WILLBROS GROUP INC
Form 10-Q
August 09, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from __________ to __________

Commission file number 1-11953

Willbros Group, Inc.

(Exact name of registrant as specified in its charter)

Republic of Panama	**98-0160660**
(Jurisdiction of incorporation)	(I.R.S. Employer Identification Number)

Plaza 2000 Building
50th Street, 8th Floor
P.O. Box 0816-01098
Panama, Republic of Panama
Telephone No.: +50-7-213-0947
(Address, including zip code, and telephone number, including area code, of principal executive offices of registrant)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

The number of shares of the registrant s Common Stock, $.05 par value, outstanding as of August 1, 2007 was 29,094,228.

WILLBROS GROUP, INC.
FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2007

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 107,762	$ 37,643
Accounts receivable, net of allowance of $572 and $598	101,280	137,104
Contract cost and recognized income not yet billed	27,439	11,027
Prepaid expenses	12,184	17,299
Parts and supplies inventories	2,329	2,069
Other current assets	22,434	
Assets of discontinued operations	12,738	294,192
Total current assets	286,166	499,334
Deferred tax assets	10,572	5,064
Property, plant and equipment, net of accumulated depreciation and amortization of $83,592 and $78,941	92,558	65,347
Goodwill	7,057	6,683
Other noncurrent assets	10,215	11,826
Total assets	$ 406,568	$ 588,254
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 13,828	$ 5,562
Accounts payable and accrued liabilities	138,280	122,352
Contract billings in excess of cost and recognized income	9,458	14,947
Accrued income taxes	4,954	3,556
Liabilities of discontinued operations	6,823	182,092
Total current liabilities	173,343	328,509
2.75% convertible senior notes	70,000	70,000
6.5% senior convertible notes	32,050	84,500
Long-term debt	25,588	7,077
Long-term liability for unrecognized tax benefits	6,798	
Other noncurrent liabilities	237	237
Total liabilities	308,016	490,323

Contingencies and commitments (Note 11)		
Stockholders equity:		
Class A preferred stock, par value $.01 per share, 1,000,000 shares authorized, none issued		
Common stock, par value $.05 per share, 70,000,000 shares authorized; 29,234,588 shares issued (25,848,596 at December 31, 2006)	1,461	1,292
Capital in excess of par value	271,841	217,036
Accumulated deficit	(183,058)	(120,603)
Treasury stock at cost, 203,610 shares (167,844 at December 31, 2006)	(2,651)	(2,154)
Accumulated other comprehensive income	10,959	2,360
Total stockholders equity	98,552	97,931
Total liabilities and stockholders equity	$ 406,568	$ 588,254

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Contract revenue	$ 156,743	$ 119,128	$ 363,452	$ 226,715
Operating expenses:				
Contract	137,869	105,747	331,701	207,210
Depreciation and amortization	4,310	2,924	7,766	5,915
General and administrative	13,422	11,636	24,847	22,041
Government fines and penalties	24,000		24,000	
	179,601	120,307	388,314	235,166
Operating loss	(22,858)	(1,179)	(24,862)	(8,451)
Other income (expense):				
Interest income	1,840	528	3,404	1,012
Interest expense	(2,027)	(2,315)	(4,481)	(4,435)
Other net	(502)	(452)	(692)	(327)
Loss on early extinguishment of debt	(15,375)		(15,375)	
	(16,064)	(2,239)	(17,144)	(3,750)
Loss from continuing operations before income taxes	(38,922)	(3,418)	(42,006)	(12,201)
Provision for income taxes	1,457	1,686	1,712	1,432
Net loss from continuing operations	(40,379)	(5,104)	(43,718)	(13,633)
Loss from discontinued operations net of provision for income taxes	(3,860)	(33,048)	(12,368)	(29,113)
Net loss	$ (44,239)	$ (38,152)	$ (56,086)	$ (42,746)
Basic loss per common share:				
Loss from continuing operations	$ (1.47)	$ (0.24)	$ (1.65)	$ (0.63)
Loss from discontinued operations	(0.14)	(1.53)	(0.47)	(1.36)
Net loss	$ (1.61)	$ (1.77)	$ (2.12)	$ (1.99)
Diluted loss per common share:				

Loss from continuing operations	$	(1.47)	$	(0.24)	$	(1.65)	$	(0.63)
Loss from discontinued operations		(0.14)		(1.53)		(0.47)		(1.36)
Net loss	$	(1.61)	$	(1.77)	$	(2.12)	$	(1.99)
Weighted average number of common shares outstanding:								
Basic		27,515,593		21,538,964		26,505,438		21,442,247
Diluted		27,515,593		21,538,964		26,505,438		21,442,247

