed second quarter, based upon the last reported sales price on the New York Stock Exchange on that date.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III – Portions of the Registrant's definitive Proxy Statement to be issued on connection with the 2017 Annual Meeting of Stockholders to be filed on or about April 3, 2017.

Table of Contents

ORION GROUP HOLDINGS, INC.

2016 Annual Report on Form 10-K

Table of Contents

<u>PART I</u>	<u>3</u>
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>13</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>21</u>
Item 2. <u>Properties</u>	<u>21</u>
Item 3. <u>Legal Proceedings</u>	<u>21</u>
Item 4. <u>Mine Safety Disclosure (not applicable)</u>	<u>21</u>
<u>PART II</u>	<u>22</u>
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
Item 6. <u>Selected Financial Data</u>	<u>23</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>36</u>
Item 9. <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>36</u>
Item 9A. <u>Controls and Procedures</u>	<u>37</u>
Item 9B. <u>Other Information</u>	<u>37</u>
<u>PART III</u>	<u>37</u>
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>37</u>
Item 11. <u>Executive Compensation</u>	<u>38</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>38</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>38</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>39</u>
<u>PART IV</u>	<u>39</u>
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>39</u>
<u>SIGNATURES</u>	<u>43</u>

Table of Contents

PART I

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K and the documents incorporated by reference herein may contain forward-looking statements that are not based on historical fact. When used in this report, words such as “expects”, “anticipates”, “believes”, “seeks”, “estimates”, “plans”, “intends” and similar words identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although such statements are based on management’s current estimates and expectations and currently available competitive, financial and economic data, forward-looking statements are inherently uncertain and involve risks and uncertainties that could cause our actual results to differ materially from what may be inferred from the forward-looking statements. Some of the factors that could cause or contribute to such differences are listed and discussed in Item 1A “Risk Factors” below and elsewhere in this Annual Report on Form 10-K. We undertake no obligation to release publicly any revisions or updates to any forward-looking statements that are contained in this document. We encourage you to read carefully the risk factors described in other documents we file from time to time with the United States Securities and Exchange Commission (the “SEC”).

Item 1. BUSINESS

General background

Orion Group Holdings, Inc., is a leading specialty construction company in the building, industrial, and infrastructure sectors in the continental United States, Alaska, Canada, and the Caribbean Basin. Our heavy civil marine construction segment services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Our commercial concrete construction segment provides 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. We are headquartered in Houston, Texas with offices throughout our operating areas. Orion Group Holdings, Inc. is a Delaware corporation. The common stock of Orion Group Holdings, Inc. is listed on the New York Stock Exchange under the symbol ORN. Unless the context otherwise requires, all references herein to “Orion”, the “Company”, the “Registrant”, “we”, “us” or “our” refer to Orion Marine Group, Inc. and its consolidated subsidiaries and affiliates.

History and growth

Orion Group Holdings, Inc. was founded in 1994 as a marine construction project management business. Since then, we have expanded our reach both through organic growth and acquisitions. We have successfully acquired and fully integrated several companies into our operations, most recently with the acquisition of T.A.S. Commercial Concrete Construction, LLC (“TAS”) during 2015. This acquisition added another segment to our business, provided diversification of end market drivers and a diversified customer base. These strategic acquisitions have also enhanced our operational capabilities, provided us with a larger geographic base, and added to our equipment fleet. Today we are focused on being the leading specialty construction company in the building, industrial, and infrastructure sectors and will continue to see growth opportunities through greenfield expansion, vertical integration, and diversification.

Our Business Strategy

We employ the following key business strategies:

Continue to add construction capabilities - We seek to add capabilities that augment our core contracting and construction competencies, improve our gross margin opportunities, and compete more effectively for contracts that might not otherwise be available to us.

Expand into new markets and complementary service offerings and selectively pursue strategic acquisitions - We seek to identify attractive new markets and strategic opportunities to expand our service offering through selective acquisitions, greenfield expansions or diversification.

Continue to capitalize on favorable long-term industry trends - We seek to capitalize on infrastructure capital investments across the markets we serve including port and marine infrastructure, government funded projects, transportation, oil and gas facilities, recreational waterside industry infrastructure expansion and environmental restoration markets. We seek to capitalize on privately funded projects across the commercial concrete markets we serve including industrial, institutional, commercial real estate, and recreational developments.

Diversification - To mitigate the risks inherent in the construction business as the result of general economic factors, we pursue projects in both the public and private sectors for a wide range of customers within each sector (from the federal

## Table of Contents

government to small municipalities and from large corporations to small owners and developers and in diverse geographic markets).

Continue to reinvest in our core operations - We pursue technically complex projects where our people, specialized services and equipment differentiate us from our competitors. We intend to continue to enhance the types, numbers or capabilities of our equipment, so we can provide turnkey construction services to our customers. This means when we are called on for business, we have the right people, skills, and equipment readily available for multiple projects.

Continue to attract, retain and develop our employees - We believe our employees are integral to the success of our project execution, and we continue to allocate resources to attract and retain talented managers, supervisors and field personnel.

Ownership of equipment - We own a large fleet of well-maintained construction equipment. The ownership of this equipment enables us to compete more effectively by ensuring availability of equipment at a favorable cost.

Our operating principles and guiding beliefs include:

Safety - We believe accident prevention is a moral obligation as well as a good business practice. By identifying and concentrating resources to address jobsite hazards, we continually strive to reduce our incident rates and the costs associated with accidents.

Quality and Integrity - We believe in the importance of performing high quality work. Additionally, we believe in maintaining high ethical standards through an established code of conduct and an effective company-wide compliance program.

Production - We believe in the importance of performing tasks safely, efficiently and timely. Additionally, we believe in safeguarding our facilities and equipment and always acting in the best interest of the Company.

Sustainability - Our focus on sustainability encompasses many aspects of how we conduct ourselves and practice our core values. We believe sustainability is important to our customers, employees, shareholders, and communities, and is also a long-term business driver. By focusing on specific initiatives that address social, environmental and economic challenges, we can minimize risk and increase our competitive advantage.

## Financial Information About Segments

The tools used by our chief operating decision maker to allocate resources and assess performance are based on two reportable and operating segments: heavy civil marine construction and commercial concrete construction.

Although we describe our business in this report in terms of the services we provide, our base of customers and the areas in which we operate, we have determined that our operations currently comprise two reportable segments pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280 - Segment Reporting. In previous reporting periods, we reported our financial information based on one reportable segment, now known as the heavy civil marine construction segment. With our 2015 acquisition, we have expanded to two operating and reportable segments, adding the commercial concrete construction segment.

In making this determination, we considered the similar economic characteristics of our operations. For our heavy civil marine construction segment, the methods used, and the internal processes employed, to deliver our heavy civil marine construction services are similar throughout the segment, including standardized estimating, project controls and project management. This segment has the same types of 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 ("EPA") and the 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 our commercial concrete construction segment, we also considered the similar economic characteristics of these operations. The methods used, and the internal processes employed, to deliver our commercial 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 developments, specifically in metropolitan areas of Texas. These considerations, and others, are key catalysts for future prospects and are similar across the segment.

## Table of Contents

### Services Provided

#### Heavy Civil Marine Construction Services

Marine construction services include construction, restoration, maintenance and repair of marine transportation facilities, marine pipelines, bridges and causeways, and marine environmental structures. We have the capability of providing design-build services and typically serve as the prime contractor for these types of projects.

Marine transportation facility projects include public port facilities for container ship loading and unloading; cruise ship port facilities; private terminals; special-use Navy terminals, recreational use marinas and docks, and other marine-based facilities. These projects typically consist of steel or concrete fabrication dock or mooring structures designed for durability and longevity, and involve driving piles of concrete, pipe or sheet pile to provide a foundation for the port facility structure that we subsequently construct on the piles. We also provide on-going maintenance and repair, inspection services, emergency repair, and demolition and salvage to such facilities.

Our marine pipeline service projects generally include the installation and removal of underwater buried pipeline transmission lines; installation of pipeline intakes and outfalls for industrial facilities; construction of pipeline outfalls for wastewater and industrial discharges; river crossing and directional drilling; creation of hot taps and tie-ins; and inspection, maintenance and repair services.

Our bridge and causeway projects include the construction, repair and maintenance of all types of overwater bridges and causeways, as well as the development of fendering systems in marine environments. We serve as the prime contractor for many of these projects, and some of these are design-build contracts. These projects involve fabricating steel or concrete structures designed for durability and longevity, and involve driving concrete, pipe or sheet pile to create support for the concrete deck roadways that we subsequently construct on the piles. These piles can exceed 4 feet in diameter, can range up to 170 feet in overall length, and are often driven 90 feet into the sea floor.

Marine environmental structure projects may include the installation of concrete mattresses to promote erosion protection; construction of levees to contain environmental mitigation projects, and the installation of geotubes for wetlands and island creation. Such structures are used for erosion control, wetlands creation and environmental remediation.

Dredging generally enhances or preserves the navigability of waterways or the protection of shorelines through the removal or replenishment of soil, sand or rock. Dredging involves the removal of mud and silt from the channel floor by means of a mechanical backhoe, crane and bucket or cutter suction dredge and pipeline systems. Dredging is integral to marine capital and maintenance projects, including: maintenance for previously deepened waterways and harbors to remove silt, sand and other accumulated sediments; construction of breakwaters, jetties, canals and other marine structures; deepening ship channels and wharves to accommodate larger and deeper draft ships; containing erosion of wetlands and coastal marshes; land reclamation; and beach nourishment and creation of wildlife refuges. Maintenance dredging projects are a source of recurring revenue as active channels typically require routine dredging due to natural sedimentation. The frequency of maintenance dredging may be accelerated by heavy rainfall or major weather events such as hurricanes. Areas where no natural deep water ports exist, such as the Texas Gulf Coast, require substantial dredging. We maintain multiple specialty dredges of various sizes and specifications to meet customer needs. Our dredging services are typically combined with our marine construction services to provide a turn-key solution for our customers.

Our specialty services include design, salvage, demolition, surveying, towing, diving and underwater inspection, excavation and repair. Our diving services are largely performed in shallow water and include inspections, salvage and pile restoration and encapsulation. Our survey services include surveying pipelines and performing hydrographic surveys which determine the configuration of the floors of bodies of water and detect and identify wrecks and other



obstructions. Most of these specialty services support our other services and provide an introductory opportunity to some customers.

#### Commercial Concrete Construction Services

The commercial concrete construction segment provides its services in the following areas: light commercial, structural, and other services. Light commercial services include horizontally poured concrete for products such as sidewalks, ramps, tilt walls, and trenches. Structural services include elevated concrete pouring for products such as columns, elevated beams, and structural walls. Other services comprise labor related to concrete pouring, such as rebar installation and pumping services and typically support our other services. These services cover all phases of commercial concrete construction including dirt work and layout, forming, rebar and mesh, and pour and finish.

## Table of Contents

### Industry and Market Overview

#### Heavy Civil Marine Construction

We provide our services to similar customers, or in some cases, the same customers, across the markets served by our business. Our heavy civil marine construction segment customers may be in diverse end markets, including port expansion and maintenance, bridges, causeways and other marine infrastructure, the recreational waterside industry, the U.S. Department of Defense, the energy industry, coastal protection and reclamation, along with hurricane restoration and repair and environmental remediation. We believe that this broad customer base enables us to lessen the negative effects during a downturn in a specific end market and respond quickly to the needs of expanding end markets. The following includes an overview of our diverse markets in the heavy civil marine construction industry:

#### Port Expansion and Maintenance

Expected increases in cargo volume and future demands from larger ships transiting the expanded Panama Canal will require ports, especially along the Gulf Coast and Atlantic Seaboard, to expand their dock capacity and port infrastructure to accommodate larger container ships and increased cargo volumes, as well as perform additional dredging services to deepen their channels. We provide customers in this sector turnkey services to meet all their port expansion and maintenance work.

#### Bridges and Causeways

According to the American Society of Civil Engineers, as of their most recent report, one in nine of the nation's bridges are structurally deficient, and the average age of the nation's bridges is 42 years old. We are able to construct or restore overwater bridges, and design, repair, or replace, fendering systems for customers in this sector.

#### Marine Infrastructure

The U.S. Marine Transportation System ("MTS") consists of waterways, ports and their intermodal connections, vessels, vehicles, and system users, as well as shipyards and repair facilities crucial to maritime activity. The MTS is primarily owned and operated through an aggregation of federal, state, and local governmental authorities, as well as privately owned facilities and private companies. U.S. inland and intracoastal waterways require continuous maintenance and improvement. While waterway usage is increasing, the facilities and supporting systems are aging. In addition, channels and waterways must maintain certain depths to accommodate ship and barge traffic. Natural sedimentation in these channels and waterways require routine maintenance dredging to maintain navigability.

Our full business complement, including design, dredging, marine construction, and specialty services, such as diving, survey and inspections are fully utilized by our customers to meet all their marine infrastructure project needs.

#### Recreational Waterside Industry

An expected increase in the number and size of cruise ships has generated a need for substantial port infrastructure development, including planning and construction of new terminals and facilities, as well as on-going maintenance and repair services. These larger vessels require development of new mooring structures as well as additional dredging services to accommodate deeper drafts. Our service area includes, among others, the ports of Miami, Galveston, Tampa, New Orleans, Canaveral, Juneau, Tacoma, Seattle and the Caribbean Basin, which includes numerous cruise facilities and is the most popular cruise destination in the North American market.

#### The Department of Defense and Homeland Security

The U.S. Navy has the responsibility for the maintenance of 42 facilities in the United States, which includes a significant amount of marine infrastructure. We believe the U.S. Navy will continue to maintain strategic facilities, including the maintenance and upgrades to its marine facility infrastructure.

The U.S. Coast Guard maintains more than 50,000 federal aids to navigation, which include buoys, lighthouses, day beacons and radio-navigation signals. Additionally, it has oversight responsibility for over 18,000 highway and railroad bridges that span navigable waterways throughout the country. As part of the Department of Homeland Security, we anticipate that the U.S. Coast Guard's needs for varied marine construction services, including those listed above, will provide opportunities for us in the future.

#### Energy Industry

We design, construct, repair and remove underwater pipelines, and provide marine construction and on-going maintenance services for private refineries, terminal facilities and docks, and other critical areas near shore oil and gas infrastructure.

## Table of Contents

### U.S. Coastal and Wetland Restoration and Reclamation

We believe that increases in coastal population density and demographic trends will lead to an increase in the number of coastal restoration and reclamation projects, and, as the value of waterside assets rises from a residential and recreational standpoint, the private sector, government agencies and municipalities will increase spending on restoration and reclamation projects.

### Hurricane Restoration and Repair

Hurricanes are often very destructive to the existing marine infrastructure and natural protection barriers of the prime storm areas of the Gulf Coast, the Atlantic Seaboard, and the Caribbean Basin, including bridges, ports, underwater channels and sensitive coastal areas. Typically, restoration and repair opportunities continue for several years after a major hurricane event. These events provide incremental projects to our industry that contribute to a favorable bidding environment and high capacity utilization in our markets during such times.

### Environmental Remediation

We believe there will be additional funding for the protection of natural habitats, environmental preservation, wetlands creation and remediation for high priority projects in Louisiana and other areas in the markets we serve that will protect and restore sensitive marine and coastal areas, advance ocean science and research, and ensure sustainable use of ocean resources.

### Commercial Concrete Construction

We provide our services to different customers across the markets served by our business. Our customers in the commercial concrete construction segment are in diverse end markets such as industrial, institutional, commercial real estate, and recreational developments.

Our commercial concrete construction segment depends on continued growth in population to support residential and nonresidential construction specifically in the metropolitan areas of Texas. The latest estimates from the U.S. Census Bureau indicate that the metropolitan areas of Texas, specifically Dallas and Houston, are among the U.S. top 10 in population growth between 2014-2015. These markets show substantial growth in multi-family housing, medical facilities, and commercial, office, retail, and industrial buildings.

We believe that this broad customer base enables us to lessen the negative effects during a downturn in a specific end market and respond quickly to the needs of expanding end markets. The following includes an overview of our diverse markets in the commercial concrete industry:

#### Industrial developments

Our industrial markets include manufacturing plants, industrial warehousing, distribution centers, waste water treatment facilities and facilities supporting the petrochemical industry. An expected increase in distribution has generated a need for substantial industrial park developments.

#### Institutional developments and expansions

Our institutional markets include educational facilities, medical facilities, museums, and religious developments. Due to significant population growth in the metropolitan areas of Texas, there has been great demand for institutional development and expansion. As the suburban areas of major cities continue to grow, bond programs are passing for new education construction. Additionally, as population and suburban areas grow, so does the continued need for medical facilities.

#### Structural developments

Our structural markets include mid- and high-rise multi-family living, single and multi-story office buildings, parking garages, shopping malls, and free standing retail outlets. As population continues to grow, so does the need for retail

developments, such as grocery stores, shopping malls, restaurants, and other entertainment venues. Additionally, continued growth in business expansions and relocations to Texas are driving an increase in the need for office space and apartment complexes.

#### Recreational developments

Our recreational markets include a wide-range of hotels, sports venues, and stadiums. The increase in new businesses and new educational facilities has sparked the need for additional hotels and stadiums across the metropolitan areas of Texas.

#### Customers

Our customers in the heavy civil marine construction segment include federal, state and local governmental agencies in the United States, as well as private commercial and industrial enterprises in the United States and the Caribbean Basin. Customers in our commercial concrete construction segment include owners and developers of medical facilities, religious developments, sports complexes and stadiums, school districts and developers, owners of industrial, commercial and residential buildings, and some governmental agencies across the metropolitan areas of Texas. Most projects are competitively bid, with the award typically going

Table of Contents

to the lowest qualified bidder. Our customer base shifts from time to time depending on the types of projects we bid, and ultimately are successful on obtaining.

The following table represents concentrations of contract revenue by type of customer for the years ended December 31, 2016, 2015, and 2014.

	2016	%	2015	%	2014	%
Federal Government	\$40,361	7 %	\$45,439	10 %	\$47,390	13 %
State Governments	37,700	7 %	42,026	9 %	43,147	11 %
Local Governments	94,461	16 %	130,187	28 %	97,145	25 %
Private Companies	405,714	70 %	248,846	53 %	198,136	51 %
Total contract revenues	\$578,236	100%	\$466,498	100%	\$385,818	100%

We do not believe that the loss of any one of these customers would have a material adverse effect on our operations since no single customer sustains a large portion of our contract revenue over time.

**Backlog**

Our contract backlog represents our estimate of the revenues we expect to realize under the portion of the contracts remaining to be performed. Given the typical duration of our contracts, which generally is less than one year, our backlog at any point in time usually represents only a portion of the revenue that we expect to realize during a twelve month period. We include projects in our backlog only when the customer has provided an executed contract, purchase order, change order, or other notice to proceed.

Backlog for our heavy civil marine construction segment at December 31, 2016, was \$280.7 million, as compared with \$194.3 million at December 31, 2015.

Backlog for our commercial concrete construction segment at December 31, 2016 was \$153.3 million, as compared with \$163.3 million at December 31, 2015.

These estimates are subject to fluctuations based upon the scope of services to be provided, as well as factors affecting the time required to complete the project. In addition, many projects that make up our backlog may be canceled at any time without penalty; however, we can generally recover actual committed costs and profit on work performed up to the date of cancellation. Although we have not been adversely affected by contract cancellations or modifications materially in the past, we may be so affected in the future, especially during economically uncertain periods. Consequently, backlog is not necessarily indicative of future results. In addition to our backlog under contract, we also have a substantial number of projects in negotiation or pending award at any given time.

**Fluctuations in Quarterly Results**

Our quarterly revenues and results of operations may fluctuate significantly depending upon the mix, size, scope, and progress schedules of our projects under contract, permitting or other delays, the productivity of our labor force and the utilization of our equipment. These factors, as well as others, affect the rate at which revenue is recognized as projects are completed.

**Competition**

In our heavy civil marine construction segment, we compete with several regional marine construction services companies and a few national marine construction services companies. From time to time, we compete with certain national land-based heavy civil contractors. In our commercial concrete construction segment, we compete mostly in the private sector and our competitors range from small, local construction companies to large regional and national construction companies.

Both of our segments are highly fragmented with competitors generally varying within the markets we serve and with few competitors competing in all of the markets we serve or for all of the services that we provide. We believe that our turnkey capability, expertise, experience and reputation for providing safe and timely quality services, safety record and programs, versatile equipment fleet, financial strength, surety bonding capacity, knowledge of local markets and conditions, and project management and estimating abilities allow us to compete effectively. We believe significant barriers to entry exist in the markets in which we operate, including the ability to bond large projects, maritime law constraints, specialized marine equipment and technical experience; however, a U.S. company that has adequate financial resources, access to technical expertise, and specialized equipment may become a competitor.

## Table of Contents

### Insurance and Bonding

We maintain general and excess liability, construction equipment and workers' compensation insurance; all in amounts adequate for our operating needs and consistent with industry practice.

In connection with both segments of the business, we generally are required to provide various types of surety bonds that provide security for our performance under certain public and private sector contracts. Our ability to obtain surety bonds depends upon our capitalization, adequate working capital, past performance, management expertise, and external factors, including the capacity of the overall surety market. Surety companies consider such factors in light of the amount of our backlog that we have currently bonded and their own current underwriting standards, which may change from time to time. The capacity of the surety market is subject to market-driven fluctuations driven primarily by the level of surety industry losses and the degree of surety market consolidation. Although we do not believe that fluctuations in surety market capacity have significantly affected our ability to grow our business, there is no assurance that it will not significantly affect our ability to obtain new contracts in the future. The bonds we provide typically are for the contract amount of the project. At December 31, 2016, our capacity under our current bonding arrangement was in excess of \$400.0 million, of which we had approximately \$276.0 million in surety bonds outstanding. We believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity.

