

Edgar Filing: WILLBROS GROUP INC - Form 10-Q

WILLBROS GROUP INC  
Form 10-Q  
November 22, 2005

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

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FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

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

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

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

Indicate by check mark whether the registrant is an accelerated filer  
(as defined in Exchange Act Rule 12b-2). Yes  No

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

The number of shares of the registrant's Common Stock, \$.05 par value, outstanding as of September 1, 2005 was 21,542,112.

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WILLBROS GROUP, INC  
FORM 10-Q  
FOR QUARTER ENDED JUNE 30, 2005

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Condensed Consolidated Balance Sheets for June 30, 2005 (Unaudited) and December 31, 2004

Condensed Consolidated Statements of Operations (Unaudited) for the three-month and six-month periods ended June 30, 2005 and 2004 (Restated)

Condensed Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss) (Unaudited) for the six-month period ended June 30, 2005

Condensed Consolidated Statements of Cash Flows (Unaudited) for the six-month periods ended June 30, 2005 and 2004 (Restated)

Notes to Condensed Consolidated Financial Statements

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Item 4 - Controls and Procedures

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

Item 3 - Defaults upon Senior Securities

Item 4 - Submission of Matters to a Vote of Security Holders

Item 5 - Other Information

Item 6 - Exhibits

SIGNATURE

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EXHIBIT INDEX

2

PART I. FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS

WILLBROS GROUP, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	JUNE 30, 2005
	----- (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents .....	\$ 54,452
Accounts receivable, net .....	142,035
Contract cost and recognized income not yet billed .....	49,629
Prepaid expenses .....	23,370
Parts inventory, net .....	5,619
	-----
Total current assets .....	275,105
Deferred tax assets .....	5,957
Property, plant and equipment, net .....	128,344
Investments in joint ventures .....	3,626
Goodwill .....	6,427
Other assets .....	9,942
	-----
Total assets .....	\$ 429,401 =====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable and current portion of long-term debt .....	\$ 231
Accounts payable and accrued liabilities .....	154,986
Contract billings in excess of cost and recognized income .....	26,424
Accrued income taxes .....	9,337
Capital lease payable .....	5,732
	-----
Total current liabilities .....	196,710
2.75% Convertible senior notes .....	70,000
Long-term debt .....	496
Other liabilities .....	1,099
	-----
Total liabilities .....	268,305

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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, 35,000,000 shares authorized; 21,635,725 shares issued at June 30, 2005 (21,425,980 at December 31, 2004) .....	1,082
Capital in excess of par value .....	160,931
Retained earnings .....	3,797
Treasury stock at cost, 93,613 shares (63,196 at December 31, 2004) .....	(1,057)
Deferred compensation .....	(4,515)
Notes receivable for stock purchases .....	(223)
Accumulated other comprehensive income .....	1,081
	-----
Total stockholders' equity .....	161,096
	-----
Total liabilities and stockholders' equity .....	\$ 429,401
	=====

See accompanying notes to condensed consolidated financial statements

3

WILLBROS GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2005	2004
	-----	-----
		RESTATED
Contract revenue .....	\$ 164,196	\$ 116,204
Operating expenses:		
Contract .....	144,525	98,170
Depreciation and amortization .....	4,950	3,959
General and administrative .....	18,774	11,216
Other operating costs .....	-	822
	-----	-----
	168,249	114,167
	-----	-----
Operating income (loss) .....	(4,053)	2,037
Other income (expense):		
Interest - net .....	(519)	(777)
Other - net .....	135	49
	-----	-----

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	(384)	(728)	
	-----	-----	
Income (loss) before income taxes .....	(4,437)	1,309	
Provision for income taxes .....	5,482	2,911	
	-----	-----	
Net loss .....	\$ (9,919)	\$ (1,602)	\$
	=====	=====	=====
Loss per common share:			
Basic .....	\$ (.47)	\$ (.08)	\$
	=====	=====	=====
Diluted .....	\$ (.47)	\$ (.08)	\$
	=====	=====	=====
Weighted average number of common shares outstanding:			
Basic .....	21,253,737	20,887,493	2
	=====	=====	=====
Diluted .....	21,253,737	20,887,493	2
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements

4

WILLBROS GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME (LOSS)  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)  
(UNAUDITED)

	COMMON STOCK		CAPITAL IN EXCESS	RETAINED	TREASURY	DEFERRED
	SHARES	PAR VALUE	OF PAR VALUE	EARNINGS	STOCK	COMPEN- SATION
	-----	-----	-----	-----	-----	-----
Balance, January 1, 2005 ....	21,425,980	\$ 1,071	\$ 156,175	\$ 23,614	\$ (555)	\$ (1,639)
Comprehensive Loss:						
Net loss .....	--	--	--	(19,817)	--	--
Foreign currency translation						

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adjustment .....	--	--	--	--	--	--
Total comprehensive loss .....						
Amortization of note discount .....	--	--	--	--	--	--
Restricted stock grants .....	175,000	9	3,822	--	--	(3,831)
Deferred compensation, net of forfeitures .....	--	--	574	--	(271)	955
Vesting of restricted stock rights .....	10,875	1	(1)	--	--	--
Additions to treasury stock .....	--	--	--	--	(231)	--
Issuance of common stock under employee benefit plan .....	3,870	--	79	--	--	--
Exercise of stock options .....	20,000	1	282	--	--	--
	-----	-----	-----	-----	-----	-----
Balance June 30, 2005 .....	21,635,725	\$ 1,082	\$ 160,931	\$ 3,797	\$ (1,057)	\$ (4,515)
	=====	=====	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements

WILLBROS GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

SIX MONTHS  
ENDED JUNE

-----  
2005  
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Cash flows from operating activities:			
Net loss .....	\$	(19,817)	\$
Reconciliation of net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization .....		10,257	
Amortization of debt issue costs .....		942	
Amortization of deferred compensation .....		1,258	
Amortization of discount on notes receivable for stock purchases .....		(7)	
Loss (gain) on retirements of property, plant and equipment ....		(71)	
Equity in joint ventures, net .....		(185)	
Deferred income tax benefit .....		452	
Changes in operating assets and liabilities:			
Accounts receivable .....		8,537	
Contract cost and recognized income not yet billed .....		(28,894)	
Prepaid expenses .....		(7,774)	
Parts inventory, net .....		4	
Other assets .....		888	
Accounts payable and accrued liabilities .....		33,177	
Accrued income taxes .....		324	
Contract billings in excess of cost and recognized income ..		(4,538)	
Other liabilities .....		21	
		-----	-----
Cash provided by (used in) operating activities .....		(5,426)	
Cash flows from investing activities:			
Proceeds from sale of equipment .....		1,538	
Purchase of property, plant and equipment .....		(17,226)	
		-----	-----
Cash used in investing activities .....		(15,688)	
Cash flows from financing activities:			
Proceeds from notes payable .....		770	
Proceeds from issuance of common stock .....		362	
Repayment of notes payable .....		--	
Payments on capital lease .....		(405)	
Acquisition of treasury stock .....		(231)	
Costs of debt issues .....		(11)	
Proceeds from issuance of 2.75% convertible senior notes .....		--	
Collections of notes receivable for stock purchases .....		--	
Repayments of long-term debt .....		(3,537)	
		-----	-----
Cash provided by (used in) financing activities .....		(3,052)	
Effect of exchange rate changes on cash and cash equivalents .....		(102)	
		-----	-----
Cash provided by (used in) all activities .....		(24,268)	
Cash and cash equivalents, beginning of period .....		78,720	
		-----	-----
Cash and cash equivalents, end of period .....	\$	54,452	\$
		=====	=====
Cash payments made during the period:			
Interest .....	\$	1,205	\$
Income taxes .....	\$	6,397	\$
Non-cash investing and financing transactions:			
Property obtained by capital lease .....	\$	5,732	\$

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 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 June 30, 2005 and the results of operations and cash flows of the Company for all interim periods presented.

Certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Company's December 31, 2004 audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The results of operations and cash flows for the six month period ended June 30, 2005 are not necessarily indicative of the operating results to be achieved for the full year.

The condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and include certain estimates and assumptions by management of the Company in the preparation of the condensed consolidated financial statements. 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 period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, goodwill and spare parts; quantification of amounts recorded for contingencies, tax accruals and certain other accrued liabilities; valuation allowances for accounts receivables and deferred income tax assets; and revenue recognition under the percentage-of-completion method of accounting including estimates of progress toward completion and estimates of gross profit or loss accrual on contracts in progress. The Company bases its estimates on historical experience and other assumptions that it believes relevant under the circumstances. Actual results could differ from those estimates.

### 2. RESTATEMENT

In late December of 2004, the Company became aware of an approximate \$2,500 tax assessment against the Company's Bolivian subsidiary which alleged that the subsidiary had filed improper tax returns. The assessment also imposed penalties and interest related to the tax assessment. Prior to late December 2004, the executive management of the Company was unaware of the tax assessment, with the exception of J. Kenneth Tillery, the then President of Willbros International, Inc. ("WII"), the primary international subsidiary of the Company. Mr. Tillery resigned from the Company on January 6, 2005.

Upon learning of the tax assessment, the Company immediately commenced an initial investigation into the matter and notified the Audit Committee of the Board of Directors. The Audit Committee retained independent counsel, who in turn retained forensic accountants, and began an independent investigation.

Concurrent with the Audit Committee's investigation, the Company initiated its own review of the Company's accounting. This review focused primarily on the



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Company's international activities supervised by the former President of WII, but also included other areas of the Company's accounting activities.

As a result of the investigation by the Audit Committee and the Company's accounting review, the Company determined that several members of the senior management of WII and its subsidiaries collaborated to misappropriate assets from the Company and cover up such activity. It was determined that the Bolivian subsidiary had in fact filed improper tax returns, or failed to file returns, at the direction of Mr. Tillery, the former President of WII. The investigation also determined that Mr. Tillery, in collusion with several members of the management of the international subsidiaries, was involved in other improper activities, primarily in the Company's Nigerian subsidiaries.

7

WILLBROS GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
 (UNAUDITED)

2. RESTATEMENT (CONTINUED)

The Company's review of its historical accounting also identified other accounting errors which were corrected in the Company's restated consolidated financial statements. Financial statement adjustments resulting from misconduct of certain members of the international subsidiaries' management had a negative impact on the Company's consolidated loss of approximately \$1,374 and \$2,085 for the three months and six months ended June 30, 2004, respectively. The impact of the correction of other accounting errors for the same periods had a positive impact on the Company's consolidated loss of \$265 and \$1,041, respectively.

The impact on the Company's consolidated cumulative earnings (loss) as a result of all financial statement adjustments through June 30, 2004 was approximately (\$14,356), with (\$1,044) in such adjustments occurring in the six months ended June 30, 2004. See Note 2 of the "Notes to Consolidated Financial Statements" included in Item 8 of the Company's Annual Report on Form 10-K for information about the various adjustments recorded for fiscal periods prior to 2004, which resulted in consolidated cumulative earnings (loss) through December 31, 2003 of approximately (\$13,312).

The impact on the restated three-month and six-month periods ended June 30, 2004, is presented below.

	Three Months Ended June 30, 2004		
	As Reported	Adjustments	Restated
Contract revenue	\$ 116,003	\$ 201	\$ 116,204
Operating expenses	112,903	1,264	114,169
Operating income (loss)	3,100	(1,063)	2,037
Other income (expense)	(682)	(46)	(728)
Income (loss) before income taxes	2,418	(1,109)	1,309

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Provision for income taxes	2,911	--	
	-----	-----	-----
Net income (loss)	\$ (493)	\$ (1,109)	\$ (
	=====	=====	=====
Income (loss) per common share:			
Basic	\$ (.02)	\$ (.06)	\$
Diluted	\$ (.02)	\$ (.06)	\$
Weighted average number of common shares outstanding:			
Basic	20,887,493	20,887,493	20,88
Diluted	20,887,493	20,887,493	20,88

	Six Months Ended June 30, 2004		
	As Reported	Adjustments	Resta
	-----	-----	-----
Contract revenue	\$ 218,341	\$ (490)	\$ 21
Operating expenses	215,324	461	21
	-----	-----	-----
Operating income (loss)	3,017	(951)	
Other income (expense)	(706)	(93)	
	-----	-----	-----
Income (loss) before income taxes	2,311	(1,044)	
Provision for income taxes	3,036	--	
	-----	-----	-----
Net income (loss)	\$ (725)	\$ (1,044)	\$ (
	=====	=====	=====
Income (loss) per common share:			
Basic	\$ (.03)	\$ (.05)	\$
Diluted	\$ (.03)	\$ (.05)	\$
Weighted average number of common shares outstanding:			
Basic	20,814,398	20,814,398	20,81
Diluted	20,814,398	20,814,398	20,81

