WILLBROS GROUP INC
Form 10-K
February 29, 2008

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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)

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

Title of each class	Name of each exchange on which registered
Common Stock, $.05 Par Value	New York Stock Exchange
Preferred Share Purchase Rights	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 þ No o

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

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 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 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. þ

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No þ

The aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant on the last business day of the Registrant s most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 29, 2007) was $829,377,089.

The number of shares of the Registrant s common stock outstanding at February 21, 2008 was 38,040,345.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s 2007 Proxy Statement for the Annual Meeting of Stockholders to be held on May 29, 2008 are incorporated by reference into Part III of this Form 10-K.

WILLBROS GROUP, INC.
FORM 10-K
YEAR ENDED DECEMBER 31, 2007
TABLE OF CONTENTS

PART IV

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements. All statements, other than statements of historical facts, included or incorporated by reference in this Annual Report that address activities, events or developments which we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), oil, gas, gas liquids and power prices, demand for our services, the amount and nature of future investments by governments, expansion and other development trends of the oil, gas, power, refining and petrochemical industries, business strategy, expansion and growth of our business and operations, the outcome of government investigations and legal proceedings and other such matters are forward-looking statements. These forward-looking statements are based on assumptions and analyses we made in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties. As a result, actual results could differ materially from our expectations. Factors that could cause actual results to differ from those contemplated by our forward-looking statements include, but are not limited to, the following:

- difficulties we may encounter in connection with the previous sale and disposition of our Nigeria assets and Nigeria-based operations, including without limitation, obtaining indemnification for any losses we may experience if claims are made and substantiated against any parent company guarantees we provided and which remained in place subsequent to the closing;

- the consequences we may encounter if our settlements in principle with the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) are finalized, including the imposition of civil or criminal fines, penalties, disgorgement of profits, monitoring arrangements, or other sanctions that might be imposed as a result of government investigations;

- the consequences we may encounter if our settlements in principle with the DOJ and the SEC are not finalized, including the loss of eligibility to bid for and obtain US government contracts, and other civil and criminal sanctions which may exceed the current amount we have estimated and reserved in connection with the settlements in principle;

- the commencement by foreign governmental authorities of investigations into the actions of our current and former employees, and the determination that such actions constituted violations of foreign law;

- the dishonesty of employees and/or other representatives or their refusal to abide by applicable laws and our established policies and rules;

- adverse weather conditions not anticipated in bids and estimates;

- project cost overruns, unforeseen schedule delays, and the application of liquidated damages;

- cancellation of projects, in whole or in part;

- failing to realize cost recoveries from projects completed or in progress within a reasonable period after completion of the relevant project;

- inability to hire and retain sufficient skilled labor to execute our current work, our work in backlog and future work we have not yet been awarded;

- inability to execute cost-reimbursable projects within the target cost, thus eroding contract margin but not contract income on the project;

curtailment of capital expenditures in the oil, gas, power, refining and petrochemical industries;

political or social circumstances impeding the progress of our work and increasing the cost of performance;

failure to obtain the timely award of one or more projects;

inability to identify and acquire suitable acquisition targets on reasonable terms;

inability to obtain adequate financing;

inability to obtain sufficient surety bonds or letters of credit;

loss of the services of key management personnel;

the demand for energy moderating or diminishing;

downturns in general economic, market or business conditions in our target markets;

changes in the effective tax rate in countries where our work will be performed;

changes in applicable laws or regulations, or changed interpretations thereof;

changes in the scope of our expected insurance coverage;

inability to manage insurable risk at an affordable cost;

the occurrence of the risk factors listed under Item 1A of this Annual Report; and

other factors, most of which are beyond our control.

Consequently, all of the forward-looking statements made or incorporated by reference in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments we anticipate will be realized or, even if substantially realized, that they will have the consequences for, or effects on, our business or operations that we anticipate today. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise. For a more complete description of the circumstances surrounding the actions of our current and former employees, see the Risk Factors listed under Item 1A of this Annual Report.

Unless the context otherwise requires, all references in this Annual Report to Willbros, the Company, we, us and our refer to Willbros Group, Inc., its consolidated subsidiaries and their predecessors. Unless the context otherwise requires, all references in this Annual Report to dollar amounts, except share and per share amounts, are expressed in thousands.

PART I

Items 1 and 2. Business and Properties

General

We are an independent international contractor serving the oil, gas and power industries, government entities and, with the November 2007 acquisition of Integrated Service Company LLC (InServ), the refinery and petrochemical industries. We provide engineering; construction; engineering, procurement and construction (EPC) and specialty services to industry and governmental entities worldwide, specializing in pipelines and associated facilities for onshore and coastal locations. We provide turnaround services, tank services, heater services, construction services and safety services to the downstream oil and gas markets, primarily refineries. We also manufacture specialty items for refinery and petrochemical process units. We provide, from time to time, asset development, and participate in ownership and operations as an extension of our portfolio of industry services. We place particular emphasis on achieving the best risk-adjusted returns. Depending upon market conditions, we may work in developing countries and we believe our experience gives us a competitive advantage in frontier areas where experience in dealing with project logistics is an important consideration for project award and execution. We also believe our engineering and planning and project management expertise, as it relates to optimizing the structure and execution of a project, provides us with a competitive advantage in all the markets we address.