### Trade Names

We operate under a number of trade names. We consolidate our operations under the brand name "Orion Group Holdings, Inc." We may be known as Orion Marine Group, Orion Marine Construction, Orion Marine Contractors, Orion Construction, East and West Jones Placement Area, Schneider E&C, F. Miller Construction, Orion Concrete Construction, T.A.S. Commercial Concrete Construction, LLC, T.A.S. Commercial Concrete Solutions, LLC, T.A.S. Proco, LLC, or Houston Industrial Tool Services, as well as our former names of King Fisher Marine Service, T. W. LaQuay Dredging, Misener Marine Construction, Misener Diving & Salvage, Northwest Marine Construction and West Construction. We do not generally register our trademarks with the U.S. Patent & Trademark Office, but instead rely on state and common law protections. While we consider our trade names to be valuable assets, we do not consider any single trademark or trade name to be of such material importance that its absence would cause a material disruption of our business.

### Equipment

We operate and maintain a large and diverse equipment fleet in our heavy civil marine construction and commercial concrete construction segments, substantially all of which we own, that includes the following:

Barges - spud barges, material barges, deck barges, anchor barges, hopper barges, and fuel barges. These vessels are used to provide work platforms for cranes and other equipment, to transport materials to the project site and to provide support for the project at the project site.

Dayboats - small pushboats, dredge tenders and skiffs are used to shift barges at the project site, to move personnel and to provide general support to the project site.

Tugs - larger pushboats and tug boats are used to transport barges and other support equipment to and from project site.

Dredges - 24" cutter head suction dredges (diesel), 20" cutter head suction dredge (diesel/electric), 20" cutter head suction dredges (diesel), 16" cutter head suction dredges, and 12" portable cutter head suction dredges are used to provide dredging services at project sites

Cranes - crawler lattice boom cranes with lift capability from 50 tons to 400 tons and hydraulic rough terrain cranes with lift capability from 15 tons to 60 tons are used to provide lifting and pile driving capabilities on project sites, and



to provide bucket work, including mechanical dredging and dragline work, to project sites.

• Tower Cranes - Capable of being assembled to reach heights of 281 feet and have a capacity of 44,000 pounds with a maximum of 242 foot working radius

• Pump Trucks - concrete pump trucks are large, diesel-powered trucks mounted with a powerful pump, and an extendable, sectioned hose or cylinder to help facilitate the pouring of concrete for construction projects.

Laser Screeds - laser screeds are self-propelled four wheel drive, four wheel steer units that encompass a 20' telescoping boom with a 12' wide placement head. The screed head itself consists of 3 parts: the plow, the auger, and the vibrator. The plow disperses the concrete evenly, the auger removes the excess material to finished grade, and the vibrator smooths the surface. The screed has an on board computer system able to determine the correct elevation height and provide commands for elevation control.

## Table of Contents

We believe that ownership of certain equipment is generally preferable to leasing in some cases because it ensures the equipment is available as needed and normally results in lower costs. We continually monitor and adjust our fleet size so that it is consistent with the size of the business, considering both existing backlog and expected future work. We believe that our equipment is well maintained and suitable for our current operations. We have the ability to extend the useful life of our equipment through capital refurbishment at periodic intervals. Most of our fleet is serviced by our own mechanics who work at various maintenance sites and facilities. We are also capable of building, and have built, much of our highly specialized equipment. Our strategy is to move our fleet from project to project as required. The assets (including equipment) are pledged as collateral under the Credit Facility.

### Equipment Certification

In our heavy civil marine construction segment, some of our equipment requires certification by the U.S. Coast Guard. All equipment which requires certification has obtained such certification and is maintained in good standing thereunder. In addition, where required, our vessels' permissible loading capacities require certification by the American Bureau of Shipping ("ABS"). ABS is an independent classification society which certifies that certain of our larger, seagoing vessels are "in-class," signifying that the vessels have been built and maintained in accordance with ABS standards and applicable U.S. Coast Guard rules and regulations. All of our vessels that are required to be certified by ABS have been certified as "in-class." These certifications indicate that the vessels are structurally capable of operating in open waters, which enhances the mobility of our fleet.

### Government Regulations

We are required to comply with the macro regulatory requirements of federal, state and local governmental agencies and authorities including the following:

- regulations concerning workplace safety, labor relations and disadvantaged businesses;
- licensing requirements applicable to shipping and dredging; and
- permitting and inspection requirements applicable to marine construction projects.

In our heavy civil marine construction segment, we are also subject to government regulations pursuant to the Dredging Act, the Merchant Marine Act of 1920, commonly referred to as the "Jones Act", the Shipping Act and the Vessel Documentation Act. These statutes require vessels engaged in the transport of merchandise or passengers between two points in the United States or dredging in the navigable waters of the U.S. to be documented with a coastwise endorsement, to be owned and controlled by U.S. citizens, to be manned by U.S. crews, and to be built in the U.S. The U.S. citizenship ownership and control standards require the vessel-owning entity to be at least 75% U.S. citizen owned, and prohibit the demise or bareboat chartering of the vessel to any entity that does not meet the 75% U.S. citizen ownership test. These statutes, together with similar requirements for other sectors of the maritime industry, are collectively referred to as "cabotage" laws.

In our commercial concrete construction segment, we are subject to the requirements of OSHA and certain regulations for the EPA.

We believe that we are in material compliance with applicable regulatory requirements and have all material licenses required to conduct our operations.

### Environmental Matters

#### General

Our marine infrastructure construction, salvage, demolition, dredging and dredge material disposal activities are subject to stringent and complex federal, state, and local laws and regulations governing environmental protection, including air emissions, water quality, solid waste management, marine and bird species and their habitats, and wetlands. A portion of our construction contracts are entered into with public authorities and frequently impose additional governmental requirements, including requirements regarding labor relations. Our commercial concrete

construction infrastructures are subject to the requirements of OSHA and the EPA.

Such laws and regulations may require that both segments and their customers obtain, and comply with, various environmental permits, registrations, licenses and other approvals. These laws and regulations also can restrict or impact the business activities in many ways, such as delaying the appropriation and performance of particular projects; restricting the way we handle or dispose of wastes; requiring remedial action to mitigate pollution conditions that may be caused by our operations or that are attributable to others; and enjoining some or all of our operations deemed in non-compliance with environmental laws and regulations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and/or criminal penalties, the imposition of remedial obligations and the issuance of orders enjoining future operations.

## Table of Contents

We believe that compliance with existing federal, state and local environmental laws and regulations will not have a material adverse effect on our business, results of operations, or financial condition. In addition, we could be affected by future laws or regulations. As a result, there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. The following is a discussion of the environmental laws and regulations that could have a material effect on our marine and commercial construction and other activities.

### Waste Management

Our operations could be subject to the federal Resource Conservation and Recovery Act (“RCRA”) and comparable state laws, which impose detailed requirements for the handling, storage, treatment and disposal of hazardous and non-hazardous solid wastes. Under the auspices of the EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent, requirements. Generators of hazardous wastes must comply with certain standards for the accumulation and storage of hazardous wastes, as well as recordkeeping and reporting requirements applicable to hazardous waste storage and disposal activities.

### Site Remediation

The Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), also known as “Superfund,” and comparable state laws and regulations impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons responsible for the release of hazardous substances into the environment. Such classes of persons include the current and past owners or operators of sites where a hazardous substance was released, and companies that disposed or arranged for the disposal of hazardous substances at offsite locations, such as landfills. CERCLA authorizes the EPA, and in some cases third parties, to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, neighboring landowners and other third parties often file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

We currently own or lease properties that have been used by other industries for a number of years. Although we typically have used operating and disposal practices that were standard in the industry at the time, wastes may have been disposed of or released on or under the properties owned or leased by us, on or under other locations where such substances have been taken for disposal, on or under project sites where we perform work. In addition, some of the properties may have been operated by third parties or by previous owners whose treatment and disposal or release of wastes was not under our control. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes or property contamination, or to perform remedial activities to prevent future contamination.

### Water Discharges

The Federal Water Pollution Control Act, also known as the Clean Water Act (“CWA”), and analogous state laws impose strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States, including wetlands. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. The CWA also regulates the discharge of dredged or fill material into waters of the U.S., and activities that result in such discharge generally require permits issued by the Corps of Engineers. Moreover, above ground storage of petroleum products is strictly regulated under the CWA. Under the CWA, federal and state regulatory agencies may impose administrative, civil and/or criminal penalties for non-compliance with discharge permits or other requirements of the CWA and analogous state laws and regulations.

The Oil Pollution Act of 1990 (“OPA”), which amends and augments the CWA, establishes strict liability for owners and operators of facilities that are sites of releases of oil into waters of the U.S. OPA and its associated regulations impose a variety of requirements on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills. For instance, OPA requires vessel owners and operators to establish and maintain evidence of financial responsibility sufficient to cover liabilities related to an oil spill for which such parties are statutorily responsible. We believe we are in compliance with all applicable OPA financial responsibility obligations and equipment requirements.

In 2009, regulations promulgated by the EPA covering certain previously exempt discharges to water from certain marine vessels became effective. The regulations provide for a general permit to cover such discharges and impose on marine vessel operators, including us, certain discharge, permitting, record keeping, reporting, monitoring, maintenance, and operating restrictions and requirements with respect to materials that are or may be discharged from certain vessels. Applicability of these restrictions and requirements is based on size and type of vessel, and they apply only to a minority of our vessels. We, nevertheless, are implementing

## Table of Contents

such restrictions and requirements with respect to our vessels which are subject thereto, and we do not anticipate that such regulations or the associated permit terms, restrictions and requirements will adversely impact our business and results of operations.

### Air Emissions

The Clean Air Act (“CAA”) and comparable state laws restrict the emission of air pollutants from many sources, including paint booths, and may require pre-approval for the construction or modification of certain facilities expected to produce air emissions, impose stringent air permit requirements, or require the utilization of specific equipment or technologies to control emissions. We believe that our operations are in substantial compliance with the CAA.

### Climate Change

The U.S. Congress may consider legislation to reduce emissions of greenhouse gases in response to climate change concerns. In addition, several states have declined to wait on Congress to develop and implement climate control legislation and have already taken legal measures to reduce emissions of greenhouse gases. Passage of climate control legislation or other regulatory initiatives by Congress or various states, or the adoption of regulations by the EPA and analogous state agencies that restrict emissions of greenhouse gases in areas in which we conduct business could have an adverse effect on our operations and demand for our services.

### Endangered Species

The Endangered Species Act (“ESA”) restricts activities that may affect endangered species or their habitats. We conduct activities in or near areas that may be designated as habitat for endangered or threatened species. For instance, seasonal observation of endangered or threatened West Indian Manatees adjacent to work areas may impact construction operations in Florida during the winter months. Additionally, our dredging operations in Florida are impacted by limitations for placement of dredge spoil materials on designated spoil disposal islands, from April through August of each year, when the islands are inhabited by nesting colonies of protected bird species. Further, restrictions on work during the Whooping Crane nesting period in the Aransas Pass National Wildlife Refuge from October 1 through April 15 each year and during the non-dormant grass season for sea grass in the Laguna Madre from March 1 through November 30 each year impact our construction operations in the Texas Gulf Coast area. We plan our operations and bidding activity with these restrictions and limitations in mind, and they have not materially hindered our business in the past. However, these and other restrictions may affect our ability to obtain work or to complete our projects on time in the future. In addition, while we believe that we are in material compliance with the ESA, the discovery of previously unidentified endangered species could cause us to incur additional costs or become subject to operating restrictions or bans in the affected area.

### Employees

At December 31, 2016, our heavy civil marine construction segment had approximately 1,100 employees, 300 of whom were full-time salaried personnel and most of the remainder of whom were hourly personnel. Our commercial concrete construction segment had approximately 1,150 employees, 230 of whom were full-time salaried personnel and most of the remainder of whom were hourly personnel.

From time to time, we hire additional employees for certain large projects and, subject to local market conditions, additional crew members are generally available for hire on relatively short notice. We believe our employees are our most valuable resource, and our workforce possesses a strong dedication to and pride in our company. Our employees are not currently represented by labor unions, except certain employees in our heavy civil marine construction segment located in the Pacific Northwest and Alaska, in respect of which collective bargaining agreements are in place. Employees represented by collective bargaining agreements in our heavy civil marine construction segment represent approximately 5% of our workforce. Currently, there are no employees represented by collective bargaining agreements in our commercial concrete construction segment.

#### Financial Information About Geographic Areas

We are a project-driven heavy civil marine and commercial concrete contractor, and our operations represent two reportable segments for financial reporting. Our business is primarily conducted along the coastal regions of the United States for our heavy civil marine construction segment and in the metropolitan areas of Texas for our commercial concrete construction segment. Revenues generated from our heavy civil marine construction segment outside the United States, primarily in the Caribbean Basin and Mexico, totaled 1.3%, 4.1%, and 12.9% of total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Our long-lived assets are substantially located in the United States.

#### Access to the Company's Filings

We maintain a website at [www.oriongroup Holdings Inc.com](http://www.oriongroup Holdings Inc.com) on which we make available, free of charge, access to the various reports we file with, or furnish to, the SEC. The website is made available for information purposes only. It should not be relied upon for investment purposes, and none of the information on our website is incorporated into this Annual Report on Form 10-K by reference. In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room

Table of Contents

at 100 F Street, NE, Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. The SEC also maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. RISK FACTORS

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our business, financial condition, and results of operations. The risks described below highlight some of the factors that have affected and could affect us in the future. We may also be affected by unknown risks or risks that we currently think are immaterial. If any such events actually occur, our business, financial condition, and results of operations could be materially adversely affected.

Risk Factors Relating to Our Business

We rely on highly competitive and highly regulated government contracts.

Government funding for public works projects is limited, thus creating a highly competitive environment for the limited number of public projects available. Reduced levels of, or delays in, government funding cause delays in project lettings and result in intense competition and pricing pressure for such projects. In addition, government contracts are subject to specific procurement regulations, contract provisions and a variety of regulatory requirements relating to their formation, administration, performance and accounting. Many of these contracts include express or implied certifications of compliance with applicable laws and contract provisions. As a result, any violations of these regulations could bring about litigation, including the possibility of qui tam (“Whistle Blower”) litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, and could cause termination of other existing government contracts and result in the loss of future government contracts. Due to the significant competition in the marketplace and the level of regulations on government contracts, we could suffer reductions in new projects and see lower revenues and profit margins on those projects, which could have a material adverse effect on the business, operating results and financial condition.

We depend on continued growth in population to support residential and nonresidential construction for our commercial concrete construction segment.

Our commercial concrete construction segment depends on continued growth in population to support residential and nonresidential construction. A growing population generates economic growth and expansion in construction for retail, office buildings, etc. If the population decreases or slows in growth, it often times adversely affects economic growth, which ultimately limits the need for residential and nonresidential construction services in the areas we currently perform services.

The timing of new contracts may result in volatility in our cash flow and profitability. These factors as well as others that may cause our actual financial results to vary from any publicly disclosed earnings guidance and forecasts are outside of our control.

Our revenues are generated from project-based work. It is generally very difficult to predict the timing and source of awarded contracts. The selection of, timing of or failure to obtain projects, delays in awards of projects, the rebidding or termination of projects due to budget overruns, or the cancellations of projects or delays in completion of contracts could result in the under-utilization of our assets and reduce our cash flows and profitability. Even if we are awarded contracts, we face additional risks that could affect whether, or when, work will begin. For example, some of our contracts are subject to financing and other contingencies that may delay or result in termination of projects. This may make it difficult to match workforce size and equipment location with contract needs. In some cases, we may be required to bear the cost of a readily available workforce and fleet of equipment that is larger than needed at the time, resulting in unpredictability in our cash flow, expenses and profitability. If an expected contract award or the related



notice to proceed is delayed or not received, we could incur substantial costs without receipt of any corresponding revenues. Delays by our customers in obtaining required approvals and permits for their infrastructure projects may delay their awarding contracts for those projects and, once awarded, the ability to commence construction under those contracts. Moreover, construction projects for which our services are contracted may require significant expenditures by us prior to receipt of relevant payments by a customer and may expose us to potential credit risk if such customer should encounter financial difficulties. Such expenditures could reduce our cash flows and necessitate increased borrowings under our credit facilities. Finally, the winding down or completion of work on significant projects that were active in previous periods will reduce our revenue and earnings if such significant projects have not been replaced in the current period. From time-to-time we may publicly provide earnings or other forms of guidance, which reflect our predictions about future revenue, operating costs and capital structure, among other factors. Any such predictions may be impacted by these factors as well as others that are beyond our control and might not turn out to be correct.

## Table of Contents

Fluctuations in commodity prices may affect our customers' investment decisions and therefore subject us to risks of cancellation, delays in existing work, or changes in the timing and funding of new awards. Additionally, fluctuations in commodity prices can negatively affect our project costs.

Commodity prices can affect our customers in a number of ways. For example, for those customers that produce commodity products such as oil, gas, concrete, steel products, fluctuations in price can have a direct effect on their profitability and cash flow and, therefore, their willingness to continue to invest or make new capital investments. To the extent commodity prices decline or fluctuate and our customers defer new investments or cancel or delay existing projects, the demand for our services decreases, which may have a material adverse impact on the business, financial condition, and results of operations.

Commodity prices can also strongly affect the costs of projects. We use diesel fuel and other petroleum-based products to operate our equipment used in our construction contracts. Fluctuations in supplies relative to demand and other factors can cause unanticipated increases in their cost. Rising commodity prices can negatively impact the potential returns on projects that are planned, as well as those in progress, and result in customers deferring new investments or canceling or delaying existing projects. The short-term nature of the majority of our projects typically protects us from these potential price increases, however, if we are unable to procure commodities for completion of our projects at estimated prices due to rising commodity prices, our margins may erode on certain in progress or future projects.

We may be unable to obtain sufficient bonding capacity for our contracts and the need for performance and surety bonds may adversely affect our business.

As more fully described in "Insurance and Bonding" under "Item 1. Business," we are generally required to post bonds in connection with government and certain private sector contracts to ensure job completion. We have entered into a bonding agreement with a large multinational surety which acts as surety, issues bid bonds, performance bonds and payment bonds, and obligates itself upon other contracts of guaranty required by us in the day-to-day operations of our business. However, our surety is not obligated under the bonding agreement to issue bonds for us and bonding decisions are made on a case-by-case basis. We may not be able to maintain a sufficient level of bonding capacity in the future, which could preclude us from being able to bid for certain contracts and successfully contract with certain customers, or cause us to have to increase our letter of credit utilization in lieu of bonds, thereby reducing available borrowing capacity under our credit facility. In addition, the conditions of the bonding market may change, increasing our costs of bonding or restricting our ability to get new bonding which could have a material adverse effect on our business, operating results and financial condition.

Our business depends on good customer relationships and our reputation in both the heavy civil marine and commercial concrete infrastructure markets, which is developed and maintained by our executives and key project managers. Loss of any of our relationships, reputation or executives or key project managers could materially reduce our revenues and profits.

Our contracts are typically entered into on a project-by-project basis, so we generally do not have continuing contractual commitments with our customers beyond the terms of the current contract. We benefit from key customer relationships built over time and with both public and private entities. We also benefit from our reputation in the heavy civil marine and commercial concrete infrastructure markets developed over years of successfully performing on projects. Both of these aspects of our business were developed and are maintained through our executives and key project managers. Our inability to retain our executives and key project managers or inability to complete projects timely and successfully resulting in customer satisfaction could have a material adverse effect on our current customer relationships and reputation. The inability to maintain relationships with our customers in general or obtain new customers based on our reputation could have a material adverse effect on our business, operating results and financial condition.

We may not be able to fully realize the revenue value reported in our backlog.

We had a backlog of work to be completed on contracts totaling approximately \$280.7 million as of December 31, 2016 in our heavy civil marine construction segment. We had a backlog of work to be completed on contracts totaling approximately \$153.3 million as of December 31, 2016 in our commercial concrete construction segment. Backlog develops as a result of new awards, which represent the potential revenue value realizable pursuant to new project commitments received by us during a given period.

Backlog consists of awarded projects which have either (a) not yet been started or (b) are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value related to work that has not yet been completed. We cannot guarantee that the revenue projected in our backlog will be realized, or if realized, will result in earnings. From time-to-time, projects are cancelled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to recover the total revenue reflected in our backlog. In addition to being unable to recover certain direct costs, cancelled projects may also result in additional unrecoverable costs due to the resulting under-utilization of our assets or labor force.

## Table of Contents

We could suffer contract losses if we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price, lump-sum contracts.

Much of our revenue is derived from fixed-price, lump-sum contracts. Under these contracts, we perform our services and execute our projects at a fixed price and where, as a result, we could benefit from cost savings, but we may be unable to recover any cost overruns. Fixed-price contracts carry inherent risks, including risks of losses from underestimating costs, operational difficulties and other factors that may occur over the contract period. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, we may incur losses or the project may not be as profitable as we expected. In addition, we are sometimes required to incur costs in connection with modifications to a contract (change orders) that may not be approved by the customer as to scope and/or price, or to incur unanticipated costs, including costs for customer-caused delays, errors in specifications or designs, or contract suspension or termination that we may not be able to recover. These, in turn, could have a material adverse effect on our business, operating results and financial condition. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to changes in a variety of factors, such as:

- failure to properly estimate costs of engineering, design, material, equipment or labor;
- unanticipated technical problems with the structures or services being supplied by us, which may require that we spend our own funds to remedy the problem;
- project modifications creating unanticipated costs;
- differing site conditions;
- changes in the costs of equipment, materials, labor or subcontractors;
- our suppliers' or subcontractors' failure to perform;
- difficulties in our customers obtaining required governmental permits or approvals;
- changes in local laws and regulations;
- delays caused by local weather conditions; and
- exacerbation of any one or more of these factors as projects grow in size and complexity.