8

WILLBROS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

2. RESTATEMENT (CONTINUED)

THE FINANCIAL EFFECTS CAUSED BY THE RESTATEMENT ARE AS FOLLOWS:

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INCREASE/(DECREASE) IN CONTRACT REVENUE ATTRIBUTABLE TO:

- o An error in the recognition of change order revenue on a Nigerian contract
- o The recalculation of revenue on the Bolivia Transierra Project as a result of the timing of percentage of completion revenue
- o The reclassification of contract revenue and contract costs associated with an error in the recording of provisions for loss contracts
- o The recalculation of percentage of completion revenue for the removal of fraudulent charges incorrectly recorded to individual projects
- o Correction of percentage completion revenue recognition to reflect the reclassification of fraudulent consulting fees as other operating costs

TOTAL INCREASE/(DECREASE) IN CONTRACT REVENUE

(INCREASE)/DECREASE IN OPERATING EXPENSE ATTRIBUTABLE TO:

- o Accrual of unreported and unpaid value added taxes and payroll taxes related to certain international subsidiaries
- o The reclassification of contract revenue and contract costs associated with an error in the recording of the provisions for loss contracts
- o Increase in contract cost for an error in accounting for prepaid barge costs
- o The recalculation of contract cost on the Bolivia Transierra Project as a result of the Bolivia tax assessments
- o Increase due to fraudulent invoices inappropriately capitalized
- o Decrease due to error in accounting for parts inventory

TOTAL (INCREASE)/DECREASE IN OPERATING COSTS

(INCREASE)/DECREASE IN OTHER INCOME (EXPENSE) ATTRIBUTABLE TO:

- o Provision for penalties and interest associated with the underpayment of various taxes in our international subsidiaries
- o Decrease due to error in the amortization period used to amortize debt issuance costs
- o Other miscellaneous corrections

TOTAL (INCREASE)/DECREASE IN OTHER INCOME (EXPENSE)

TOTAL INCREASE IN NET LOSS

### 3. STOCK-BASED COMPENSATION

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation and interpretation of APB Opinion No. 25", to account for its fixed-plan stock options. Under this method, compensation cost is recorded on the date of grant only if the current market price of the underlying common stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123", established accounting and disclosure requirements using fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123, as amended. Compensation cost related to restricted stock awards and restricted stock rights awards is measured as the market price of the Company's common stock at the date of the award, and compensation cost is recognized over the vesting period, typically four years.

The following table illustrates the effect on net income if the

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fair-value-based method had been applied to all outstanding and unvested awards in for the three-month and six-month periods ended June 30, 2005 and 2004:

9

WILLBROS GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
 (UNAUDITED)

3. STOCK-BASED COMPENSATION (CONTINUED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUN
	2005	2004 RESTATED	2005
Net loss as reported .....	\$ (9,919)	\$ (1,602)	\$ (19,817)
Add stock-based employee compensation included in net income, after tax .....	598	160	1,258
Less stock-based employee compensation determined under fair value method, after tax .....	(586)	(243)	(1,338)
Pro forma net loss .....	\$ (9,907)	\$ (1,685)	\$ (19,897)
Income (loss) per share:			
Basic, as reported .....	\$ (.47)	\$ (.08)	\$ (.93)
Basic, pro forma .....	\$ (.47)	\$ (.08)	\$ (.94)
Diluted, as reported .....	\$ (.47)	\$ (.08)	\$ (.93)
Diluted, pro forma .....	\$ (.47)	\$ (.08)	\$ (.94)

4. NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS 153, "Exchanges of Non-monetary Assets," which amends APB Opinion No. 29. The guidance in APB 29, "Accounting for Non-monetary Transactions," is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The amendment made by SFAS No. 153 eliminates the exception for exchanges of similar productive assets and replaces it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. The provisions of the statement are effective for exchanges taking place in fiscal periods beginning after June 15, 2005. The Company will adopt the standard as of the effective date and the Company believes the standard will not have a material impact on its financial statements.

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In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." 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. This standard is effective for reporting periods beginning January 1, 2006 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 will adopt the standard as of January 1, 2006. The Company is currently evaluating the effect on the consolidated financial statements and the method to use when valuing stock options.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment of 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. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005, and may impact certain inventory costs the Company incurs after January 1, 2006. The Company is currently evaluating the impact, if any, of this standard on its consolidated financial statements.

10

WILLBROS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
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#### 4. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In October 2004, the FASB ratified the consensus reached by the Emerging Issues Task Force in EITF Issue No. 04-8 ("EITF 04-8") "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," which changes the treatment of contingently convertible debt instruments in the calculation of diluted earnings per share. EITF 04-8 provides that shares issuable upon conversion of these debt instruments be included in the earnings per share computation, if dilutive, regardless of whether any contingent conditions, in such instruments have been met. EITF 04-8 is for reporting periods ending after December 15, 2004, and requires restatement of previously reported earnings per share. The Company adopted EITF 04-8 as of December 31, 2004. See Note 14 of the "Notes to Consolidated Financial Statements" included in Item 8 of the Company's Annual Report on Form 10-K for additional information about the Company's earnings (loss) per share calculation.

#### 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 June 30, 2005 or June 30, 2004, or during the six-month periods then ended.

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### 6. INCOME TAXES

During the three-month and six-month periods ended June 30, 2005, the Company recorded income taxes of \$5,482 and \$8,246, respectively, on losses before income taxes of \$4,437 and \$11,571, respectively, resulting in effective income tax rates in excess of 100% for the periods. During the restated three-month and six-month periods ended June 30, 2004, the Company recorded a provision for income taxes of \$2,911 and \$3,036, respectively, on income before income taxes of \$1,309 and \$1,267 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-month and six-month periods ended June 30, 2005 were primarily the result of income taxes in certain countries being based on a deemed income rather than on taxable income and the fact that losses in one country are not able to be used to offset taxable income in another country.