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2007	25,848,596	$ 1,292	$ 217,036	$ (120,603)	$ (2,154)	$ 2,360	$ 97,931
Cumulative effect of adoption of FIN 48				(6,369)			(6,369)
Balance January 1, 2007, as adjusted	25,848,596	1,292	217,036	(126,972)	(2,154)	2,360	91,562
Comprehensive loss:							
Net loss				(56,086)			(56,086)
Realization of loss on sale of Nigeria assets and operations						3,773(1)	3,773
Foreign currency translation adjustment						4,826	4,826
Total comprehensive loss							(47,487)
Deferred compensation			1,922				1,922
Restricted stock grants	345,577	17	(17)				
Vesting of restricted stock rights	9,583	1	(1)				
Additions to treasury stock, vesting restricted stock					(497)		(497)
Exercise of stock options	43,250	2	631				633
Stock issued on conversions of 6.5% senior	2,987,582	149	52,301				52,450

convertible notes							
Additional cost of private placement			(31)[2]				(31)
Balance, June 30, 2007	29,234,588	$ 1,461	$ 271,841	$ (183,058)	$ (2,651)	$ 10,959	$ 98,552

(1) Removal of previously recorded foreign currency translation adjustments associated with the Company s Nigeria operations.

(2) Private placement completed October 26, 2006.

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share and per share amounts)
(Unaudited)

	Six Months Ended June 30,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	$ (56,086)	$ (42,746)
Reconciliation of net loss to net cash provided by (used in) operating activities:		
Loss from discontinued operations	12,368	29,113
Depreciation and amortization	7,766	5,915
Amortization of debt issue costs	1,007	737
Amortization of deferred compensation	1,922	1,868
Amortization of discount on notes receivable for stock purchases		(8)
Loss on early extinguishment of debt	15,375	
Gain on sales of property, plant and equipment	(847)	(67)
Provision for bad debts	42	146
Deferred income tax provision	(5,511)	(1,396)
Changes in operating assets and liabilities:		
Accounts receivable, net	36,312	(2,554)
Contract cost and recognized income not yet billed	(16,068)	(4,039)
Prepaid expenses	15,252	3,514
Parts and supplies inventories	(260)	436
Other noncurrent assets	(1,408)	204
Accounts payable and accrued liabilities	80	(2,449)
Accrued income taxes	1,127	251
Long-term liability for unrecognized tax benefits	429	
Contract billings in excess of cost and recognized income	(5,494)	649
Cash provided by (used in) operating activities of continuing operations	6,006	(10,426)
Cash used in operating activities of discontinued operations	(16,219)	(41,866)
Cash used in operating activities	(10,213)	(52,292)
Cash flows from investing activities:		
Proceeds from the sale of discontinued operations, net	130,568	25,082
Proceeds from sales of property, plant and equipment	1,428	1,226
Deposit for acquisition	(21,181)	
Purchases of property, plant and equipment	(7,938)	(4,996)
Cash provided by investing activities of continuing operations	102,877	21,312
Cash used in investing activities of discontinued operations		(4,000)
Cash provided by investing activities	102,877	17,312
Cash flows from financing activities:		
Proceeds from issuance of 6.5% senior convertible notes		19,500
Loss on early extinguishment of debt	(12,993)	
Proceeds from issuance of common stock, net	602	2,226

Repayment of notes payable	(6,020)	(5,950)
Costs of debt issues	(286)	(3,776)
Acquisition of treasury stock	(497)	(428)
Repayments of long-term debt		(230)
Payments on capital leases	(2,898)	(161)
Cash provided by (used in) financing activities of continuing operations	(22,092)	11,181
Cash provided by financing activities of discontinued operations		

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share and per share amounts)
(Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash provided by (used in) financing activities	(22,092)	11,181
Effect of exchange rate changes on cash and cash equivalents	$ (453)	$ (118)
Cash provided by (used in) all activities	70,119	(23,917)
Cash and cash equivalents, beginning of period	37,643	55,933
Cash and cash equivalents, end of period	$ 107,762	$ 32,016
Supplemental disclosures of cash flow information:		
Cash paid for interest (including discontinued operations)	$ 4,038	$ 3,620
Cash paid for income taxes (including discontinued operations)	$ 5,782	$ 7,259
Supplemental non-cash investing and financing transactions (all related to continuing operations):		
Prepaid insurance obtained by note payable	$ 10,051	$ 9,385
Note receivable obtained by sale of discontinued operations	$ 2,625	$
Equipment obtained by capital leases	$ 25,125	$ 1,446

See accompanying notes to condensed consolidated financial statements.

WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)
(Unaudited)

1. Basis of Presentation

Willbros Group, Inc., a Republic of Panama corporation, and all of its majority-owned subsidiaries (the Company) provide construction, engineering, specialty services and development activities to the oil, gas and power industries and government entities. The Company s principal markets for continuing operations are the United States, Canada, and the Middle East.