These risks increase if the project is of a long-term duration because of the elevated risk that the circumstances upon which we based our original bid will change in a manner that increases costs. In addition, we sometimes bear the risk of delays caused by unexpected conditions or events.

We could suffer penalties on our contracts for late completion.

In many instances, including in our fixed-price contracts, we guarantee that we will complete a project by a scheduled date. If we subsequently fail to complete the project as scheduled, we may be liable for any customer losses resulting from such delay, generally in the form of contractually agreed-upon liquidated damages. In addition, failure to maintain a required schedule could cause us to default on our government contracts, giving rise to a variety of potential damages. To the extent that these events occur, the total costs of the project could exceed our original estimates, and we could experience reduced profits or, in some cases, a loss for that project.

Our projects could be hindered due to our dependence on third parties to complete many of our contracts.

A portion of the work performed under our contracts is performed by third-party subcontractors we hire. We also rely on third-party equipment manufacturers or suppliers to provide much of the materials used for projects. If we are unable to hire qualified subcontractors or find qualified equipment manufacturers or suppliers, our ability to successfully complete a project could be impaired. If we are not able to locate qualified third-party subcontractors or the amount we are required to pay for subcontractors or equipment and supplies exceeds what we have estimated, especially in a lump-sum or a fixed-price contract, we may suffer losses on these contracts. If a subcontractor,

supplier, or manufacturer fails to provide services, supplies or equipment as required under a contract for any reason, we may be required to source these services, equipment or supplies to other third parties on a delayed basis or on less favorable terms, which could impact contract profitability. There is a risk that we may have disputes with our subcontractors relating to, among other things, the quality and timeliness of work performed, customer concerns about the subcontractor, or our failure to extend existing task orders or issue new task orders under a contract. In addition, faulty workmanship, equipment or materials could impact the overall project, resulting in claims against us for failure to meet required project specifications.

In the current economic environment, third parties may find it difficult to obtain sufficient financing to help fund their operations. The inability to obtain financing could adversely affect a third party's ability to provide materials, equipment or services which could have a material adverse impact on our business, financial condition, and results of operations. In addition, a failure by a third party subcontractor, supplier or manufacturer to comply with applicable laws, regulations or client requirements could negatively impact our business and, for government clients, could result in fines, penalties, suspension or even debarment being

## Table of Contents

imposed on us, which could have a material adverse impact on our business, financial condition, and results of operations.

We may incur higher costs to acquire, manufacture and maintain equipment necessary for our operations.

We have traditionally owned the majority of the equipment used in our projects, and we do not bid on contracts for which we do not have, or cannot quickly procure, whether through construction, acquisition or lease, the necessary equipment to complete projects. We are capable of building much of the specialized equipment used in our projects, including dayboats, tenders and dredges. To the extent that we are unable to buy or build equipment necessary for our needs, either due to a lack of available funding or equipment shortages in the marketplace, we may be forced to rent equipment on a short-term basis, which could increase the costs of completing contracts, thereby reducing contract profitability. In addition, our equipment requires continuous maintenance, which we primarily provide through our own repair facilities, as well as certification by the U.S. Coast Guard for certain heavy civil marine construction segment assets. If we are unable to continue to maintain the equipment in our fleet or are unable to obtain the requisite certifications, we may be forced to obtain third-party repair services, be unable to use our uncertified equipment or be unable to bid on contracts, which could have a material adverse effect on our business, operating results and financial condition.

In addition, our vessels in the heavy civil marine construction segment may be subject to arrest or seizure by claimants as security for maritime torts committed by the vessel or us or the failure by us to pay for necessities, including fuel and repair services, which were furnished to the vessel. Such arrest or seizure could preclude the vessel from working, thereby causing delays in marine construction projects.

We may be subject to unionization, work stoppages, slowdowns or increased labor costs.

Only a small percentage of our heavy civil marine construction segment workforce, located in the Pacific Northwest and Alaska, is currently unionized. If at any time, a majority of our employees unionized, it could limit the flexibility of the workforce and could result in demands that might increase our operating expenses and adversely affect our profitability. Each of our different employee groups could unionize at any time and would require separate collective bargaining agreements. If any group of our employees were to unionize and we were unable to agree on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting our non-union status. Any of these events would be disruptive to our operations and could have a material adverse effect on the business, operating results and financial condition.

Our business is subject to significant operating risks and hazards that could result in damage or destruction to property, which could result in losses or liabilities to us.

Construction and maintenance sites are potentially dangerous workplaces and often put our employees and others in close proximity with mechanized equipment, moving vehicles, etc. On most sites, we are responsible for safety and, accordingly, must implement safety procedures. Our safety record is an important consideration for us and for our customers. If serious accidents or fatalities occur or our safety record was to deteriorate, we may be ineligible to bid on certain work, expose ourselves to possible litigations, and existing service arrangements could be terminated, thus having a material adverse impact on our financial position, results of operations, cash flows and liquidity. Further, regulatory changes implemented by OSHA or the U.S. Coast Guard could impose additional costs on us. Adverse experience with hazards and claims could have a negative effect on our reputation with our existing or potential new customers and our prospects for future work.

The businesses of marine infrastructure construction, port maintenance, dredging and salvage are generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, hurricanes, adverse weather

conditions, collisions with fixed objects, cave-ins, encountering unusual or unexpected geological formations, disruption of transportation services and flooding. These risks could result in damage to or destruction of, dredges, transportation vessels, other maritime structures and buildings, and could also result in personal injury or death, environmental damage, performance delays, monetary losses or legal liability.

In the commercial concrete infrastructure, our workers are subject to the usual hazards associated with providing construction and related services on construction sites including environmental hazards, industrial accidents, hurricanes, adverse weather conditions, and flooding. Operating hazards can cause personal injury or death, damage to or destruction of property, plant and equipment, environmental damage, performance delays, monetary losses or legal liability.

## Table of Contents

Our current insurance coverage may not be adequate, and we may not be able to obtain insurance at acceptable rates, or at all.

We maintain various insurance policies, including general liability and workers' compensation. We are partially self-insured under some of our policies, and our insurance does not cover all types or amounts of liabilities. We are not required to, and do not, specifically set aside funds for our self-insurance programs.

At any given time, we are subject to multiple workers' compensation and personal injury claims. We maintain substantial loss accruals for workers' compensation claims, and, until recently, our workers' compensation and insurance costs have been rising for several years notwithstanding our emphasis on safety. Our insurance policies may not be adequate to protect us from liabilities that we incur in our business. In addition, some of the projects that we bid on require us to maintain high levels of builder's risk insurance. We may not be able to obtain similar levels of insurance on reasonable terms, or at all. Our inability to obtain such insurance coverage at acceptable rates or at all could have a material adverse effect on our business, operating results and financial condition.

Furthermore, due to a variety of factors such as increases in claims and projected significant increases in medical costs, our insurance premiums may increase in the future and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Any such inadequacy of, or inability to obtain, insurance coverage at acceptable rates, or at all, could have a material adverse effect on our business, operating results and financial condition.

Insurance liabilities are difficult to assess and quantify due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. If we were to experience insurance claims or costs above our estimates, we might be required to use working capital to satisfy these costs rather than to maintain or expand our operations. To the extent that we experience a material increase in the frequency or severity of accidents or workers' compensation and health claims, or unfavorable developments on existing claims, our operating results and financial condition could be materially and adversely affected.

Our employees in the heavy civil marine construction segment are covered by federal laws that provide seagoing employees remedies for job-related claims in addition to those provided by state laws.

Many of our heavy civil marine construction segment employees are covered by federal maritime law, including provisions of the Jones Act, the Longshore and Harbor Workers Act, ("USL&H") and the Seaman's Wage Act. Jones Act laws typically operate to make liability limits established by USL&H and state workers' compensation laws inapplicable to these employees and to permit these employees and their representatives to pursue litigation against employers for job-related injuries. Because in some cases we are not protected by the limits imposed by state workers' compensation statutes, we have greater exposure for claims made by these employees as compared to employers whose employees are not covered by these provisions.

For example, in the normal course of business, we are a defendant in various personal injury lawsuits. We maintain insurance to cover claims that arise from injuries to our workforce subject to a deductible. During 2016, we recorded approximately \$0.9 million of expense for our self-insured portion of these liabilities. We believe our recorded self-insurance reserves represent our best estimate of the outcomes of these claims. Should negative trends persist; we could continue to be negatively impacted in the future.

Our operations are subject to environmental laws and regulations that may expose us to significant costs and liabilities.

Our marine infrastructure construction, salvage, demolition, dredging and dredge material disposal activities are subject to stringent and complex federal, state and local environmental laws and regulations, including those



concerning air emissions, water quality, solid waste management, and protection of certain marine and bird species, their habitats, and wetlands. We may incur substantial costs in order to conduct our operations in compliance with these laws and regulations. For instance, we may be required to obtain, maintain and comply with permits and other approvals (as well as those obtained for projects by our customers) issued by various federal, state and local governmental authorities; limit or prevent releases of materials from our operations in accordance with these permits and approvals; and install pollution control equipment. In addition, compliance with environmental laws and regulations can delay or prevent our performance of a particular project and increase related project costs. Moreover, new, stricter environmental laws, regulations or enforcement policies, including those imposed in response to climate change, could be implemented that significantly increase our compliance costs, or require us to adopt more costly methods of operation.

Failure to comply with environmental laws and regulations, or the permits issued under them, may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations and the issuance of injunctions limiting or preventing some or all of our operations. In addition, strict joint and several liability may be imposed under certain environmental

Table of Contents

laws, which could cause us to become liable for the investigation or remediation of environmental contamination that resulted from the conduct of others or from our own actions that were in compliance with all applicable laws at the time those actions were taken. Further, it is possible that we may be exposed to liability due to releases of pollutants, or other environmental impacts that may arise in the course of our operations. For instance, some of the work we perform is in underground and water environments, and if the field location maps or waterway charts supplied to us are not accurate, or if objects are present in the soil or water that are not indicated on the field location maps or waterway charts, our underground and underwater work could strike objects in the soil or the waterway bottom containing pollutants and result in a rupture and discharge of pollutants. In addition, we sometimes perform directional drilling operations below certain environmentally sensitive terrains and water bodies, and due to the inconsistent nature of the terrain and water bodies, it is possible that such directional drilling may cause a surface fracture releasing subsurface materials. These releases may contain contaminants in excess of amounts permitted by law, may expose us to remediation costs and fines and legal actions by private parties seeking damages for non-compliance with environmental laws and regulations or for personal injury or property damage. We may not be able to recover some or any of these costs through insurance or increased revenues, which may have a material adverse effect on our business, operating results and financial condition. See “Business - Environmental Matters” for more information.

Our commercial concrete construction segment is subject to extensive and complex regulations that affect land development and building construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to development or construction being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water or sewage facilities. New building developments may also be subject to various assessments for schools, and other public improvements. In addition, in many markets government authorities have implemented no growth or growth control initiatives. Any of these can limit, delay or increase the costs of development and construction.

The anticipated investment in port and marine infrastructure may not be as large as expected, which may result in periods of low demand for our heavy civil marine construction services.

The demand for port construction, maintenance infrastructure services and dredging may be vulnerable to downturns in the economy generally and in the marine transportation industry specifically. The amount of capital expenditures on port facilities and marine infrastructure in our markets is affected by the actual and anticipated shipping and vessel needs of the economy in general and in our geographic markets in particular. If the general level of economic activity deteriorates, our customers may delay or cancel expansions, upgrades, maintenance and repairs to their infrastructure. A number of other factors, including the financial condition of the shipping industry, could adversely affect our customers and their ability or willingness to fund capital expenditures in the future. During downturns in the U.S. or world economies, the anticipated port usage in our geographic markets may decline, resulting in less port construction, upgrading and maintenance. As a result, demand for our services could substantially decline for extended periods.

Our operations are susceptible to a variety of adverse conditions including weather conditions, natural disasters and terrorist attacks that could negatively impact the markets in which we operate.

Our business, operating results and financial condition could be materially and adversely affected by severe weather and other natural disasters, such as earthquakes or hurricanes, particularly along the Gulf Coast, the West Coast, the Atlantic Seaboard, and the Caribbean Basin. Repercussions of severe weather conditions could cause significant interruption of projects in process and have safety implications to personnel at those sites.

Terrorist attacks, targeted at ports, marine facilities or shipping could affect the markets in which we operate our business and our expectations. Increased armed hostilities, terrorist attacks or responses from the United States may lead to further acts of terrorism and civil disturbances in the United States or elsewhere, which may further contribute

to economic instability in the United States. These attacks or armed conflicts may affect our operations or those of our customers or suppliers and could impact our revenues, our production capability and our ability to complete contracts in a timely manner.

Restrictions on foreign ownership of our vessels could limit our ability to sell off any portion of our heavy civil marine construction segment or result in the forfeiture of our vessels or in our inability to continue our operations in United States navigable waters.

The Dredging Act, the Jones Act, the Shipping Act and the Vessel Documentation Act require vessels engaged in the transport of merchandise or passengers between two points in the United States or dredging in the navigable waters of the United States to be owned and controlled by United States citizens. The United States citizen ownership and control standards require the vessel-owning entity to be at least 75% U.S. citizen-owned, thus restricting foreign ownership interests in the entities that directly or indirectly own the vessels which we operate. If we were to seek to sell any portion of our heavy civil marine construction segment

## Table of Contents

that owns any of these vessels, we may have fewer potential purchasers, since some potential purchasers might be unable or unwilling to satisfy the foreign ownership restrictions described above; additionally, any sales of certain of our larger vessels to foreign buyers would be subject to approval by the U.S. Maritime Administration. As a result, the sales price for that portion of our heavy civil marine construction segment may not attain the amount that could be obtained in an unregulated market.

Our strategy of growing through strategic acquisitions may not be successful.

We may pursue growth through the acquisition of companies or assets that will enable us to broaden the types of projects we execute and also expand into new markets. We have completed several acquisitions and plan to consider strategic acquisitions in the future. We may be unable to implement this growth strategy if we cannot identify suitable companies or assets or reach agreement on potential strategic acquisitions on acceptable terms. Moreover, an acquisition involves certain risks, including:

- difficulties in the integration of operations, systems, policies and procedures;
- enhancements in our controls and procedures including those necessary for a public company may make it more difficult to integrate operations and systems;
- failure to implement proper overall business controls, including those required to support our growth, resulting in inconsistent operating and financial practices at companies we acquire or have acquired;
- termination of relationships with the key personnel and customers of an acquired company;
- additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;
- the incurrence of environmental and other liabilities, including liabilities arising from the operation of an acquired business or asset prior to our acquisition for which we are not indemnified or for which the indemnity is inadequate;
- disruption of or receipt of insufficient management attention to our ongoing business; and
- inability to realize the cost savings or other financial benefits that we anticipate.

Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit and bonding capacity.

### Risk Factors Relating to Our Accounting, Financial Results and Financing Plans

Our bonding requirements may limit our ability to incur indebtedness.

We generally are required to provide various types of surety bonds that provide an additional measure of security for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends upon various factors including our capitalization, working capital and amount of our indebtedness. In order to help ensure that we can obtain required bonds, we may be limited in our ability to incur additional indebtedness that may be needed for potential acquisitions and operations. Our inability to incur additional indebtedness could have a material adverse effect on our business, operating results and financial condition.

Systems and information technology interruption or failure and data security breaches could adversely impact our ability to operate or expose us to significant financial losses and reputational harm.

We rely heavily on computer, information, and communications technology and related systems in order to properly operate our business. From time to time, we experience occasional system interruptions and delays. In the event we are unable to regularly deploy software and hardware, effectively upgrade our systems and network infrastructure, and

take other steps to maintain or improve the efficiency and efficacy of our systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data. In addition, our computer and communication systems and operations could be damaged or interrupted by natural disasters, telecommunications failures, power loss, acts of war or terrorism, computer viruses, malicious code, physical or electronic security breaches, intentional or inadvertent user misuse or error, or similar events or disruptions. Any of these or other events could cause interruptions, delays, loss of critical and/or sensitive data or similar effects, which could have a material adverse impact on our business, financial condition, protection of intellectual property, and results of operations, as well as those of our clients.

In addition, we face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber attacks and other security problems and system disruptions, including possible unauthorized access to and disclosure of our and our clients' proprietary or classified information. We rely on industry accepted security measures and technology to securely maintain all confidential and proprietary information on our computer systems, but they may still be vulnerable to these threats. As a result, we may be required to expend significant resources to protect against the threat of these

## Table of Contents

system disruptions and security breaches or to alleviate problems caused by these disruptions and breaches. Any of these events could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and cash flows.

### Risks Related to Our Indebtedness

Our indebtedness requires significant debt service payments that could adversely affect our financial condition and prevent us from fulfilling our obligations under our indebtedness.

At December 31, 2016, our total consolidated indebtedness was approximately \$104.6 million. Per the Credit Agreement, the Term Loan Facility requires quarterly installment payments which increase throughout the life of the loan and have a date of maturity of August 5, 2020. We must also comply with various affirmative and negative covenants contained in our Credit Agreement, some of which may restrict the way in which we would like to conduct our business. Among other things, our requirements under our debt instruments could potentially limit our ability to:

- incur additional indebtedness or liens;
- make payments in respect of or redeem or acquire any debt or equity issued by us;
- sell assets;
- make loans or investments;
- make guarantees;
- enter into any hedging agreement for speculative purposes;
- acquire or be acquired by other companies; or
- amend some of our contracts.

The restrictions under our indebtedness may prevent us from engaging in certain transactions which might otherwise be considered beneficial to us, for example, they could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital and capital expenditures, to engage in future acquisitions, to enter into new construction or development activities, or to otherwise fully realize the value of our assets and opportunities because of the need to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness or to comply with any restrictive terms of our indebtedness;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate; and
- place us at a competitive disadvantage as compared to our competitors that have less debt.

We may incur additional indebtedness in the future under our existing Credit Agreement, by issuing debt instruments, under new credit agreements, under joint venture credit agreements, under capital leases or synthetic leases, on a project-finance or other basis or a combination of these. If we incur additional indebtedness in the future, it likely would be under our existing Credit Agreement or under arrangements that may have terms and conditions at least as restrictive as those contained in our existing Credit Agreement. At December 31, 2016, available capacity to borrow on the Revolving Line of Credit was \$40.7 million. Failure to comply with the terms and conditions of any existing or future indebtedness would constitute an event of default. If an event of default occurs, the lenders will have the right to accelerate the maturity of such indebtedness and foreclose upon the collateral, if any, securing that indebtedness. Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Credit Facility allow for loans at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed will remain the same, and our net income and operating cash flows, including cash available for servicing our indebtedness, will correspondingly decrease.

We have entered into a series of receive-variable, pay-fixed interest rate swaps. We use interest rate swap agreements to hedge market risks relating to possible adverse changes in interest rates with the intent of reducing volatility in our cash flows due to fluctuations in interest rates. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk, may prove

disadvantageous, or may create additional risks, including risks discussed in "Risks Related to Our Business" above. In addition, our hedging activities are subject to the risks that a counterparty may not perform its obligations under the applicable derivative instrument.

Table of Contents

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

Our corporate headquarters is located at 12000 Aerospace, Suite 300, Houston, Texas 77034, with 21,415 square feet of office space that we lease, with a current term expiring April 30, 2020 and with two five year extensions at our option. Our executive, legal, finance, and some accounting offices are located at this facility. We lease office space in Alaska, Louisiana, Texas, Virginia and Washington for our operations, including office and yard space for our commercial concrete construction segment. We own property for our waterfront maintenance and dock facilities, including equipment yards in Texas and Florida, which total approximately 87.7 acres. We also own approximately 340 acres of land in the upper Houston Ship Channel used as a Dredge Material Placement Area ("DMPA"). We may lease smaller project related offices throughout our operating areas when the need arises.

We believe that our existing facilities are adequate for our operations. We do not believe that any single facility is material to our operations and, if necessary, we could readily obtain a replacement facility. Some of our real estate assets are pledged to secure our credit facility.

Item 3. LEGAL PROCEEDINGS

Although we are subject to various claims and legal actions that arise in the ordinary course of business, we are not currently a party to any material legal proceedings or environmental claims.

From time to time, we are a party to various other lawsuits, claims and other legal proceedings that arise in the ordinary course of our 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, claims and proceedings, we accrue reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. We do not believe any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on our results of operations, cash flows, or on our financial condition.

Item 4. MINE SAFETY DISCLOSURES

Not applicable



Table of Contents

## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "ORN".

The following table sets forth the low and high prices of a share of our common stock during each of the fiscal quarters presented, based on NYSE reports:

	Low	High
2016		
Fourth quarter – December 31	\$6.66	\$10.80
Third quarter – September 30	\$5.15	\$6.90
Second quarter – June 30	\$4.57	\$5.99
First quarter – March 31	\$3.25	\$5.39
2015		
Fourth quarter – December 31	\$3.63	\$5.96
Third quarter – September 30	\$5.66	\$7.64
Second quarter – June 30	\$7.06	\$9.51
First quarter – March 31	\$8.77	\$11.06

## Holders

As of March 10, 2017, we had approximately 3,633 stockholders of record including beneficial holders.