We are incorporated in the Republic of Panama and maintain our headquarters at Plaza 2000 Building, 50th Street, 8th Floor, P.O. Box 0816-01098, Panama, Republic of Panama; our telephone number is +50-7-213-0947. Panama s General Corporation Law is substantially modeled on the New York and Delaware corporate laws as they existed in 1932. Panama does not tax income derived from activities conducted outside Panama. All significant operations are carried out by the following material direct or indirect subsidiaries:

Willbros USA, Inc.;

Willbros Construction (US) LLC;

Willbros Canada Holdings Limited;

Integrated Service Company LLC;

Willbros Engineers (US) LLC;

Willbros Project Services (US) LLC;

Willbros Midstream Services LLC;

Willbros Construction Services (Canada) LP;

Willbros Midwest Pipeline Construction (Canada) LP;

Willbros Government Services (US) LLC;

Willbros Middle East, Inc.; and

The Oman Construction Company LLC.

The sale of our interests in Nigeria and Venezuela included the following subsidiaries:

Willbros West Africa, Inc.;

Willbros (Nigeria) Holdings Limited;

Willbros (Offshore) Nigeria Limited;

WG Nigeria Holdings Limited;

WG Nigeria Equipment Limited;

Constructora CAMSA, C.A.;

Construcciones Acuaticas Mundiales, S.A.;

Inversiones CAMSA, C.A.;

ESCA Equipment Service C.A.; and

Pretensado S.A.

The Willbros corporate structure is designed to comply with jurisdictional and registration requirements associated with work bid and performed and to reduce worldwide taxation of operating income. Additional subsidiaries may be formed in specific work countries where necessary or useful for compliance with local laws or tax objectives. Administrative services are provided by Willbros USA, Inc., whose administrative headquarters are located at 4400 Post Oak Parkway, Suite 1000, Houston, Texas 77027, telephone number (713) 403-8000.

Our public internet site is http://www.willbros.com/. We make available free of charge through our internet site, via a link to Edgar Online, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our common stock is traded on the New York Stock Exchange under the symbol WG.

In addition, we currently make available on http://www.willbros.com/ our annual reports to stockholders. You will need to have the Adobe Acrobat Reader software on your computer to view these documents, which are in the .PDF format. If you do not have Adobe Acrobat, a link to Adobe Systems Incorporated s internet site, from which you can download the software, is provided.

Recent Developments

On November 20, 2007, we completed the acquisition of Tulsa, Oklahoma-based InServ for approximately $232.1 million, consisting of $208.9 million in cash and the balance in Willbros Group, Inc. common stock. InServ is a fully integrated solutions provider of turnaround, maintenance and capital projects for the refining and petrochemical industries. As a result of this acquisition, we can now offer additional services to our existing customers and have also become a service provider in the downstream oil and gas market.

We entered into a new credit agreement on November 20, 2007 which provides us the financial flexibility to operate the business more efficiently. This agreement includes a senior secured three-year $150 million revolving line of credit. Also on November 20, 2007 we completed a public offering of 7.9 million shares of our common stock resulting in net proceeds of approximately $253.7 million. These funds were used to pay for the cash portion of the InServ acquisition of $208.9 million, plus capital spending and general corporate requirements.

In October 2007 we reached agreements in principle with the Department of Justice and the Securities and Exchange Commission, subject to their approval, to settle their previously disclosed investigations involving possible violations of the Foreign Corrupt Practices Act and other provisions of the federal securities laws. These settlements require us to make payments over the next three years totaling $32.3 million and enter into a three-year deferred prosecution agreement which will require us to engage a monitor, to be focused primarily on our international operations. In January 2008, the Company submitted a signed Consent Decree and Agreed Final Judgement to the SEC and, as required by the SEC, deposited the first installment payment of $2,575 into an escrow account.

In July 2007 we acquired the assets and operations of Midwest Management Ltd. (Midwest) for approximately $23.7 million. Midwest provides highly complementary services, such as pipeline construction, water crossing installations and facilities fabrication, and significantly increases our presence in the western Canada oil sands area.

During February 2007 we completed the sale of our assets and operations in Nigeria. We also sold our interest in a water injection facility in Venezuela and our TXP-4 gas processing plant in 2006. Accordingly, the results of operations for our Nigeria, Venezuela and TXP-4 Plant operations are reported as Discontinued Operations in our Consolidated Financial Statements. We are strategically focusing our resources and attention on the United States, Canada, Oman, Libya, Algeria, Saudi Arabia, the United Arab Emirates and a few other selected international markets which offer attractive risk-adjusted returns. The remainder of the discussion under Items 1 and 2, Business and Properties, in this Annual Report on Form 10-K pertains only to our continuing operations, unless otherwise noted.

