WILLBROS GROUP INC
Form 10-Q
November 09, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

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)

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 x No ¨

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 ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

The number of shares of the registrant s Common Stock, $.05 par value, outstanding as of November 1, 2006 was 25,525,914

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WILLBROS GROUP, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,476	$ 55,933
Restricted cash	1,500	
Accounts receivable, net	102,414	83,986
Contract cost and recognized income not yet billed	14,963	7,619
Prepaid expenses	16,291	11,871
Parts and supplies inventories	2,135	2,509
Assets of discontinued operations	285,729	261,099
Total current assets	438,508	423,017
Deferred tax assets	3,700	4,247
Property, plant and equipment, net	66,467	59,706
Goodwill	6,894	6,687
Other assets	9,027	5,324
Total assets	$ 524,596	$ 498,981
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 2,660	$ 2,680
Accounts payable and accrued liabilities	82,219	67,582
Contract billings in excess of cost and recognized income	6,950	1,342
Accrued income tax	783	2,368
Liabilities of discontinued operations	180,153	144,085
Total current liabilities	272,765	218,057
2.75% Convertible senior notes	70,000	70,000
6.5% Senior convertible notes	84,500	65,000
Long-term debt	10,380	340
Other liabilities	337	350
Total liabilities	437,982	353,747
Contingencies and commitments (Note 10)		
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 (35,000,000 shares at December 31, 2005); 21,959,470 shares issued (21,649,475 at December 31, 2005)	1,099	1,082

Capital in excess of par value		163,139		161,596
Accumulated deficit		(80,013)		(15,166)
Treasury stock at cost, 155,916 shares (98,863 at December 31, 2005)		(1,960)		(1,163)
Deferred compensation				(3,720)
Notes receivable for stock purchases				(231)
Accumulated other comprehensive income		4,349		2,836
Total stockholders equity		86,614		145,234
Total liabilities and stockholders equity	$	524,596	$	498,981

See accompanying notes to condensed consolidated financial statements.

WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Contract revenue	$ 125,466	$ 65,034	$ 352,181	$ 176,527
Operating expenses:				
Contract	113,418	59,430	320,628	161,368
Depreciation and amortization	3,265	2,996	9,180	8,547
General and administrative	11,092	10,376	33,133	30,262
	127,775	72,802	362,941	200,177
Operating loss	(2,309)	(7,768)	(10,760)	(23,650)
Other income (expense):				
Interest net	(2,709)	(1,602)	(6,132)	(2,637)
Other net	432	(674)	105	482
	(2,277)	(2,276)	(6,027)	(2,155)
Loss from continuing operations before income taxes	(4,586)	(10,044)	(16,787)	(25,805)
Provision (benefit) for income taxes	379	(1,094)	1,811	(1,969)
Net loss from continuing operations	(4,965)	(8,950)	(18,598)	(23,836)
Loss from discontinued operations net of provision for income taxes	(17,136)	(8,603)	(46,249)	(13,534)
Net loss	$ (22,101)	$ (17,553)	$ (64,847)	$ (37,370)
Basic loss per common share:				
Loss from continuing operations	$ (0.23)	$ (0.42)	$ (0.87)	$ (1.12)
Loss from discontinued operations	(0.80)	(0.41)	(2.15)	(0.64)
Net loss	$ (1.03)	$ (0.83)	$ (3.02)	$ (1.76)
Diluted loss per common share:				
Loss from continuing operations	$ (0.23)	$ (0.42)	$ (0.87)	$ (1.12)
Loss from discontinued operations	(0.80)	(0.41)	(2.15)	(0.64)
Net loss	$ (1.03)	$ (0.83)	$ (3.02)	$ (1.76)
Weighted average number of common shares outstanding:				
Basic	21,557,695	21,254,987	21,480,730	21,252,994

Diluted	21,557,695	21,254,987	21,480,730	21,252,994

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 amounts)

(Unaudited)

	Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Deferred Compensation	Notes Receivable for Stock Purchases	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
	Shares	Par Value							
Balance, January 1, 2006	21,649,475	$ 1,082	$ 161,596	$ (15,166)	$ (1,163)	$ (3,720)	$ (231)	$ 2,836	$ 145,234
Comprehensive loss:									
Net loss				(64,847)					(64,847)
Foreign currency translation adjustment								1,513	1,513
Total comprehensive loss									(63,334)
Adoption of SFAS 123R			(3,720)			3,720			
Amortization of note discount							(12)		(12)
Stock received for note					(243)		243		
Restricted stock grants	90,000	5	(5)						
Compensation from share-based payments			3,054						3,054
Vesting of restricted stock rights	10,625	1	(1)						
Additions to treasury stock					(554)				(554)
Exercise of stock options	209,370	11	2,215						2,226
Balance, September 30, 2006	21,959,470	$ 1,099	$ 163,139	$ (80,013)	$ (1,960)	$	$	$ 4,349	$ 86,614

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$ (64,847)	$ (37,370)
Reconciliation of net loss to net cash provided by (used in) operating activities:		
Loss from discontinued operations	46,249	13,534
Depreciation and amortization	9,180	8,547
Amortization of debt issue costs	1,911	2,111
Amortization of deferred compensation	3,054	1,893
Amortization of discount on notes receivable for stock purchases	(12)	(11)
Gain on retirements of property, plant and equipment	(4,563)	(885)
Deferred income tax provision	90	
Equity in joint ventures	(753)	
Changes in operating assets and liabilities:		
Accounts receivable	(17,449)	2,598
Contract cost and recognized income not yet billed	(7,344)	(5,434)
Prepaid expenses	5,055	(2,134)
Parts and supplies inventories	224	69
Other assets	(1,503)	169
Accounts payable and accrued liabilities	13,830	2,172
Accrued income tax	(1,446)	(2,975)
Contract billings in excess of cost and recognized income	5,604	(1,204)
Other liabilities	3	
Cash used in operating activities of continuing operations	(12,717)	(18,920)
Cash provided by (used in) operating activities of discontinued operations	(59,585)	5,908
Cash used in operating activities	(72,302)	(13,012)
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	8,243	1,868
Increase in restricted cash	(1,500)	
Purchases of property, plant and equipment	(12,389)	(14,663)
Cash used in investing activities of continuing operations	(5,646)	(12,795)
Cash provided by (used in) investing activities of discontinued operations	29,891	(13,811)
Cash provided by (used in) investing activities	24,245	(26,606)
Cash flows from financing activities:		
Proceeds from issuance of 6.5% senior convertible notes	19,500	
Proceeds from issuance of common stock	2,226	362
Repayment of notes payable	(9,385)	
Costs of debt issues	(3,776)	(21)
Acquisition of treasury stock	(554)	(231)
Repayments of long-term debt	(134)	(3,616)

Payments on capital lease	(36)	(409)
Proceeds from notes payable		779
Cash provided by (used in) financing activities of continuing operations	7,841	(3,136)
Cash provided by (used in) financing activities of discontinued operations		
Cash provided by (used in) financing activities	7,841	(3,136)

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WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
Effect of exchange rate changes on cash and cash equivalents	$ (241)	$ 475
Cash used in all activities	(40,457)	(42,279)
Cash and cash equivalents, beginning of period	55,933	73,166
Cash and cash equivalents, end of period	$ 15,476	$ 30,887
Cash payments made during the period:		
Interest related to continuing operations	$ 4,601	$ 2,341
Interest related to discontinued operations		43
Total interest	$ 4,601	$ 2,384
Income taxes related to continuing operations	$ 2,480	$ 786
Income taxes related to discontinued operations	8,310	9,099
Total income taxes	$ 10,790	$ 9,885
Non-cash investing and financing transactions (all related to continuing operations):		
Prepaid insurance obtained by note payable	$ 9,385	$
Property obtained by capital lease	$ 11,635	$ 6,181
Settlement of officer note receivable for stock	$ 243	$

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. Basis of Presentation

The preceding condensed consolidated balance sheet as of December 31, 2005, which has been derived from audited consolidated financial statements, and the preceding unaudited interim condensed consolidated financial statements as of September 30, 2006, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As of September 30, 2006, 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, although the Company believes that the disclosures made are adequate to make the information not misleading.