## Dividends

For the foreseeable future, we intend to retain earnings to grow our business and do not intend to pay dividends on our common stock. We have not historically paid dividends and payments of future dividends, if any, will be at the discretion of our board of directors and will depend on many factors, including general economic and business conditions, our strategic plans, our financial results and condition, legal requirements, and other factors that our board of directors deems relevant. Our existing credit facility restricts our ability to pay cash dividends on our common stock, and we may also enter into credit agreements or other borrowing arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock.

## Issuer Repurchase of Equity Securities

None

## Performance Graph\*

The following graph shows the changes in the value of \$100 invested in (1) the common stock of Orion Group Holdings, Inc., (2) the Standard & Poor's 500 Stock Index and (3) the Dow Jones Heavy Construction Group Index. The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period.

Table of Contents

	2011	2012	2013	2014	2015	2016
Orion Group Holdings, Inc.	100.00	109.92	180.90	166.17	62.71	149.62
S&P 500	100.00	116.00	153.58	174.60	177.01	198.18
Dow Jones US Heavy Civil Construction	100.00	121.43	159.41	118.72	105.04	129.58

Note: The above information was provided by Research Data Group, Inc.

\*This table and the information therein is being furnished but not filed.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by Item 201(d) of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data for each of the last five fiscal years. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes beginning on page F-1 of this Annual Report on Form 10-K and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. These historical results are not necessarily indicative of the results of operations to be expected for any future period.

Table of Contents

The table below includes the non-U.S. GAAP operating performance measure of EBITDA. For a definition of EBITDA and a reconciliation to net income calculated and presented in accordance with U. S. GAAP, please see “Non-GAAP Financial Measures” immediately below.

	Amounts in thousands, except share and per share information				
	2016	2015	2014	2013	2012
Contract revenues	\$578,236	\$466,498	\$385,818	\$354,544	\$292,042
Gross profit	67,482	40,182	44,594	32,004	14,370
Selling, general and administrative expenses	64,987	47,715	34,691	32,110	28,573
Other expense, net	(6,113 )	(2,580 )	(210 )	(347 )	(481 )
Net (loss) income	\$(3,620 )	\$(8,060 )	\$6,877	\$331	\$(11,866 )
Net (loss) income per share:					
Basic	\$(0.13 )	\$(0.29 )	\$0.25	\$0.01	\$(0.44 )
Diluted	\$(0.13 )	\$(0.29 )	\$0.25	\$0.01	\$(0.44 )
Weighted average shares outstanding:					
Basic	27,536,967	27,366,528	27,421,441	27,296,732	27,138,927
Diluted	27,536,967	27,366,528	27,787,613	27,613,054	27,138,927
Other Financial Data					
EBITDA	\$38,295	\$20,620	\$34,180	\$21,444	\$5,772
Capital expenditures	18,715	20,802	18,711	12,760	24,644
Cash interest expense	5,031	3,063	742	483	697
Depreciation and amortization*	34,162	28,083	23,451	21,538	21,570
Net cash provided by (used in):					
Operating activities	23,149	25,179	11,945	13,033	24,438
Investing activities	(17,686 )	(128,795 )	(42,787 )	(12,010 )	(33,273 )
Financing activities	(6,503 )	66,068	28,876	(3,248 )	12,940

\*includes depreciation and amortization of finite lived intangible assets

	2016	2015	2014	2013	2012
(in thousands)					
Balance Sheet Data:					
Cash and cash equivalents	\$305	\$1,345	\$38,893	\$40,859	\$43,084
Working capital	77,588	75,277	60,508	65,473	55,775
Total assets	447,674	461,462	352,300	306,208	316,296
Total debt, net of debt issuance costs	101,265	106,609	37,007	8,564	12,621
Total stockholders' equity	226,202	227,714	236,717	227,812	224,531

## Non-GAAP Performance Measures

We include in this Annual Report on Form 10-K the non-U.S. GAAP performance measure of EBITDA. We define EBITDA as income before interest, income taxes, depreciation and amortization. EBITDA is used as a supplemental operating performance measure by our management and by external users of our financial statements such as investors, commercial banks and others, to assess:

- the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness;
- our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

EBITDA is not a presentation made in accordance with U.S. GAAP. EBITDA should not be considered an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of performance presented in accordance with U.S. GAAP as measures of operating performance. Because EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA may not be comparable

Table of Contents

to similarly titled measures of other companies. EBITDA has important limitations as an analytical tool, and you should not consider it in isolation.

The following table provides a reconciliation of EBITDA to our net income for the periods indicated as calculated and presented in accordance with U.S. GAAP:

	2016	2015	2014	2013	2012
Net (loss) income	\$(3,620 )	\$(8,060 )	\$6,877	\$331	\$(11,866)
Income tax expense (benefit)	1,581	(2,519 )	3,175	(937 )	(4,640 )
Interest expense, net	6,172	3,116	677	512	708
Depreciation and amortization*	34,162	28,083	23,451	21,538	21,570
EBITDA	\$38,295	\$20,620	\$34,180	\$21,444	\$5,772

\*includes depreciation and amortization of finite-lived intangible assets

Table of Contents

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations is based on and should be read in conjunction with our consolidated financial statements and the accompanying notes beginning on page F-1 of this Annual Report on Form 10-K. Certain statements made in our discussion may be forward-looking. Forward-looking statements involve risks and uncertainties and a number of other factors that could cause actual results or outcomes to differ materially from our expectations. See "Forward-Looking Statements" at the beginning of this Annual Report on Form 10-K for additional discussion of some of these risks and uncertainties. Unless the context requires otherwise, when we refer to "we", "us" and "our", we are describing Orion Group Holdings, Inc. and its consolidated subsidiaries.

Overview

Orion Group Holdings, Inc., its subsidiaries and affiliates (hereafter collectively referred to as the "Company"), is a leading specialty construction company in the building, industrial, and infrastructure sectors in the continental United States, Alaska, Canada, and the Caribbean Basin through its heavy civil marine construction and its commercial concrete construction segments. The Company's heavy civil marine construction segment services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its commercial concrete construction segment provides 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 record revenue on construction contracts using the percentage-of-completion method, measured by the percentage of 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;
- differing site conditions;
- 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 have not had a material adverse impact on the results of our operations in the past.

2016 Recap and 2017 Outlook

In 2016, we recorded revenues of \$578.2 million, of which \$293.6 million was attributable to our commercial concrete construction segment and the remaining \$284.6 million to our heavy civil marine construction segment. In addition,

we ended 2016 with a consolidated backlog of \$434.0 million. Although our revenues in 2016 increased by 24.0% as compared with 2015, we recorded a net loss of \$3.6 million, as compared with net loss of \$8.1 million in the prior year.

As we begin 2017, we continue to see strong market fundamentals and continued steady demand for our heavy civil marine construction services. We remain confident in our long term market outlook and our ability to produce consistently profitable results going forward. The commercial concrete construction segment continues to outperform our initial expectations and we are pleased with the robust market opportunities we see for 2017 and beyond. Our tracking database of future projects of interest remains strong for the foreseeable future. We continue to see new bid opportunities in the private sector, reflecting increases in capital projects, both in new construction and refurbishment of existing infrastructure. Bridge projects funded by various state departments of transportation, as well as projects led by local port authorities, continue to be let at normal levels. We are hopeful for a more normalized year of lettings from the U.S. Corps of Engineers now that funding for the remainder of fiscal year 2017

## Table of Contents

has been approved. Despite the strong market activity, we have seen some customer permit delays which may affect short term operations.

### Heavy Civil Marine Construction Segment

Demand for our heavy civil marine construction services remains strong. We continue to see solid demand for turnkey solutions from our private customers. This demand is currently being driven by increased need for waterside storage for domestically produced crude oil, and we believe similar opportunities in the future will also be driven by the continued expansion of petrochemical and liquefied natural gas facilities, as well as the potential for crude exports at some point. Opportunities from local port authorities also remain solid, many of which are related to the recent completion of the Panama Canal expansion project. Additionally, we expect to see some bid opportunities related to coastal restoration funded through the RESTORE Act towards the end of 2017. We believe the adjustments we have made to our capital assets 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 demands from larger ships transiting the Panama Canal will require ports along the Gulf Coast and Atlantic Seaboard to expand port infrastructure as well as perform additional dredging services;
- The recent WRRDA Act authorized projects for the conservation and development of the nation's waterways, as well as addressed 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; and
- Funding for highways and transportation under the FAST Act, which provides authority through 2020.

### Commercial Concrete Construction Segment

Our commercial concrete construction segment is experiencing growth in nonresidential construction as a result of population increases. Demand for the construction of warehouses, industrial facilities, retail establishments, medical facilities and schools continues to grow as the populations of Houston and Dallas continue to expand. With both strong bids outstanding and backlog, we expect 2017 to be another positive year for this segment. We also continue to explore potential opportunities to bring both our heavy civil marine construction and commercial concrete construction services to work on industrial projects.

### Consolidated Results of Operations

#### Backlog Information

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



pending award at any time.

Backlog for our heavy civil marine construction segment at December 31, 2016 was \$280.7 million, as compared with \$194.3 million at December 31, 2015, an increase of 44.5% from the prior year period.

Backlog for our commercial concrete construction segment at December 31, 2016 was \$153.3 million, as compared with \$163.3 million at December 31, 2015, a decrease of 6.1% from the prior year period.

Table of Contents

## Income Statement Comparisons

	Year ended December 31,		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)					
Contract revenues	\$578,236	100.0 %	\$466,498	100.0 %	\$385,818	100.0%
Cost of contract revenues	510,754	88.3 %	426,316	91.4 %	341,224	88.4%
Gross profit	67,482	11.7 %	40,182	8.6 %	44,594	11.6%
Selling, general and administrative expenses	64,987	11.2 %	47,715	10.2 %	34,691	9.0%
(Gain) loss from sale of assets, net	(1,579 )	(0.3 )%	466	— %	(359 )	(0.1)%
Operating income (loss)	4,074	0.8 %	(7,999 )	(1.6 )%	10,262	2.7%
Other (expense) income						
Other income	59	— %	536	— %	467	0.1%
Interest income	3	— %	32	— %	17	—%
Interest expense	(6,175 )	(1.1 )%	(3,148 )	(0.7 )%	(694 )	(0.2)%
Other expense, net	(6,113 )	(1.1 )%	(2,580 )	(0.7 )%	(210 )	(0.1)%
(Loss) income before income taxes	(2,039 )	(0.3 )%	(10,579 )	(2.3 )%	10,052	2.6%
Income tax expense (benefit)	1,581	0.3 %	(2,519 )	(0.5 )%	3,175	0.8%
Net (loss) income	\$(3,620 )	(0.6 )%	\$(8,060 )	(1.8 )%	6,877	1.8%

## Year ended December 31, 2016 compared with years ended December 31, 2015

**Contract Revenues.** Contract revenues in 2016 increased approximately 24.0% as compared with 2015. The increase is attributable to a full year of operations for the commercial concrete construction segment, which accounted for \$293.6 million in contract revenues.

Contract revenues generated from private sector customers for the heavy civil marine construction segment increased to 53.3% of total contract revenues in 2016 from 40.1% in 2015. This totaled approximately \$151.8 million generated from private customers, or an increase of \$12.6 million from the comparable prior period. This is primarily due to a shift of project mix, with a decrease in public sector projects of approximately 13.2%. Contract revenues generated from private sector customers for the commercial concrete construction segment represented 86.5%, or \$254.0 million in 2016.

Contract revenues generated from public sector customers for the heavy civil marine construction segment represented 46.7% of total revenue in the year, or approximately \$132.9 million, as compared with 59.9% during 2015. This is primarily due to a shift in timing of projects as well as completion of certain projects during 2015. Contract revenues generated from public sector customers for the commercial concrete construction segment represented 13.5%, or \$39.7 million in 2016.

**Gross Profit.** Gross profit was \$67.5 million for the year ended December 31, 2016, an increase of \$27.3 million compared with the prior period. Gross margin in 2016 was 11.7% of total revenue as compared to 8.6% in the prior year period. The commercial concrete construction segment contributed \$38.6 million to gross profit in the current year compared to \$17.1 million in the prior period, due to a full year of operations for this segment. The heavy civil marine construction segment had an increase in gross profit for the period of approximately \$5.8 million from the comparable prior period, despite a decrease in revenues over this period, due to the completion of the troubled Tampa jobs.

Selling, General and Administrative Expense. Selling, general and administrative ("SG&A") expenses were \$65.0 million, an increase of \$17.3 million, or 36.2%, as compared with the prior year period, and as a percentage of revenues, SG&A expenses increased as compared with the prior year, to 11.2% from 10.2%. The commercial concrete construction segment added \$22.4 million in SG&A expense in the current year compared to \$10.9 million for the year ended December 31, 2015, due to a full year of operations. The increase in SG&A expense for the heavy civil marine construction segment was \$5.8 million compared with the prior period. This increase is primarily a result of an increase in payroll and related costs of approximately \$4.5 million, due to an increase in head count during the year, accounting fees of approximately \$0.6 million, and certain consulting fees of \$0.5 million.

Income Tax Expense (Benefit). We recorded tax expense of \$1.6 million in 2016, as compared with a tax benefit of \$2.5 million in 2015. Our effective tax rate in 2016 was (77.5)%. This differs from the statutory rate of 35.0%, primarily due to state income

## Table of Contents

taxes, the non-deductibility of certain permanent items, such as incentive stock compensation expense, additional valuation allowances on deferred tax assets and a true up to prior years taxes.

Year Ended December 31, 2015 compared with Year Ended December 31, 2014

**Contract Revenues.** Contract revenues in 2015 increased approximately 20.9% as compared with 2014. The increase is attributable to the acquisition of the commercial concrete construction segment, which accounted for \$119.4 million in contract revenues. This increase is offset by a decrease in the heavy civil marine construction segment of \$38.7 million from the comparable prior period. This decrease is primarily a result of project writedown costs from projects managed by the Tampa office and delays in beginning projects in the Gulf Coast region due to inclement weather conditions during the first and second quarters.

Contract revenues generated from private sector customers for the heavy civil marine construction segment decreased to 40.1% of total contract revenues in 2015 from 51.4% in 2014. This totaled approximately \$139.2 million generated from private customers, or a decrease of \$59.0 million or 29.8% from the comparable prior period. This is primarily due to a shift of project mix, with an increase in public sector projects of approximately 11.3%. Contract revenues generated from private sector customers for the commercial concrete construction segment represented 91.9%, or \$109.7 million, in 2015.

Contract revenues generated from public sector customers for the heavy civil marine construction segment represented 59.9% of total revenue in the year, or approximately \$208.0 million, as compared with 48.6% during 2014. This is primarily due to a contract with a local port authority which commenced work during the second half of 2014. Contract revenues generated from public sector customers for the commercial concrete construction segment represented 8.1%, or \$9.7 million, in 2015.

**Gross Profit.** Gross profit was \$40.2 million in the twelve month period ended December 31, 2015, a decrease of \$4.4 million compared with the prior period. Gross margin in 2015 was 8.6% as compared to 11.6% in the prior year period. The commercial concrete construction segment added \$17.1 million to gross profit in the current year, therefore the decrease in gross profit in the heavy civil marine construction segment was \$21.5 million from the comparable prior period. This is primarily a result of project writedown costs from projects managed by the Tampa office.

**Selling, General and Administrative Expense.** Selling, general and administrative ("SG&A") expenses were \$47.7 million, an increase of \$13.0 million, or 37.5%, as compared with the prior year period, and as a percentage of revenues, SG&A expenses increased as compared with the prior year, from 9.0% to 10.2%. The commercial concrete construction segment added \$10.9 million in SG&A expense in the current year, therefore the increase in SG&A expense for the heavy civil marine construction segment was \$2.1 million compared with the prior period. This increase is primarily a result of costs associated with the acquisition of TAS of approximately \$0.4 million, stock compensation expense of approximately \$0.7 million, due partially to accelerated expense associated with the death of the former chief operating officer in the first quarter, rent expense of \$0.7 million and property taxes of \$0.3 million.

**Income Tax (Benefit) Expense.** We recorded tax benefit of \$2.5 million in 2015, as compared with a tax expense of \$3.2 million in 2014. Our effective tax rate in 2015 was 23.8%. This differs from the statutory rate of 35.0%, primarily due to the recognition of a valuation allowance on certain state NOLs, as well as state taxes and the non-deductibility of certain permanent items, such as incentive stock compensation. Excluding the effect of the valuation allowance described above, the effective tax rate was 38.5%.

## Segment Results

Edgar Filing: Orion Group Holdings Inc - Form 10-K

The following table sets forth, for the periods indicated, statements of operations data by segment, segment revenues as a percentage of consolidated revenues and segment operating income as a percentage of segment revenues:

29

---

Table of Contents

## Segment Comparison

	Year ended December 31,					
	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollar amounts in thousands)					
Contract revenues						
Heavy Civil Marine Construction Segment	\$284,632	49.2 %	\$347,117	74.4 %	\$385,818	100.0 %
Commercial Concrete Construction Segment	293,604	50.8 %	119,381	25.6 %	—	— %
Total	\$578,236	100.0 %	\$466,498	100.0 %	\$385,818	100.0 %
Operating (loss) income						
Heavy Civil Marine Construction Segment	\$(12,403 )	(4.4 )%	\$(14,243 )	(4.1 )%	\$10,262	2.7 %
Commercial Concrete Construction Segment	16,477	5.6 %	6,244	5.2 %	—	— %
Total	\$4,074		\$(7,999 )		\$10,262	

Year ended December 31, 2016 compared with years ended December 31, 2015

## Heavy Civil Marine Construction Segment

Revenues for our heavy civil marine construction segment for the year ended December 31, 2016 were \$284.6 million compared to \$347.1 million for the year ended December 31, 2015, a decrease of \$62.5 million, or 18.0%. This decrease is primarily attributable to project delays caused by severe weather impacting in the Florida market as well as to permitting delays caused by customers in both our Tacoma and Gulf Coast offices in addition to one-time charges related to the accounting treatment of a specific contract with significant differing site conditions.

Operating loss for our heavy civil marine construction segment for the year ended December 31, 2016 was \$12.4 million, compared to a \$14.2 million loss, an improvement of \$1.8 million from the year ended December 31, 2015. The margin improvement was primarily due to the completion of troubled Tampa projects during the year. As a percentage of revenues, operating loss for our heavy civil marine construction segment was 4.4% for the year ended December 31, 2016 and 4.1% for the year ended 2015.

## Commercial Concrete Construction Segment

Revenues for our commercial concrete construction segment for the year ended December 31, 2016 were \$293.6 million compared to \$119.4 million for the year ended December 31, 2015, an increase of \$174.2 million, or 145.9%. This increase in revenue was primarily due to a full year of operations compared to the prior year due to the timing of the acquisition. In addition, the segment experienced significant growth in the Dallas market during 2016.

Operating income for our commercial concrete construction segment for the year ended December 31, 2016 was \$16.5 million, compared to \$6.2 million, an increase of \$10.3 million from the year ended December 31, 2015. The margin improvement was primarily due to the improvements in the Dallas market. As a percentage of revenues, operating income for our commercial concrete construction segment was 5.6% for the year ended December 31, 2016 compared to 5.2% for the year ended December 31, 2015.

Year Ended December 31, 2015 compared with Year Ended December 31, 2014

## Heavy Civil Marine Construction Segment

Revenues for our heavy civil marine construction segment for the year ended December 31, 2015 were \$347.1 million compared to \$385.8 million for the year ended December 31, 2014, a decrease of \$38.7 million, or 10.0%. This decrease is primarily a result of project writedown costs from projects managed by the Tampa office and delays in beginning projects in the Gulf Coast region due to inclement weather conditions during the first and second quarters of 2015.

Operating loss for our heavy civil marine construction segment for the year ended December 31, 2015 was \$14.2 million, compared income of \$10.3 million, a difference of \$24.5 million from the year ended December 31, 2014. The margin difference was primarily due to the troubled Tampa jobs during the year. As a percentage of revenues, operating loss for our heavy civil marine

## Table of Contents

construction segment was 4.1% for the year ended December 31, 2015 compared to operating income of 2.7% for the year ended December 31, 2014.

### Commercial Concrete Construction Segment

Revenues for our commercial concrete construction segment for the year ended December 31, 2015 were \$119.4 million and operating income for the same period was \$6.2 million. The Company completed the acquisition of the commercial concrete construction segment in August 2015. Therefore, there are no comparable results for the year ended December 31, 2014.

### Critical Accounting Estimates

The consolidated financial statements contained in this report were prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect both the Company's carrying values of its assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Although our significant accounting policies are described in more detail in Note 2 of the Notes to Consolidated Financial Statements; we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements:

- Revenue Recognition from Construction Contracts;
- Long Lived Assets;
- Goodwill;
- Income Taxes;
- Insurance Coverage, Litigation, Claims and Contingencies; and
- Accounting for Stock Issued to Employees and Others.

### Revenue Recognition

We determine our revenue recognition guidelines for our operations based on guidance provided in applicable accounting standards and positions adopted by the FASB and the SEC. We enter into construction contracts principally on the basis of competitive bids. Although the terms of our contracts vary considerably, most are made on a fixed price basis. Revenues from construction contracts are recognized on the percentage-of-completion method. The percentage-of-completion method measures the ratio of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. This requires us to prepare on-going estimates of the costs to complete each contract as the project progresses. In preparing these estimates, we make significant judgments and assumptions concerning our significant cost drivers of materials, labor and equipment, and we evaluate contingencies based on possible schedule variances, production delays or other productivity factors.