The accompanying Condensed Consolidated Balance Sheet as of December 31, 2006, which has been derived from audited consolidated financial statements, and the preceding unaudited interim Condensed Consolidated Financial Statements as of June 30, 2007, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. However, the Company believes the presentations and disclosures herein are adequate to make the information not misleading. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company s December 31, 2006 audited Consolidated Financial Statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2007, the results of operations and cash flows of the Company for all interim periods presented, and stockholders equity for the six months ended June 30, 2007. The results of operations and cash flows for the six months ended June 30, 2007 are not necessarily indicative of the operating results and cash flows to be achieved for the full year.

The Condensed Consolidated Financial Statements include certain estimates and assumptions by management. These estimates and assumptions relate to the reported amounts of assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenue and expense during the periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, goodwill and parts and supplies inventories; quantification of amounts recorded for contingencies, tax accruals and certain other accrued liabilities; valuation allowances for accounts receivable and deferred income tax assets; and revenue recognition under the percentage-of-completion method of accounting including estimates of progress toward completion and estimates of gross profit or loss accrual on contracts in progress. The Company bases its estimates on historical experience and other assumptions that it believes relevant under the circumstances. Actual results could differ from those estimates.

As discussed in Note 3 Discontinuance of Operations, Asset Disposals, and Transition Services Agreement, the Company sold its TXP-4 Plant on January 12, 2006, its Venezuelan operations and assets on August 17 and November 28, 2006, and its assets and operations in Nigeria on February 7, 2007. Accordingly, these Condensed Consolidated Financial Statements reflect these operations as discontinued operations in all periods presented. The disclosures in the Notes to the Condensed Consolidated Financial Statements relate to continuing operations except as otherwise indicated.

Certain prior period amounts have been reclassified to be consistent with current presentation.

Cash and cash equivalents as of December 31, 2006 and June 30, 2007 includes $10,000 of cash required as a minimum balance as stipulated by the Company s 2006 Credit Facility. See Note 5 Long-term Debt.

Other current assets as of June 30, 2007 represents a deposit for the acquisition of Midwest Management (1987), Limited (Midwest) of $22,434. See Note 13 Subsequent Events.

Inventories, consisting of parts and supplies, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Parts and supplies inventories are evaluated at least annually and adjusted for excess quantities and obsolete items.

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WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)
(Unaudited)

2. New Accounting Pronouncements

SFAS No. 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for the Company s fiscal year beginning January 1, 2008. The Company is currently evaluating what impact, if any, this statement will have on its consolidated financial statements.

SFAS No. 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating what impact, if any, this statement will have on its consolidated financial statements.

FIN 48

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 (FIN 48). The Company adopted FIN 48 on January 1, 2007. FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. income tax by tax authorities for years before 2003. The Company is no longer subject to Canadian income tax for years before 2001 or in Oman for years before 2005.

As a result of the implementation of FIN 48, the Company recognized a $6,369 increase in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 accumulated deficit. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Effect of adopting FIN 48 at January 1, 2007	$ 6,369
Income tax liabilities recognized prior to adoption of FIN 48	158
Additions based on tax positions related to the current year	48
Additions for tax positions of prior years	223
Balance at June 30, 2007	$ 6,798

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company has recognized interest and penalties in its cumulative adjustment to the beginning accumulated deficit in the amount of $568. During the six months ended June 30, 2007, the Company recognized $223 of interest and penalties in income tax expense primarily related to tax positions taken in prior years. Interest and penalties are included in the table above.

3. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement

Strategic Decisions

In 2006, the Company announced that it intended to sell the TXP-4 Plant, and its assets and operations in Venezuela and Nigeria, which led to their classification as discontinued operations (Discontinued Operations). The net assets and net liabilities related to the Discontinued Operations are shown on the Condensed Consolidated Balance Sheets as Assets of discontinued operations and Liabilities of discontinued operations ,

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WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)
(Unaudited)

3. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

respectively. The results of the Discontinued Operations are shown on the Condensed Consolidated Statements of Operations as Loss from discontinued operations, net of provision for income taxes for all periods presented.

Nigeria

Business Disposal

On February 7, 2007, the Company completed the sale of its Nigeria assets and operations to Ascot Offshore Nigeria Limited (Ascot), a Nigerian energy services company, for total consideration of $155,250. The sale was pursuant to a Share Purchase Agreement by and between the Company and Ascot dated as of February 7, 2007 (the Agreement), providing for the purchase by Ascot of all of the share capital of WG Nigeria Holdings Limited (WGNHL) the holding company for Willbros West Africa, Inc., Willbros (Nigeria) Limited, Willbros (Offshore) Nigeria Limited and WG Nigeria Equipment Limited.