The unaudited condensed consolidated financial statements of Willbros Group, Inc. and its majority-owned subsidiaries (the Company) reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary to present fairly the financial position as of September 30, 2006, and the results of operations and cash flows of the Company for all interim periods presented.

These condensed consolidated financial statements should be read in conjunction with the Company s December 31, 2005 audited consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The results of operations and cash flows for the nine-month period ended September 30, 2006 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 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. Certain prior period amounts have been reclassified to be consistent with current presentation.

As discussed in Note 2, the Company sold its TXP-4 Plant on January 12, 2006 and the majority of its Venezuela operations and assets on August 17, 2006. The remainder of the Venezuelan assets is expected to be sold during the fourth quarter of 2006. Additionally, the Company has its Nigeria operations and assets for sale. 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.

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 and obsolescence. Parts and supplies are valued at the lower of cost or market value, net of a reserve for obsolescence of $2,135 and $2,509 at September 30, 2006 and December 31, 2005, respectively. Using the same valuation and obsolescence policies as continuing operations, discontinued operations had parts and supplies of $21,405 and $16,818 at September 30, 2006 and December 31, 2005, respectively.

Cash and cash equivalents includes $15,000 of cash required as a minimum balance as stipulated by a waiver and amendment to the Company s 2004 Credit Facility (see Note 7). Additionally, the Company had $1,500 of restricted cash related to a funded letter of credit. As of October 27, 2006, the letter of credit was replaced with a letter of credit from the new credit facility resulting in the $1,500 being no longer restricted.

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(Unaudited)

2. Discontinuance of Operations and Asset Disposal

Strategic Decisions

As part of the Company s ongoing strategic evaluation of operations, the following businesses have been discontinued: Nigeria, Venezuela, and the TXP-4 Plant, collectively the Discontinued Operations , and accordingly, these businesses are presented as discontinued operations in the preceding condensed consolidated financial statements. The net assets and net liabilities related to the Discontinued Operations are shown on the Condensed Consolidated Balance Sheets as components of Assets of discontinued operations and Liabilities of discontinued operations , respectively. The results of the Discontinued Operations are shown on the Condensed Consolidated Statements of Operations as a component of Loss from discontinued operations net of provision for income taxes , for all periods shown.

The separate results of the Discontinued Operations, as well as a break down of the major classes of assets and liabilities included as part of Discontinued Operations, are detailed in the subsequent tables.

Nigeria

An international investment bank has been engaged to sell the Company s Nigeria operations and assets. The process has identified several qualified potential purchasers, and negotiations are in progress. At this time the Company is unable to determine the gain or loss upon the ultimate disposal of the Nigeria operations and assets. The Company expects to be able to reach an agreement on the sale by the end of the first quarter of 2007 or shortly thereafter. Nigeria operations and assets were previously included in the Company s *International* segment.

As part of the sales process, the Company continues to evaluate the carrying value of the Nigeria assets and operations with respect to their estimated market value. For the third quarter of 2006, the Company did not recognize an impairment of the Nigeria assets based upon this analysis. Any impairment would be included in the Loss from discontinued operations net of provision for income taxes .

Venezuela

Asset disposal On August 17, 2006 the Company entered into a Share Purchase Agreement with a Venezuelan company (the Buyer), pursuant to which the Company sold all of its membership interests in Willbros (Barbados) Limited, Inc. (WBL), a wholly-owned subsidiary of the Company. WBL owns all of the assets and operations of the Company in Venezuela, with the exception of joint-venture interest in Harwat International Finance Corporation NV (Harwat). The Company received cash payments of $7,000 for conveyance of WBL with no gain recognized subject to the pending sale discussed below. The Venezuela operations and assets were previously a component of the Company s *International* segment.

Pending joint-venture interest disposal As part of the Share Purchase Agreement, Buyer has also agreed to buy the Company s 10% interest in Harwat. The sale of the Harwat interest is expected to be completed in the fourth quarter of 2006. The Company is scheduled to receive $3,300 in notes receivable from Buyer for the Company s ownership interest in Harwat with a potential gain of $1,595 to be recognized contingent on collection of the notes receivable.

TXP-4 Plant

Asset disposal On January 12, 2006, the Company entered into a Purchase Agreement and Release with Williams Field Services Company (Williams), a wholly-owned subsidiary of The Williams Companies, Inc., pursuant to which the Company sold to Williams all of its membership interest in Opal TXP-4 Company, LLC, a wholly-owned subsidiary of the Company (the LLC). The LLC owns a gas processing plant known as the TXP-4 Plant (the TXP-4 Plant) at Opal in Lincoln County, Wyoming, in addition to certain facilities, equipment and supplies related to the TXP-4 Plant. Prior to the sale, the TXP-4 Plant was a component of the *US & Canada* segment. The Company received cash payments of $27,944 for conveyance of the LLC and realized a pre-tax gain of $2,033 and an after-tax gain of $1,342.

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(Unaudited)

2. Discontinuance of Operations and Asset Disposal (continued)

The sale was effective at 12:01 a.m. Central Standard Time on January 1, 2006. The only financial effect from the sale for the three or nine months ended September 30, 2006, is the gain on the sale, reflected as a component of the Loss from discontinued operations net of provision for income taxes .

In addition to the cash payments described above, Williams agreed to pay the Company a portion of any recovery that Williams may obtain in the future from third parties which is based on damages, loss or injury related to the TXP-4 Plant or the Jonah Dehy, 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 Purchase Agreement date. The timing and amount of any resolution to these claims cannot be estimated.

Contingencies, Commitments and Other Circumstances

At September 30, 2006 and December 31, 2005, other assets and accounts receivable of the Discontinued Operations include anticipated recoveries from insurance or third parties of $300 and $4,656, respectively, primarily related to the repair of pipelines. The Company believes the recovery of these costs from insurance or other parties is probable. Actual recoveries may vary from these estimates.

At September 30, 2006, the Company had approximately $24,933 of letters of credit outstanding associated with Discontinued Operations representing the maximum amount of future payments the Company could be required to make. See Note 10 for additional information on letters of credit and insurance bonds. The Company had no liability recorded as of September 30, 2006, related to these commitments.

