

Willbros Group, Inc.\NEW\
Form 10-Q
August 05, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

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 1-11953

Willbros Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(Jurisdiction of incorporation)

30-0513080

(I.R.S. Employer Identification Number)

4400 Post Oak Parkway

Suite 1000

Houston, TX 77027

Telephone No.: 713-403-8000

(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 No

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting
company

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

The number of shares of the registrant's Common Stock, \$.05 par value, outstanding as of July 30, 2010 was 47,860,795.

WILLBROS GROUP, INC.
FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2010

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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,	December 31,
	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 227,302	\$ 198,774
Short-term investments	5,300	16,559
Accounts receivable, net	224,801	162,460
Contract cost and recognized income not yet billed	7,773	45,009
Prepaid expenses and other	21,933	15,530
Parts and supplies inventories	5,457	4,666
Deferred income taxes	5,853	2,875
Total current assets	498,419	445,873
Property, plant and equipment, net	126,779	132,879
Goodwill	86,341	85,775
Other intangible assets, net	34,867	36,772
Deferred income taxes	18,341	25,034
Other assets	3,081	2,045
Total assets	\$ 767,828	\$ 728,378
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 103,515	\$ 81,821
Contract billings in excess of cost and recognized income	44,891	11,336
Current portion of capital lease obligations	4,774	5,824
Notes payable and current portion of other long-term debt	95,897	31,450
Current portion of government obligations	6,575	6,575
Accrued income taxes		1,605
Liabilities of discontinued operations		
Other current liabilities	3,674	9,968
Total current liabilities	259,326	148,579
Capital lease obligations	8,339	10,692
Long-term debt		56,071
Long-term portion of government obligations		6,575
Long-term liabilities for unrecognized tax benefits	4,236	5,512
Deferred income taxes	9,457	11,356
Other long-term liabilities	1,318	1,598
Total liabilities	282,676	240,383
Contingencies and commitments (Note 12)		

Stockholders' equity:

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 and 40,498,272 shares issued at June 30, 2010 (40,106,498 at December 31, 2009)	2,024	2,005
Capital in excess of par value	610,435	607,299
Accumulated deficit	(129,463)	(124,788)
Treasury stock at cost, 575,242 shares at June 30, 2010 (510,187 at December 31, 2009)	(9,713)	(9,045)
Accumulated other comprehensive income	10,986	11,725
Total Willbros Group, Inc. stockholders' equity	484,269	487,196
Noncontrolling interest	883	799
Total stockholders' equity	485,152	487,995
Total liabilities and stockholders' equity	\$ 767,828	\$ 728,378

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Contract revenue	\$ 248,129	\$ 354,483	\$ 385,125	\$ 818,408
Operating expenses:				
Contract	205,766	311,416	337,783	718,801
Amortization of intangibles	953	2,005	1,905	4,593
General and administrative	24,221	21,212	49,211	44,235
Other charges	794	956	613	5,790
	231,734	335,589	389,512	773,419
Operating income (loss)	16,395	18,894	(4,387)	44,989
Other income (expense):				
Interest income	283	674	519	1,273
Interest expense	(2,358)	(2,685)	(4,701)	(5,389)
Other, net	891	(217)	2,862	108
	(1,184)	(2,228)	(1,320)	(4,008)
Income (loss) from continuing operations before income taxes	15,211	16,666	(5,707)	40,981
Provision (benefit) for income taxes	5,753	5,675	(2,387)	13,915
Income (loss) from continuing operations	9,458	10,991	(3,320)	27,066
Income (loss) from discontinued operations net of provision for income taxes	(476)	(1,660)	(746)	(1,500)
Net income (loss)	8,982	9,331	(4,066)	25,566
Less: Income attributable to noncontrolling interest	(353)	(423)	(609)	(1,171)
Net income (loss) attributable to Willbros Group, Inc.	\$ 8,629	\$ 8,908	\$ (4,675)	\$ 24,395
Reconciliation of net income attributable to Willbros Group, Inc.				
Income (loss) from continuing operations	\$ 9,105	\$ 10,568	\$ (3,929)	\$ 25,895
Income (loss) from discontinued operations	(476)	(1,660)	(746)	(1,500)
	\$ 8,629	\$ 8,908	\$ (4,675)	\$ 24,395

Net income (loss) attributable to Willbros
Group, Inc.