Under the terms of the Agreement, Ascot paid the purchase price of $155,250 by making cash payments of $16,000 in December 2006, $134,000 on February 7, 2007, and $2,625 on February 12, 2007. The remaining balance of $2,625 is in the form of an interest-bearing note (the Ascot Note), which was due August 1, 2007 and as of the filing date, has not been collected. The Ascot Note is secured by the guarantee of Ascot s parent company, Berkeley Group plc (Berkeley), a company organized under the laws of the Federal Republic of Nigeria. See additional comments below under the heading Ascot Negotiations regarding the collectibility of the Ascot Note. The total cost of the transaction, including the $10,500 buyout of the minority interests that were subsequently sold to Ascot as part of the sale transaction, is estimated to be approximately $16,000.

In connection with the sale of its Nigeria assets and operations, the Company and its subsidiary Willbros International, Inc. (WII) entered into an indemnity agreement with Ascot and Berkeley (the Indemnity Agreement), pursuant to which Ascot and Berkeley will indemnify the Company and WII for any obligations incurred by the Company or WII in connection with the parent company performance guarantees (the Guarantees) that the Company and WII previously issued and maintained on behalf of certain former subsidiaries now owned by Ascot under certain working contracts between the subsidiaries and their customers. Either the Company, WII or both are contractually obligated under the Guarantees to perform or cause to be performed work related to several ongoing projects in Nigeria. Among the Guarantees covered by the Indemnity Agreement are five contracts under which the Company estimates that, at February 7, 2007, there was aggregate remaining contract revenue, excluding any additional claim revenue, of $352,107 and aggregate estimated cost to complete of $293,562. At the February 7, 2007 sale date, one of the contracts covered by the Guarantees was estimated to be in a loss position with an accrual for such loss of $33,157. The associated liability was included in the liabilities acquired by Ascot. No claims have been made against the Guarantees.

At June 30, 2007, the Company had $20,322 of letters of credit outstanding associated with Discontinued Operations. At the time of the February 7, 2007 sale of the Nigeria assets and operations, in accordance with FASB Interpretation No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45), a liability was recognized for $1,575 related to the letters of credit. This liability will be released as the letters of credit are released or expire. In accordance with the Agreement, these letters of credit are backstopped by U.S. dollar denominated letters of credit issued by Intercontinental Bank Plc, a Nigerian bank. These backstop letters of credit provide security to the Company in the event any of the Company s outstanding letters of credit are called. The letters of credit are scheduled to expire in the amount of $440 on December 19, 2007, $19,759 on August 31, 2008, and $123 on February 28, 2009.

Transition Services Agreement (TSA)

Concurrent with the Nigeria sale, we entered into a two-year TSA with the purchaser, Ascot. Under the agreement, we are primarily providing labor in the form of seconded employees to work under the direction of

WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)
(Unaudited)

3. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

Ascot along with specifically defined work orders for services generally covered in the transition services agreement. Ascot has agreed to reimburse us for these services. Through June 30, 2007, these reimbursable contract costs totaled approximately $16,590. The after-tax residual net loss from providing these transition services is $103, or less than 1% of the incurred costs for the six months ended June 30, 2007. Both the Company and Ascot are working to shift the transition services provided by us to direct services secured by Ascot. The Company is also negotiating the rental rates or purchase prices for Company owned equipment still being used by Ascot in Nigeria. The equipment provided under the TSA includes Company-owned property, plant, and equipment being used by Ascot in Nigeria with a net book value of $2,824 and an estimated fair value of between $10,000 and $13,000.

Although the services provided under the TSA generate transactions between the Company and Ascot, the amounts are not considered to be significant. Additionally, the Company expects the level of support to decrease over the life of the TSA as the employees and services provided by Willbros shifts to direct employees and services secured by Ascot. The Company does not have the ability to significantly influence the operating or financial policies of Ascot. Under the provisions of Emerging Issues Task Force Issue 03-13, Applying the Conditions of Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations (EITF 03-13), the Company has no significant continuing involvement in the operations of the former assets and operations owned in Nigeria. Accordingly, income generated by the TSA is shown, net of costs incurred, as a component of Loss from discontinued operations, net of provision for income taxes on the Condensed Consolidated Statement of Operations, and assets and liabilities are shown as Assets of discontinued operations and Liabilities of discontinued operations , respectively, in the Condensed Consolidated Balance Sheets.

Ascot Negotiations

Over the past several months, Ascot and the Company have been in negotiations (the Negotiations) concerning sale related items, primarily the working capital purchase price adjustment and various indemnifications. The Company has reached an agreement in principle with Ascot on these negotiations. Based on this agreement in principle as of June 30, 2007 the Company increased liabilities related to sale contingencies by $3,603 to $25,000. The Company has recognized a loss of $1,258 on the sale of the Company s Nigeria assets and operations. The final gain or loss determination will be subject to the execution of the agreement in principle.

The Company continues to negotiate with Ascot regarding Company owned equipment that is being provided to Ascot under the TSA. The Company and Ascot have agreed in principle to resolve this issue and both parties are working towards this resolution.