Nigerian National Labor Contract

The previous Nigerian national labor contract covering approximately 1,600 National laborers at the Company s Choba Site 1 facility expired in March 2006. A replacement agreement executed in May mistakenly included labor rate increases ranging between 300% to 350% which the labor union claims are binding upon the Company notwithstanding the obvious mistake in fact and other legal deficiencies in the form and substance of the replacement agreement (the May Agreement). However, based upon opinions of legal counsel in Nigeria, for a variety of reasons the Company believes the May Agreement is unenforceable in its current form and the Company and its legal counsel are pursuing measures to rectify the mistake and related deficiencies in the purported agreement, including, without limitation, through negotiation, mediation, and judicial actions provided for under the labor laws of Nigeria. During this rectification process, however, the Company has voluntarily increased the labor rate by 20%. An accrued liability of $6,900 has been recorded at September 30, 2006 to reflect the Company s current estimate of additional end-of-service costs attributable to reaching a mutually acceptable final form of labor agreement. Although the Company does not currently anticipate that the May Agreement will be determined to be enforceable in its current mistaken form, should rectification of that agreement be unsuccessful through the labor relations and related legal processes now underway, a substantially greater monthly labor expense would be incurred by the Company and an estimated additional $26,000 of end-of-service liability would result, making continued operations in Nigeria uneconomical. Also, this rectification process now underway by the Company has incited protests and strikes from the rank and file workers covered by the May Agreement. The labor union has complained to national, local and regional politicians and the matter will soon be heard by the Labor Board to be resolved.

Joint Ventures

Venezuela

In connection with the Company s 10% interest in a joint venture in Venezuela, the Company issued a corporate guarantee equal to 10% of the joint venture s outstanding borrowings with two banks. The guarantee decreases as borrowings are repaid. As of September 30, 2006, the maximum amount of future payments the Company could be required to make under this guarantee is approximately $1,408. The Company anticipates its guarantee to the two banks would terminate with the closing of the sale of the Venezuelan operations and assets.

This obligation will be transferred to the Buyer in connection with the pending joint-venture investment disposal described above.

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(Unaudited)

2. Discontinuance of Operations and Asset Disposal (continued)

Nigeria

Kanssen International Pipe Coating Services, Limited (Kanssen) and Willbros West Africa, Inc (WWAI) entered into an agreement to upgrade facilities at the WWAI Choba location pipe coating facilities. The agreement was signed in June 2006 and included an installation of new concrete weight coating equipment furnished by Kanssen. The new agreement supersedes an existing memorandum of understanding of October 14, 2005.

The new agreement updates the working arrangement between Kanssen and WWAI whereby each party participates in the venture with a 50% interest. Kanssen will supply the equipment and WWAI will supply the plant building and facilities, and utilities. WWAI will be paid a management fee not to exceed 9% of revenue on each contract.

Results of Discontinued Operations

Statements of operations of Discontinued Operations are as follows:

	Three Months Ended September 30, 2006			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 102,304	$ 43	$	$ 102,347
Operating expenses:				
Contract	112,432	114		112,546
Depreciation and amortization				
General and administrative	7,184	46		7,230
	119,616	160		119,776
Operating loss	(17,312)	(117)		(17,429)
Other income (expense)	3,478	(1)		3,477
Loss before income taxes	(13,834)	(118)		(13,952)
Provision for income taxes	3,184			3,184
Net loss	$ (17,018)	$ (118)	$	$ (17,136)

	Three Months Ended September 30, 2005			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 89,079	$ 147	$ 4,587	$ 93,813
Operating expenses:				
Contract	83,041	425	3,750	87,216

Depreciation and amortization	2,125	149	244	2,518
General and administrative	9,628	45		9,673
	94,794	619	3,994	99,407
Operating income (loss)	(5,715)	(472)	593	(5,594)
Other income	137	268		405
Income (loss) before taxes	(5,578)	(204)	593	(5,189)
Provision for income taxes	3,212		202	3,414
Net income (loss)	$ (8,790)	$ (204)	$ 391	$ (8,603)

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(Unaudited)

2. Discontinuance of Operations and Asset Disposal (continued)

	Nine Months Ended September 30, 2006			
				Discontinued
	Nigeria	Venezuela	Opal TXP-4	Operations
Contract revenue	$ 375,275	$ 257	$	$ 375,532
Operating expenses:				
Contract	372,487	562		373,049
Depreciation and amortization	3,607	378		3,985
General and administrative	20,339	322		20,661
	396,433	1,262		397,695
Operating loss	(21,158)	(1,005)		(22,163)
Other income (expense)	(11,022)	164	2,033	(8,825)
Income (loss) before taxes	(32,180)	(841)	2,033	(30,988)
Provision for income taxes	14,427	143	691	15,261
Net income (loss)	$ (46,607)	$ (984)	$ 1,342	$ (46,249)

	Nine Months Ended September 30, 2005			
				Discontinued
	Nigeria	Venezuela	Opal TXP-4	Operations
Contract revenue	$ 260,307	$ 324	$ 17,487	$ 278,118
Operating expenses:				
Contract	230,020	1,094	13,524	244,638
Depreciation and amortization	6,020	451	754	7,225
General and administrative	25,115	515		25,630
Other operating expense	1,084			1,084
	262,239	2,060	14,278	278,577
Operating income (loss)	(1,932)	(1,736)	3,209	(459)
Other income (expense)	(794)	252		(542)
Income (loss) before taxes	(2,726)	(1,484)	3,209	(1,001)
Provision for income taxes	11,442		1,091	12,533
Net income (loss)	$ (14,168)	$ (1,484)	$ 2,118	$ (13,534)

During the three-month and nine-month periods ended September 30, 2006, the Company recorded income taxes of $3,184 and $15,261, respectively, on losses before income taxes from discontinued operations of $13,952 and $30,988, respectively. During the three-month and nine-month periods ended September 30, 2005, the Company recorded a provision for income taxes of $3,414 and $12,533, respectively, on losses before income taxes from discontinued operations of $5,189 and $1,001, respectively.

The circumstances that gave rise to the Company recording provisions for income taxes when the Company had losses before income taxes for the three and nine month periods ended September 30, 2006 and September 30, 2005, is that Nigerian operations are generally subject to a deemed profits tax whereby tax liabilities are incurred based on revenue earned rather than taxable income.

WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(Unaudited)

2. Discontinuance of Operations and Asset Disposal (continued)

Financial Position of Discontinued Operations

Balance sheets of Discontinued Operations are as follows:

	September 30, 2006			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Current assets:				
Cash and cash equivalents	$ 21,857	$	$	$ 21,857
Accounts receivable, net	113,231			113,231
Contract cost and recognized income not yet billed	63,403			63,403
Prepaid expenses	13,914			13,914
Parts and supplies inventories	21,405			21,405
Total current assets	233,810			233,810
Property, plant and equipment, net	47,850			47,850
Investments in joint ventures		3,465		3,465
Other assets	604			604
Total assets	282,264	3,465		285,729
Current liabilities	180,153			180,153
Total liabilities	180,153			180,153
Net assets of discontinued operations	$ 102,111	$ 3,465	$	$ 105,576

	December 31, 2005			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Current assets:				
Cash and cash equivalents	$ 9,514	$ 134	$	$ 9,648
Accounts receivable, net	93,667			93,667
Contract cost and recognized income not yet billed	36,392	32		36,424
Prepaid expenses	14,716	163		14,879
Parts and supplies inventories	16,818			16,818
Total current assets	171,107	329		171,436
Property, plant and equipment, net	52,200	4,354		56,554
Asset held for sale			23,049	23,049
Investments in joint ventures		3,961		3,961

Deferred tax assets		693		693
Other assets	5,256	150		5,406
Total assets	228,563	9,487	23,049	261,099
Current liabilities	142,171	498		142,669
Other liabilities		536	880	1,416
Total liabilities	142,171	1,034	880	144,085
Net assets of discontinued operations	$ 86,392	$ 8,453	$ 22,169	$ 117,014

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WILLBROS GROUP, INC.