Actual costs incurred on projects may vary from the costs we estimated. Variations from estimated contract costs along with other risks inherent in fixed price contracts (including but not limited to our contract performance) may result in actual revenue and gross profits that differ in some cases from those we estimated and could result in losses on projects. If a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined, without regard to the percentage of completion. We consider unapproved change orders to be contract variations on which we have customer approval for scope change, but no agreement on price associated with that scope change. These costs are included in the estimated cost to complete the contracts and are expensed as incurred. We recognize revenue equal to cost incurred on unapproved change orders when realization of price approval is probable and the estimated amount is equal to or greater than our cost related to the unapproved change order and the related margin when the change order is formally approved by the customer. Revenue recognized on unapproved change orders is included in contract costs and estimated earnings in excess of billings on uncompleted



contracts on the balance sheet. We consider claims to be amounts that we seek or will seek to collect from customers or others for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no agreement with customers on both scope and price changes. Revenue from claims is recognized when agreement is reached with customers as to the value of the claims, which in some instances may not occur until after completion of work under the contract. Costs associated with claims are included in the estimated costs to complete the contracts and are expensed when incurred. Depending on the size of a particular project, variations from estimated project costs could have a significant impact on our operating results for any fiscal quarter or year. We believe our exposure to losses on fixed price contracts is limited by the relatively short duration of the contracts we undertake and our management's experience in estimating contract costs.

We are currently evaluating the impact of the new standard related to revenue recognition. See Note 2 - Summary of Significant Accounting Principles in the Notes to the Financial Statements (Part IV, Item 15 of this Form 10-K) for further discussion.

## Table of Contents

### Long-Lived Assets

Our long-lived assets consist primarily of equipment used in our operations. Fixed assets are carried at cost and are depreciated over their estimated useful lives, ranging from one to thirty years, using the straight-line method for financial reporting purposes and accelerated methods for tax reporting purposes. The carrying value of our long-lived assets is evaluated periodically based on utilization of the asset and physical condition of the asset, as well as the useful life of the asset to determine if adjustment to the depreciation period or the carrying value is warranted. If events and circumstances such as poor utilization or deteriorated physical condition indicate that the asset(s) should be reviewed for possible impairment, we use projections to assess whether future cash flows, including disposition, on a non-discounted basis related to the tested assets are likely to exceed the recorded carrying amount of those assets to determine if an impairment exists. If we identify a potential impairment, we will estimate the fair value of the asset through known market transactions of similar equipment and other valuation techniques, which could include the use of similar projections on a discounted cash flow basis. We will report a loss to the extent that the carrying value of the impaired assets exceeds their fair values.

### Goodwill

We have acquired businesses and assets in purchase transactions that resulted in the recognition of goodwill that we carry on our balance sheet. In accordance with U.S. GAAP, goodwill recorded on our Consolidated Balance Sheets is not amortized, but is subject to impairment testing at least annually or more frequently if events or circumstances indicate that the asset more likely than not may be impaired. We determined that our operations comprise two reporting units for goodwill impairment testing, which matches our two operating segments for financial reporting.

We assess the fair value of our reporting unit based on a weighted average of valuations based on market multiples, discounted cash flows, and consideration of our market capitalization. The key assumptions used in the discounted cash flow valuations are discount rates 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. We also consider assumptions that market participants may use.

As required, annual impairment assessments and testing of goodwill are performed as of October 31 of each year or when circumstances arise that indicate a possible impairment might exist. Based on this testing, we determined that the estimated fair value of either reporting unit exceeded its respective carrying values as of October 31, 2016, goodwill was not impaired, and no events have occurred since that date that would require an interim impairment test. In the future, our estimated fair value could be negatively impacted by extended declines in our stock price, changes in macroeconomic indicators, sustained operating losses, and other factors which may affect our assessment of fair value.

### Income Taxes

We determine our 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 liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We must make significant assumptions, judgments and estimates to determine our current provision for income taxes, our 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 our interpretation of these laws, as well as the probable outcomes of any tax audits. The value of any net deferred tax asset depends upon estimates of the amount and category of future taxable income reduced by the amount of any tax benefits that we do 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 our financial position and results of operations. We compute deferred income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax

consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We account for uncertain tax positions in accordance with the provisions of the FASB's 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 our consolidated tax return. We evaluate and record any uncertain tax positions based on the amount that management deems is more likely than not to be sustained upon ultimate settlement with the tax authorities in the tax jurisdictions in which we operate.

## Table of Contents

### Insurance Coverage, Litigation, Claims and Contingencies

We maintain insurance coverage for our 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 our workers' compensation exposure is covered through a mutual association, which is subject to supplemental calls.

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

Separately, our heavy civil marine construction segment employee health care is provided through a trust administered by a third party. Funding of the trust is based on current claims. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are derived from known facts, historical trends and industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from estimates. Any adjustments to such reserves are included in the consolidated results of operations in the period in which they become known. Our commercial concrete construction 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, expects to receive a partial refund after the policy expiration.

### Accounting for Stock Issued to Employees and Others

We measure the cost of equity compensation to our employees based on the estimated grant-date fair value of the award and recognize the expense over the vesting period. We use the Black-Scholes option pricing model to compute the fair value of the awards of options. The Black-Scholes model requires the use of highly subjective assumptions in the computation. Changes in these assumptions can cause significant fluctuations in the fair value of the option award. Our independent directors receive grants of stock, typically on an annual basis, of which the values are measured by the mean price of our stock on the day of grant.

### Liquidity and Capital Resources

Our primary liquidity needs are to finance our working capital, fund capital expenditures, and pursue strategic acquisitions. Historically, our source of liquidity has been cash provided by our operating activities and borrowings under our Credit Facility (as defined below).

Our working capital position fluctuates from period to period due to normal increases and decreases in operational activity. At December 31, 2016, our working capital was \$77.6 million as compared with \$75.3 million at December 31, 2015. As of December 31, 2016, we had cash on hand of \$0.3 million. Due to the outstanding borrowings on our revolver and outstanding letters of credit, our borrowing capacity at December 31, 2016 was approximately \$40.7 million.

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

service our debt.

The following table provides information regarding our cash flows and our capital expenditures for the years ending December 31, 2016, 2015 and 2014:

	Year ended December 31,		
	2016	2015	2014
Cash flows provided by operating activities	\$23,149	\$25,179	\$11,945
Cash flows used in investing activities	\$(17,686)	\$(128,795)	\$(42,787)
Cash flows (used in) provided by financing activities	\$(6,503)	\$66,068	\$28,876
Capital expenditures (included in investing activities above)	\$(18,715)	\$(20,802)	\$(18,711)

Operating Activities. During 2016, our operations provided approximately \$23.1 million in net cash inflows, as compared with cash provided by operations in the prior year period of \$25.2 million. The decrease in cash between periods of \$2.1 million was primarily attributable to changes of working capital of \$14.9 million, mainly driven by an increase in accounts receivable and

## Table of Contents

decrease in accounts payable, which were offset by a decrease in costs and estimated earnings in excess of billings. These were offset by an improvement to net income of \$4.4 million, and changes in depreciation and amortization expense, deferred financing costs, deferred income taxes and gain on sale of assets of approximately \$8.4 million.

The increase in cash provided from operations between 2015 and 2014 was due primarily due to an increase in working capital and offset by a net loss and increased depreciation and stock compensation expense.

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

**Investing Activities.** Capital asset additions and betterments to our fleet were \$18.7 million in 2016, as compared with \$20.8 million in 2015. The decrease is primarily a result of timing of purchase of capital assets. The Company met its projected capital expenditures budget for the current fiscal year.

**Financing Activities.** During 2016, we drew down \$57.0 million from our revolving line of credit. Additionally, we repaid \$53.0 million on this draw, as well as made regularly scheduled debt payments and additional payments on the term loan of \$10.1 million for a total of \$63.1 million in debt payments. In the prior year, in connection with our new Credit Facility, we borrowed \$149.0 million to purchase TAS and extinguish our previous debt of \$32.4 million. The Company also purchased 350,000 shares under the share repurchase program for \$3.1 million.

### Sources of Capital

The Company entered into a syndicated credit agreement (the "Credit Agreement") with Regions Bank on August 5, 2015, as administrative agent and collateral agent, and the following co-syndication agents: Bank of America, N.A., BOKF, NA dba Bank of Texas, Branch Banking & Trust Company, Frost Bank, Bank Midwest, a division of NBH Bank, N.A., IBERIABANK, KeyBank NA, Trustmark National Bank, and First Tennessee Bank NA. The primary purpose of the new Credit Agreement was to finance the acquisition of TAS, to provide a revolving line of credit, and to provide financing to extinguish all prior indebtedness with Wells Fargo Bank, National Associates, as administrative agent, and Wells Fargo Securities, LLC.

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 \$50.0 million, and a term loan with a commitment amount of \$135.0 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. The rate for all loans, at the time of loan origination was 4.75%. 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 August 5, 2020.

See Note 11 in the Notes to the Financial Statements (Part IV, Item 15 of this Form 10-K) for further discussion on the Company's Debt.

### Financial covenants

Restrictive financial covenants under the Credit Facility include:

▲ consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to not be less than 1.25 to 1.00.

▲ consolidated Leverage Ratio to not exceed the following during each noted date:

-Closing Date through and including December 31, 2015, to not exceed 3.25 to 1.00;

-Fiscal Quarter Ending March 31, 2016, to not exceed, to not exceed 4.00 to 1.00;

-Fiscal Quarter Ending June 30, 2016, to not exceed, to not exceed 3.75 to 1.00;

-Fiscal Quarter Ending September 30, 2016, to not exceed 3.25 to 1.00.

-Fiscal Quarter Ending December 31, 2016, to not exceed 3.00 to 1.00;

-Fiscal Quarter Ending March 31, 2017, to not exceed 2.75 to 1.00;

-Fiscal Quarter Ending June 30, 2017 and each Fiscal Quarter thereafter, to not exceed 2.50 to 1.00.

## Table of Contents

In addition, the Credit Facility contains events of default that are usual and customary for similar transactions, including non-payment of principal, interest or fees; 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 was in compliance with all financial covenants at December 31, 2016.

The Company expects to meet our 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 our operating activities for at least the next 12 months. The Company believes that our cash position and available borrowings together with cash flow from our operations is adequate for general business requirements and to service our 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 (loss) income 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 as of December 31, 2016 is \$0.4 million, which is reflected in the balance sheet as a liability. The fair market value of the swaps as of December 31, 2016 is \$0.4 million.

## Bonding Capacity

We are generally required to provide various types of surety bonds that provide additional security to our customers for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends on our capitalization, working capital, past performance and external factors, including the capacity of the overall surety market. At December 31, 2016, we believe our capacity under our current bonding arrangement was in excess of \$400.0 million, of which we had approximately \$276.0 million in surety bonds outstanding. We believe our strong balance sheet and working capital position will allow us to continue to access our bonding capacity.

## Effect of Inflation

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

## Off Balance Sheet Arrangements

Currently our only off balance sheet arrangements are operating leases to which we are a party, those discussed above under “Bonding Capacity” and “Sources of Capital” and those which arise in the normal course of business. These arrangements are not reasonably likely to have an effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors. See Note 17 – Commitments and Contingencies of Notes to Consolidated Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.



## Contractual Obligations

The following table sets forth information about our contractual obligations and commercial commitments as of December 31, 2016:

	Payment Due by Period				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
	(in thousands)				
Debt obligations	\$104,563	\$19,813	\$84,750	\$—	\$—
Operating lease obligations	40,328	\$7,274	11,427	7,096	\$14,531
Purchase obligations (1)	—	—	—	—	—
Total	\$144,891	\$27,087	\$96,177	\$7,096	\$14,531

Table of Contents

(1) Commitments pursuant to other purchase orders and subcontracts related to construction contracts are not included since such amounts are expected to be funded under contract billings.

To manage risks of changes in the material prices and subcontracting costs used in tendering bids for construction contracts, we routinely obtain firm quotations from our suppliers and subcontractors before submitting a bid. These quotations do not include any quantity guarantees, and we have no obligation for materials or subcontract services beyond those required to complete the contracts that we are awarded for which quotations have been provided.

A summary of debt and other contractual obligations as of December 31, 2016 and December 31, 2015 is as follows:

	December	December
	31, 2016	31, 2015
Credit facility	\$84,750	\$98,188
Current maturities	19,813	12,459
Total long-term debt	\$104,563	\$110,647
Outstanding letters of credits	\$1,311	\$1,101
Leasing arrangements	\$40,328	\$31,574
Other long-term liabilities	\$2,493	\$1,813

Recently Issued Accounting Pronouncements

See Note 2 - Summary of Significant Accounting Principles of the Notes to the Financial Statements (Part IV, Item 15 of this Form 10-K) for further discussion.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our results of operations are subject to risks related to fluctuation in commodity prices and fluctuations in interest rates.

Commodity price risk

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

Interest rate risk

At December 31, 2016, we had \$104.6 million in outstanding borrowings under our revolving credit facility, with a weighted average interest rate of 3.35%. Also we have 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. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting. Our objectives in managing interest rate risk are to lower our overall borrowing costs and limit interest rate changes on our earnings and cash flows. To achieve this, we closely monitor changes in interest rates and we utilize cash from operations to reduce our debt position, if warranted.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Edgar Filing: Orion Group Holdings Inc - Form 10-K

The information required by this Item 8 is submitted as a separate section beginning on page F-1 of this Annual Report on Form 10-K and is incorporated herein by reference.

Additionally, a two-year Summary of Selected Quarterly Financial Data (unaudited) is included in “Selected Quarterly Financial Data” under Item 6 - Selected Quarterly Financial Data.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE  
None

36

---

## Table of Contents

### Item 9A. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our principal executive and financial officers have concluded that our disclosure controls and procedures were effective with reasonable assurance as of the end of such period.

#### Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Ernst & Young LLP, an independent registered public accounting firm who audited the consolidated financial statements included in this Annual Report, has issued a report on our internal control over financial reporting dated March 24, 2017 and expressed an unqualified opinion on the effectiveness of our internal control over the financial

reporting as of December 31, 2016.

**Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the Company's year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

37

---

Table of Contents

Directors, Executive Officers, Promoters and Control Persons

The information required by Paragraph (a), and Paragraphs (c) through (g) of Item 401 of Regulation S-K (except for information required by Paragraph (e) of that Item to the extent the required information pertains to our executive officers) and Item 405 of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

The following table presents the information required by Paragraph (b) of Item 401 of Regulation S-K.

Name	Age	Position with the Company	Year Joined the Registrant
Richard L. Daerr, Jr.	72	Chairman of the Board	2007
Thomas N. Amonett	73	Director	2007
J. Michael Pearson	69	Director	2006
Austin J. Shanfelter	60	Director	2007
Gene Stoever	79	Director	2007
Mark R. Stauffer	54	President, Chief Executive Officer and Director	1999
L. Dwayne Breaux	54	Executive Vice President and Chief Operating Officer	2015
Peter R. Buchler	70	Executive Vice President, Chief Administrative Officer, Chief Compliance Officer, General Counsel and Secretary	2009
Christopher J. DeAlmeida	39	Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer	2007

Code of Ethics

We have adopted a code of ethics for our chief executive, chief financial and principal accounting officers; a code of business conduct and ethics for members of our Board of Directors; and corporate governance guidelines. The full texts of the codes of ethics and corporate governance guidelines are available at our website [www.orionmarinegroup.com](http://www.orionmarinegroup.com). Although we have never done so, in the event we make any amendment to, or grant any waiver from, a provision of the code of ethics that applies to the principal executive officer, principal financial officer or principal accounting officer that requires disclosure under applicable SEC rules, we will disclose such amendment or waiver and the reasons therefore on our website. We will provide any person without charge a copy of any of the aforementioned codes of ethics upon receipt of a written request. Requests should be addressed to: Orion Group Holdings, Inc. 12000 Aerospace Suite 300, Houston, Texas 77034, Attention: Corporate Secretary.

Corporate Governance

The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Item SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
12. RELATED STOCKHOLDER MATTERS

The information required by Item 403 of Regulation S-K is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

Table of Contents

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is hereby incorporated by reference from our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the close of our fiscal year.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Report:

1. Financial Statements

The Company's Consolidated Financial Statements at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and the notes thereto, together with the Report of the Independent Registered Public Accounting Firm on those Consolidated Financial Statements are hereby filed as part of this Report, beginning on page F-1.

2. Financial Statement Schedule

The following financial statement schedule of the Company for each of the three years in the period ended December 31, 2016 is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of the Company.

Schedule II – Schedule of Valuation and Qualifying Accounts

3. Exhibits



Table of Contents

Exhibit Number	Description
2.1	Membership Interests Purchase Agreement dated August 5, 2015 by and among T.A.S. Holdings, LLC and Orion Concrete Construction, LLC (Schedules, exhibits and similar attachments to the Purchase Agreement that are not material have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule, exhibit or similar attachment to the SEC upon request) (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed with the Securities and Exchange Commission on August 7, 2015 (File No. 1-33892)).
2.2	First Amendment, effective June 17, 2016, to the Membership Interests Purchase Agreement dated August 5, 2015 (incorporated herein by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
2.3	Post Closing Supplemental Agreement Amendment, effective June 17, 2016, as a supplement to the Membership Interests Purchase Agreement dated August 5, 2015 (incorporated herein by reference to Exhibit 2.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
3.1	Amended and Restated Certificate of Incorporation of Orion Group Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
3.2	Amended and Restated Bylaws of Orion Group Holdings, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the Securities and Exchange Commission on August 5, 2016 (File No. 1-33891)).
4.1	Registration Rights Agreement by and between Friedman, Billings, Ramsey & Co., Inc. and Orion Marine Group, Inc. dated May 17, 2007 (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 20, 2007 (File No. 333-145588)).
† 10.1	Form of Indemnity Agreement for Directors and Certain Officers dated November 24, 2008 (incorporated herein by reference to Exhibit 1.01 to the Company's Current Report on Form 8-K filed on November 25, 2008 (File No. 001-33891)).
10.2	Credit Agreement dated as of June 25, 2012 between Orion Marine Group, Inc. the lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent; Wells Fargo Securities, LLC as Sole Lead Arranger and Bookrunner (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed August 3, 2012) as amended by the Second Amendment to Credit Agreement, dated June 27, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 filed August 1, 2014) (File No. 001-33891)).
† 10.3	2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 filed August 20, 2007 (File No. 333-145588)).
† 10.4	Form of Stock Option Agreement Under the 2005 Stock Incentive Plan & Notice of Grant of Stock Option (incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 filed August 20, 2007 (File No. 333-145588)).
† 10.5	Form of Restricted Stock Agreement Under the 2005 Stock Incentive Plan & Notice of Grant of Restricted Stock (incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed August 20, 2007 (File No. 333-145588)).
† 10.6	Orion Marine Group, Inc. Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 filed August 20, 2007 (File No. 333-145588)).
† 10.7	

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Form of Stock Option Agreement Under the 2007 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 filed August 20, 2007 (File No. 333-145588)).

† 10.8 Form of Restricted Stock Agreement under the 2007 Long Term Incentive Plan and Notice of Grant of Restricted Stock (incorporated herein by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 filed August 20, 2007 (File No. 333-145588)).

† 10.9 Orion Marine Group, Inc. 2011 Long Term Incentive Plan (incorporated herein by reference to Appendix A to the Company's Definitive Proxy Statement filed April 4, 2011 (File No. 001-33891)).

† 10.10 Form of Stock Option Agreement Under the 2011 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed March 6, 2012 (File No. 001-33891)).

† 10.11 Form of Restricted Stock Agreement and Notice of Grant of Restricted Stock under the 2011 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed March 6, 2012 (File No. 001-33891)).

† 10.12 Executive Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 001-33891)).

40

---

Table of Contents

† 10 .13	Employment Agreement, dated December 4, 2009, by and between Orion Marine Group, Inc. and J. Michael Pearson (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 10, 2009), as amended by the Consolidated Amendment, dated February 26, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed February 28, 2014) (File No. 001-33891).
† 10 .14	Employment Agreement, dated January 1, 2011, by and between Orion Marine Group, Inc. and Mark Stauffer (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed August 5, 2011) as amended by the Consolidated Amendment, dated February 26, 2014 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on February 28, 2014) (File No. 001-33891).
† 10 .15	Employment Agreement, dated December 11, 2009, by and between Orion Marine Group, Inc. and James L. Rose (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated December 17, 2009 (File No. 001-33891)), as amended by (1) the First Amendment to Employment Agreement, dated March 30, 2011 (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed August 5, 2011) and (2) the Second Amendment to the Employment Agreement dated March 11, 2013 (incorporated by reference to Exhibit 10.17 to the Company's Current Report on Form 10-K filed March 27, 2014) (File No. 001-33891).
† 10 .16	Employment Agreement, dated December 11, 2009, by and between Orion Marine Group, Inc. and Peter R. Buchler (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 17, 2009 (File No. 001-33891)), as amended by (1) the First Amendment to Employment Agreement, dated June 30, 2011, (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed August 5, 2011) and (2) the Second Amendment to the Employment Agreement dated June 26, 2013 (incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 10-K filed March 27, 2014) (File No. 001-33891).
† 10 .17	Schedule of Changes to Compensation of Non-employee Directors, effective for 2009 (incorporated herein by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed August 6, 2009 (File No. 001-33891)).
† 10 .18	Amended and Restated Employment Agreement, dated February 26, 2014, by and between Orion Marine Group, Inc. and Christopher J. DeAlmeida (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed February 28, 2014 (File No. 001-33891)).
10 .19	Real Estate Purchase and Sale Agreement (Jones Spoils Tracts, Harris County, TX) dated February 3, 2014, by and between PASADENA NITROGEN LLC, a Delaware limited liability company, as Seller, and CPB PROPERTIES, LLC, a Texas limited liability company, as Purchaser, and joined in by AGRIFOS HOLDINGS, INC., a Delaware corporation, effective February 26, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed March 4, 2014) (File No. 001-33891).
† 10 .20	Employment Agreement dated January 1, 2015 between Orion Marine Group, Inc. and Mark R. Stauffer as amended by the First Amendment to Employment Agreement, dated January 1, 2017(incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed March 20, 2017)(File No. 001-33891).
† 10 .21	Employment Agreement dated January 1, 2015 between Orion Marine Group, Inc. and James L. Rose (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 2, 2015) (File No. 001-33891).
† 10 .22	Employment Agreement dated January 1, 2015 between Orion Marine Group, Inc. and Peter R. Buchler (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 2, 2015) (File No. 001-33891).
† 10 .23	Employment Agreement dated January 1, 2015 between Orion Marine Group, Inc. and Christopher J. DeAlmeida (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed January 2, 2015) (File No. 001-33891).