### 7. CONVERTIBLE NOTES

On March 12, 2004, the Company completed a primary offering of \$60,000 of 2.75 percent Convertible Senior Notes (the "Convertible Notes"). On April 13, 2004, the initial purchasers of the Convertible 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 Convertible Notes total \$70,000. The Convertible 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 Convertible Notes mature on March 15, 2024 unless the notes are repurchased, redeemed or converted earlier. The Company may redeem the Convertible Notes for cash on or after March 15, 2011, at 100 percent of the principal amount of the notes plus accrued interest. The holders of the Convertible Notes have the right to require the Company to purchase the Convertible 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 Convertible Notes may, under certain circumstances, convert the notes into shares of the Company's common stock at an initial conversion ratio of

11

WILLBROS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

### 7. CONVERTIBLE NOTES (CONTINUED)

51.3611 shares of common stock per \$1,000.00 principal amount of notes (representing a conversion price of approximately \$19.47 per share resulting in 3,595,277 shares at June 30, 2005). The notes will be convertible only upon the occurrence of certain specified events including, but not limited to, if, at certain times, the closing sale price of the Company's common stock exceeds 120 percent of the then current conversion price, or \$23.36 per share based on the initial conversion price. Unamortized debt issue costs of \$2,672 associated with the Convertible Notes are included in other assets at June 30, 2005 and are being amortized over the seven-year period ending March 2011. In the event of a default under any Company credit agreement other than the indenture covering the Convertible 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)

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in which indebtedness with a principal balance of \$10,000 or more is accelerated, an event of default would result under the Convertible Notes. Since the non-compliance issues under the 2004 Credit Facility discussed in Note 8 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 Convertible Notes.

On June 10, 2005, the Company received a letter from a law firm representing an investor claiming to be the owner of in excess of 25% of the Convertible Notes asserting that, as a result of the Company's failure to timely file with the SEC its 2004 Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, it was placing the Company on notice of an event of default under the indenture dated as of March 12, 2004 between the Company as issuer, and JPMorgan Chase Bank, N.A., as trustee (the "Indenture"), which governs the Convertible Notes. The Company indicated that it does not believe that it has failed to perform its obligations under the relevant provisions of the Indenture referenced in the letter. On August 19, 2005, the Company entered into a settlement agreement with the beneficial owner of the Convertible Notes on behalf of whom the notice of default was sent, pursuant to which the Company agreed to use commercially reasonable efforts to solicit the requisite vote to approve an amendment to the Indenture (the "Indenture Amendment"). The Company has obtained the requisite vote and on September 22, 2005, the Indenture Amendment became effective.

The Indenture Amendment extends the initial date on or after which the Convertible Notes may be redeemed by the Company to March 15, 2013 from March 15, 2011. In addition, a new provision was added to the 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 Convertible Notes or (b) all scheduled interest on the Convertible Notes from the date of the transaction through March 15, 2013.

### 8. 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 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 percent 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 percent to 2.00 percent or on a Eurodollar rate plus a margin ranging from 1.75 percent to 3.00 percent. A commitment fee on the unused portion of the 2004 Credit Facility is payable quarterly, ranging from 0.375 percent to 0.625 percent. The 2004 Credit Facility is collateralized by substantially all of the Company's assets, including stock of the 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 spare parts. Unamortized debt issue costs of \$2,238 associated with the 2004 Credit Facility are included in other assets at June 30, 2005 and are amortized over the term of the 2004 Credit Facility ending March 2007.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS) (UNAUDITED)

#### 8. 2004 CREDIT FACILITY (CONTINUED)

As of June 30, 2005, there were no borrowings under the 2004 Credit Facility and there were \$50,156 in outstanding letters of credit. Letters of credit reduce the availability on the facility by 75 percent of their amount outstanding; however, the total value of letters of credit outstanding may not exceed \$150,000 (see "Waiver Amendment" below).

#### 2004 Credit Facility Waivers

For the quarter ended June 30, 2004, due to the Company's operating results and EBITDA (earnings before net interest, income taxes, depreciation and amortization) levels, an Amendment and Waiver Agreement (the "Waiver Agreement") was obtained from the syndicated bank group to waive non-compliance with a financial covenant to the credit agreement at June 30, 2004 and to amend certain financial covenants. The Waiver Agreement provides for an amendment of certain quarterly financial covenants and the multiple of EBITDA calculation with respect to the borrowing base determination through September 30, 2005.

In January 2005, the Company obtained a Consent and Waiver from its syndicated bank group, covering a period through June 29, 2005, waiving certain defaults and covenants which related to the filing of tax returns, the payment of taxes when due, tax liens and legal proceedings against the Company related to a tax assessment in Bolivia. (See Note 2 above). Additional Consent and Waivers were obtained from the syndicated bank group as of April 8 and June 13, 2005 with respect to these defaults and non-compliance with certain financial covenants as of June 13, 2005.

#### 2004 Credit Facility Amendment

On July 19, 2005, the Company entered into a Second Amendment and Waiver Agreement ("Waiver Amendment") of the 2004 Credit Facility with the syndicated bank group to obtain continuing waivers regarding its non-compliance with certain financial and non-financial covenants in the 2004 Credit Facility. Under the terms of the Waiver Amendment, the total credit availability under the 2004 Credit Facility is reduced to \$100,000 as of the effective date of the Waiver Amendment. Subject to certain conditions, the bank group agreed to permanently waive all existing and probable technical defaults under the 2004 Credit Facility as long as the Company submits year-end 2004 financial statements and interim financial statements for the quarters ended March 31 and June 30, 2005 by September 30, 2005. These conditions relate primarily to submissions of various financial statements and other financial and borrowing base related information.

The Waiver Amendment also modified certain of the ongoing financial covenants under the 2004 Credit Facility and established a requirement that the Company maintain a minimum cash balance of \$15,000. Until such time as the waiver becomes permanent, the Company has certain additional reporting requirements, including periodic cash balance reporting. In addition, the Waiver Amendment prohibits the Company from borrowing cash under the 2004 Credit Facility until the waiver becomes permanent. Since the Company was not able to submit the referenced statements by September 30, 2005, the waiver did not become permanent.

Additionally, the Company was not in compliance with certain of the financial covenants under the 2004 Credit Facility at September 30, 2005 and the Company has not obtained a waiver. The Company also believes it will not be



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in compliance with certain of the financial covenants under the 2004 Credit Facility at December 31, 2005. As a result of the covenant violations and the failure to provide certain financial statements by September 30, 2005, the bank syndicate has the right to discontinue advances under the facility as well as the issuance of new letters of credit. The inability of the Company to access new letters of credit could negatively impact the Company's ability to take on new work, or bid additional work where letters of credit are required, in order to bid on a project. Additionally, the bank syndicate could request that the Company provide cash collateral for outstanding letters of credit.