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(Unaudited)

3. Stock-Based Compensation

The information contained in this note pertains to continuing and discontinued operations.

The Company has three stock ownership plans under which awards were or may be granted to employees and outside directors in the form of non-qualified stock options, incentive stock options, restricted shares and restricted rights. The options granted to employees under the Willbros stock ownership plans generally vest over four years and expire after ten years. Options granted to outside directors vest six months after the date of grant and expire after ten years. All restricted stock grants and restricted stock rights, also described collectively as restricted stock units (RSU s), granted to employees have service conditions and vest in installments over periods of up to five years. Restricted stock granted to outside directors vests one year after the date of grant. Shares of common stock reserved for future grants under the plans were 980,558 at September 30, 2006.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R using the modified prospective application method. Under this method, compensation cost recognized in the three-month and nine-month periods ended September 30, 2006 includes the applicable amounts of: (a) compensation expense of all share-based payments granted prior to, but not yet vested as of, January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and previously presented in the pro forma footnote disclosures in the Company s SEC reports), and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R). The Company uses the Black-Scholes valuation method to determine the fair value of stock options granted as of the grant date. Results for prior periods have not been adjusted.

The following table summarizes the impact of recognizing compensation expense related to stock options using the fair value recognition provisions of SFAS No. 123R for the three-month and nine-month periods ended September 30, 2006:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Share-based salaries and wages	$ (54)	$ (325)
Less: income taxes		
Increase in net loss	$ (54)	$ (325)
Increase in basic loss per share	$	$ (0.02)
Increase in diluted loss per share	$	$ (0.02)

Share-based compensation related to RSU s is recorded based on the Company s stock price as of the grant date. Recognition of share-based compensation related to RSU s was not impacted by the adoption of SFAS No. 123R. Expense from both stock options and RSU s totaled $1,186 and $3,054, respectively, for the three-month and nine-month periods ended September 30, 2006. The Company had no tax benefits related to either stock options or RSU s during the three-month and nine-month periods ended September 30, 2006.

Prior to January 1, 2006, the Company accounted for awards granted under the incentive plans following the recognition and measurement principles of Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by SFAS No. 123. Because it is the Company s policy to grant stock options at the market price on the date of grant, the intrinsic value of these grants was zero and, therefore, no compensation expense was recorded. Under the modified prospective application method, results for prior periods have not been adjusted to reflect the effects of implementing SFAS No. 123R. The following pro forma information is presented for comparative purposes and illustrates the pro forma effect on net loss and net loss per share for the three-month and nine-month periods ended September 30, 2005, as if the Company had applied the fair value recognition provisions of SFAS No. 123 to share-based compensation prior to January 1, 2006:

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

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3. Stock-Based Compensation (continued)

	Pro Forma Three Months Ended September 30, 2005	Pro Forma Nine Months Ended September 30, 2005
Net loss, as reported	$ (17,553)	$ (37,370)
Add: stock-based employee compensation included in net loss	706	1,964
Less: stock-based employee compensation determined under fair value method	(783)	(2,121)
Net loss, pro forma	$ (17,630)	$ (37,527)
Per share amounts:		
Basic net loss per share, as reported	$ (0.83)	$ (1.76)
Basic net loss per share, pro forma	$ (0.83)	$ (1.77)
Diluted net loss per share, as reported	$ (0.83)	$ (1.76)
Diluted net loss per share, pro forma	$ (0.83)	$ (1.77)

The fair values of stock options granted during the nine-month periods ended September 30, 2006 and 2005, were estimated using the Black-Scholes valuation method with the weighted average assumptions listed below:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Weighted average grant date fair value	$ 6.72	$ 6.75
Weighted average assumptions used:		
Expected volatility	45.66%	43.61%
Expected lives	3.46 yrs	3.00 yrs
Risk-free interest rates	4.66%	2.28%
Expected dividend yield	0.00%	0.00%

Volatility is calculated using an analysis of historical volatility. The Company believes that the historical volatility of the Company s stock is the best method for estimating future volatility. The expected lives of options are determined based on the Company s historical share option exercise experience. The Company believes the historical experience method is the best estimate of future exercise patterns currently available. The risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

Stock option activity for the nine months ended September 30, 2006, consists of:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2006	887,270	$ 11.76
Granted	180,000	17.44
Exercised	(209,370)	10.63
Forfeited	(24,000)	13.13
Outstanding at September 30, 2006	833,900	$ 13.23
Exercisable at September 30, 2006	668,900	$ 12.30

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3. Stock-Based Compensation (continued)

As of September 30, 2006, the aggregate intrinsic value of stock options outstanding and stock options exercisable was $2,481 and $2,364, respectively. The weighted average remaining contractual term of the exercisable options is 4.9 years at September 30, 2006. During the nine months ended September 30, 2006, the total intrinsic value of options exercised was $2,174. There was no tax benefit realized related to those exercises.

Activity related to RSU s for the nine months ended September 30, 2006, is summarized in the following table:

	Number of RSU s	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2006	441,375	$ 19.61
Granted	140,000	18.38
Vested, shares released	(123,875)	17.87
Forfeited	(9,375)	17.33
Outstanding at September 30, 2006	448,125	$ 19.75

The RSU s outstanding at September 30, 2006 include 41,666 RSU s which are vested but have a deferred share issuance date.

As of September 30, 2006, there was a total of $5,818 of unrecognized compensation costs, net of estimated forfeitures, related to all non-vested share-based compensation arrangements granted in the Company s incentive plans. That cost is expected to be recognized over a weighted-average period of 1.43 years.

4. New Accounting Pronouncements

SAB No. 108

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that companies should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the Company s fiscal year ending December 31, 2006. The adoption of SAB 108 will only impact the Company s consolidated financial statements if the Company has misstatements in the future.

FIN No. 48

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes . This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS Statement No. 109. The interpretation prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 31, 2006. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

WILLBROS GROUP, INC.

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(In thousands, except share and per share amounts)

(Unaudited)

4. New Accounting Pronouncements (continued)

SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payments . This standard requires expensing of stock options and other share-based payments and supersedes SFAS No. 123, which had allowed companies to choose between expensing stock options or showing pro forma disclosure only. SFAS No. 123R eliminates the alternative of applying the intrinsic value measurement provisions of APB Opinion No. 25 to stock compensation awards issued to employees. Rather, the new standard requires a company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This standard is effective for annual reporting periods beginning after June 30, 2005 and will apply to all awards granted, modified, cancelled or repurchased after that date, as well as the unvested portion of prior awards. The Company adopted the standard as of January 1, 2006 on a modified prospective application basis. The standard did not have a material impact on the Company s financial statements (see Note 3).

SFAS No. 151

In November 2004, the FASB issued SFAS No. 151, Inventory Costs , an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4. This statement clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. Since the Company s international construction generally occurs in remote locations, making timely outside delivery uncertain, parts and supplies are maintained either at the work site or in warehouses close to the operation. During periods of high utilization, parts and supplies are generally consumed and replenished within a one-year period. During a period of lower utilization in a particular location, the parts and supplies are generally not transferred to other international locations until new contracts are obtained because of the significant transportation costs which would result from such transfers. The Company adopted the standard as of January 1, 2006, and the standard did not have a material impact on its financial statements.