A by-product of these Negotiations has been a delay in the payment of the invoices for services provided under the terms of the TSA. Ascot has unpaid invoices totaling $9,109 as of June 30, 2007. In addition to the unpaid TSA receivables, the $2,625 Ascot Note became due as of August 1, 2007 and has not been paid. As part of the agreement in principle the Company believes the receivables from Ascot, TSA receivable balance and the Ascot Note, will be brought current.

Venezuela

Business Disposal

On November 28, 2006, the Company completed the sale of its assets and operations in Venezuela. The Company received total compensation of $7,000 in cash and $3,300 in the form of a commitment from the buyer, to be paid on or before December 4, 2013. The repayment commitment is limited to the Venezuelan operation s 10 percent interest in the Harwat joint venture, which is to be paid to the Company by receipt of any distributions from Harwat to its joint interest venture partners. As of June 30, 2007, no distributions have been made. The Company estimates no gain or loss on the sale of its assets and operations in Venezuela.

TXP-4 Plant

Asset Disposal

On January 12, 2006, the Company completed the sale of its TXP-4 Plant. The Company received cash payments of $27,944 for the sale and realized a gain of $1,342, net of taxes of $691, reflected as a component of the Loss from discontinued operations, net of provision for income taxes on the Condensed Consolidated Statement of Operations.

In addition to the cash payments described above, Williams Field Services Company (Williams) agreed to pay the Company a portion of any recovery that Williams may obtain based on damages, loss or injury related to the TXP-4 Plant up to $3,400. This settlement is contingent upon Williams recovery from various third parties and is the only ongoing potential source of cash flows subsequent to the sale date. The timing and amount of any resolution to these claims cannot be estimated. No additional payments have been received.

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WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)
(Unaudited)

3. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

Results of Discontinued Operations

Condensed Statements of Operations of the Discontinued Operations are as follows:

	Three Months Ended June 30, 2007				
	Nigeria	Nigeria TSA	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$	$ 10,719	$	$	$ 10,719
Operating expenses:					
Contract		9,973			9,973
Depreciation and amortization		312			312
General and administrative		346			346
		10,631			10,631
Operating income		88			88
Other income (expense)	(3,603)	1			(3,602)
Income before income taxes	(3,603)	89			(3,514)
Provision for income taxes		346			346
Net loss	$ (3,603)	$ (257)	$	$	$ (3,860)

	Three Months Ended June 30, 2006				
	Nigeria	Nigeria TSA	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 132,143	$	$ 132	$	$ 132,275
Operating expenses:					
Contract	134,748		88		134,836
Depreciation and amortization	1,658		145		1,803
General and administrative	7,993		192		8,185
	144,399		425		144,824
Operating loss	(12,256)		(293)		(12,549)
Other income (expense)	(14,723)		79		(14,644)
Loss before income taxes	(26,979)		(214)		(27,193)

Provision for income taxes		5,720				135			5,855
Net loss	$	(32,699)	$		$	(349)	$	$	(33,048)

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WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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3. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

	Six Months Ended June 30, 2007				
	Nigeria (1)	Nigeria TSA	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 30,046	$ 17,081	$	$	$ 47,127
Operating expenses:					
Contract	34,360	15,837			50,197
Depreciation and amortization		312			312
General and administrative	3,472	441			3,913
	37,832	16,590			54,422
Operating income (loss)	(7,786)	491			(7,295)
Other income (expense)	(3,387)	1			(3,386)
Income (loss) before income taxes	(11,173)	492			(10,681)
Provision for income taxes	1,092	595			1,687
Net loss	$ (12,265)	$ (103)	$	$	$ (12,368)

(1) Reflects operations through February 7, 2007

	Six Months Ended June 30, 2006				
	Nigeria	Nigeria TSA	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 272,971	$	$ 214	$	$ 273,185
Operating expenses:					
Contract	260,054		448		260,502
Depreciation and amortization	3,608		378		3,986
General and administrative	13,155		276		13,431
	276,817		1,102		277,919
Operating loss	(3,846)		(888)		(4,734)
Other income (expense)	(14,500)		165	2,033	(12,302)
Income (loss) before income taxes	(18,346)		(723)	2,033	(17,036)
Provision for income taxes	11,243		143	691	12,077

Net income (loss)	$	(29,589)	$		$	(866)	$	1,342	$	(29,113)

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3. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

Financial Position of Discontinued Operations

Condensed Consolidated Balance Sheets of the Discontinued Operations are as follows:

	June 30, 2007				
	Nigeria	Nigeria TSA	Venezuela	Opal TXP-4	Discontinued Operations
Current assets:					
Cash and cash equivalents	$	$ 126	$	$	$ 126
Accounts receivable, net		9,109			9,109
Prepaid expenses		1,704			1,704
Total current assets		10,939			10,939
Property, plant and equipment, net		1,241			1,241
Other noncurrent assets		558			558
Total assets		12,738			12,738
Current liabilities		6,823			6,823
Total current liabilities		6,823			6,823
Net assets of discontinued operations	$	$ 5,915	$	$	$ 5,915