Business Segments

Our segments are strategic business units that are defined by the industry segments served and are managed separately as each has different operational requirements and strategies. With the recent InServ acquisition, we now operate through three business segments: *Upstream Oil & Gas, Downstream Oil & Gas* and *Engineering*. These segments currently operate primarily in the United States, Canada, and Oman. Previously during 2007, we defined our business segments based on our then current core lines of business, which were defined as: *Construction*, *Engineering* and *Engineering, Procurement and Construction* (*EPC*). Management evaluates the performance of each operating segment based on operating income. Our corporate operations include the executive management, general, administrative, and financing functions of the organization. The costs to provide these services are allocated, as are certain other corporate assets, between the three operating segments. All periods presented reflect this change in segment reporting. Inter-segment revenue and revenue between geographic areas are not material.

We provide our services, as the scope of work requires, through professional engineering, technical, construction management and craft personnel utilizing engineering systems, hardware and software and a large fleet of company-owned and leased equipment that includes pipe laying equipment, heavy construction equipment, transportation equipment, camp equipment and specialty tools. An inventory of spare parts and tools, which we strategically position and maintain to maximize availability and minimize cost, supports our equipment fleet. Over the years, we have been employed by more than 400 clients to carry out work in 59 countries. Within the past ten years, we have worked in North America, the Middle East, Africa, Australia and South America. Historically, we have had a steady base of operations in the United States, Canada, Oman, Nigeria and Venezuela. We have sold our interests in Nigeria and Venezuela and also exited Bolivia and Ecuador in response to market conditions which we believe are unfavorable and will not attract capital to these markets for the types of projects we perform.

Private sector clients have historically accounted for the majority of our revenue. Government entities and agencies have accounted for the remainder. Our top ten clients were responsible for 73 percent of our continuing revenue in 2007 (61 percent in 2006 and 73 percent in 2005).

See Note 14 Segment Information and Note 18 Discontinuance of Operations, Asset Disposals and Transition Services Agreement to the Consolidated Financial Statements included in Item 8 of this Form 10-K for more information on our operating segments and Discontinued Operations.

Services Provided

The Company provides engineering, construction, and EPC services, including development activities, in the business segments described above. We also have experience in the operation of the types of facilities we design and build. We may make equity investments in some projects to enhance our competitive position for the work assignments associated with the project. In other instances, our experience enables us to understand and manage project completion risk, and in these cases we may elect to develop and own a complete facility which will provide attractive internal rates of return over an extended period of time.

Engineering Services

We provide project management, engineering, and material procurement services to the oil, gas, power and refining industries and government agencies. We specialize in providing engineering services to assist clients in constructing or expanding pipeline systems, compressor stations, pump stations, fuel storage facilities, and field gathering and production facilities. Over the years, we have developed expertise in addressing the unique engineering challenges involved with pipeline systems and associated facilities. We provide our engineering services through engineering resources located in Tulsa, Oklahoma; Salt Lake City, Utah and Kansas City, Missouri.

Specifically, our engineering services include, among others:

feasibility studies;

conceptual engineering services;

detailed design services;

route/site selection;

construction management;

turnkey engineer, procure and construct, or EPC arrangements;

alliance arrangements;

material procurement;

overall project management;

permitting services;

commissioning/startup; and

bid support for other Willbros subsidiaries.

To complement our engineering services, we also provide a full range of field services, including:

surveying;

right-of-way acquisition;

material receiving and control;

construction inspection;

facility startup assistance; and

facility operations.

These services are furnished to a number of oil, gas, power, refining and government clients on a stand-alone basis and are also provided as part of EPC contracts undertaken by us.

The buying process of our customers includes close scrutiny of our experience and capabilities with respect to project requirements. Some of those requirements may involve:

Climatic Constraints. In the design of pipelines and associated facilities to be installed in harsh environments, special provisions for metallurgy of materials and foundation design must be addressed. We are experienced in designing pipelines for arctic conditions (where permafrost and extremely low temperatures are prevalent), desert conditions, mountainous terrain, swamps and offshore.

Environmental Impact of River Crossings/Wetlands. We have considerable capability in designing pipeline crossings of rivers, streams and wetlands in such a way as to minimize environmental impact. We possess expertise to determine the optimal crossing techniques, such as open cut, directionally-drilled or overhead, and to develop site-specific construction methods to minimize bank erosion, sedimentation and other environmental impacts.

Seismic Design and Stress Analysis. Our engineers are experienced in seismic design of pipeline crossings of active faults and areas where liquefaction or slope instability may occur due to seismic events. Our engineers also carry out specialized stress analyses of piping systems that are subjected to expansion and contraction due to temperature changes, as well as loads from equipment and other sources.

Hazardous Materials. Special care must be taken in the design of pipeline systems transporting sour gas. Sour gas not only presents challenges regarding personnel safety since hydrogen sulfide leaks can be extremely hazardous, but also requires that material be specified to withstand highly corrosive conditions. Our engineers have extensive natural gas experience which includes design of sour gas systems.