SFAS No. 154

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154) to replace Accounting Principles Board Opinion No. 20 and SFAS No. 3. This statement requires retroactive application of a change in accounting principle to prior years financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of a change. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Since the adoption of SFAS No. 154 at January 1, 2006, the Company has had no changes in accounting principle requiring retrospective application.

SFAS No. 155

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, (SFAS No. 155) which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133) and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 140). SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No.155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided the Company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company adopted the standard as of January 1, 2006, and the standard did not have a material impact on its financial statements.

SFAS No. 157

In September 2006, the FASB issued SFAS 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

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4. New Accounting Pronouncements (continued)

to develop those assumptions. SFAS No. 157 is effective for the Company s fiscal year beginning January 1, 2007. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

FASB Staff Position (FSP) No. AUG AIR-1

On September 7, 2006 the FASB issued this amendment to certain provisions in the American Institute of Certified Public Accountants (the AICPA) Industry Guide, *Audits of Airlines,* and Accounting Principles Board Opinion (APB) Opinion No. 28, Interim Financial Reporting . This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The guidance in this FSP shall be applied to the first fiscal year beginning after December 15, 2006. The Company intends to adopt this standard for the fiscal year beginning January 1, 2007 and the Company expects no impact at that time. The Company is analyzing the potential impact to retrospective periods.

Historically the Company has employed the accrue-in-advance method of accounting for the major planned maintenance of Company owned vessels used in marine pipeline construction and maintenance as part of its Nigeria assets and operations. Major planned maintenance typically included dry-dock work to obtain ocean going certification every three and five year interval. Because of the held for sale nature of the Company s assets in Nigeria the accrued major maintenance costs were eliminated in the third quarter of 2006. This review led the Company to relieve these liabilities as it was determined that the Company would not own the vessels when their next three and five year major planned maintenance activities were due. This reduced the contract costs of the Company s operations in Nigeria by $2,100.

5. Foreign Exchange Risk

The Company attempts to negotiate contracts which provide for payment in U.S. dollars, but it may be required to take all or a portion of payment under a contract in another currency. To mitigate non-U.S. currency exchange risk, the Company seeks to match anticipated non-U.S. currency revenue with expenses in the same currency whenever possible. To the extent it is unable to match non-U.S. currency revenue with expenses in the same currency, the Company may use forward contracts, options or other common hedging techniques in the same non-U.S. currencies. The Company had no derivative financial instruments to hedge currency risk at September 30, 2006 or December 31, 2005.

6. Income Taxes

During the three-month and nine-month periods ended September 30, 2006, the Company recorded income taxes of $379 and $1,811, respectively, on losses before income taxes from continuing operations of $4,586 and $16,787, respectively. During the three-month and nine-month periods ended September 30, 2005, the Company recorded a benefit for income taxes of $1,094 and $1,969, respectively, on losses before income taxes from continuing operations of $10,044 and $25,805, respectively.

The circumstances that gave rise to the Company recording provisions for income taxes when the Company had losses before income taxes for the three and nine month periods ended September 30, 2005 and September 30, 2006, are operations in the United States, Canada, and Oman generate taxable income and thus generate tax liabilities in each of those separate tax jurisdictions. Moreover, transfer pricing principles require the Company to allocate expenses to certain subsidiaries, receiving the benefit of such expenses. Some tax jurisdictions either do not allow tax deductions or there is no tax benefit derived from expenses allocated to these subsidiaries.

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7. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2006	December 31, 2005
2.75% Convertible senior notes	$ 70,000	$ 70,000
6.5% Senior convertible notes	84,500	65,000
Capital lease obligation	10,187	
Other obligations	2,853	3,020
Total debt	167,540	138,020
Less: current portion	(2,660)	(2,680)
Total long-term debt	$ 164,880	$ 135,340

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% 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 issuable at September 30, 2006, 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% 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 which the Company fails to pay principal or interest on indebtedness with an aggregate principal balance of $10,000 or more; or (2) in which indebtedness with a principal balance of $10,000 or more is accelerated, an event of default would result under the 2.75% Notes. Since the non-compliance issue under the 2004 Credit Facility discussed below did not involve payment defaults and did not result in the acceleration of any indebtedness of the Company, these defaults did not create an event of default under the 2.75% Notes.

On September 22, 2005, the Company entered into an amendment of the indenture covering the 2.75% Notes (the Indenture Amendment). The Indenture Amendment extended the initial date on or after which the 2.75% Notes may be redeemed by the Company to March 15, 2013 from March 15, 2011. In addition, a new provision was added to such indenture which requires the Company, in the event of a Fundamental change which is a change of control event in which 10% or more of the consideration in the transaction consists of cash, to make a coupon make-whole payment equal to the present value (discounted at the U.S. Treasury rate) of the lesser of (a) two years of scheduled payments of interest on the 2.75% Notes or (b) all scheduled interest on the 2.75% Notes from the date of the transaction through March 15, 2013. Unamortized debt issue costs of $2,398 and $2,714 associated with the 2.75% Notes are included in other assets at September 30, 2006 and December 31, 2005,

respectively, and are being amortized over the seven-year period ending March 2011.

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7. Long-Term Debt (continued)

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 of the 6.5% Notes bringing the aggregate principal amount of the 6.5% Notes to $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 and were entered into by and among the Company, as issuer, Willbros USA, Inc., as guarantor (WUSAI), and The Bank of New York, as Trustee (the Indenture), and were issued under the Purchase Agreement in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (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 4,813,171 shares issuable at September 30, 2006, subject to adjustment in certain circumstances). 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 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, for 110% of the principal amount if the Fundamental change occurs prior to December 31, 2006, and for 100% of the principal amount if the Fundamental change occurs after that date. 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 the 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% to 31.4% 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% 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 2004 Credit Facility and the 2.75% Notes, a corresponding event of default would result under the 6.5% Notes. Since the non-compliance issue under the 2004 Credit Facility discussed below did not involve payment defaults and did not result in acceleration of any indebtedness of the Company, these defaults did not create an event of default under the 6.5% Notes.

Unamortized debt issue costs of $4,061 and $698 associated with the 6.5% Notes are included in other assets at September 30, 2006 and December 31, 2005, respectively, and are being amortized over the seven-year period ending December 2012.

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7. Long-Term Debt (continued)

2004 Credit Facility

On March 12, 2004, the existing $125,000 June 2002 credit agreement was amended, restated and increased to $150,000 (the 2004 Credit Facility). The 2004 Credit Facility matures with Calyon New York Branch (Calyon) on March 12, 2007. The 2004 Credit Facility may be used for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings are limited to the lesser of 40% of the borrowing base or $30,000 and are payable at termination on March 12, 2007. Interest is payable quarterly at a base rate plus a margin ranging from 0.75% to 2.00% or on a Eurodollar rate plus a margin ranging from 1.75% to 3.00%. The 2004 Credit Facility is collateralized by substantially all of the Company s assets, including stock of the Company s principal subsidiaries, prohibits the payment of cash dividends and requires the Company to maintain certain financial ratios. The borrowing base is calculated using varying percentages of cash, accounts receivable, accrued revenue, contract cost and recognized income not yet billed, property, plant and equipment, and parts and supplies inventories. Unamortized debt issue costs of $435 associated with the 2004 Credit Facility were charged to expense in the third quarter of 2006 as the Company had an agreement in principle to replace the 2004 Credit Facility with a new credit facility. On October 27, 2006, the Company entered into a new credit facility (see Note 13). Unamortized debt issue costs of $982 associated with the 2004 Credit Facility were included in other assets at December 31, 2005.