Edgar Filing: Orion Group Holdings Inc - Form 10-K

† 10 Employment Agreement dated September 29, 2015 between Orion Marine Group, Inc. and L. Dwayne Breaux  
.24 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 1, 2015) (File No. 001-33891).

10.25 Third Amendment to Credit Agreement as of June 15, 2015 by and among Orion Marine Group, Inc. as the Borrower and Wells Fargo Bank, N.A., acting as Administrative Agent for the Lenders incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed August 7, 2015.

10.26 Credit Agreement dated as of August 5, 2015 among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time to Time, as Guarantors, The Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-Syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed August 7, 2015.

41

---

Table of Contents

10.27	First Amendment, effective March 31, 2016, to the Credit Agreement dated as of August 5, 2015, among Orion Marine Group, Inc. as Borrower, Certain Subsidiaries of the Borrower Party Hereto From Time To Time, as Guarantors, The Lenders Party Hereto, Regions Bank, as Administrative Agent and Collateral Agent, and Bank of America, N.A., BOKF, NA DBA Bank of Texas, and Branch Banking and Trust Company, as Co-Syndication Agents, Regions Capital Markets, a division of Regions Bank, as Lead Arranger and Book Manager incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the Securities and Exchange Commission on May 6, 2016 (File No. 1-33892).
* 21 .1	List of Subsidiaries.
* 23 .1	Consent of Independent Registered Public Accounting Firm - Ernst & Young.
* 23 .2	Consent of Independent Registered Public Accounting Firm - Grant Thornton.
24 .1	Power of Attorney (included on signature page of this filing).
* 31 .1	Certification of CEO pursuant to Section 302.
* 31 .2	Certification of CFO pursuant to Section 302.
* 32 .1	Certification of CEO and CFO pursuant to Section 906.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith

Management contract or compensatory plan or arrangement

(b) Financial Statement Schedules

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORION GROUP HOLDINGS, INC.

March 24, 2017 By: /s/ Mark R. Stauffer  
 Mark R. Stauffer  
 President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Mark R. Stauffer Mark R. Stauffer	President, Chief Executive Officer and Director	March 24, 2017
/s/ Christopher J. DeAlmeida Christopher J. DeAlmeida	Chief Financial Officer Chief Accounting Officer	March 24, 2017
/s/ Richard L. Daerr, Jr. Richard L. Daerr, Jr.	Chairman of the Board	March 24, 2017
/s/ Thomas N. Amonett Thomas N. Amonett	Director	March 24, 2017
/s/ J. Michael Pearson J. Michael Pearson	Director	March 24, 2017
/s/ Austin J. Shanfelter Austin J. Shanfelter	Director	March 24, 2017
/s/ Gene Stoever Gene Stoever	Director	March 24, 2017

Table of Contents

ORION GROUP HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

December 31, 2016

F-1

---

Table of Contents

ORION GROUP HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

<u>Reports of Independent Registered Public Accounting Firms</u>	<u>F-3</u>
<u>Consolidated Balance Sheets at December 31, 2016 and 2015</u>	<u>F-6</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-7</u>
<u>Consolidated Statements of Comprehensive (Loss) Income for the Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-8</u>
<u>Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-9</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-10</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-11</u>

F-2

---



Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Orion Group Holdings, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Orion Group Holdings, Inc. and subsidiaries as of December 31, 2016, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for the year ended December 31, 2016. Our audit also included the financial statement schedule listed in the Index at Item 15(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orion Group Holdings, Inc. and subsidiaries at December 31, 2016, and the consolidated results of their operations and their cash flows for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Orion Group Holdings, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 24, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas

March 24, 2017

F-3

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Orion Group Holdings, Inc. and subsidiaries

We have audited Orion Group Holdings, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Orion Group Holdings, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Orion Group Holdings, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Orion Group Holdings, Inc. and subsidiaries as of December 31, 2016 and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows for the year ended December 31, 2016 of Orion Group Holdings, Inc. and subsidiaries and our report dated March 24, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP  
Houston, Texas  
March 24, 2017

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Orion Group Holdings, Inc.

We have audited the accompanying consolidated balance sheet of Orion Group Holdings, Inc. (formerly Orion Marine Group, Inc.) (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2015, and the related consolidated statements of operations, comprehensive (loss) income, stockholders’ equity, and cash flows for the years ended December 31, 2015 and 2014. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orion Group Holdings, Inc. (formerly Orion Marine Group, Inc.) and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for each of the years ended December 31, 2015 and 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Houston, Texas

March 15, 2016

Table of Contents

## Orion Group Holdings, Inc. and Subsidiaries

## Consolidated Balance Sheets

December 31, 2016 and 2015

(In Thousands, Except Share and Per Share Information)

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 305	\$ 1,345
Accounts receivable:		
Trade, net of allowance of \$0 and \$0, respectively	92,202	72,358
Retainage	40,201	35,433
Other current	4,634	5,313
Income taxes receivable	133	83
Inventory	5,392	4,867
Deferred tax asset	2,013	3,108
Costs and estimated earnings in excess of billings on uncompleted contracts	39,968	59,608
Assets held for sale	6,375	6,375
Prepaid expenses and other	3,885	4,627
Total current assets	195,108	193,117
Property and equipment, net	158,082	165,989
Accounts receivable, non-current	733	222
Inventory, non-current	3,998	6,218
Goodwill	66,351	65,982
Intangible assets, net of amortization	22,032	29,319
Other non-current	1,372	615
Total assets	\$ 447,676	\$ 461,462
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current debt, net of debt issuance costs	\$ 19,188	\$ 12,004
Accounts payable:		
Trade	49,123	52,719
Retainage	893	1,671
Accrued liabilities	19,946	22,149
Taxes payable	689	813
Billings in excess of costs and estimated earnings on uncompleted contracts	27,681	28,484
Total current liabilities	117,520	117,840
Long-term debt, net of debt issuance costs	82,077	94,605
Other long-term liabilities	2,493	1,813
Deferred income taxes	19,000	19,345
Interest rate swap liability	382	145
Total liabilities	221,472	233,748
Commitments and contingencies		
Stockholders' equity:		
Preferred stock -- \$0.01 par value, 10,000,000 authorized, none issued	—	—
Common stock -- \$0.01 par value, 50,000,000 authorized, 28,405,850 and 27,992,589 issued; 27,694,626 and 27,281,358 outstanding at December 31, 2016 and December 31, 2015, respectively	283	279
Treasury stock, 711,231 and 711,231 shares, at cost December 31, 2016 and December 31, 2015, respectively	(6,540 )	(6,540 )

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Other comprehensive loss	(382	) (145	)
Additional paid-in capital	171,079	168,736	
Retained earnings	61,764	65,384	
Total stockholders' equity	226,204	227,714	
Total liabilities and stockholders' equity	\$447,676	\$461,462	

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

F-6

---

Table of Contents

## Orion Group Holdings, Inc. and Subsidiaries

## Consolidated Statements of Operations

(In Thousands, Except Share and Per Share Information)

	Year ended December 31,		
	2016	2015	2014
Contract revenues	\$578,236	\$466,498	\$385,818
Costs of contract revenues	510,754	426,316	341,224
Gross profit	67,482	40,182	44,594
Selling, general and administrative expenses	64,987	47,715	34,691
(Gain) loss from sale of assets, net	(1,579 )	466	(359 )
Operating income (loss)	4,074	(7,999 )	10,262
Other (expense) income:			
Other income	59	536	467
Interest income	3	32	17
Interest expense	(6,175 )	(3,148 )	(694 )
Other (expense) income, net	(6,113 )	(2,580 )	(210 )
(Loss) income before income taxes	(2,039 )	(10,579 )	10,052
Income tax expense (benefit)	1,581	(2,519 )	3,175
Net (loss) income	\$(3,620 )	\$(8,060 )	\$6,877
Basic (loss) income per share	\$(0.13 )	\$(0.29 )	\$0.25
Diluted (loss) income per share	\$(0.13 )	\$(0.29 )	\$0.25
Shares used to compute (loss) income per share			
Basic	27,536,967	27,366,528	27,421,441
Diluted	27,536,967	27,366,528	27,787,613

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

Table of Contents

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

	Year ended December 31,		
	2016	2015	2014
Net (loss) income	\$ (3,620)	\$ (8,060)	\$ 6,877
Change in fair value of cash flow hedge, net of tax expense of \$25, and benefit of \$90 and \$0 for the years ended December 31, 2016, 2015 and 2014, respectively	(237 )	(145 )	—
Total comprehensive (loss) income	\$ (3,857)	\$ (8,205)	\$ 6,877

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



Table of Contents

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

	Common Stock		Treasury Stock		Other Comprehensive Income (Loss)	Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance, January 1, 2014	27,710,775	\$ 278	(317,731)	\$(3,003)	\$ —	\$ 163,970	\$ 66,567	\$ 227,812
Stock-based compensation	—	—	—	—	—	1,594	—	1,594
Exercise of stock options	143,282	1	—	—	—	869	—	870
Issuance of restricted stock	115,726	—	—	—	—	—	—	—
Purchase of shares into treasury	—	—	(43,500)	(436)	—	—	—	(436)
Net income	—	—	—	—	—	—	6,877	6,877
Balance, December 31, 2014	27,969,783	\$ 279	(361,231)	\$(3,439)	\$ —	\$ 166,433	\$ 73,444	\$ 236,717
Stock-based compensation	—	—	—	—	—	2,275	—	2,275
Exercise of stock options	3,970	—	—	—	—	28	—	28
Issuance of restricted stock	38,660	—	—	—	—	—	—	—
Forfeiture of restricted stock	(19,824)	—	—	—	—	—	—	—
Cash flow hedge, net of tax	—	—	—	—	(145)	—	—	(145)
Purchase of shares into treasury	—	—	(350,000)	(3,101)	—	—	—	(3,101)
Net loss	—	—	—	—	—	—	(8,060)	(8,060)
Balance, December 31, 2015	27,992,589	\$ 279	(711,231)	\$(6,540)	\$ (145)	\$ 168,736	\$ 65,384	\$ 227,714
Stock-based compensation	—	—	—	—	—	2,280	—	2,280
Exercise of stock options	13,850	—	—	—	—	67	—	67
Issuance of restricted stock	407,002	4	—	—	—	(4)	—	—
Cash flow hedge, net of tax	—	—	—	—	(237)	—	—	(237)
Forfeiture of restricted stock	(7,591)	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	(3,620)	(3,620)
Balance, December 31, 2016	28,405,850	\$ 283	(711,231)	\$(6,540)	\$ (382)	\$ 171,079	\$ 61,764	\$ 226,204

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

Table of Contents

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

	Year ended December 31,		
	2016	2015	2014
Cash flows from operating activities			
Net (loss) income	\$(3,620)	\$(8,060)	\$6,877
Adjustments to reconcile net (loss) income to net cash provided by Operating activities:			
Depreciation and amortization	34,162	28,083	23,451
Deferred financing cost amortization	1,225	462	—
Bad debt expense	—	22	993
Deferred income taxes	751	(2,885)	1,869
Stock-based compensation	2,280	2,275	1,594
(Gain) loss on sale of property and equipment	(1,579)	466	(359)
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(23,935)	(2,666)	(4,202)
Income tax receivable	(49)	249	—
Inventory	1,696	1,150	(3,702)
Accounts receivable, non-current	(511)	(222)	—
Prepaid expenses and other	856	(467)	(695)
Costs and estimated earnings in excess of billings on uncompleted contracts	19,640	(10,655)	(19,725)
Accounts payable	(5,717)	12,245	(1,178)
Accrued liabilities	(1,123)	1,658	4,428
Income tax payable	(125)	(1,097)	538
Billings in excess of costs and estimated earnings on uncompleted contracts	(802)	4,655	2,109
Deferred revenue	—	(34)	(53)
Net cash provided by operating activities	23,149	25,179	11,945
Cash flows from investing activities:			
Proceeds from sale of property and equipment	2,152	2,708	1,005
Purchase of property and equipment	(18,715)	(20,802)	(18,711)
Acquisition of TAS and purchase price adjustment	(369)	(110,344)	—
Acquisition of HITS, net	—	(357)	—
Acquisition of land	—	—	(25,081)
Contributions to CSV life insurance	(754)	—	—
Net cash used in investing activities	(17,686)	(128,795)	(42,787)
Cash flows from financing activities:			
Borrowings from Credit Facility	57,000	149,021	30,000
Payments made on borrowings from Credit Facility	(63,084)	(42,955)	(1,557)
Extinguishment of debt	—	(32,427)	—
Loan costs from Credit Facility	(486)	(4,498)	—
Exercise of stock options	67	28	869
Purchase of shares into treasury	—	(3,101)	(436)
Net cash (used in) provided by financing activities	(6,503)	66,068	28,876
Net change in cash and cash equivalents	(1,040)	(37,548)	(1,966)
Cash and cash equivalents at beginning of year	1,345	38,893	40,859
Cash and cash equivalents at end of year	\$305	\$1,345	\$38,893
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Interest	\$5,031	\$3,063	\$742
Taxes, net of refunds	\$999	\$584	\$770

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

F-10

---

Table of Contents

Orion Group Holdings, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2016, 2015 and 2014  
(Tabular Amounts in thousands, Except Share and per Share Amounts)

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"), is a leading specialty construction company in the building, industrial, and infrastructure sectors in the continental United States, Alaska, Canada and the Caribbean Basin through its heavy civil marine construction and its commercial concrete construction segments. The Company's heavy civil marine construction segment services include marine transportation facility construction, marine pipeline construction, marine environmental structures, dredging of waterways, channels and ports, environmental dredging, design, and specialty services. Its commercial concrete construction segment provides 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 to allocate resources and assess performance are based on two reportable and operating segments: heavy civil marine construction and commercial concrete construction.

Although the Company describes its business in this report in terms of the services it provides, our base of customers and the areas in which it operates, it has determined that its operations currently comprise two reportable segments pursuant to FASB ASC Topic 280 - Segment Reporting. In previous reporting periods, the Company reported its financial information based on one reportable segment, now known as the heavy civil marine construction segment. With the acquisition of TAS in 2015, we expanded to two operating and reportable segments, adding the commercial concrete construction segment.

In making this determination, the Company considered the similar economic characteristics of its operations. For the heavy civil marine construction segment, the methods used, and the internal processes employed, to deliver heavy civil 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, EPA and 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 our commercial concrete construction segment, the Company also considered the similar economic characteristics of these operations. The methods used, and the internal processes employed to deliver our commercial 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 developments, 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

These consolidated financial statements include the accounts of the parent company, Orion Group Holdings, Inc. and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in

the United States of America. All intercompany balances and transactions have been eliminated in consolidation.

## 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.

F-11

---

## Table of Contents

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

### Revenue Recognition

For financial statement purposes, the Company records revenue on construction contracts for financial statement purposes on the percentage-of-completion method, measured by the percentage of contract costs incurred to date to total estimated costs for each contract. This method is used because management considers contract costs incurred to be the best available measure of progress on these contracts. Contract revenue is derived from the original contract price adjusted for agreed upon change orders. Contract costs include all direct costs, such as material and labor, and those indirect costs we incur that are related to contract performance such as payroll taxes and insurance. General and administrative costs are charged to expense as incurred. Pending claims are recognized as an increase in contract revenue only when the collection is deemed probable and if the amount can be reasonably estimated for purposes of calculating total profit or loss on long-term contracts. The Company records revenue and the unbilled receivable for claims to the extent of costs incurred and to the extent management believes related collection is probable and includes no profit on claims recorded. During 2016, in accordance with ASC 605-35-25-30, the Company recognized claims of approximately \$12.3 million with customers. The Company believes collection of these claims is probable, although the full amount of the recorded claims may not be recognized. Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined, without regard to the percentage of completion. Revenue is recorded net of any sales taxes collected and paid on behalf of the customer, if applicable.

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

The Company’s projects are typically short in duration, and usually span a period of less than one year. Historically, the Company has not combined or segmented contracts.

### Classification of Current Assets and Liabilities

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

### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times, cash held by financial institutions may exceed federally insured limits. The Company has not historically sustained losses on its cash balances in excess of federally insured limits. Cash equivalents at December 31, 2016 and December 31, 2015 consisted primarily of overnight bank deposits.

## Risk Concentrations

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

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

F-12

---

## Table of Contents

### Accounts Receivable

Accounts receivable are stated at the historical carrying value, less write-offs and allowances for doubtful accounts. The Company has significant investments in billed and unbilled receivables as of December 31, 2016 and 2015. 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 fixed-price contracts, which are included in costs in excess of billings, arise as revenues are recognized under the percentage-of-completion method. Unbilled amounts on cost-reimbursement contracts represent recoverable costs and accrued profits not yet billed. Revenue associated with these billings is recorded net of any sales tax, if applicable. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. In establishing an allowance for doubtful accounts, the Company evaluates its contract receivables and costs in excess of billings and thoroughly reviews historical collection experience, the financial condition of its customers, billing disputes and other factors. The Company writes off uncollectible accounts receivable against the allowance for doubtful accounts if it is determined that the amounts will not be collected or if a settlement is reached for an amount that is less than the carrying value. As of December 31, 2016 and December 31, 2015, 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 December 31, 2016 totaled \$40.2 million, of which \$7.4 million is expected to be collected beyond 2017. Retainage at December 31, 2015 totaled \$35.4 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 its carrying value, which could result in the recording of a loss. Successful claims negotiations could result in the recovery of previously recorded losses. Significant losses on receivables could adversely affect the Company's financial position, results of operations and overall liquidity.

### Advertising Costs

The Company primarily obtains contracts through the open bid process, and therefore advertising costs are not a significant component of expense. Advertising costs are expensed as incurred. Advertising expenses totaled \$178,000, \$114,000, and \$13,000 in 2016, 2015 and 2014, respectively.

### 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 have any environmental liabilities as of December 31, 2016 or 2015, respectively.

### 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.

### 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 us, 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 longer lead times for manufacture or fabrication, but must be kept on hand to reduce downtime on a project. Refer to Note 7 for more information regarding inventory.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, and depreciated using the straight line method over the estimated useful life of the asset. The estimated useful lives of our property and equipment are as follows:

F-13

---

## Table of Contents

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

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.

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

Dry-docking costs are capitalized and amortized on the straight-line method over a period ranging from three to 15 years. 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 costs 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.

## Goodwill and Other Intangible Assets

### Goodwill

Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually at a reporting unit level. The Company's reporting units are the same as its operating segments. Annual impairment tests of goodwill are performed as of October 31 of each year or when circumstances arise that indicate a possible impairment might exist. 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 and analysis of comparable companies. The underlying assumptions used for determining fair value 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, our estimated fair value could be negatively impacted by extended declines in our stock price, changes in macroeconomic indicators, sustained operating losses, and other factors which may affect our assessment of fair value.

See Note 9 to the consolidated financial statements for additional discussion of our 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 that the asset more likely than not may be impaired.

See Note 9 to the consolidated financial statements for additional discussion of our intangible assets and trade name impairment testing.

## Table of Contents

### Stock-Based Compensation

The Company recognizes compensation expense for equity awards over the vesting period based on the fair value of these awards at the date of grant. The computed fair value of these awards is recognized as a non-cash cost over the period the employee provides services, which is typically the vesting period of the award. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of restricted stock grants is equivalent to the fair value of the stock issued on the date of grant, and is measured as the mean price of the stock on the day 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 and this assessment is updated on a periodic basis. See Note 15 to the consolidated financial statements for further discussion of the Company's stock-based compensation plan.

### Income Taxes

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

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

### Insurance Coverage

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

The heavy civil marine construction segment maintains five levels of excess loss insurance coverage, totaling \$200.0 million in excess of primary coverage. This excess loss coverage responds to most of its liability policies when a

primary limit of \$1.0 million has been exhausted; provided that the primary limit for Contingent Maritime Employer's Liability is \$10.0 million and the Watercraft Pollution Policy primary limit is \$5.0 million. The commercial concrete construction segment maintains two levels of excess loss insurance coverage, totaling \$200.0 million in excess of primary coverage. This excess loss coverage responds to most of its liability policies when a primary limit of \$1.0 million has been exhausted.