Hydraulics Analysis for Fluid Flow in Piping Systems. We employ engineers with the specialized knowledge necessary to address properly the effects of both steady state and transient flow conditions for a wide variety of fluids transported by pipelines, including natural gas, crude oil, refined petroleum products, natural gas liquids, carbon dioxide and water. This expertise is important in optimizing the capital costs of pipeline projects where pipe material costs typically represent a significant portion of total project capital costs.

We have developed significant expertise with respect to each of the following:

Natural Gas Transmission Systems. The expansion of the natural gas transportation network in the United States in recent years has been a major contributor to our engineering business. We believe we have established a strong position as a leading supplier of project management and engineering services to natural gas pipeline transmission companies in the United States. Since 1988, we have provided engineering services for over 20 major natural gas projects in the United States, including the Gulfstream Natural Gas System project, completed in 2002, and the Guardian Pipeline Project, both Phase I, completed in 2004 and Phase II, currently underway.

Liquids Pipelines and Storage Facility Design. We have engineered a number of crude oil and refined petroleum products systems throughout the world, and have become recognized for our expertise in the engineering of systems for the storage and transportation of petroleum products and crude oil. In 2001, we provided engineering and field services for conversion of a natural gas system in the mid-western United States, involving over 797 miles (1,275 kilometers) of 24-inch to 26-inch diameter pipeline to serve the upper Midwest with refined petroleum products. In 2003, we completed EPC services for the expansion of another petroleum products pipeline to the Midwest involving 12 new pump stations, modifications to another 13 pump stations and additional storage.

US Government Services. Since 1981, we have established our position with US government agencies as a leading engineering contractor for jet fuel storage as well as aircraft fueling facilities, having performed the engineering for major projects at eight US military bases, including three air bases outside the United States. The award of these projects was based largely on contractor experience and personnel qualifications. Also, in the past nine years we have won five of ten so-called Design-Build-Own-Operate-Maintain projects to provide fueling facilities at military bases in the United States for the US Defense Energy Support Center.

Design of Peripheral Systems. Our expertise extends to the engineering of a wide range of project peripherals, including various types of support buildings and utility systems, power generation and electrical transmission, communications systems, fire protection, water and sewage treatment, water transmission, roads and railroad sidings.

Material Procurement. Because material procurement plays such a critical part in the success of any project, we maintain an experienced staff to carry out material procurement activities. Material procurement services are provided to clients as a complement to the engineering services performed for a project. Material procurement is especially critical to the timely completion of construction on the EPC contracts we undertake. We maintain a computer-based material procurement, tracking and control system, which utilizes software enhanced to meet our specific requirements.

Upstream Oil & Gas Construction Services

We are one of the most experienced contractors serving the oil, gas and power industries. Our construction capabilities include the expertise to construct and replace large-diameter cross-country pipelines; to fabricate engineered structures, process modules and facilities; to construct oil and gas production facilities, pump stations, flow stations, gas compressor stations, gas processing facilities and other related facilities.

Pipeline Construction. World demand for pipelines results from the need to move millions of barrels of crude oil and petroleum products and billions of cubic feet of natural gas to refiners, processors and consumers each day. Pipeline construction is capital-intensive, and we own, lease, operate and maintain a fleet of specialized equipment necessary for operations in the pipeline construction business. We focus on pipeline construction activity for large diameter cross-country pipelines in remote areas and harsh climates where we believe our experience gives us a competitive advantage. In our history we have performed work in 59 countries and constructed over 200,000 kilometers of pipeline, which we believe positions us in the top tier of pipeline contractors in the world. To mitigate tight labor markets, since 2004, we have developed the expertise to employ automatic welding processes in the onshore construction of large-diameter (greater than 30-inch) natural gas pipelines and have constructed over 480 Kilometers of such pipelines using automatic welding processes in the United States, Canada and Oman. We currently have over 800 kilometers of such work under contract.

The construction of a cross-country pipeline involves a number of sequential operations along the designated pipeline right-of-way. These operations are virtually the same for all overland pipelines, but personnel and equipment may vary widely depending upon such factors as the time required for completion, general climatic conditions, seasonal weather patterns, the number of road crossings, the number and size of river crossings, terrain considerations, extent of rock formations, density of heavy timber and amount of swamp.

Onshore construction often involves separate crews to perform the following different functions:

clear the right-of-way;

grade the right-of-way;

excavate a trench in which to bury the pipe;

haul pipe to intermediate stockpiles from which stringing trucks carry pipe and place individual lengths (joints) of pipe alongside the ditch;

bend pipe joints to conform to changes of direction and elevation;

clean pipe ends and line up the succeeding joint;

perform various welding operations;

inspect welds non-destructively;

clean pipe and apply anti-corrosion coatings;

lower pipe into the ditch;

backfill the ditch;

bore and install highway and railroad crossings;

drill, excavate or dredge and install pipeline river crossings;

tie in all crossings to the pipeline;

install mainline valve stations;

conduct pressure testing;

install cathodic protection system; and

perform final clean up.