As of September 30, 2006, there were no borrowings under the 2004 Credit Facility and there were $37,393 in outstanding letters of credit, of which $12,461 related to continuing operations. Letters of credit reduce the availability on the facility by 75% of their amount outstanding; however, the total value of letters of credit outstanding may not exceed $50,000 (see 2004 Credit Facility Waivers below).

2004 Credit Facility Waivers

Primarily as a result of the negative financial impact that recent events in Nigeria have had on operations and the Company s decision to sell the Nigeria operations and assets, the Company was not in compliance with certain financial covenants in the 2004 Credit Facility at September 30, 2006.

On August 18, 2006 the Company entered into a Sixth Amendment and Temporary Waiver Agreement (the Sixth Amendment) which waived the Company s failure to comply with certain financial covenants of the 2004 Credit Facility during the fiscal quarter ended June 30, 2006 until the earlier of (i) September 30, 2006 or (ii) the occurrence of a waiver default, which is a breach by the Company of any covenant, a material breach of any representation and warranty or the occurrence of any default or event of default under the 2004 Credit Facility, other than the defaults which were temporarily waived by the Sixth Amendment. The Sixth Amendment further amended the 2004 Credit Facility to reduce the total commitment to $50,000 and provided for a letter of credit limit of $50,000 less the face amount of letters of credit issued prior to August 18, 2006, and provided that each new letter of credit must be fully cash collateralized and that a letter of credit fee of 0.25% be paid for each cash collateralized letter of credit. The Sixth Amendment expired on September 30, 2006, and availability under the 2004 Credit Facility was reduced to zero. On October 27, 2006, the Company entered into a new $100,000 synthetic credit facility and reissued under this facility all the then outstanding letters of credit (see Note 13).

Capital Lease

In the third quarter of 2006 the Company entered into a capital lease of construction equipment with total assets purchased of $10,187. The required total minimum lease payments are $10,187, with $773 remaining in 2006, $3,093 due in 2007, $3,093 due in 2008 and $3,228 due in 2009.

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8. Loss Per Share

Basic and diluted loss from continuing operations per common share for the three and nine-month periods ended September 30, 2006 and 2005 are computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net loss from continuing operations applicable to common shares	$ (4,965)	$ (8,950)	$ (18,598)	$ (23,836)
Weighted average number of common shares outstanding for basic loss per share	21,557,695	21,254,987	21,480,730	21,252,994
Effect of dilutive potential common shares from stock options				
Weighted average number of common shares outstanding for diluted loss per share	21,557,695	21,254,987	21,480,730	21,252,994
Loss per common share from continuing operations:				
Basic	$ (0.23)	$ (0.42)	$ (0.87)	$ (1.12)
Diluted	$ (0.23)	$ (0.42)	$ (0.87)	$ (1.12)

The Company incurred net losses for the three-month and nine-month periods ended September 30, 2006 and 2005, respectively, and has therefore excluded the securities listed below from the computation of diluted loss per share as the effect would be anti-dilutive:

	Three and Nine Months Ended September 30,	
	2006	2005
2.75% Convertible senior notes	3,595,277	3,595,277
6.5% Senior convertible notes	4,813,171	
Stock options	833,900	915,770
Restricted stock	248,000	288,375
	9,490,348	4,799,422

In accordance with Emerging Issues Task Force Issue 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share , the 8,408,448 shares issuable upon conversion of both the 6.5% Notes and the 2.75% Notes will be included in diluted earnings per share if those securities are dilutive, regardless of whether the conversion prices of $19.47 and $17.56, respectively, have been met.

9. Segment Information

The Company s two segments, *International* and *United States & Canada* (also *US & Canada*), are strategic business units that are managed separately as each segment has different operational requirements and marketing strategies. Management believes, due to the composition of current work and potential work opportunities, and the nuances of the geographic markets the Company serves, that the organization should be viewed on a geographic basis. The *International* segment consists of all construction, engineering and facilities development operations in countries other than the United States and Canada. Currently such operations are primarily in the Middle East. The *United States & Canada* segment consists of all construction, engineering and facilities development operations in the United States and Canada. The Company s corporate operations include

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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9. Segment Information (continued)

the general, administrative, and financing functions of the organization. The costs of these functions are allocated between the two operating segments. The Company s corporate operations also include various other assets that are allocated between the two operating segments.

The table below reflects the Company s operating segments for the three-month and nine-month periods ended September 30, 2006 and 2005:

	Three Months Ended September 30, 2006			Nine Months Ended September 30, 2006		
	Total	International	US & Canada	Total	International	US & Canada
Revenue	$ 125,466	$ 20,220	$ 105,246	$ 352,181	$ 46,076	$ 306,105
Operating expenses:						
Contract costs	113,418	18,128	95,290	320,628	41,393	279,235
Depreciation and amortization	3,265	470	2,795	9,180	1,628	7,552
General and administrative	11,092	2,010	9,082	33,133	5,006	28,127
	127,775	20,608	107,167	362,941	48,027	314,914
Operating loss	$ (2,309)	$ (388)	$ (1,921)	$ (10,760)	$ (1,951)	$ (8,809)

	Three Months Ended September 30, 2005			Nine Months Ended September 30, 2005		
	Total	International	US & Canada	Total	US & International	US & Canada
Revenue	$ 65,034	$ 4,891	$ 60,143	$ 176,527	$ 18,700	$ 157,827
Operating expenses:						
Contract costs	59,430	4,506	54,924	161,368	17,253	144,115
Depreciation and amortization	2,996	658	2,338	8,547	2,132	6,415
General and administrative	10,376	2,413	7,963	30,262	7,603	22,659
	72,802	7,577	65,225	200,177	26,988	173,189
Operating loss	$ (7,768)	$ (2,686)	$ (5,082)	$ (23,650)	$ (8,288)	$ (15,362)

Total assets by segments as of September 30, 2006 and December 31, 2005 are presented below:

	September 30, 2006	December 31, 2005
International	$ 60,338	$ 23,678
United States & Canada	178,529	214,204
Total segment assets	$ 238,867	$ 237,882

10. Contingencies, Commitments and Other Circumstances

International Irregularities & Investigation

On January 6, 2005, J. Kenneth Tillery, then President of Willbros International, Inc. (WII), who was principally responsible for all international operations, resigned from the Company. Following Mr. Tillery s resignation, the Audit Committee, working with independent outside legal counsel and forensic accountants retained by such legal counsel, commenced an independent investigation into the circumstances in connection with a Bolivian tax assessment and the actions of Mr. Tillery in other international locations. The Audit Committee s investigation identified payments that were made by or at the direction of Mr. Tillery in Bolivia,

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10. Contingencies, Commitments and Other Circumstances (continued)

Nigeria and Ecuador which may have been violations of the United States Foreign Corrupt Practices Act (FCPA) and other United States laws. The investigation also revealed that Mr. Tillery authorized numerous transactions between Company subsidiaries and entities in which he apparently held an ownership interest or exercised significant control. In addition, the Company has learned that certain acts carried out by Mr. Tillery and others acting under his direction with respect to a bid for work in Sudan may constitute facilitation efforts prohibited by U.S. law, a violation of U.S. trade sanctions and the unauthorized export of technical information.