As the Company has done in the past, management believes that it will be able to negotiate a waiver with the syndicated bank group with respect to these violations. In the event the waivers are not obtained, the Company would expect to arrange for alternative financing which could include the following components, individually or in combination: (1) establishing a credit facility with a new bank group, (2) raising equity capital, (3) selling certain assets or (4) issuing debt in either a public or private transaction.

13

WILLBROS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

9. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per common share for the three-month and six-month periods ended June 30, 2005 and 2004, are computed as follows:

	THREE MONTHS ENDED JUNE 30,		SI END
	2005	2004	2005
	----- RESTATED -----		-----
Net loss applicable to common shares .....	\$ (9,919)	\$ (1,602)	\$ (19,81
	=====	=====	=====
Weighted average number of common shares outstanding for basic earnings per share .....	21,253,737	20,887,493	21,251,99
Effect of dilutive potential common shares from stock options .....	--	--	-
	-----	-----	-----
Weighted average number of common shares outstanding for diluted earnings per share .....	21,253,737	20,887,493	21,251,99
	=====	=====	=====
Loss per common share:			
Basic .....	\$ (.47)	\$ (.08)	\$ (.9

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Diluted .....	\$	(.47)	\$	(.08)	\$	(.9
---------------	----	-------	----	-------	----	-----

The Company incurred net losses for the three-month and six-month periods ended June 30, 2005 and 2004 and has therefore excluded securities from the computation of diluted earnings per share as the effect would be anti-dilutive.

The weighted average number of potential common shares excluded from the computation of diluted earnings (loss) per share because of their anti-dilutive effect was 3,595,277 shares issuable upon conversion of the Convertible Notes, 921,520 shares from options, and 288,375 restricted shares of common stock at June 30, 2005; 3,595,277 shares issuable upon conversion of the Convertible Notes 1,200,128 shares from options and 162,500 restricted shares of common stock at June 30, 2004.

10. SEGMENT INFORMATION

Historically, the Company reported in one operating segment offering three integrated services: engineering, construction, and specialty. In mid-2004, the Company restructured its operating segments to include Engineering and Construction and Facilities Development and Operations. Beginning in the fourth quarter of 2004, the Company restructured its business into two operating segments, International and United States & Canada. All periods presented reflect this change in segments.

The Company's segments 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 in Africa, the Middle East, and South America. The United States & Canada segment consists of all construction, engineering and facilities development

WILLBROS GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
 (UNAUDITED)

10. SEGMENT INFORMATION (CONTINUED)

operations in the United States and Canada. The Company's corporate operations include 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. Intersegment revenue and revenue between geographic areas are not material.

The tables below reflect the Company's operating segments as of and for the three-month and six-month periods ended June 30, 2005 and 2004:



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Total Consolidated Assets	\$	429,401	\$	417,110
	=====		=====	

Due to a limited number of major projects and clients, the Company may at any one time have a substantial part of its operations dedicated to one project, client and country.

15

WILLBROS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

### 11. CONTINGENCIES, COMMITMENTS AND OTHER CIRCUMSTANCES

On January 6, 2005, J. Kenneth Tillery, President of Willbros International, Inc. ("WII"), who was principally responsible for international operations, including Bolivian operations, resigned from the Company as discussed in Note 2 above.

Following Mr. Tillery's resignation, the Audit Committee, working with independent outside legal counsel and their forensic accountants retained by such legal counsel, commenced an independent investigation into the circumstances surrounding the 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, 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. (See Note 12 below). 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") is conducting an investigation into whether the Company and others may have violated various provisions of the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). The United States Department of Justice ("DOJ") is conducting an investigation concerning possible violations of the FCPA and other applicable laws. In addition, the United States Department of Treasury's Office of Foreign Assets Control ("OFAC") is commencing an investigation of the potentially improper facilitation and export activities. The Company is cooperating fully with all 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 criminal penalties of up to the greater of \$2,000 per violation or twice the gross pecuniary gain resulting from the improper conduct. 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. The Company and

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its subsidiaries could also be barred from participating in future U.S. government contracts and from participating in certain U.S. export transactions. There may be other penalties that could apply under other U.S. laws or the laws of foreign jurisdictions. 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. In addition, the Company's ability to obtain and retain business and to collect outstanding receivables in current or future operating locations, including Nigeria, could be negatively affected.

In May 2005, a securities class-action lawsuit was filed against the Company and certain of its present and former officers and directors in U.S. District Court for the Southern District of Texas. Three additional substantially identical lawsuits were filed shortly thereafter. Plaintiffs in these lawsuits purport to represent a class of persons who purchased or otherwise acquired Willbros Group, Inc. common stock and/or other securities between May 6, 2002 and May 16, 2005, inclusive, and allege various violations by the defendants of Sections 10(b), 10b-5 and 20a of the Exchange Act and allege, among other things, that the defendants made false or misleading statements of material fact about the Company's financial statements. The plaintiffs seek unspecified monetary damages and other relief. While the outcome of such lawsuits cannot be predicted with certainty, the Company believes that it has meritorious defenses and intends to defend itself vigorously.

We have received letters from two Nigerian law firms alleging that we have not complied with our obligations under certain consulting contracts with their clients. The Company has not recognized contract costs or accrued any liability for the \$3,845 related to these asserted obligations. We believe that compliance with those contracts may constitute a violation of the United States Foreign Corrupt Practices Act and accordingly, we will not comply. While there can be no assurance that a court or arbitration panel considering those contracts would not award damages to the consulting firms who are parties to such contracts; the Company believes the likelihood of a material adverse effect on the Company's financial position or results of operations from a resolution of this matter is remote.

We have received a demand from a party in Nigeria requesting repayment of an alleged \$500 note payable. However, credible evidence of the transaction has not been furnished and the Company has not found any record that any funds were received from the party. Additionally, we have received another claim from a second party in Nigeria for the repayment of a separate alleged \$1,000 note payable. Based on our investigation of the events surrounding these purported February 2005 transactions, we believe there is no lawful basis for the claims. Furthermore, independent of whether the claims are credible, we believe that recognizing these alleged liabilities could constitute a violation of the United States Foreign Corrupt Practices Act. Accordingly, the Company had not recorded any liability or expenses for the \$1,500 in claims.