	December 31, 2006				
	Nigeria	Nigeria TSA	Venezuela	Opal TXP-4	Discontinued Operations
Current assets:					
Cash and cash equivalents	$ 12,964	$	$	$	$ 12,964
Restricted cash	36,683				36,683
Accounts receivable, net	76,673				76,673
Contract cost and recognized income not yet billed	79,364				79,364
Prepaid expenses	16,017				16,017
Parts and supplies inventories	21,645				21,645
Total current assets	243,346				243,346
Property, plant and equipment, net	50,723				50,723
Other noncurrent assets	123				123
Total assets	294,192				294,192
Current liabilities	148,135				148,135
Loss provision on contracts	33,957				33,957

Total current liabilities	182,092				182,092
Net assets of discontinued operations	$ 112,100	$	$	$	$ 112,100

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WILLBROS GROUP, INC.
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3. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

Cash and Cash Equivalents

Nigeria had restricted cash of $36,683 on December 31, 2006. The December 31, 2006 balance was in a consortium bank account that required the approval of the Company and its consortium partner to disburse funds. Additionally, cash and cash equivalents for Nigeria contained $9,482 at December 31, 2006, that was appropriated for use by specific projects.

Parts and Supplies Inventories

Nigeria had parts and supplies inventories of $21,645, net of reserves of $12,159, at December 31, 2006.

Loss Provision on Contracts

The Company had recognized $33,957 of estimated losses related to two projects in Nigeria as of December 31, 2006.

Contingencies, Commitments and Other Circumstances

At December 31, 2006, other noncurrent assets and accounts receivable of the Discontinued Operations include anticipated recoveries from insurance or third parties of $1,191, primarily related to the repair of pipelines.

4. Contracts in Progress

Contract costs and recognized income not yet billed on uncompleted contracts arise when revenues have been recorded but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Also included in contract cost and recognized income not yet billed on uncompleted contracts are amounts the Company seeks to collect from customers for change orders approved in scope but not for price associated with that scope change (unapproved change orders). Revenue for these amounts are recorded equal to cost incurred when realization of price approval is probable and the estimated amount is equal to or greater than the Company s cost related to the unapproved change order. Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded unapproved change orders may be made in the near-term. If the Company does not successfully resolve these matters, a net expense (recorded as a reduction in revenues), may be required, in addition to amounts that have been previously provided for.

Contract cost and recognized income not yet billed, and contract billings in excess of cost and recognized income, as of June 30, 2007 and December 31, 2006 was as follows:

	June 30, 2007	December 31, 2006
Contract cost and recognized income not yet billed	$ 27,439	$ 11,027
Contract billings in excess of cost and recognized income	(9,458)	(14,947)
	$ 17,981	$ (3,920)

Contract cost and recognized income not yet billed includes $19 and $1,191 at June 30, 2007, and December 31, 2006, respectively, on completed contracts.

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5. Long-term Debt

Long-term debt as of June 30, 2007 and December 31, 2006 was as follows:

	June 30, 2007	December 31, 2006
2.75% convertible senior notes	$ 70,000	$ 70,000
Capital lease obligations	34,248	11,601
6.5% senior convertible notes	32,050	84,500
Other obligations	122	51
2006 Credit Facility		
Total debt	136,420	166,152
Less current portion	(8,782)	(4,575)
Long-term debt	$ 127,638	$ 161,577

2006 Credit Facility

On October 27, 2006, Willbros USA, Inc., a wholly owned subsidiary of the Company, entered into a new $100,000 three-year senior secured synthetic credit facility (the 2006 Credit Facility) with a group of lenders led by Calyon New York Branch (Calyon). The 2006 Credit Facility replaced the Company s 2004 Credit Facility. The Company may elect to increase the total capacity under the 2006 Credit Facility to $150,000, with Calyon s consent. The Company had a commitment from Calyon, which expired August 7, 2007, to underwrite an increase to the 2006 Credit Facility by $25,000 subject to certain terms and conditions. The 2006 Credit Facility may be used for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings, which may be made up to $25,000 less the amount of any letter of credit advances or financial letters of credit, must be repaid at least once a year and no new revolving advances may be made for a period of 10 consecutive business days thereafter.