The United States Securities and Exchange Commission (SEC) continues to investigate whether the Company and others may have violated various provisions of the Securities Act and the Securities Exchange Act of 1934 (the Exchange Act) and the United States Department of Justice (DOJ) is investigating violations of the FCPA and other applicable laws. In addition, the United States Department of Treasury s Office of Foreign Assets Control (OFAC) is investigating potential improper facilitation and export activities.

The Company is cooperating fully with each of these investigations. If the Company or one of its subsidiaries is found to have violated the FCPA, that entity could be subject to civil penalties of up to $650 per violation and disgorgement of profits with prejudgment interest, criminal penalties of up to the greater of $2,000 per violation or twice the gross pecuniary gain resulting from the improper conduct, and be required to engage an independent monitor to review its compliance with the FCPA. If the Company or one of its subsidiaries is found to have violated trade sanctions or U.S. export restrictions, that entity could be subject to civil penalties of up to $11 per violation and criminal penalties of up to $250 per violation. There may be other penalties that could apply under other U.S. laws or the laws of foreign jurisdictions. While the consequences of these investigations on the Company and its subsidiaries are uncertain, the possible consequences include but are not limited to debarment from participating in future U.S. government contracts and from participating in certain U.S. export transactions, default of existing credit facilities, restricted access to capital markets and insurance, and harm to existing and future commercial relationships. The Company cannot predict the outcome of the investigations being conducted by the SEC, the DOJ and OFAC, including the Company s exposure to civil or criminal fines or penalties, or other regulatory action which could have a material adverse effect on the Company s business, financial condition and results of operations.

Class-Action Lawsuit Related To International Irregularities

On May 18, 2005 a securities class-action lawsuit, captioned *Legion Partners, LLP v. Willbros Group, Inc. et al.,* was filed in the United States District Court for the Southern District of Texas against the Company and certain of its present and former officers and directors. Thereafter, three nearly identical lawsuits were filed. Plaintiffs purport to represent a class composed of all persons who purchased or otherwise acquired Willbros Group, Inc. common stock and/or other securities between May 6, 2002 and May 16, 2005, inclusive. The Court ordered these actions consolidated and appointed ADAR Investments, LLC as Lead Plaintiff and Bernstein, Liebhard & Lifshitz of New York as Lead Plaintiff s counsel, who then filed a consolidated amended complaint on January 9, 2006. The Consolidated Amended Complaint alleges that Willbros and certain of its present and former officers and directors, including Michael Curran, Warren Williams (WGI Defendants), and J. Kenneth Tillery, violated the Securities Exchange Act of 1934 through a series of false and misleading statements and a scheme to defraud. The alleged misrepresentations and scheme to defraud relate to the activities of Mr. Tillery in Nigeria and Bolivia, certain alleged accounting errors, the restatement of past financial results, and alleged Foreign Corrupt Practices Act violations. The Lead Plaintiff seeks to recover unspecified monetary damages and other relief on behalf of all purchasers of the Company s common stock during the purported class period. The Company filed a motion to dismiss the complaint, asserting that the Plaintiffs allegations were completely without merit.

While the motion to dismiss was pending, the Company reached a settlement in principle with the Lead Plaintiff and the parties have signed a Memorandum of Understanding (Proposed Settlement). The Proposed Settlement provides for a payment of $10,500 to resolve all claims against all defendants. The full settlement amount is escrowed and is funded by the Company s insurance carriers as part of the Company s agreement with its insurers, which also provides for payment of the Company s attorneys fees.

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10. Contingencies, Commitments and Other Circumstances (continued)

The Proposed Settlement is subject to limited confirmatory discovery by the plaintiffs, notice to the class, and approval by the U.S. District Court. The Company cannot predict the outcome of the Court s rulings regarding confirmation of the settlement, but it has no reason to believe the Proposed Settlement will not be confirmed by the Court.

Legal Proceedings

The Company is a party to a number of legal proceedings in Nigeria that are typical in number and nature for a Company of our size. The Company has recently noticed increased actions by judgment debtors to enforce their judgments and various court orders have been obtained that are or may be appealed by the Company. Pending final resolution of the appeals, the existing court orders currently restrict the transfer of certain property out of Nigeria or attempt to garnish monies due to the Company. while it is anticipated that the Company s appeal of the judgment and/or court orders may prevail in full or in part, the Company cannot predict the outcome of the Nigerian courts determination of the dispute and rulings.

Insurance Coverage & Claims

The Company has the usual liability of contractors for the completion of contracts and the warranty of its work. Where work is performed through a joint venture, the Company also has possible liability for the contract completion and warranty responsibilities of its joint venture partners. In addition, the Company acts as prime contractor on a majority of the projects it undertakes and is normally responsible for the performance of the entire project, including subcontract work. Management is not aware of any material exposure related thereto which has not been provided for in the accompanying consolidated financial statements.

At September 30, 2006 and December 31, 2005, other assets and accounts receivable include anticipated recoveries from insurance or third parties of $4,190 and $4,426, respectively. On October 20, 2006 the Company received payment in the amount of $3,300 related a claim. The Company believes the recovery of these costs from insurance or other parties is probable. Actual recoveries may vary from these estimates.

Letters of Credit

From time to time, the Company enters into commercial commitments, usually in the form of commercial and standby letters of credit, insurance bonds and financial guarantees. Contracts with the Company s customers may require the Company to provide letters of credit or insurance bonds with regard to the Company s performance of contracted services. In such cases, the commitments can be called upon in the event of failure to perform contracted services. Likewise, contracts may allow the Company to issue letters of credit or insurance bonds in lieu of contract retention provisions, in which the client withholds a percentage of the contract value until project completion or expiration of a warranty period. Retention commitments can be called upon in the event of warranty or project completion issues, as prescribed in the contracts. At September 30, 2006, the Company had approximately $12,461 of letters of credit and $52,136 insurance bonds outstanding, representing the maximum amount of future payments the Company could be required to make. The Company had no liability recorded as of September 30, 2006 related to these commitments.

6.5% Convertible Senior Notes

In connection with the private placement of the 6.5% Notes (see Note 7) on December 23, 2005, the Company entered into a Registration Rights Agreement with the Purchasers. The Registration Rights Agreement requires the Company to file a registration statement with respect to the resale of the shares of the Company s common stock issuable upon conversion of the 6.5% Notes (filed on September 22, 2006) and to use its best efforts to cause such registration statement to be declared effective no later than December 31, 2006. In the event the Company is unable to satisfy its obligations under the Registration Rights Agreement, the Company will owe additional interest to the holders of the 6.5% Notes at a rate per annum equal to 0.5% of the principal amount of the 6.5% Notes for the first 90 days and 1.0% per annum from and after the 91st day

following such event.

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10. Contingencies, Commitments and Other Circumstances (continued)

Contract Completion Audits

Certain post-contract completion audits and reviews are periodically conducted by clients and/or government entities. While there can be no assurance that claims will not be received as a result of such audits and reviews, management does not believe a legitimate basis for any material claims exists. At present, it is not possible for management to estimate the likelihood of such claims being asserted or, if asserted, the amount or nature thereof.