Basic income (loss) per share attributable to
Company Shareholders:

Income (loss) from continuing operations	\$	0.23	\$	0.27	\$	(0.10)	\$	0.67
Income (loss) from discontinued operations		(0.01)		(0.04)		(0.02)		(0.04)

Net income (loss)	\$	0.22	\$	0.23	\$	(0.12)	\$	0.63
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Diluted income (loss) per share attributable to
Company Shareholders:

Income (loss) from continuing operations	\$	0.23	\$	0.27	\$	(0.10)	\$	0.66
Income (loss) from discontinued operations		(0.01)		(0.04)		(0.02)		(0.03)

Net Income (loss)	\$	0.22	\$	0.23	\$	(0.12)	\$	0.63
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Weighted average number of common shares
outstanding:

Basic	39,018,105	38,684,446	38,979,275	38,624,192
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Diluted	42,352,485	43,729,642	38,979,275	43,640,878
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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,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (4,066)	\$ 25,566
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Income) loss from discontinued operations	746	1,500
Depreciation and amortization	16,471	21,566
Stock-based compensation	4,578	6,950
Deferred income tax provision	(3,426)	(672)
Other non cash	2,497	4,914
Changes in operating assets and liabilities:		
Accounts receivable, net	(62,696)	(11,408)
Contract cost and recognized income not yet billed	37,268	42,456
Prepaid expenses and other assets	4,553	(4,279)
Accounts payable and accrued liabilities	21,880	(24,568)
Accrued income taxes	(2,882)	(4,661)
Contract billings in excess of cost and recognized income	33,572	10,603
Other liabilities	(2,864)	
Cash provided by operating activities of continuing operations	45,631	67,967
Cash used in operating activities of discontinued operations	(746)	(79)
Cash provided by operating activities	44,885	67,888
Cash flows from investing activities:		
Proceeds from sales of property, plant and equipment	1,970	5,101
Purchases of property, plant and equipment	(8,944)	(6,659)
Maturities of short-term investments	11,455	
Purchase of short-term investments	(255)	
Cash provided by (used in) investing activities of continuing operations	4,226	(1,558)
Cash provided by (used in) investing activities of discontinued operations		
Cash provided by (used in) investing activities	4,226	(1,558)
Cash flows from financing activities:		
Payments on capital leases	(3,526)	(18,817)
Repayment of notes payable	(4,936)	(1,062)
Payments to reacquire common stock	(668)	(357)
Payments on government fines	(6,575)	(6,575)
Costs of debt issues	(1,960)	(150)
Proceeds from exercise of stock options		336
Stock-based compensation tax deficiency	(1,423)	(1,448)
Dividend distribution to noncontrolling interest	(525)	(1,294)

Cash used in financing activities of continuing operations	(19,613)	(29,367)
Cash provided by (used in) financing activities of discontinued operations		
Cash used in financing activities	(19,613)	(29,367)
Effect of exchange rate changes on cash and cash equivalents	(970)	565
Cash provided by all activities	28,528	37,528
Cash and cash equivalents, beginning of period	198,774	207,864
Cash and cash equivalents, end of period	\$ 227,302	\$ 245,392
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,216	\$ 3,418
Cash paid for income taxes (including discontinued operations)	\$ 3,125	\$ 17,991
Supplemental non-cash investing and financing transactions:		
Prepaid insurance obtained by note payable	\$ 11,687	\$
Equipment received through like-kind exchange	\$ 3,355	\$
Equipment surrendered through like-kind exchange	\$ 2,550	\$

See accompanying notes to condensed consolidated financial statements.

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

1. The Company and Basis of Presentation

Willbros Group, Inc., a Delaware corporation, and all of its majority-owned subsidiaries (the Company, Willbros or WGI) is an independent international contractor serving the oil, gas and power industries; government entities; and the refinery and petrochemical industries. The Company's principal markets for continuing operations are the United States, Canada, and Oman. The Company obtains its work through competitive bidding and through negotiations with prospective clients. Contract values range from several thousand dollars to several hundred million dollars and contract durations range from a few weeks to more than two years.

The accompanying Condensed Consolidated Balance Sheet as of December 31, 2009, which has been derived from audited consolidated financial statements, and the unaudited interim Condensed Consolidated Financial Statements as of June 30, 2009 and 2010, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). 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. Certain prior period amounts have been reclassified to be consistent with the current presentation. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company's December 31, 2009 audited Consolidated Financial Statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary to present fairly the financial position as of June 30, 2010, the results of operations and cash flows of the Company for all interim periods presented. The results of operations and cash flows for the three months ended June 30, 2010 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 dates 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 13 Discontinuance of Operations, Asset Disposals, and Transition Services Agreement, the Company has disposed of certain assets and operations that are together classified as discontinued operations (collectively the Discontinued Operations). 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.

For interim financial reporting, the Company records the tax provision based on its estimate of the effective tax rate for the year. The Company has projected its annual estimated effective income tax rate to be 38.0 percent for 2010.

The carrying value of financial instruments does not materially differ from fair value.

Change in Estimate The Company performed a review of the estimated useful lives of its fixed assets during the first quarter of 2010. This evaluation indicated that actual lives for the construction equipment were generally longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, the Company adjusted the estimated useful life on construction equipment from a range of four to six years to a range of four to twelve years. The effect of this change in estimate was to reduce depreciation expense for the three and six months ended June 30, 2010 by \$1,606 and \$3,212, respectively, and increase income from continuing operations by

\$996 and \$1,991, net of taxes, or \$0.02 and \$0.05 per basic share, respectively.