Fees payable under the 2006 Credit Facility include a facility fee at a rate per annum equal to 5.0 percent of the 2006 Credit Facility capacity, payable quarterly in arrears (the facility fee will be reduced to 2.75 percent if the Company obtains a rating from S&P and Moody s greater than B and B2, respectively), and a letter of credit fee equal to 0.125 percent per annum of aggregate commitments. Interest on any borrowings is payable quarterly in arrears at the adjusted base rate minus 1.00 percent or at a Eurodollar rate at the Company s option. The 2006 Credit Facility is collateralized by substantially all of the Company s assets, including stock of the Company s principal subsidiaries. The Company may not make any acquisitions involving cash consideration in excess of $5,000 in any 12-month period, and $10,000 in the aggregate, without the approval of a majority of the lenders under the 2006 Credit Facility. On May 9, 2007, the Company received a consent to allow for the purchase of Midwest. See Note 13 Subsequent Events. The 2006 Credit Facility contains a requirement for the maintenance of a $10,000 minimum cash balance, prohibits the payment of cash dividends and includes customary affirmative and negative covenants, such as limitations on the creation of certain new indebtedness and liens, restrictions on certain transactions and payments, maintenance of a maximum senior leverage ratio, a minimum fixed charge coverage ratio, and minimum tangible net worth requirement. A default may be triggered by events such as a failure to comply with financial covenants or other covenants, a failure to make payments when due, a failure to make payments when due in respect of or a failure to perform obligations relating to debt obligations in excess of $5,000, a change of control of the Company or certain insolvency proceedings as defined by the 2006 Credit Facility. The 2006 Credit Facility is guaranteed by the Company and certain other subsidiaries. Unamortized costs associated with the creation of the 2006 Credit Facility total $1,832 and $1,986 and are included in other noncurrent assets at June 30, 2007 and December 31, 2006, respectively. Because the 2006 Credit Facility has only been used to provide letters of credit, these costs are being amortized to general and administrative expense over the three-year term of the credit facility ending October 2009.

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5. Long -term Debt (continued)

On May 9, 2007 the Company received consent under the 2006 Credit Facility for the cash acquisition of Midwest. This consent stipulates that the cash consideration should not exceed $C18,500 plus; actual working capital, working capital adjustment and reasonable fees and expenses incurred in connection with the acquisition of Midwest.

On May 16, 2007, the Company entered into an amendment to allow for cash payments not to exceed $21,000 during the term of the 2006 Credit Facility with respect to fractional shares or as a part of a separately negotiated inducement to the holders of the 6.5% Senior Convertible Notes and 2.75% Convertible Senior Notes.

As of June 30, 2007, there were no borrowings outstanding under the 2006 Credit Facility and there were $59,484 in outstanding letters of credit, consisting of $39,162 issued for projects in continuing operations and $20,322 issued for projects related to Discontinued Operations. As of December 31, 2006, there were no borrowings outstanding under the 2006 Credit Facility and there were $64,545 in outstanding letters of credit, consisting of $41,920 issued for projects in continuing operations and $22,625 issued for projects related to Discontinued Operations.

6.5% Senior Convertible Notes

On December 22, 2005, the Company entered into a purchase agreement (the Purchase Agreement) for a private placement of $65,000 aggregate principal amount of its 6.5% Senior Convertible Notes due 2012 (the 6.5% Notes). The private placement closed on December 23, 2005. During the first quarter of 2006, the initial purchasers of the 6.5% Notes exercised their options to purchase an additional $19,500 aggregate principal amount of the 6.5% Notes. Collectively, the primary offering and the purchase option of the 6.5% Notes total $84,500. The net proceeds of the offering were used to retire existing indebtedness and provide additional liquidity to support working capital needs.

The 6.5% Notes are governed by an indenture, dated December 23, 2005, that was entered into by and among the Company, as issuer, Willbros USA, Inc., as guarantor (WUSAI), and The Bank of New York Mellon Corporation, as Trustee (the Indenture), and were issued under the Purchase Agreement by and among the Company and the initial purchasers of the 6.5% Notes (the Purchasers), in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act).

Pursuant to the Purchase Agreement, the Company and WUSAI have agreed to indemnify the Purchasers, their affiliates and agents, against certain liabilities, including liabilities under the Securities Act. The 6.5% Notes are convertible into shares of the Company s common stock at a conversion rate of 56.9606 shares of common stock per $1,000.00 principal amount of notes (representing a conversion price of approximately $17.56 per share resulting in 1,825,589 shares at June 30, 2007), subject to adjustment in certain circumstances. The 6.5% Notes are general senior unsecured obligations. Interest is due semi-annually on June 15 and December 15, and began on June 15, 2006.

The 6.5% Notes mature on December 15, 2012 unless the notes are repurchased or converted earlier. The Company does not have the right to redeem the 6.5% Notes. The holders of the 6.5% Notes have the right to require the Company to purchase the 6.5% Notes for cash, including unpaid interest, on December 15, 2010. The holders of the 6.5% Notes also have the right to require the Company to purchase the 6.5% Notes for cash upon the occurrence of a fundamental change, as defined in the Indenture. In addition to the amounts described above, the Company will be required to pay a make-whole premium to the holders of the 6.5% Notes who elect to convert their notes into the Company s common stock in connection with a fundamental change. The make-whole premium is payable in additional shares of common stock and is calculated based on a formula with the premium ranging from 0 percent to 28.0 percent depending on when the fundamental change occurs and the price of the Company s stock at the time the fundamental change occurs.