Special equipment and techniques are required to construct pipelines across wetlands and offshore. We have used swamp pipe laying methods extensively in Nigeria, where a significant portion of our construction operations were carried out in the Niger River Delta. This expertise is applicable in wetland regions elsewhere and can provide a competitive advantage for projects in such venues as south Louisiana, where we expect to see additional work opportunities.

Fabrication. Fabrication services can be a more efficient means of delivering engineered, major process or production equipment with improved schedule certainty and quality. We provide fabrication services and are capable of fabricating such diverse deliverables as process modules, station headers, valve stations, and flare pipes and tips. We currently operate three fabrication facilities in Alberta, Canada, allowing us the opportunity to provide process modules and other fabricated assemblies to the burgeoning heavy oil market in northern Alberta.

Station Construction. Oil and gas companies require various facilities in the course of producing, processing, storing and moving oil and gas. We are experienced in and capable of constructing facilities such as pump stations, flow stations, gas processing facilities, gas compressor stations and metering stations. We can provide a full range of services for the engineering, design, procurement and construction of processing, pumping, compression, and metering facilities. We are capable of building such facilities onshore, offshore in shallow water or in swamp locations. The construction of station facilities, while not as capital-intensive as pipeline construction, is generally characterized by complex logistics and scheduling, particularly on projects in locations where seasonal weather patterns limit construction options, and in countries where the importation process is difficult. Our capabilities have been enhanced by our experience in dealing with such challenges in numerous countries around the world.

Downstream Oil & Gas Construction Services

Our November 2007 acquisition of InServ gives us the ability to provide additional services to our existing customers and entry into the downstream oil and gas market. InServ is a fully integrated solutions provider of turnaround, maintenance and capital projects for the hydrocarbon processing and petrochemical industries, with a customer base including major integrated oil companies, independent refineries and marketers, marketing and pipeline terminals and petrochemical companies. We now provide services to select EPC firms, independent power producers, specialty process facilities and ammonia and fertilizer manufacturing plants and facilities. Our principal downstream construction services include:

- turnkey project services through program management and EPC project services;
- construction and turnaround services which include turnaround services for fluid catalytic cracking units, the main gasoline producing unit in a refinery, which have three to five year required maintenance intervals in order to maintain production efficiency;
- manufacturing services for process heaters, heater coils, alloy piping, specialty components and other equipment for installation in oil refineries;
- heater services including design, manufacture and installation of fired heaters in refining and process plants;
- tank services for construction, maintenance or repair of petroleum storage tanks, typically located at pipeline terminals and refineries; and
- safety services for supplementing a refinery s safety personnel and permitting and providing safety equipment.

Turnkey Project Services. The refining and process industries endeavor to minimize costs through operating efficiencies and hiring experienced process engineering as needed. Often it is more cost effective to engage a contractor to oversee and manage the planning, engineering, procurement, installation and commissioning of new capacity additions, revamps or new process units to support the need to meet new refining or manufacturing specifications. Our experience and capability covers the breadth of all process units in a refinery where we offer

clients a single source solution for accomplishing expansion and revamp programs. We seek to do this in the most efficient, competitive manner and supply both our own personnel and supplemental services of other contractors as needed.

Construction, Turnaround and Specialty Welding Services. When performing a construction and maintenance project as part of a refinery turnaround, detailed planning and execution to minimize the length of the outage, which can cost owners millions of dollars in downtime, is demanded . Our experience includes successful turnaround execution on the largest, most complex fluid catalytic cracking (FCC) units, the major process unit in a refinery. Our record in providing a construction-

driven approach with attention to planning, schedule and safety places us at the forefront of qualified bidders in North America for work on FCC units and that recognition enables us to qualify to bid for most turnaround projects of interest to us. These services include refractory related projects, furnace re-tube and revamp projects, stainless and alloy welding services and heavy rigging and equipment setting. The skills and experience imparted from our turnaround experience apply equally to less schedule-sensitive new construction and we can provide construction services for new units or expansion and revamp projects.

Manufacturing Services. We have manufacturing facilities located on two sites in the Tulsa, Oklahoma area, with easy access to truck, rail, air and river barge transportation through the inland most ice-free port in the United States, the Kerr-McClellan Navigation System. Specialty equipment that can be fabricated includes FCC components, reactors and regenerators, refractory, process heater coils and components, process piping spools (alloy and carbon steel), specialty welding, and plate cutting and rolling. Our Mohawk facility is one of the largest convection section fabricators in the world and additionally fabricates heater and furnace components in our 150,000 square feet of manufacturing space located on our 78 acre site. We believe our ability to combine the quality fabrication and timely manufacturing of these components is complementary to other services we provide and offers a competitive advantage for us.