16

WILLBROS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

11. CONTINGENCIES, COMMITMENTS AND OTHER CIRCUMSTANCES (CONTINUED)

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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, South America and North America. Operations outside the United States 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.

Based upon the advice of local advisors in the various work countries concerning the interpretation of the laws, practices and customs of the countries in which it operates, management believes the Company follows the current practices in those countries; however, because of the nature of these potential risks, there can be no assurance that the Company may not be adversely affected by them in the future. The Company insures substantially all of its equipment in countries outside the United States against certain political risks and terrorism through political risk insurance coverage that contains a 20 percent co-insurance provision.

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.

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 the present time, it is not possible for management to estimate the likelihood of such claims being asserted or, if asserted, the amount or nature thereof.

In connection with the Company's 10 percent interest in a joint venture in Venezuela, the Company issued a corporate guarantee equal to 10 percent of the joint venture's outstanding borrowings with two banks. The guarantee reduces as borrowings are repaid. As of June 30, 2005, the maximum amount of future payments the Company could be required to make under this guarantee is approximately \$2,919.

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

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warranty or project completion issues, as prescribed in the contracts. At June 30, 2005, the Company had approximately \$129,366 of letters of credit and 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 June 30, 2005 related to these commitments.

17

WILLBROS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

### 11. CONTINGENCIES, COMMITMENTS AND OTHER CIRCUMSTANCES (CONTINUED)

During the first quarter of 2005, the Company entered into a capital lease agreement for a 90,000 square foot building on 10 acres of land in Edmonton, Alberta with an option to purchase the building for a total of \$6,514 (Canadian \$8,000). Under the terms of the agreement, the Company made payments of approximately \$620 (Canadian \$750) through June 30, 2005, and will purchase the building in December 2005 for a lump sum payment of approximately \$5,894 (Canadian \$7,250). At June 30, 2005, approximately \$2,531 (Canadian \$3,113) of costs have been incurred for equipping and preparing the building for use. The Company will begin depreciating the building and other components of the facility when operations commence in the second half of 2005.

At June 30, 2005 and December 31, 2004, other assets include anticipated recoveries from insurance or third parties of \$3,840 and \$4,445, respectively, related to repairs of pipelines under two construction projects. The Company believes the recovery of certain of these costs from insurance or other parties is probable. Actual recoveries may vary from these estimates.

In addition to the matters discussed above, the Company is a party to a number of other legal proceedings. Management believes that the nature and number of these proceedings are typical for a firm of similar size engaged in a similar type of business and that none of these proceedings is material to the Company's financial position.

### 12. RELATED PARTY TRANSACTIONS

During the past several years, certain of the Company's subsidiaries have entered into commercial agreements with companies in which the former President of WII, Mr. J. Kenneth Tillery, apparently had an ownership interest. These ownership interests had not been previously disclosed to the Company. Those companies included Windfall Energy Services, Oco Industrial Services, Ltd., Hydrodive Nigeria, Ltd., and Hydrodive International, Ltd. All are companies that chartered or sold marine vessels to the Company's subsidiaries. Hydrodive International, Ltd. has 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 is 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.

Payments made to companies where Mr. Tillery appears to have an undisclosed

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ownership interest, varying from 13 percent to 40 percent, or over which he appears to have exercised significant influence during the three-month and six-month periods ended June 30, 2005 and June 30, 2004 were recorded as contract cost on Nigerian and Bolivian projects and are detailed below.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
Hydrodive International, Ltd.	\$ 2,036	\$ 1,184	\$ 3,279	\$ 2,474
Hydrodive Nigeria Ltd.	--	19	--	64
Kaplan and Associates	--	37	--	143
Oco Industrial Services Ltd.	--	27	3	50
Windfall Energy Services	--	233	300	383
Total	\$ 2,036	\$ 1,500	\$ 3,582	\$ 3,114

18

WILLBROS GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
 (UNAUDITED)

12. 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:

	JUNE 30, 2005	DECEMBER 31, 2004
Hydrodive International, Ltd.	\$ 6	\$ 1,846
Windfall Energy Services	1,344	300
Oco Industrial Services Ltd.	25	--
Hydrodive Nigeria, Ltd.	18	5
Total	\$ 1,393	\$ 2,151

In addition, it appears that Mr. Tillery had an equity interest in Addax Petroleum of Nigeria ("Addax") during an unknown period prior to April



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2003. During this period subsidiaries of the Company were paid for various services which they performed for Addax. Subsequent to March 2003, Mr. Tillery purportedly sold his equity interest in Addax. The subsidiaries of the Company continued to perform services for Addax and/or its successor company ("New Addax"). During the three-month and six month periods ended June 30, 2005, the Company recorded revenue for services provided to New Addax as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2004	2005	
	-----	-----	-----	-----
New Addax Revenue	\$ 675	\$ 8,137	\$ 675	\$
% of Consolidated Revenue	0.4%	7.0%	0.2%	

The Company had outstanding accounts receivable from New Addax and contract cost and recognized income not yet billed to New Addax of \$0 and \$13,619 at June 30, 2005 and 2004, respectively. In 2005, the Company entered into a global settlement with New Addax for outstanding receivables, change orders, and claims for \$10,000. The settlement was recovered in full in May 2005.

19

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS OR UNLESS NOTED OTHERWISE)

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements for the three-month and six-month interim periods ended June 30, 2005 and 2004, included in Item 1 of this report, and the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Policies, included in our Annual Report on Form 10-K for the year ended December 31, 2004.

#### OVERVIEW

We derive our revenue from providing construction, engineering and facilities development operations to the oil, gas and power industries and government entities worldwide. In 2005, our revenue was primarily generated from operations in Canada, Nigeria, Oman, and the United States. We obtain contracts for our work mainly by competitive bidding or through negotiations with long-standing or prospective clients. Contracts have durations from a few weeks to several months or in some cases more than a year.

We believe the fundamentals supporting the demand for engineering and construction services for the oil, gas and power industries indicate the market for our services will be strong in the mid to long-term. We are encouraged by many positive developments in the markets that we serve. In addition to increased bid activity in several of our markets, we are optimistic about new oil and gas production developments in both Canada and Mexico, both of which are attractive markets for our engineering and construction services. The move towards LNG is also expected to bring more opportunities to Willbros, both in

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North America and in the producing/exporting countries.