International Operations

The Company provides engineering and construction services to the oil, gas and power industries and government entities, and develops, owns and operates assets developed under Build, Own and Operate contracts. The Company s principal markets are currently Africa, the Middle East and North America. Operations outside the United States and Canada may be subject to certain risks which ordinarily would not be expected to exist in the United States, including foreign currency restrictions, extreme exchange rate fluctuations, expropriation of assets, civil uprisings and riots, war, unanticipated taxes including income taxes, excise duties, import taxes, export taxes, sales taxes or other governmental assessments, availability of suitable personnel and equipment, termination of existing contracts and leases, government instability and legal systems of decrees, laws, regulations, interpretations and court decisions which are not always fully developed and which may be retroactively applied. Management is not presently aware of any events of the type described in the countries in which it operates that have not been provided for in the accompanying consolidated financial statements.

See Note 2 for a discussion of commitments and contingencies associated with Discontinued Operations.

11. Related Party Transactions

In the past, certain of the Company s subsidiaries entered into commercial agreements with companies in which the former President of Willbros International, Inc., J. Kenneth Tillery, apparently had an ownership interest. These ownership interests had not been previously disclosed to the Company. Those companies included Arbastro Trading, Ltd., Windfall Energy Services, Ltd., Oco Industrial Services, Ltd., Hydrodive Offshore Services International, Inc., Hydrodive Nigeria, Ltd., and Hydrodive International, Ltd. All are companies that chartered or sold marine vessels to the Company s subsidiaries. Hydrodive Offshore Services International, Inc. and Hydrodive International, Ltd. (together Hydrodive) also provided diving services to the Company s subsidiaries. Payment terms for these vendors range from due on receipt to net 30 days. The settlement method was cash.

Mr. Tillery also appears to have exercised significant influence over the activities of Symoil Petroleum, Ltd., and Fusion Petroleum Services, Ltd., which provided consulting services for projects in Nigeria, and Kaplan and Associates, which provided consulting services for projects in Bolivia and certain other foreign locations.

Mr. Tillery resigned his position with the Company on January 6, 2005 and accordingly none of the companies identified above are considered related parties subsequent to that date. In the fourth quarter of 2005, the Company settled all outstanding claims with Windfall Energy Services, Ltd., Hydrodive International, Ltd., and Hydrodive Nigeria, Ltd. The Company entered into new contracts governing services to be provided by these vendors in the future.

Payments made to companies where Mr. Tillery appears to have had an undisclosed ownership interest during the three-month and nine-month period ended September 30, 2005 were recorded as contract cost on Nigeria projects and are detailed below.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Hydrodive International, Ltd.	$ 2,563	$ 4,599
Hydrodive Nigeria, Ltd.	10	10
Windfall Energy Services, Ltd.		300
Oco Industrial Services, Ltd.	40	43
Total	$ 2,613	$ 4,952

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11. Related Party Transactions (continued)

Outstanding amounts owed to related parties in which Mr. Tillery appears to have had an undisclosed ownership interest or over which he appears to have exercised significant influence and which are included in accounts payable and accrued liabilities are as follows:

	September 30, 2005
Hydrodive International, Ltd.	$ 1,118
Windfall Energy Services, Ltd.	753
Hydrodive Nigeria, Ltd.	21
Total	$ 1,892

12. Parent, Guarantor and Non-Guarantor Condensed Consolidating Financial Statements

Set forth below are the condensed consolidating financial statements of (a) Willbros Group, Inc. (WGI), (b) Willbros USA, Inc. (WUSAI), which is a guarantor of the 6.5% Notes, and (c) all other direct and indirect subsidiaries, including the Discontinued Operations in Nigeria and Venezuela, which are not guarantors of the 6.5% Notes. There are currently no restrictions on the ability of WUSAI to transfer funds to WGI in the form of cash dividends or advances. Under the terms of the Indenture for the 6.5% Notes, WUSAI may not sell or otherwise dispose of all or substantially all of its assets, or merge with or into another entity, other than the Company, unless no default exists under the Indenture and the acquirer assumes all obligations of WUSAI under the Indenture. WGI is a holding company with no significant operations, other than through its subsidiaries.

The condensed consolidating financial statements present investments in subsidiaries using the equity method of accounting.

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12. Parent, Guarantor and Non-Guarantor Condensed Consolidating Financial Statements (continued)

September 30, 2006 and December 31, 2005

Willbros Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATING BALANCE SHEETS

	September 30, 2006				
	Parent	WUSAI (Guarantor)	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 15,070	$ (3,073)	$ 3,479	$	$ 15,476
Restricted cash	1,500				1,500
Accounts receivable, net		57,411	45,003		102,414
Contract cost and recognized income not yet billed		2,709	12,254		14,963
Prepaid expenses		16,550	(259)		16,291
Parts and supplies inventories		464	1,671		2,135
Assets of discontinued operations			285,729		285,729
Receivables from affiliated companies	225,794			(225,794)	
Total current assets	242,364	74,061	347,877	(225,794)	438,508
Deferred tax assets		3,548	152		3,700
Property, plant and equipment, net		34,460	32,007		66,467
Investment in subsidiaries	(5,899)			5,899	
Other assets	6,334	3,550	6,037		15,921
Total assets	$ 242,799	$ 115,619	$ 386,073	$ (219,895)	$ 524,596
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Notes payable and current portion of long-term debt	$	$ 2,599	$ 61	$	$ 2,660
Accounts payable and accrued liabilities	1,685	38,891	41,643		82,219
Contract billings in excess of cost and recognized income		6,878	72		6,950
Accrued income tax		(82)	865		783
Liabilities of discontinued operations			281,371	(101,218)	180,153
Payables to affiliated companies		27,574	97,002	(124,576)	
Total current liabilities	1,685	75,860	421,014	(225,794)	272,765
Long-term debt	154,500	10,279	101		164,880
Other liabilities		64	273		337

Total liabilities	156,185	86,203	421,388	(225,794)	437,982
Stockholders equity:					
Common stock	1,099	8	32	(40)	1,099
Capital in excess of par value	163,139	89,156	8,526	(97,682)	163,139
Accumulated deficit	(80,013)	(59,748)	(45,148)	104,896	(80,013)
Other stockholders equity components	2,389		1,275	(1,275)	2,389
Total stockholders equity	86,614	29,416	(35,315)	5,899	86,614
Total liabilities and stockholders equity	$ 242,799	$ 115,619	$ 386,073	$ (219,895)	$ 524,596

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12. Parent, Guarantor and Non-Guarantor Condensed Consolidating Financial Statements (continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2005				
	Parent	WUSAI (Guarantor)	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 58,794	$ (5,240)	$ 2,379	$	$ 55,933
Accounts receivable, net	196	61,790	22,000		83,986
Contract cost and recognized income not yet billed		5,839	1,780		7,619
Prepaid expenses		10,300	1,571		11,871
Parts and supplies inventories		701	1,808		2,509
Assets of discontinued operations		23,049	238,050		261,099
Receivables from affiliated companies	173,080			(173,080)	
Total current assets	232,070	96,439	267,588	(173,080)	423,017
Deferred tax assets		2,742	1,505		4,247
Property, plant and equipment, net		29,956	29,750		59,706
Investment in subsidiaries	46,158			(46,158)	
Other assets	3,412	3,301	5,298		12,011
Total assets	$ 281,640	$ 132,438	$ 304,141	$ (219,238)	$ 498,981
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Notes payable	$	$ 2,671	$ 9	$	$ 2,680
Accounts payable and accrued liabilities	1,406	45,614	20,562		67,582
Contract billings in excess of cost and recognized income		1,123	219		1,342
Accrued income tax		1,308	1,060		2,368
Liabilities of discontinued operations		880	156,876	(13,671)	144,085
Payables to affiliated companies		47,665	111,744	(159,409)	