Upon conversion of the 6.5% Notes, the Company has the right to deliver, in lieu of shares of its common stock, cash or a combination of cash and shares of its common stock. Under the Indenture, the Company is required to notify holders of the 6.5% Notes of its method for settling the principal amount of the 6.5% Notes upon conversion. This notification, once provided, is irrevocable and legally binding upon the Company with regard to any conversion of the 6.5% Notes. On March 21, 2006, the Company notified holders of the 6.5% Notes of its election to satisfy its conversion obligation with respect to the principal amount of any 6.5% Notes surrendered for conversion by paying the holders of such surrendered 6.5% Notes 100 percent of the principal conversion obligation in the form of common stock of the Company. Until the 6.5% Notes are surrendered for conversion, the Company will not be required to notify holders of its method for settling the excess amount of the conversion obligation relating to the amount of the conversion value above the principal amount, if any. In the event of a default of $10,000 or more on any credit agreement, including the 2006 Credit Facility and the 2.75% Notes, a corresponding event of default would result under the 6.5% Notes.

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5. Long-term Debt (continued)

On May 18, 2007, the Company completed two transactions to induce conversion with two Purchasers of the 6.5% Notes. Under the conversion agreements, the Purchasers converted $36,250 in aggregate principal amount of the 6.5% Notes into 2,064,821 shares of the Company s $0.05 par value common stock. As an inducement for the Purchasers to convert, the Company made aggregate cash payments to the Purchasers of $8,972, plus $1,001 in accrued interest for the current interest period. In connection with the induced conversion, the Company recorded a loss on early extinguishment of debt of $10,894. The loss on early extinguishment of debt is inclusive of the cash premium paid to induce conversion and $1,922 of unamortized debt costs.

On May 29 and May 30, 2007, the Company completed two additional transactions to induce conversion with two Purchasers of the 6.5% Notes. Under the conversion agreements, the Purchasers converted $16,200 in aggregate principal amount of the 6.5% Notes into 922,761 shares of the Company s common stock. As an inducement for the Purchasers to convert, the Company made aggregate cash payments to the Purchasers of $3,748, plus $480 in accrued interest for the current interest period. In connection with the induced conversion, the Company recorded a loss on early extinguishment of debt of $4,481. The loss on early extinguishment of debt is inclusive of the cash premium paid to induce conversion and the write-off of $733 of unamortized debt issue costs.

As of June 30, 2007, $32,050 of aggregate principal amount of the 6.5% Notes remains outstanding. Unamortized debt issuance costs of $1,412 and $4,103 associated with the 6.5% Notes are included in other noncurrent assets at June 30, 2007 and December 31, 2006, respectively, and are being amortized over the seven-year period ending December 2012.

2.75% Convertible Senior Notes

On March 12, 2004, the Company completed a primary offering of $60,000 of 2.75% Convertible Senior Notes (the 2.75% Notes). On April 13, 2004, the initial purchasers of the 2.75% Notes exercised their option to purchase an additional $10,000 aggregate principal amount of the notes. Collectively, the primary offering and purchase option of the 2.75% Notes totaled $70,000. The 2.75% Notes are general senior unsecured obligations. Interest is paid semi-annually on March 15 and September 15 and payments began on September 15, 2004. The 2.75% Notes mature on March 15, 2024 unless the notes are repurchased, redeemed or converted earlier. The Company may redeem the 2.75% Notes for cash on or after March 15, 2011, at 100 percent of the principal amount of the notes plus accrued interest. The holders of the 2.75% Notes have the right to require the Company to purchase the 2.75% Notes, including unpaid interest, on March 15, 2011, 2014, and 2019, or upon a change of control related event. On March 15, 2011, or upon a change in control event, the Company must pay the purchase price in cash. On March 15, 2014 and 2019, the Company has the option of providing its common stock in lieu of cash or a combination of common stock and cash to fund purchases. The holders of the 2.75% Notes may, under certain circumstances, convert the notes into shares of the Company s common stock at an initial conversion ratio of 51.3611 shares of common stock per $1,000.00 principal amount of notes (representing a conversion price of approximately $19.47 per share resulting in 3,595,277 shares at June 30, 2007 subject to adjustment in certain circumstances). The notes will be convertible only upon the occurrence of certain specified events including, but not limited to, if, at certain times, the closing sale price of the Company s common stock exceeds 120 percent of the then current conversion price, or $23.36 per share, based on the initial conversion price. In the event of a default under any Company credit agreement other than the indenture covering the 2.75% Notes, (1) in whic