The engineering market in North America is becoming more active and we are encouraged that we have received multiple awards in recent weeks. Additionally, we are involved in numerous discussions and contract negotiations regarding pipeline and station construction projects in North America. The nature of these recent discussions and the increase in engineering assignments continues to support our belief that we may see an increase in activity in North America during the second half of 2005.

### RESTATEMENT

In late December of 2004, the Company became aware of an approximate \$2,500 tax assessment against the Company's Bolivian subsidiary which alleged that the subsidiary had filed improper tax returns. The assessment also imposed penalties and interest related to the tax assessment. Prior to late December 2004, the executive management of the Company was unaware of the tax assessment, with the exception of J. Kenneth Tillery, the then President of Willbros International, Inc. ("WII"), the primary international subsidiary of the Company. Mr. Tillery resigned from the Company on January 6, 2005.

Upon learning of the tax assessment, the Company immediately commenced an initial investigation into the matter and notified the Audit Committee of the Board of Directors. The Audit Committee retained independent counsel, who in turn retained forensic accountants, and began an independent investigation.

Concurrent with the Audit Committee's investigation, the Company initiated its own review of the Company's accounting. This review focused primarily on the Company's international activities supervised by the former President of WII, but also included other areas of the Company's accounting activities.

As a result of the investigation by the Audit Committee and the Company's accounting review, the Company determined that several members of the senior management of WII and its subsidiaries collaborated to misappropriate assets from the Company and cover up such activity. It was determined that the Bolivian subsidiary had in fact filed improper tax returns, or failed to file returns, at the direction of Mr. Tillery, the former President of WII. The investigation also determined that Mr. Tillery, in collusion with several members of the management of the international subsidiaries, was involved in other improper activities, primarily in the Company's Nigerian subsidiaries.

20

### FINANCIAL SUMMARY

For the quarter ended June 30, 2005, we had a loss of (\$0.47) per share on revenue of \$164,196. This compares to revenue of \$116,204 in the same restated quarter in 2004, when we reported a loss of (\$0.08) per share.

Revenue of \$164,196 for the second quarter of 2005 represents a \$47,992 (41%) increase over the revenue for the same restated period in 2004. In the second quarter of this year, international revenue increased \$36,746 primarily because of a \$72,693 increase from new work in Nigeria and West Africa, partially offset by a \$33,924 decrease in revenue from completed 2004 projects in Iraq (\$25,132), Bolivia (\$6,343) and Venezuela (\$2,449). United States and Canada revenue increased \$11,246 primarily as a result of \$5,090 of increased activity in Canada, and a \$7,208 increase in engineering revenues.

Contract costs increased \$46,355 (47%) to \$144,525 in the second

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quarter of 2005 as compared to the same restated quarter of 2004 due to the activity increases in both operating segments. Overall, margins decreased by 3.5% in the second quarter of 2005 as compared to the same restated quarter in 2004.

G&A expenses increased \$7,558 (67%) to \$18,774 in the second quarter of 2005 from \$11,216 in the restated second quarter of last year. The increase in G&A expenses includes \$2,811 related to the Audit Committee's internal investigation, \$1,007 in Nigeria due to increased activity, \$670 in Bolivia as close-out costs of the work country, \$3,070 increase in IT support costs and additional Houston office labor costs to support the effort of Audit Committee's independent investigation, and increased operating activity.

We recognized \$5,482 of tax expense on a \$4,437 pre-tax loss in the second quarter of 2005. The \$2,571 tax expense increase in the second quarter of 2005 resulted from \$72,693 of increased revenue in Nigeria and West Africa as compared to the same restated quarter in 2004. Tax expense of \$5,482 in the second quarter of 2005 results primarily from accruing income taxes in Nigeria where taxes are calculated and based on a deemed income (percentage of revenue) instead of actual pre-tax income.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our report on Form 10-K for the year ended December 31, 2004, we identified and disclosed three critical accounting policies: (a) Revenue Recognition: Percentage-of-Completion Method; (b) Income Taxes; and (c) Joint Venture Accounting. There have been no changes to our critical accounting policies during the three-month period ended June 30, 2005.

### SIGNIFICANT BUSINESS DEVELOPMENTS

#### OTHER FINANCIAL MEASURES

#### EBITDA

We use EBITDA (earnings before net interest, income taxes, depreciation and amortization) as part of our overall assessment of financial performance by comparing EBITDA between accounting periods. We believe that EBITDA is used by the financial community as a method of measuring our performance and of evaluating the market value of companies considered to be in businesses similar to ours. EBITDA for the six months ended June 30, 2005 was (\$249) as compared to \$10,026 for the same restated period in 2004, an \$10,275 (102%) decrease.

21

A reconciliation of EBITDA to GAAP financial information follows:

	SIX MONTHS ENDED JUNE 30,	
	2005	2004
		RESTATED
Net loss	\$ (19,817)	\$ (1,769)
Interest, net	1,065	1,087
Provision for income taxes	8,246	3,036
Depreciation and amortization	10,257	7,672

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	-----	-----
EBITDA	\$ (249)	\$ 10,026
	=====	=====

### BACKLOG

We define anticipated contract revenue as backlog when the award of a contract is reasonably assured, generally upon the execution of a definitive agreement or contract. Anticipated revenue from post-contract award processes, including change orders, extra work, variations in the scope of work and the effect of escalation or currency fluctuation formulas, is not added to backlog until realization is reasonably assured. Backlog as of June 30, 2005 was \$716,534 with an estimated embedded margin of 19.7% compared to \$660,932 at December 31, 2004 with an estimated embedded margin of 21.6%. Included in the backlog at June 30, 2005 is \$19,737 of gas processing revenue with an estimated embedded margin of 100%. The gas processing revenue is associated with the 10-year gas processing contract for our Opal Gas Plant. If backlog amounts were reduced by eliminating the effects of the Opal gas processing contract, the adjusted estimated embedded margin would be 17.4% as of June 30, 2005. An estimated \$303,694 (42.4%) of the current backlog is scheduled to be worked off during the remainder of 2005.

### RESULTS OF OPERATIONS

Our contract revenue and contract costs are significantly impacted by the capital budgets of our clients and the timing and location of development projects in the oil, gas and power industries worldwide. Contract revenue and cost variations by country from year to year are the result of (a) entering and exiting work countries; (b) the execution of new contract awards; (c) the completion of contracts; and (d) the overall level of activity in our services.