Heater Services. We are a vertically integrated provider of process heater services in North America which can perform engineering studies; process, mechanical, structural, and instrumentation and electrical design; fabrication and manufacture; and installation and erection of fired heaters in a one-stop shop. We also specialize in modifications to existing fired heaters for expanded service or process improvement. Our senior managers we have over 30 years of experience in this specialized service.

Tank Services. We provide services to the aboveground storage tank industry. Areas we address include: API 653 tank maintenance and repair; floating roof seals; floating roof installations and repairs; secondary containment bottoms, cone roof and structure replacements; and new API 620 /650 aboveground storage tanks. We provide these services as stand-alone or in combination, including EPC solutions.

Safety Services. We provide both safety services and equipment to support the safety and quality requirements of our clients. We can provide safety supervisors, confined space and fire watch services, confined space rescue and training, safety planning services, technicians, training, drug screening and medical personnel. Our safety services also include safety service vehicles to support the services offered and to provide necessary equipment including first aid equipment, fire retardant clothing, fall protection equipment, fresh air equipment, gas detectors and breathing air supply trailers. We are an authorized dealer for fire-retardant and Nomex safety clothing and a variety of equipment lines.

EPC Services

EPC projects often yield profit margins on the engineering and construction components consistent with stand-alone contracts for similar services. Our benefits in the EPC offering include the overall income associated with project management and the income we capture on the procurement component of the contract. Both of these income generating activities are relatively low risk compared with the construction aspect of the project. In performing EPC contracts, we participate in numerous aspects of a project. We are therefore able to determine the most efficient design, permitting, procurement and construction sequence for a project in connection with making engineering and constructability decisions. EPC contracts enable us to deploy our resources more efficiently and capture those efficiencies in the form of improved margins on the engineering and construction components of these projects, at the same time optimizing the overall project solution and execution. While EPC contracts carry lower margins for the procurement component, which can be a significant portion of the total contract value, we believe the increased control over all aspects of the project, coupled with higher margins for engineering and construction portions, makes these types of contracts attractive to us. EPC projects are managed and reported by the segment and business unit best qualified to provide the identified scope of work. We intend to capitalize on being one of the few pipeline engineering, construction and EPC services companies worldwide with the ability to provide the full range of EPC services in order to capture more of this business.

Specialty Services

We utilize the skill sets and resources from our engineering, construction and EPC services to provide a wide range of support and ancillary services related to the construction, operation, repair and rehabilitation of pipelines. Frequently, such services require the utilization of specialized equipment, which is costly and requires operating expertise. Due to the initial equipment cost and operating expertise required, many client

companies hire us to perform these services. We own and operate a variety of specialized equipment that is used to support construction projects and to provide a wide range of oilfield services. We provide the following primary types of specialty services:

transport of dry and liquid cargo;

pipe double-jointing;

rig moves;

maintenance and repair services;

operation and development of facilities; and

building, owning and operating military fueling facilities.

Current Market Conditions

We believe the fundamentals supporting the demand for our services in the energy industry will continue to be strong for the next two to five years as labor and equipment resources continue to be in short supply. The fundamentals supporting the demand for engineering, construction, EPC and specialty services for the oil, gas, power and refinery industries indicate that the market for our services will be strong into 2010. Many positive developments reinforce our view. According to a recent survey by Lehman Brothers, capital spending for the exploration and production sector of the energy industry worldwide is expected to exceed $369 billion in 2008, the sixth year running that this sector has witnessed capital expenditure increases on the scale of over 10 percent. Industrial Information Services is tracking, for 2008 and beyond, a total of 1,282 planned turnarounds in the North American petroleum refining industry, as compared to 257 at the end of 2006. A recent (February 2008) Oil & Gas Journal survey identified over 85,000 miles of pipeline projects planned worldwide for 2008 and beyond as compared to 68,000 miles 2007.

Upstream O&G

A recent survey (Douglas-Westfield) suggests planned worldwide onshore pipeline capital investment over the next five years will total $180 billion. In North America, where we have refocused our business, the survey also indicated that operators plan to spend approximately $43 billion, or 24 percent of the global amount. In the United States, new gas production in the Rocky Mountain region has generated new plans for gas pipelines to the West, Midwest and East Coast. Development of gas reserves in the Barnett, Woodford and Fayetteville shales has created the need for new mainline pipeline infrastructure to transport natural gas to high value markets in the eastern United States. Canadian activity continues to be driven by investment in new bitumen production in the oil sands region, which is expected to exceed Cdn $100 billion as production levels are tripled by year-end 2015. Our analysis suggests expansion of Canadian pipeline infrastructure will require nearly 10,000 km of new crude and natural gas pipelines. Liquefied natural gas (LNG) is also expected to bring more opportunities, both in North America and in other producing/exporting countries. We also believe actual material failures in aging pipeline infrastructure and the ensuing affect on the commodity markets will drive additional expenditures on pipeline maintenance in North America. Our internal analysis of the market for pipeline maintenance services indicates expenditures in excess of $500 million per year.