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

1. The Company and Basis of Presentation (continued)

Reclassifications The Company's prior period consolidated statements of income have been revised to reclassify \$956 and \$5,790 of costs associated with headcount reduction for the three and six months ended June 30, 2009 from general and administrative expenses to Other charges to be consistent with current year presentation.

Consistency Effective January 1, 2010, the Company has reclassified certain indirect overhead expenses to general and administrative expenses to apply a consistent approach in our classification of overheads across our segments. If the Company reclassified these same costs in the three-month and six-months periods ended June 30, 2009, the reported general and administrative costs would have increased accompanied by a corresponding decrease to contract costs of \$1,320 and \$2,784, respectively.

2. New Accounting Pronouncements

In June 2009, the FASB issued a new accounting standard which provides amendments to previous guidance on the consolidation of variable interest entities (VIE). This standard clarifies the characteristics that identify a VIE and changes how a reporting entity identifies a primary beneficiary that would consolidate the VIE from a quantitative risk and rewards calculation to a qualitative approach based on which variable interest holder has controlling financial interest and the ability to direct the most significant activities that impact the VIE's economic performance. This statement requires the primary beneficiary assessment to be performed on a continuous basis. It also requires additional disclosures about an entity's involvement with a VIE, restrictions on the VIE's assets and liabilities that are included in the reporting entity's consolidated balance sheet, significant risk exposures due to the entity's involvement with the VIE, and how its involvement with a VIE impacts the reporting entity's consolidated financial statements. The standard is effective for fiscal years beginning after November 15, 2009. The adoption of the standard did not have any impact on the Company's consolidated financial statements.

3. Other Charges

During the second quarter of 2010, the Company incurred other charges of \$794, primarily consisting of \$467 in headcount reduction costs and a change in estimate of \$296 associated with one leased facility, which was abandoned in the third quarter of 2009.

Other charges by segment are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<i>Upstream Oil & Gas</i>	\$ 306	\$ 784	\$ 320	\$ 4,789
<i>Downstream Oil & Gas</i>	488	172	293	1,001
Total other charges	\$ 794	\$ 956	\$ 613	\$ 5,790

Other charges incurred during the second quarter of 2010 and 2009 include \$6 and \$248, respectively, related to headcount reductions within corporate operations and have been allocated to the Company's business segments based on a percentage of total revenue.

The accrual at June 30, 2010, for carrying costs of the abandoned lease space totaled \$1,323, consisting of \$1,108 in Other current liabilities and \$215 in Other long-term liabilities on the Consolidated Balance Sheets. The Company estimates carrying costs of the abandoned lease space based on an assessment of applicable commercial real estate markets. There may be a significant fluctuation in the estimated costs to the extent the evaluation of the facts, circumstances and expectations change. The principal variables in estimating the carrying costs are the length of time required to sublease the space, the sublease rate and expense for inducements (e.g., rent abatement, tenant improvement allowance) that may be offered to a prospective sublease tenant. While the Company believes this

accrual is adequate, it is subject to adjustment as conditions change. The Company will continue to evaluate the adequacy of the accrual and will make the necessary changes to the accrual as conditions warrant.

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

3. Other Charges (continued)

Activity in the accrual related to other charges for the period ended June 30, 2010 is as follows:

	Employee Termination and Other Benefits	Non- Cancelable Lease and Other Contractual Obligations	Total
Accrued cost at December 31, 2009	\$ 2,080	\$ 2,325	\$ 4,405
Costs recognized during 2010	489	264	753
Cash payments	(1,001)	(1,117)	(2,118)
Non-cash charges ⁽¹⁾	(281)	(9)	(290)
Change in estimates		(140)	(140)
Accrued cost at June 30, 2010	\$ 1,287	\$ 1,323	\$ 2,610

⁽¹⁾ Non-cash charges consist of \$281 of accelerated stock-based compensation and \$9 of accretion expense.

4. Contracts in Progress

Contract cost 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. Contract billings in excess of cost and recognized income arise when billed amounts exceed revenues recorded. Amounts are billable to 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 is 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 reduction in revenues may be required to amounts that have been previously recorded.

Contract cost and recognized income not yet billed and related amounts billed as of June 30, 2010 and December 31, 2009 was as follows:

June 30, 2010	December 31, 2009
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Cost incurred on contracts in progress	\$ 1,166,282	\$ 1,113,712
Recognized income	184,931	161,398
	1,351,213	1,275,110
Progress billings and advance payments	(1,388,331)	(1,241,437)
	\$ (37,118)	\$ 33,673

Contract cost and recognized income not yet billed