F-15

---

## Table of Contents

Separately, the Company's heavy civil marine construction segment employee health care is provided through a trust administered by a third party. Funding of the trust is based on current claims. The administrator has purchased appropriate stop-loss coverage. Losses on these policies up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are derived from known facts, historical trends and industry averages to determine the best estimate of the ultimate expected loss. Actual claims may vary from estimates. Any adjustments to such reserves are included in the consolidated results of operations in the period in which they become known. The Company's commercial concrete construction 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, expects to receive a partial refund after the policy expiration.

The accrued liability for self-insured claims includes incurred but not reported losses of \$5.2 million and \$8.0 million at December 31, 2016 and 2015, respectively.

### Warranty Costs

Provision for estimated warranty costs, (if any) is made in the period in which such costs become probable and is periodically adjusted to reflect actual experience. The Company historically has not been subject to significant warranty provisions.

### Reclassifications

Certain amounts in prior periods have been reclassified to conform with current period presentation. This includes an adjustment in prior periods to include debt issuance costs as a portion of debt on the balance sheet pursuant to the adoption of FASB Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs. Additionally, the Company also determined that a gain or loss on the sale of an asset should be shown on the face of the income statement included as part of operating income based on ASC 360-10-45-5.

### Recent Accounting Pronouncements

The FASB issues accounting standards updates (each, an "ASU") from time to time to its Accounting Standards Codification ("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 January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. 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 and the Company does not anticipate that the changes will materially impact the financial statements unless a goodwill impairment is recognized in the future.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The FASB issued this update to reduce diversity in practice in how certain cash receipts

and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact to its financial statements but does not anticipate the changes to materially impact the financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The FASB issued this update as part of its Simplification Initiative. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendment that will cause the most impact to our financial statements will be the change of presenting net operating loss carryforwards for tax purposes as a part of retained earnings as opposed to the current method of having them off balance sheet. The update allows for a modified retrospective approach so that the earliest period presented can be adjusted for the new standard. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those annual periods. The Company is currently evaluating the impact to its financial statements and plans to adopt in the first quarter of 2017.

## Table of Contents

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The Board issued this update to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company anticipates the most significant of the amendments to our organization to be the recognition of assets and liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. Under the new standard the Company will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. In early 2017, the Company established a steering committee to analyze the potential impact of the new standard and explore the possibility of potentially early adopting the new standard. The Company's ability to potentially early adopt will be dependent on the completion of the analysis of information necessary to adopt the standard.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The Board issued this update as part of its initiative to reduce complexity in accounting standards. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those annual periods. The Company does not expect a significant impact to its financial statements other than on working capital calculations. As of December 31, 2016, there was \$2.0 million of deferred taxes included in current assets which under this update would be reclassified to long-term.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The Board issued this update as part of its initiative to reduce complexity in accounting standards. The provisions of this guidance are that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is evaluating the impact to its financial statements but does not anticipate this having a material impact.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This comprehensive new revenue recognition standard will supersede existing revenue guidance under U. S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company currently anticipates adopting the standard using the cumulative catch-up transition method which will involve recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous years.

The Company established a steering committee consisting of representatives from various business segments within the organization. The purpose of this committee is to analyze the impact of the new standard on the Company's business by reviewing the current revenue practices to identify potential differences that would result from applying the requirements of the new standard to revenue contracts. In addition, the Company is analyzing the possibility of any necessary changes to current business processes, systems and controls to support recognition and disclosure under the new standard.



The effective date of this guidance was deferred through the issuance of ASU 2015-14 and is effective for the Company beginning January 1, 2018. The impact of adopting the new standard is not expected to materially impact revenue or net income or the consolidated balance sheet. The Company expects the largest impact from the new standard to be on performance obligations within the contracts and the timing of revenue being recognized. The Company continues to evaluate all areas of the standard and its effect on the Company's 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. Business Acquisition

On August 5, 2015, the Company completed its acquisition of all the issued and outstanding membership interests of T.A.S. Commercial Concrete Construction, LLC, T.A.S. Commercial Concrete Solutions, LLC, directly and indirectly all of the issued and outstanding membership interests of T.A.S. Proco, LLC, and 49% of the issued and outstanding membership interests of GLM

F-17

---

Table of Contents

Concrete Solutions, LLC, collectively known as "TAS" hereafter, which is headquartered in Houston, Texas, for approximately \$112 million in cash. The purpose of the acquisition was primarily to achieve growth by expanding the Company's current service offerings in addition to expansion into new markets. The tangible assets acquired include accounts receivable, prepaid assets, work in progress and fixed assets.

Under the acquisition method of accounting, the total acquisition consideration is allocated to the acquired tangible and intangible assets and assumed liabilities of TAS based on their estimated fair values as of the closing of the acquisition. The table below outlines the total actual acquisition consideration allocated to the fair values of TAS's tangible and intangible assets and liabilities as of August 5, 2015 and subsequent working capital adjustments:

Accounts receivable	\$54,987
Costs and estimated earnings in excess of billings on uncompleted contracts	4,372
Prepaid expenses and other current assets	828
Fixed assets, net	15,720
Investment in GLM Concrete Services, LLC	76
Goodwill	33,817
Other intangible assets	33,650
Accounts payable	(18,458 )
Accrued expenses and other current liabilities	(13,015 )
Total Acquisition Consideration at August 5, 2015	\$111,977
Working Capital Adjustment	(1,633 )
Final Adjustment <sup>(1)</sup>	385
Total Acquisition Consideration	\$110,729

(1) On June 17, 2016, the Company and TAS agreed to an amendment of the original purchase agreement. The purpose of this amendment was to revise the total purchase price by \$385 thousand for certain adjustments to post-closing items.

The excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed was allocated to goodwill. The goodwill of \$32.6 million arising from the acquisition consists primarily of synergies and business opportunities expected to be realized from the purchase of the Company. Goodwill for tax purposes is \$32.6 million, which is amortizable over a 15 year period.

Finite-lived intangible assets acquired include customer relationships and contractual backlog. Indefinite-lived intangible assets acquired include the trade name. (See [Note 9](#))

The fixed assets acquired include construction equipment, office equipment, building improvements, and automobiles and trucks and will be depreciated in accordance with Company policy, generally 3 to 15 years.

The external costs associated with the transaction incurred and recorded during 2015 were approximately \$400,000 and were included in selling, general and administrative expenses.

#### Pro Forma Results (unaudited)

The Company has calculated the pro forma impact of the acquisition of TAS in our operating results for the twelve months ended December 31, 2015 and 2014. The following pro forma results give effect to this acquisition, assuming the transaction occurred on January 1 of the respective period.

	Pro Forma Results	
	For the Years	
	Ended	
	December	December
	31, 2015	31, 2014
Contract Revenues	\$602,537	\$622,063
Operating income from continuing operations	\$1,541	\$23,062
Net Income	\$1,311	\$13,399
Basic earnings per share	\$0.05	\$0.49

Diluted earnings per share	\$0.05	\$0.48
----------------------------	--------	--------

F-18

---

Table of Contents

The Company derived the pro forma results of the acquisition based upon historical financial information obtained from the sellers and certain management assumptions. The pro forma adjustments related to incremental amortization expense associated with acquired finite-lived intangible assets and interest expense associated with borrowings to effect the transaction, assuming a January 1, 2014 effective transaction date. In addition, the tax impact of these adjustments was calculated at a 35% statutory rate.

These pro forma results are not indicative of the results that would have been obtained had the acquisition of TAS been completed on January 1 of the respective period, or that may be obtained in the future.

#### 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 December 31, 2016 and December 31, 2015, respectively:

	December 31, 2016		December 31, 2015	
Federal Government	\$5,542	4 %	\$4,230	4 %
State Governments	9,302	7 %	1,274	1 %
Local Governments	20,886	16 %	19,660	18 %
Private Companies	96,673	73 %	82,627	77 %
Total receivables	\$132,403	100%	\$107,791	100%

At December 31, 2016 and 2015, no single customer accounted for more than 10.0% of total current receivables.

Additionally, the table below represents concentrations of revenue by type of customer for the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,					
	2016		2015		2014	
Federal Government	\$40,361	7 %	\$45,439	10 %	\$47,390	13 %
State Governments	\$37,700	7 %	\$42,026	9 %	\$43,147	11 %
Local Governments	\$94,461	16 %	\$130,187	28 %	\$97,145	25 %
Private Companies	\$405,714	70 %	\$248,846	53 %	\$198,136	51 %
Total contract revenues	\$578,236	100%	\$466,498	100%	\$385,818	100%

In the years ended December 31, 2016, 2015 and 2014, no single customer exceeded 10.0% of total contract revenues.

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

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

Revenues generated outside the United States totaled 1.3%, 4.1% and 12.9% of total revenues for the years ended 2016, 2015 and 2014, respectively and were primarily located in the Caribbean.



Table of Contents

## 5. Contracts in Progress

Contracts in progress are as follows at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Costs incurred on uncompleted contracts	\$ 802,140	\$ 782,934
Estimated earnings	143,975	132,694
	946,115	915,628
Less: Billings to date	(933,828 )	(884,504 )
	\$ 12,287	\$ 31,124
Included in the accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	39,968	\$ 59,608
Billings in excess of costs and estimated earnings on uncompleted contracts	(27,681 )	(28,484 )
	\$ 12,287	\$ 31,124

Costs and estimated earnings in excess of billings on completed contracts, net of billings, totaled \$0.6 million as of December 31, 2016 and 2015.

Contract costs include all direct costs, such as materials and labor, and those indirect costs related to contract performance such as payroll taxes and insurance. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined, without regard to the percentage of completion. Pending claims are recognized as an increase in contract revenue only when the collection is deemed probable and if the amount can be reasonably estimated.

## 6. Property and Equipment

The following is a summary of property and equipment at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Automobiles and trucks	\$ 2,525	\$ 2,749
Building and improvements	37,269	28,226
Construction equipment	165,023	159,963
Vessels and other equipment	88,659	89,485
Office equipment	7,125	6,057
	300,601	286,480
Less: accumulated depreciation	(181,293 )	(164,371 )
Net book value of depreciable assets	119,308	122,109
Construction in progress	543	5,649
Land	38,231	38,231
	\$ 158,082	\$ 165,989

For the years ended December 31, 2016, 2015 and 2014, depreciation expense was \$26.9 million, \$23.7 million and \$23.5 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.

During 2015, the Company committed to a plan to review property and equipment within the heavy civil marine construction segment and adopted a plan to dispose of underutilized assets. These assets have been separately presented in the Consolidated Balance Sheets as “Assets held for sale” and are no longer depreciated. In connection with this disposal, the Company determined that the carrying value of certain of these assets exceeded its fair value, and consequently, the Company recorded an impairment loss of \$1.7 million on those assets during 2015, which included any expected costs to sell. Additionally, various other assets

F-20

---

Table of Contents

were identified as underutilized and will be sold for salvage value. The Company recorded an impairment loss of \$0.9 million on those assets. These losses are recorded in the “Other expense” section of the Consolidated Statements of Operations during the year ended December 31, 2015. Approximately \$6.4 million remain as held for sale on the Company's Consolidated Balance Sheets at December 31, 2016. The Company expects to dispose of the remaining assets within one year of the balance sheet date.

7. Inventory

Current inventory at December 31, 2016 and December 31, 2015, of \$5.4 million and \$4.9 million, respectively, consisted primarily of spare parts and small equipment held for use in the ordinary course of business.

Non-current inventory at December 31, 2016 and December 31, 2015 totaled \$4.0 million and \$6.2 million, respectively, and 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 that 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 December 31, 2016 and December 31, 2015:

	Fair Value Measurements		
	Carrying Value	Level 1 Level 2	Level 3
December 31, 2016			
Assets:			
Cash surrender value of life insurance policy	\$ 1,188	1,188	—
Liabilities:			
Derivatives	\$ 447	447	—
December 31, 2015			



Assets:

Cash surrender value of life insurance policy	\$ 436	-436	—
---	--------	------	---

Liabilities:

Derivatives	\$ 235	-235	—
-------------	--------	------	---

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.

F-21

---

Table of Contents

Our commercial concrete segment has life insurance policies covering 4 employees with a combined face value of \$11.1 million. 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 noncurrent" asset section in the consolidated balance sheets.

## 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.

In 2015, the Company acquired the assets of TAS, which resulted in the valuation of acquired assets and liabilities on a non-recurring basis, classified as Level 3 in the fair value hierarchy, of which there are none in the current year. See Note 3 for further information associated with the values recorded in our TAS acquisition.

## Other Fair Value Measurements

The fair value of the Company's debt at December 31, 2016 and 2015 approximated its carrying value of \$104.6 million and \$110.6 million, respectively, as interest is based on current market interest rates for debt with similar risk and maturity. If the Company's debt was measured at fair value, it would have been classified as Level 2 in the fair value hierarchy.

## 9. Goodwill and Intangible Assets

## Goodwill

The table below summarizes changes in goodwill recorded by the Company during the periods ended December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Beginning balance, January 1	\$ 65,982	\$ 33,798
Additions	369	32,184
Ending balance	\$ 66,351	\$ 65,982

At December 31, 2016, goodwill totaled \$66.4 million, of which \$33.8 million relates to the heavy civil marine construction segment and \$32.6 million relates to the commercial concrete construction segment.

Additions to goodwill were attributable to the acquisition of TAS. The additions above represent goodwill calculated for the acquisition at the date of closing, less the working capital adjustment (See Note 3).

As discussed previously in Note 2, goodwill is reviewed for impairment annually as of October 31 at a reporting unit level. Step one of the October 31, 2016 goodwill impairment test resulted in no indication of impairment for either reporting unit, and no events have occurred since that date that would require an interim impairment test. Since our 2015 impairment test, market conditions affecting our heavy civil marine construction reporting unit have improved and our expectations of future cash flows has increased significantly, resulting in an increase in the fair value we determined for that reporting unit. However, if we are not successful in achieving our anticipated results, we may need

to revise these expectations, which could result in a reduction in the fair value. To compensate for the risk in our projections, we used a discount rate commensurate for that risk. The discount rate used in testing goodwill for impairment for the heavy civil marine construction segment was 25.0%, and the fair value of the reporting unit exceeded carrying value by 33.3%. The fair value of the heavy civil marine construction reporting unit was \$345.0 million, and the carrying value was \$230.3 million. The discount rate used in testing goodwill for impairment for the commercial concrete construction reporting unit was 20.0%, and the fair value of the reporting unit exceeded carrying value by 4.2%. The fair value of the commercial concrete construction reporting unit was \$126.0 million, and the carrying value was \$120.7 million.

F-22

---

Table of Contents

## Intangible assets

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

	2016	2015
Intangible assets, January 1	\$34,362	\$7,602
Additions	—	26,760
Total intangible assets, end of year	34,362	34,362
Accumulated amortization, January 1	\$(11,933)	\$(7,515)
Current year amortization	(7,287)	(4,418)
Total accumulated amortization	(19,220)	(11,933)
Net intangible assets, end of year	\$15,142	\$22,429

Finite-lived intangible assets were acquired as part of the purchase of TAS which included contractual backlog and customer relationships. Contractual backlog was valued at approximately \$8.7 million and will be amortized over two years. Customer relationships were valued at approximately \$18.1 million and will be amortized over eight years. Both of these assets will be amortized using an accelerated method based on the pattern in which the economic benefits of the assets are consumed. For the year ended December 31, 2016, \$7.3 million of amortization expense was recognized for these assets. In 2016, the Company evaluated the useful lives of these finite-lived intangible assets and no change was needed. Future expense remaining of approximately \$15.1 million will be amortized as follows:

2017	\$4,554
2018	3,168
2019	2,462
2020	1,955
2021	1,448
Thereafter	1,555
	\$15,142

Additionally, 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 that 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 assets 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. The impairment test concluded that the fair value of the trade name was \$9.9 million, and the carrying value was \$6.9 million, therefore no impairment was recorded.

## 10. Accrued Liabilities

Accrued liabilities at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Accrued salaries, wages and benefits	\$10,818	\$8,115
Accrual for self-insurance liabilities	5,223	7,998
Property taxes	1,615	2,020
Sales tax	1,722	1,991
Interest	19	112

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Payable to TAS Seller	—	728
Other accrued expenses	549	1,185
	\$19,946	\$22,149

F-23

---

Table of Contents

## 11. Long-term Debt and Line of Credit

The Company entered into a syndicated credit agreement (the "Credit Agreement") on August 5, 2015 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, Branch Banking & Trust Company, Frost Bank, Bank Midwest, a division of NBH Bank, N.A., IBERIABANK, KeyBank NA, Trustmark National Bank, and First Tennessee Bank NA. The primary purpose of the Credit Agreement was to finance the acquisition of TAS, to provide a revolving line of credit, and to provide financing to extinguish all prior indebtedness with Wells Fargo Bank, National Associates, as administrative agent, and Wells Fargo Securities, LLC.

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 \$50.0 million and a term loan with a commitment amount of \$135.0 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. The rate for all loans, at the time of loan origination was 4.75%. 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 August 5, 2020.

Total debt issuance costs, which included underwriter fees, legal fees and syndication fees were approximately \$4.5 million. During the first quarter of 2016, the Company executed the First Amendment of the Credit Agreement and additional costs were incurred of approximately \$0.5 million. These costs were initially capitalized as non-current deferred charges and amortized using the effective interest rate method over the duration of the loan. During the first quarter of 2016, the Company adopted ASU 2015-03, Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. Upon adoption of this guidance, debt issuance costs are now presented as a direct deduction from the carrying amount of the debt liability, of which \$0.6 million was allocated to current debt and \$2.7 million was allocated to long-term debt as of December 31, 2016. As of December 31, 2015, \$0.5 million was allocated to current debt and \$3.6 million was allocated to long-term debt.

The quarterly weighted average interest rate for the Credit Facility as of December 31, 2016 was 3.35%.

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

	December 31, 2016			December 31, 2015		
	Debt			Debt		
	Principal	Issuance Costs <sup>(1)</sup>	Total	Principal	Issuance Costs <sup>(1)</sup>	Total
Revolving line of credit	\$8,000	\$(252)	\$7,748	\$4,021	\$(147)	\$3,874
Term loan - current	11,813	(373)	11,440	8,438	(308)	8,130
Total current debt	19,813	(625)	19,188	12,459	(455)	12,004
Term loan - long-term	84,750	(2,673)	82,077	98,188	(3,583)	94,605
Total debt	\$104,563	\$(3,298)	\$101,265	\$110,647	\$(4,038)	\$106,609

(1) Total debt issuance costs, include underwriter fees, legal fees and syndication fees and fees related to the execution of the First Amendment to the Credit Agreement as previously discussed.

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 \$50.0 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 Loan 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.

F-24

---

Table of Contents

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 exceeds the Total Revolving Outstanding. The revolving line of credit termination date is the earlier of the Credit Facility termination date, August 5, 2020, 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 credit facility within one year, therefore, the outstanding balance as of December 31, 2016 has been classified as current.

As of December 31, 2016, the outstanding balance on the revolving line of credit was \$8.0 million and was designated as an Adjusted LIBOR Rate Loan at a rate of 3.13%. There were also \$1.3 million in outstanding letters of credit as of December 31, 2016, which reduced the maximum borrowing availability on the revolving line of credit to \$40.7 million as of December 31, 2016. The Company made payments of approximately \$53.0 million on the outstanding revolving balance during 2016. Subsequent to 2016, the Company drew \$10.0 million on the revolving line of credit.

Provisions of the term loan

The original principal amount of \$135.0 million for the term loan commitment shall be repaid in quarterly installment payments (as stated in the Credit Agreement). At December 31, 2016, the outstanding term loan component of the Credit Facility totaled \$96.6 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:

2017	11,813
2018	13,500
2019	15,188
2020	56,062
	\$96,563

The Company made the scheduled quarterly principal payments of \$8.4 million and additional payments of \$1.6 million during 2016, which reduced the outstanding principal balance to \$96.6 million at December 31, 2016. The current portion of debt is \$11.8 million and the non-current portion is \$84.8 million. As of December 31, 2016, the term loan was designated as an Adjusted LIBOR Rate Loan with an interest rate of 3.13%.

Financial covenants

Restrictive financial covenants under the Credit Facility include:

- ▲ consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to not be less than 1.25 to 1.00.
- ▲ consolidated Leverage Ratio to not exceed the following during each noted date:
  - Closing Date through and including December 31, 2015, to not exceed 3.25 to 1.00;
  - Fiscal Quarter Ending March 31, 2016, to not exceed, to not exceed 4.00 to 1.00;
  - Fiscal Quarter Ending June 30, 2016, to not exceed, to not exceed 3.75 to 1.00;
  - Fiscal Quarter Ending September 30, 2016, to not exceed 3.25 to 1.00.
  - Fiscal Quarter Ending December 31, 2016, to not exceed 3.00 to 1.00;
  - Fiscal Quarter Ending March 31, 2017, to not exceed 2.75 to 1.00;
  - Fiscal Quarter Ending June 30, 2017 and each Fiscal Quarter thereafter, to not exceed 2.50 to 1.00.

As of December 31, 2016, 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 transactions, 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.

F-25

---

Table of Contents

## 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 (loss) income 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 as of December 31, 2016 is \$0.4 million, which is reflected in the balance sheet as a liability. The fair market value of the swaps as of December 31, 2016 is \$0.4 million.

## 12. Purchase of Common Shares

In October 2014, the Board of Directors of the Company approved a common share repurchase program that authorized the repurchase of up to \$40.0 million in open market value. The shares may be repurchased over time, depending on market conditions, the market price of the Company's common shares, the Company's capital levels, the Company's capital needs, securities laws and limitations, and other considerations. The share repurchase program is expected to expire five years from the date the program was approved. As of December 31, 2015, the Company repurchased 350,000 shares at an average price of \$8.83. The Company did not repurchase any shares during 2016.