Downstream O&G

The supply of light and medium sweet crude in the United States is declining. This results in the need to process heavier, more sour crude streams. Many of the existing refineries require upgrading in order to process this lower quality crude supply. Tighter environmental standards relative to sulfur content in motor fuels are driving additional upgrades to existing refineries. These upgrades, combined with capacity increases to meet greater demand for refined products are precipitating more extensive maintenance activities and expenditures. An increase of 1.6 million barrels of refining capacity is planned in the United States by 2012. These increases are expected through expansions of existing refineries. Industry data indicate that the market in the United States for capital maintenance, repair and

overhaul (MRO) projects will continue to exceed $8 billion per year. More than 260 turnarounds are planned in the next three years and along with high utilization rates of refineries, coupled with margins higher than historical averages, have generated incremental funds for our clients to perform upgrades and critical maintenance. As the investment in crude upgrading in the Canadian oil sands comes on line, refiners planning to process the new feedstock will be installing additional residual conversion capacity. Additionally, FCC feed pre-treating capacity will also be necessary to maintain acceptable yields. Increased demand for new hydrocracking capacity and associated services will provide new turnaround, maintenance and construction opportunities for our downstream business.

Engineering

The engineering market in North America continues to be capacity constrained and we are selecting and accepting assignments that offer higher margins and position us for EPC assignments. Our engineering operations are currently at capacity, constrained by the availability of qualified personnel. We believe our location in Tulsa, Oklahoma protects us to some degree from the high turnover of technical employees, characteristic in energy centers such as Houston, Texas. Our successful expansion of engineering activity into the Salt Lake City, Utah area has provided us a model for expansion into other areas. We have also established an engineering office in Kansas City, Missouri to address opportunities in the pipeline maintenance market and to access additional professional staff.

General

We believe the high level of engineering activity in recent years has been the precursor to higher levels of construction activity in North America. These expected higher activity levels are evidenced by our backlog at December 31, 2007 of $1.3 billion for continuing operations which reflects growth of work under contract from $602.3 million at December 31, 2006; and by proposed major pipeline projects, such as the Bronco and Ruby projects to transport natural gas to west coast markets in the United States; and our discussions with potential customers regarding pipeline and station construction projects in North America.

Additionally, our recent contract awards, coupled with the increase in engineering assignments, reinforce our belief that our ability to obtain improved terms and conditions and better pricing will continue in the near term. We believe customers recognize the imbalance in the supply and demand for pipeline engineering, construction and EPC services, and will offer better terms and conditions, resulting in lower pressure on us to dampen pricing increases for our services.

Demand in the United States market, coupled with the InServ acquisition, led the improvement in backlog for continuing operations in 2007, and we believe demand will continue to be strong. Backlog in the Downstream Oil & Gas segment at December 31, 2007 of $199.6 million was all attributable to the InServ acquisition. We also expect the international market to continue to exhibit strengthening demand as new energy infrastructure developments are contemplated in North Africa and the Middle East, markets which are of interest to us. The following factors have caused the future outlook for our business to strengthen:

Generally healthy refining margins resulting in continued strong budgets dedicated to refinery construction, maintenance and turnarounds and expansion of capacity.

Increased numbers of refineries scheduling projects to enable upgraded processing of the increased production of crude from the Canadian market.

Significant increases in the market for petroleum storage tanks due to the infrastructure changes occurring in the crude oil supply chain.

The large economic base of hydrocarbon reserves in northern Canada and the commitments to large capital projects to develop them.

Increased demand in North America for natural gas has resulted in the citing, permitting and approval of new LNG regasification terminals in addition to multiple proposals for additional facilities, principally regasification terminals and connecting pipelines in North America, but also de-bottlenecking of existing systems to allow higher flow rates.

Increased demand for natural gas worldwide has also resulted in new LNG liquefaction facilities and expansion of existing facilities to meet the higher demand levels. These new facilities require additional pipeline capacity to transport the feed gas for liquefaction in such places as North Africa and the Middle East.

Global economic conditions have increased demand for oil, gas and power resulting in an increase in the expected number of oil, gas and power projects.

The increasing use of the EPC contract model should allow us to improve our market share in North America.

New holders of North American pipeline assets acquired in the past three years through merger or outright purchase are now implementing plans to expand or upgrade those assets.

Major customers are benefiting from high discretionary cash flow, which should enable them to implement expanded capital construction programs.

As a result of these factors, we expect our revenue from continuing operations in 2008 to increase from the 2007 level.

In the mid to long-term, we believe several factors influencing the global energy markets will result in increased activity across our primary lines of business. The fundamental factors that we expect will lead to higher levels of energy-related capital expenditures include:

- efforts to establish new oil and gas production in more politically secure regions of the world;
- rising global energy demand resulting from economic growth in developing countries;
- the need for larger oil and gas transportation infrastructures in a number of developing countries;
- the increasing role of natural gas as a fuel for power generation and other uses in producing countries;
- decline in existing producing reservoirs which will require additional investment to stabilize or reverse the decline in production;
- initiatives to reduce natural gas flaring worldwide; and
- the aging of energy infrastructure.

Partially offsetting these positive factors is the potential for political and social unrest in some countries of interest to us and the movement toward more populist programs in Latin America, which have the effect of diminishing access to capital for projects. We view these markets as having limited opportunities in the near term.

Price escalations for equipment, labor, fuel and permanent materials, and shortages of qualified technical and field personnel required to complete many proposed projects may impact project economics and schedules, resulting in delays and possible cancellation of some proposed projects.

Business Strategy

We seek to maximize stockholder value through our business strategy. This strategy is summarized by the following strategic imperatives:

- concentrate resources in North America to address of the current business cycle expansion;
- leverage engineering expertise to attract additional EPC contracts;
- increase contract margin through improved bidding discipline and contract management;
- penetrate, on a selective basis, international markets with relatively more attractive operating and financial parameters;
- align G&A costs with revenue; and
- manage cash rigorously.

We rely on the competitive advantage gained from:

- our experience in the construction, modification and maintenance at refinery process units;
- our experience in performing large-diameter cross-country pipeline construction in remote areas with difficult terrain and harsh climatic conditions;
- our ability to manage complex EPC projects to optimize the ultimate project solution;
- our longstanding customer relationships; and

our experienced multinational employee base. Recognizing that our employees are key to our competitive advantage, we continue to invest in them to ensure that they have the training and tools needed to be successful in today s challenging environment.

In carrying out the core elements of our long-term strategies, we build from the following experiences and capabilities:

Engineering. We are one of the few U.S. pipeline constructors with engineering capability. Our engineering experience and capability includes all the service offerings of a full-service engineering firm from feasibility studies through turnkey program management. This engineering capability affords us opportunities for early involvement in project development and allows us to influence the final project structure to benefit both the client and ourselves with respect to efficiencies which can be realized through application of broad technical expertise gained from performing natural gas, crude oil and products pipeline projects worldwide.

Construction. We have constructed over 200,000 kilometers of pipelines during our long history. Our skill sets include pipeline and station construction in all types of terrain, from coastal plains, mountains, swamps and desert, to arctic environments. We have also worked in 59 different countries and have logistics and constructability experience to accommodate multiple solutions for project execution depending upon client preference and availability of equipment and personnel. We have crossed the Andes Mountains five

times and completed multiple projects in Alaska, Africa, Canada, the United States, Asia and South America. We are a leader in employing automated welding procedures in the construction of large-diameter pipelines.

EPC Contracts. We pursue EPC contracts because they can often yield higher profit margins on the engineering and construction components of the contract compared to stand-alone contracts for similar services. In performing EPC contracts, we participate in numerous aspects of a project. We are therefore able to determine the most efficient design, permitting, procurement and construction sequence for a project in connection with making engineering and constructability decisions. EPC contracts enable us to deploy our resources more efficiently and capture those efficiencies in the form of improved margins on the engineering and construction components of these projects, at the same time optimizing the overall project solution and execution. While EPC contracts carry lower margins for the procurement component, which can be a significant portion of the total contract value, we believe the increased control over all aspects of the project, coupled with higher margins for engineering and construction portions, makes these types of contracts attractive to us. We intend to capitalize on being one of the few pipeline engineering, construction and EPC services companies worldwide with the ability to provide the full range of EPC services in order to capture more of this business.

Conservative Financial Management. We understand and emphasize that a strong balance sheet is needed to develop and grow our business. We also seek to obtain contracts that are likely to result in recurring revenue in order to partially mitigate the cyclical nature of our engineering, construction and EPC businesses. Improved systems and processes for contract management are intended to maximize the cash flows from projects and minimize project working capital requirements. Additionally, whenever possible we act to minimize our exposure to currency fluctuations through the use of US dollar-denominated contracts and by limiting payments in local currency to approximately the amount of local currency expense. We may seek additional financing, in the form of either debt or equity, as market conditions allow and as business opportunities and capital equipment requirements may dictate.

Our focus in 2008 will be on execution of the record backlog at December 31, 2007, continued emphasis on adding higher quality backlog with the best risk-adjusted returns, growing our downstream oil & gas business, continuing the implementation of more sophisticated and effective contract management systems and processes, aligning general and administrative cost levels with revenue, and leveraging engineering expertise to attract additional EPC contracts.

Ethical Business Practices. We demand that all of our employees and representatives conduct business in accordance with the highest ethical standards, in compliance with applicable laws, rules and regulations, with honesty and integrity, and in a manner which demonstrates respect for others. Our tradition of doing the right thing and abiding by the rule of law is reflected in our longstanding Code of Business Conduct and Ethics (the Code). In addition, in March 2005 we issued an enhanced Foreign Corrupt Practices Act Compliance Manual (the Manual).

Both the Code and the Manual are available on our website and detail specific procedures to be followed in each employee s day-to-day activities in order to ensure compliance. The Code and the Manual are not just summary guidelines documenting