## 13. Income Taxes

The following table presents the components of our consolidated income tax expense (benefit) for the years ended December 31, 2016, 2015 and 2014:

	Current	Deferred	Total
Year ended December 31, 2016			
U.S. Federal	\$35	\$(1,093)	\$(1,058)
State and local	511	\$1,519	\$2,030
Foreign	284	325	609
	\$830	\$751	\$1,581
Year ended December 31, 2015			
U.S. Federal	\$3	\$(3,768)	\$(3,765)
State and local	(60)	883	823
Foreign	423	—	423
	\$366	\$(2,885)	\$(2,519)
Year ended December 31, 2014			
U.S. Federal	\$247	\$2,571	\$2,818
State and local	599	(702)	(103)
Foreign	460	—	460
	\$1,306	\$1,869	\$3,175

The Company's income tax provision reconciles to the provision at the statutory U.S. federal income tax rate for each year ended December 31, as follows:

	2016	2015	2014
Statutory amount (computed at 35%)	\$(714)	\$(3,703)	\$3,519

Edgar Filing: Orion Group Holdings Inc - Form 10-K

State income tax, net of federal benefit	94	(709 )	(312 )
Permanent differences	99	43	122
Permanent differences, incentive stock options	224	298	157
True up to prior year taxes	109	—	(311 )
Valuation Allowance	1,769	1,552	—
Consolidated income tax provision	\$1,581	\$(2,519)	\$3,175
Consolidated effective tax rate	(77.5 )%	23.8 %	31.6 %

F-26

---

Table of Contents

In the current year, the Company's effective tax rate differed from the statutory rate of 35% primarily due to the recognition of a valuation allowance on certain state NOLs, as described below, as well as state income taxes, and the non-deductibility of certain permanent tax items, such as incentive stock compensation expense.

The Company's deferred tax assets and liabilities are as follows:

	December 31, 2016		December 31, 2015	
	Current	Long-term	Current	Long-term
Assets related to:				
Accrued liabilities	\$2,322	\$—	\$3,073	\$—
Intangible assets	—	4,517	—	2,983
Net operating loss carryforward	—	7,455	—	4,597
Valuation allowance	—	(3,321 )	—	(1,552 )
Non-qualified stock options	112	1,367	31	1,354
Foreign tax credits	—	2,035	—	1,501
AMT credits	—	780	—	995
Other	45	16	44	32
Total assets	2,479	12,849	3,148	9,910
Liabilities related to:				
Depreciation and amortization	—	(25,326 )	—	(24,309 )
Goodwill	—	(6,502 )	—	(4,933 )
Deferred revenue on maintenance contracts	(429 )	—	(8 )	—
Other	(37 )	(21 )	(32 )	(13 )
Total liabilities	(466 )	(31,849 )	(40 )	(29,255 )
Net deferred assets (liabilities)	\$2,013	\$(19,000)	\$3,108	\$(19,345)

As reported in the balance sheets:

	December 31, 2016	December 31, 2015
Net current deferred tax assets	2,013	3,108
Net non-current deferred tax liabilities	(19,000 )	(19,345 )
Total net deferred tax liabilities:	\$(16,987)	\$(16,237)

The Company assessed the realizability of its deferred tax assets at December 31, 2016, 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 has a tax effected net operating loss carryforward ("NOL") in 2016 of \$4.2 million for state income tax reporting purposes due to the losses sustained in various states. The Company believes it will be able to partially utilize these NOLs against future income primarily with reversing of temporary differences attributable to depreciation, due to expiration dates well into the future. However, the Company has determined that a portion of the NOLs related to certain jurisdictions will more likely than not be able to be fully utilized. Therefore, a valuation allowance of \$3.3 million was established for this portion of the NOL. For federal tax purposes, the Company has utilized its ability to carry losses back prior to 2016. Approximately \$11.2 million remains as a federal tax carryforward, which the Company believes it will be able to utilize before expiration.

As of December 31, 2016 the Company had approximately \$0.8 million of alternative minimum tax credits available that do not expire. In addition, excess tax benefits of approximately \$2.0 million associated with the vesting of

restricted stock awards and other stock options are included in the federal net operating loss carryovers stated previously.

The Company and its subsidiaries file consolidated federal income tax returns in the United States and also file in various states. With few exceptions, the Company remains subject to federal and state income tax examinations for the years of 2013, 2014, and 2015. The Company's policy is to recognize interest and penalties related to any unrecognized tax liabilities as additional tax expense. No interest or penalties have been accrued at December 31, 2016 and 2015, as the Company has not recorded any uncertain tax positions. The Company believes it has appropriate and adequate support for the income tax positions taken and to be taken

F-27

---

Table of Contents

on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

Although the Company believes its recorded assets and liabilities are reasonable, tax regulations are subject to interpretation and tax litigation is inherently uncertain; therefore the Company's assessments can involve both a series of complex judgments about future events and rely heavily on estimates and assumptions. Although the Company believes that the estimates and assumptions supporting its assessments are reasonable, the final determination of tax audit settlements and any related litigation could be materially different from that which is reflected in historical income tax provisions and recorded assets and liabilities. If the Company were to settle an audit or a matter under litigation, it could have a material effect on the income tax provision, net income, or cash flows in the period or periods for which that determination is made. Any accruals for tax contingencies are provided for in accordance with U.S. GAAP.

The Company does not believe that its tax positions will significantly change due to any settlement and/or expiration of statutes of limitations prior to December 31, 2017.

## 14. Earnings (Loss) Per Share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average number of common shares outstanding and the effect of all dilutive common stock equivalents during each period. The exercise price for certain stock options awarded by the Company exceeds the average market price of the Company's common stock. Such stock options are antidilutive and are not included in the computation of earnings (loss) per share. For the year ended December 31, 2016 and 2015 no potential common stock equivalents were included in the computation and in 2014 incremental shares of 801,441 were included in the computation of diluted earnings per share. For the years ended December 31, 2016, 2015 and 2014, the Company had 2,381,926, 2,043,375, and 1,994,818, 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 our stock over the exercise price and other components of the treasury stock method.

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

	Year ended December 31,		
	2016	2015	2014
Basic:			
Weighted average shares outstanding	27,536,967	27,366,528	27,421,441
Diluted:			
Total basic weighted average shares outstanding	27,536,967	27,366,528	27,421,441
Effect of dilutive securities:			
Common stock options	—	—	366,172
Total weighted average shares outstanding assuming dilution	27,536,967	27,366,528	27,787,613
Anti-dilutive stock options	—	—	801,441
Shares of common stock issued from the exercise of stock options	13,850	3,970	143,282

## 15. 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 balance of shares remaining under the 2007 Long Term Incentive Plan (the "2007 LTIP") and the 2011 Long Term Incentive Plan (the "2011 LTIP") which was approved by the shareholders in May 2011 and authorized the maximum aggregate number of shares to be issued of 3,000,000. In

general, the Company's 2011 LTIP plan provides for grants of restricted stock and stock options to be issued with a per-share price equal to the fair market value of a share of common stock on the date of grant. Option terms are specified at each grant date, but are generally are 10 years from the date of issuance. Options generally vest over a three to five year period.

F-28

---

Table of Contents

## Restricted Stock

The following table summarizes the restricted stock activity under the Company's equity incentive plans :

	Number of Shares	Weighted Average Fair Value Per Share
Nonvested at January 1, 2014	217,045	\$ 6.60
Granted	115,726	\$ 11.35
Vested	(96,908 )	\$ 7.35
Forfeited/repurchased shares	—	\$ —
Nonvested at December 31, 2014	235,863	\$ 8.63
Granted	38,660	\$ 5.82
Vested	(134,545)	\$ 6.84
Forfeited/repurchased shares	(19,824 )	\$ 11.35
Nonvested at December 31, 2015	120,154	\$ 9.28
Granted	407,002	\$ 4.96
Vested	(147,259)	\$ 6.62
Forfeited/repurchased shares	(7,591 )	\$ 7.08
Nonvested at December 31, 2016	372,306	\$ 5.66

Independent directors receive equity compensation in the form of grants. In May 2016, the independent directors received equity compensation grants of 14,170 shares, with a fair value of \$4.94 per share and in November 2014, the Company's independent directors received equity compensation grants of 6,167 shares, with a fair value of \$11.35 per share. Additionally, in 2016, certain officers and executives of the Company were awarded 267,175 shares with a vesting period of three years and a weighted average fair value of \$4.96 per share and in November 2014, certain officers and executives of the Company were awarded 84,891 shares with a vesting period of three years and a fair value of \$11.35 per share. No shares were granted to independent directors, officers or executives of the Company during 2015, except for the chief operating officer who joined the Company in September 2015. Upon execution of his employment agreement, he was awarded 38,660 shares, with a vesting period of three years and a fair value of \$5.82 per share.

## Performance Stock

In May 2016, the Company awarded certain executives 68,977 shares of performance based stock, which vest based on the achievement of an objective return on invested capital measured over a two-year performance period covering the 2017 and 2018 fiscal years. The fair value on the date of the grant was \$4.94 per share.



Table of Contents

## Stock Options

The following table summarizes the stock option activity under the Company's equity incentive plans:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	2,071,757	\$ 9.49		
Granted	233,828	\$ 11.35		
Exercised	(143,282 )	\$ 6.08		
Forfeited	(105,405 )	\$ 11.06		
Outstanding at December 31, 2014	2,056,898	\$ 9.86		
Granted	143,862	\$ 5.82		
Exercised	(3,970 )	\$ 6.00		
Forfeited	(46,890 )	\$ 11.72		
Outstanding at December 31, 2015	2,149,900	\$ 9.56		
Granted	587,862	\$ 4.98		
Exercised	(13,850 )	\$ 4.86		
Forfeited	(374,466 )	\$ 9.89		
Outstanding at December 31, 2016	2,349,446	\$ 8.39		
Vested and expected to vest at December 31, 2016	2,308,956	\$ 8.32	5.24	\$ 6,970
Exercisable at December 31, 2016	1,627,204	\$ 9.61	3.67	\$ 3,897

The Company calculates the fair value of each option on the date of grant using the Black-Scholes pricing model and the following weighted-average assumptions in each year:

	2016	2015	2014
Weighted average grant-date fair value of options granted	\$4.97	\$5.82	\$6.40
Risk-free interest rate	1.06 %	0.97 %	1 %
Expected volatility	49 %	38 %	88.5 %
Expected term of options (in years)	3.0	3.0	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, which for the years presented is based on the exercise history.

For years ended December 31, 2016, 2015 and 2014, compensation expense related to stock based awards outstanding for the periods was \$2.3 million, \$2.3 million and \$1.6 million, respectively. The Company applies a 3.2% and 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.

During the year ended December 31, 2016, certain officers and executives of the Company were awarded 587,862 options with a vesting period of three years and a weighted average fair value of \$4.98 per share, and for the year ended December 31, 2014, certain officers and executives were awarded 233,828 options with a vesting period of three years and a fair value of \$11.35 per share. No options were awarded to officers or executives of the Company as of the year ended December 31, 2015, except for the chief operating officer who joined the Company in September

2015. Upon execution of his employment agreement, he was granted 143,862 shares, with a vesting period of three years and a fair value of \$5.82 per share.

In the year ended December 31, 2016, the Company received proceeds of approximately \$67,000 upon the exercise of 13,850 options. In the year ended December 31, 2015, proceeds of \$28,000 upon the exercise of 3,970 options and in the year ended December 31, 2014, 143,282 options were exercised, generating proceeds of \$869,000.

As of December 31, 2016, there was \$2.7 million of unrecognized compensation cost, net of estimated forfeitures, related to the Company's non-vested equity awards, which is expected to be recognized over a weighted average period of 2.0 years.

F-30

---

Table of Contents

	2016	2015	2014
Total intrinsic value of options exercised	\$53	\$17	\$494
Total fair value of shares vested	\$986	\$1,226	\$923

## 16. Employee Benefits

All of the Company's heavy civil marine construction segment employees except the Associate Divers, the Associate Tugmasters, and union employees in the Pacific Northwest, are eligible to participate in the Company's 401(k) Retirement Plan after completing six months of service. Each participant may contribute between 1% and 80% of eligible compensation on a pretax basis, up to the annual IRS limit. The Company matches 100% on the first 2% of eligible compensation contributed to the Plan and 50% on the next 2% of eligible compensation contributed to the Plan. Participants' contributions are fully vested at all times. Employer matching contributions vest over a four-year period. At its discretion, the Company may make additional matching and profit-sharing contributions. During the years ended December 31, 2016, 2015 and 2014 the Company contributed \$1.4 million, \$1.4 million and \$1.2 million to the Plan, respectively.

All of the Company's commercial concrete construction segment employees except Leads, Helpers, Laborers, Finishers, Formsetters, Carpenters, Rodbusters, Patchmen, Equipment Operators, Field Engineering Trainees and certain Highly Compensated Employees are eligible to participate in the AGC Southwest Chapters 401(k) Retirement Plan, a multiple employer plan, after completing three months of service. Each participant may contribute up to the annual IRS limit. The Company matches 50% on the first 6% of eligible compensation contributed to the Plan. Participants' contributions are fully vested at all times. Employer matching contributions vest over a five-year period. At its discretion, the Company may make additional matching and profit-sharing contributions. During the year ended December 31, 2016 and 2015, the Company contributed \$0.2 million and \$0.1 million, respectively.

The Company's heavy civil marine construction segment contributes to several multiemployer defined pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. Risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

- If the Company chooses to stop participating in its multiemployer plans, it may be required to pay a withdrawal liability based on the underfunded status of the plan.

Currently, the Company's commercial concrete construction segment does not have union represented employees and, thus, does not participate under the above-mentioned defined pension plans, or any other plans, that cover union-represented employees.

Table of Contents

The following table presents the Company's participation in these plans:

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act FIP/RP ("PPA") Certified Zone Status (1)		Status P/I (2)	Contributions			Surcharge Imposed	Expiration of Collective Bargaining Agreement
		2016	2015		2016	2015	2014		
International Union of Operating Engineers - Employers Construction Industry Retirement Plan - Local 302 and 612 Trust Funds	91-6028571	Green	Green	N/A	\$2,158	\$1,518	\$1,295	—	2018
Associated General Contractors of Washington Carpenter, Piledrivers, and Millwrights	91-6029051 91-6029049	Green	Green	N/A	\$938	\$748	\$737	—	2018
Alaska Carpenters Trust Fund	92-0120866	Green	Green	N/A	\$889	\$807	\$1,044	—	2017
Alaska Laborers Trust Fund	91-6028298	Yellow	Orange	P	\$126	\$110	\$246	—	2017

1. The most recent PPA zone status available in 2016 and 2015 is for the plan's year end during 2015 and 2014, respectively. Zone status is based on information received from the plan and is indicative of the plans funding status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an Accumulated Funding Deficiency in the current year or projected into the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
2. The FIP/RP Status P/I column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending ("P"), or implemented ("I").

There are currently no plans to withdraw from any of the multiemployer plans in which the Company participates.

17. Commitments and Contingencies

Operating Leases

In July 2005, the Company executed a sale-leaseback transaction in which it sold an office building for \$2.1 million and entered into a ten year lease agreement. The sale of the office building resulted in a gain of \$562,000 which has been deferred and amortized over the life of the lease. The Company recognized approximately \$8,000 for the year ending 2015 and and \$56,000 for the year ending 2014, respectively. Scheduled increases in monthly rent are included in the lease agreement. Rent expense under this agreement was approximately \$85,000 and \$173,000 for the years ending December 31, 2015 and 2014, respectively. The Company, at its option, can extend the lease for two additional five year terms. However, the Company opted not to renew the lease and it expired on July 1, 2015.

In 2005, the Company entered into a lease agreement for vehicles under a continuing operating lease agreement. Rental expense under this lease for the years ended December 31, 2016, 2015 and 2014 was \$1.5 million, \$2.3 million, and \$2.9 million, respectively. In 2016, the Company started transitioning its vehicle leases to a new lease agreement in an effort to update and expand its current fleet. The Company expects to fully transition all of its fleet vehicles to this new lease over the course of the next several years. Rental expense under this lease for the year ended December 31, 2016, was \$1.0 million.

F-32

---

Table of Contents

The Company leases its corporate office in Houston, Texas under a lease with an initial term of nine years. In addition, the Company leases other facilities, including office space and yard facilities, under terms that range from one to five years. The Company also leases short-term field office space at its various construction sites for the duration of the projects.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2016 are as follows:

	Amount
Year ended December 31,	
2017	\$7,274
2018	6,194
2019	5,233
2020	4,350
2021	2,746
Thereafter	14,531
	\$40,328

Litigation

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

18. Segment Information

The Company currently operates in two reportable segments: heavy civil marine construction and commercial concrete construction. 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:

	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Heavy Civil Marine Construction</b>		
Contract revenues	\$284,632	\$347,117
Operating loss	(12,403 )	(14,243 )
Depreciation and amortization expense	(21,398 )	(21,075 )
Total Assets	\$279,362	\$315,869
Property, Plant and Equipment, net	143,425	150,117
<b>Commercial Concrete Construction</b>		
Contract revenues	\$293,604	\$119,381

Edgar Filing: Orion Group Holdings Inc - Form 10-K

Operating income	16,477	6,244
Depreciation and amortization expense	(12,764)	(7,008)
Total Assets	\$168,314	\$145,593
Property, Plant and Equipment, net	14,657	15,872

There were no intersegment revenues between the Company's two reportable segments for the years ended December 31, 2016 and 2015. The heavy civil marine construction segment had foreign revenues of \$7.4 million and \$18.9 million for the years ended

F-33

---

Table of Contents

December 31, 2016 and 2015. These revenues are derived from projects in Mexico and the Caribbean and are paid in U.S. dollars. There was no foreign revenue for the commercial concrete construction segment.

## 19. Related Party Transactions

Upon the completion of the acquisition of TAS, 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 commercial concrete construction segment. Annual lease expense was approximately \$820,000 and \$312,500 for the years ending December 31, 2016 and 2015, respectively.

GLM Concrete Solutions, LLC ("GLM"), of which the Company owns 49% of the issued and outstanding membership interests, employs certain employees that are subcontracted to TAS, a wholly owned subsidiary of the Company, for certain projects. As of December 31, 2016 and December 31, 2015, payroll expense related to these subcontracted employees was \$0.7 million and \$0.7 million, respectively. Additionally, GLM provides certain management services to TAS, including safety, human resources and project management. As of December 31, 2016 and December 31, 2015 management expense for these services was \$0.5 million and \$0.7 million, respectively.

On August 31, 2015, the Company completed an acquisition of all of the issued and outstanding stock of and any and all other equity interests in Preferred Tool Services, Inc. (a.k.a. Houston Industrial Tool Services, Inc. ("HITS")) from an employee of the Company for aggregate consideration of \$400,000.

## 20. Selected Quarterly Financial Data

The following tables set forth selected unaudited financial information for the eight quarters in the two-year period ended December 31, 2016. This information has been prepared on the same basis as the audited financial statements and, in the opinion of management, contains all adjustments necessary for a fair presentation.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share data)				
2016					
Revenues	\$129,623	\$140,301	\$164,017	\$144,295	\$578,236
Gross profit	14,710	16,946	24,169	11,657	67,482
Operating (loss) income	(455 )	281	9,531	(5,283 )	4,074
(Loss) income before income taxes	(1,958 )	(1,310 )	7,963	(6,734 )	(2,039 )
Net (loss) income	(1,208 )	(808 )	4,739	(6,343 )	(1)(3,620 )
(Loss) earnings per share:					
Basic	\$(0.04 )	\$(0.03 )	\$0.17	\$(0.23 )	\$(0.13 )
Diluted	\$(0.04 )	\$(0.03 )	\$0.17	\$(0.23 )	\$(0.13 )
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share data)				
2015					
Revenues	\$81,455	\$86,091	\$137,061	\$161,891	\$466,498
Gross profit	8,456	6,025	8,278	17,423	40,182
Operating (loss) income	(193 )	(2,712 )	(8,325 )	3,231	(7,999 )
(Loss) income before income taxes	(419 )	(2,960 )	(9,065 )	1,865	(10,579 )
Net (loss) income	(258 )	(1,845 )	(7,396 )	1,439	(8,060 )



Edgar Filing: Orion Group Holdings Inc - Form 10-K

(Loss) earnings per share:

Basic	\$ (0.01 )	\$ (0.07 )	\$ (0.27 )	\$ 0.06	\$ (0.29 )
Diluted	\$ (0.01 )	\$ (0.07 )	\$ (0.27 )	\$ 0.06	\$ (0.29 )

(1) - Fourth quarter 2016 net loss includes \$0.8 million of tax expense that represents an out of period adjustment associated with deferred taxes. Management evaluated the effect of the adjustment on the Company's financial statements based on SEC Staff Accounting Bulletin ("SAB") No. 99 and SAB 108 and concluded that it was immaterial to the current and prior year's financial statements.

F-34

---

Table of Contents

## ORION GROUP HOLDINGS, INC.

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(Dollars in thousands)

Description	Balance at the Beginning of the Period	Charged to Revenue, Cost or Expense	Deduction	Balance at the End of the Period
Year ended December 31, 2014				
Provision for Doubtful Accounts \$	—\$	993	\$ (993 )	\$ —
Year ended December 31, 2015				
Provision for Doubtful Accounts \$	—\$	22	\$ (22 )	\$ —
Year ended December 31, 2016				
Provision for Doubtful Accounts \$	—\$	—	\$ —	\$ —

F-35