Our ability to be successful in obtaining and executing contracts can be affected by the relative strength or weakness of the U.S. dollar compared to the currencies of our competitors, our clients and our work locations. During the six-month period ended June 30, 2004, the Venezuelan Bolivar experienced significant devaluation relative to the U.S. dollar and the restated first six months of 2004 included a foreign exchange gain of \$345 resulting from the translation of our Bolivar denominated monetary assets and liabilities into U.S. dollars. In the first six months of 2005 we had a foreign exchange gain of \$21 on the Bolivar.

THREE MONTHS ENDED JUNE 30, 2005, COMPARED TO THREE MONTHS ENDED JUNE 30, 2004

### CONTRACT REVENUE

Contract revenue increased \$47,992 (41%) to \$164,196 due to increases in both International and United States and Canada segments. A quarter-to-quarter comparison of revenue is as follows:

	THREE MONTHS ENDED JUNE 30,			
	2005	2004	INCREASE (DECREASE)	PERCENT CHANGE
	-----	-----	-----	-----
	RESTATED			
International	\$ 98,180	\$ 61,434	\$ 36,746	60%
United States & Canada	66,016	54,770	11,246	21%

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Total	----- \$ 164,196 =====	----- \$ 116,204 =====	----- \$ 47,992 =====	41%
-------	------------------------------	------------------------------	-----------------------------	-----

22

International revenue increased \$36,746 primarily because of a \$72,693 increase from new work in Nigeria and West Africa, partially offset by a \$33,924 decrease in revenue from the completed 2004 projects in Iraq (\$25,132), Bolivia (\$6,343) and Venezuela (\$2,449). United States and Canada revenue increased \$11,246 primarily as a result of \$5,090 of increased activity in Canada, and a \$7,208 increase in engineering revenue.

CONTRACT INCOME

Contract income increased \$1,637 (9%) to \$19,671 in the second quarter of 2005 as compared to the same restated quarter in 2004. A comparison of contract income is included in the table below.

	THREE MONTHS ENDED JUNE 30,				
	----- 2005 -----	% of Revenue -----	----- 2004 ----- RESTATED	% of Revenue -----	----- INCREASE (DECREASE) -----
International	\$ 11,098	11.3	\$ 12,984	21.1	\$ (1,886)
United States & Canada	8,573	13.0	5,050	9.2	3,523
Total	----- \$ 19,671 =====	12.0	----- \$ 18,034 =====	15.5	----- \$ 1,637 =====

United States and Canada contract income increased \$3,523 during the second quarter of 2005. Contract margin also increased by 3.8% during this period. The increased contract income and margin is mainly due to improved margins at our North America RPI division along with increased engineering activity and slightly higher engineering margins. International contract income decreased \$1,886 in the second quarter of 2005. The decrease is mainly due to the completion of the higher margin Iraq project in 2004 along with the Bolivia contract settlement in the second quarter of 2004. This was partially offset by increased contract income in Nigeria primarily attributable to the large Eastern Gas Gathering Project. The additional work in Nigeria in 2005 was subject to a much lower contract margin as compared to the margin recognized from the completed 2004 Iraq project. The margin in the second quarter of 2004 also benefited from the Bolivia Transierra Project settlement. International contract margins declined 9.8% in the second quarter of 2005 as compared to the same restated quarter in 2004.

OTHER OPERATING EXPENSES

Depreciation and amortization increased \$991 (25%) in the second quarter of 2005 as compared to the same restated quarter in 2004 primarily due to additions to equipment in Nigeria over the last year, and depreciation on the new information system.

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G&A expenses increased \$7,558 (67%) to \$18,774 in the second quarter of 2005 from \$11,216 in the restated second quarter of last year. The increase in G&A expenses includes \$2,811 related to the Audit Committee's internal investigation, \$1,007 in Nigeria due to increased activity, \$670 in Bolivia as close-out costs of the work country, \$3,070 increase in IT support costs and additional Houston office labor costs to support the effort of Audit Committee's independent investigation and increased operating activity.

### NON-OPERATING ITEMS

Other income/(expense) decreased from \$728 of expense in the restated second quarter of 2004 to \$384 of expense in the same quarter of 2005. The \$344 quarter-to-quarter favorable variance is primarily attributable to increased interest income of \$337.

We recognized \$5,482 of tax expense on a \$4,437 pre-tax loss in the second quarter of 2005. The \$2,571 tax expense increase in the second quarter of 2005 resulted primarily from \$72,693 of increased revenue in Nigeria and West Africa as compared to the same restated quarter in 2004. Tax expense of \$5,482 in the second quarter of 2005 results primarily from accruing income taxes in Nigeria where taxes are calculated and based on a deemed income (percentage of revenue) instead of actual pre-tax income.

SIX MONTHS ENDED JUNE 30, 2005, COMPARED TO SIX MONTHS ENDED JUNE 30, 2004

### CONTRACT REVENUE

Contract revenue increased \$77,947 (36%) to \$295,798 due to increases in both International and United States and Canada segments. A quarter-to-quarter comparison of revenue is as follows:

23

	SIX MONTHS ENDED JUNE 30,			
	2005	2004	INCREASE (DECREASE)	PERCENT CHANGE
	-----	----- RESTATED	-----	-----
International	\$ 185,214	\$ 124,920	\$ 60,294	48%
United States & Canada	110,584	92,931	17,653	19%
Total	\$ 295,798	\$ 217,851	\$ 77,947	36%
	=====	=====	=====	

International revenue increased \$60,294 primarily because of a \$103,576 increase from new work in Nigeria and \$24,164 from new work in West Africa, partially offset by a \$60,332 decrease in revenue from the completed 2004 projects in Iraq (\$41,101), Oman (\$7,853) and Venezuela (\$11,378). United States and Canada revenue increased \$17,653 primarily as a result of \$9,544 of increased activity in Canada and \$12,370 of increased activity in engineering.

### CONTRACT INCOME

Contract income increased \$3,474 (11%) to \$36,438 for the first six months of 2005 as compared to the same restated first six months of 2004. A

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comparison of contract income is included in the table below.

	SIX MONTHS ENDED JUNE 30,				
	2005	% of Revenue	2004	% of Revenue	INCREASE (DECREASE)
			RESTATED		
International	\$ 24,552	13.3	\$ 23,485	18.8	\$ 1,067
United States & Canada	11,886	10.8	9,479	10.2	2,407
Total	\$ 36,438	12.3	\$ 32,964	15.1	\$ 3,474
	=====		=====		=====

United States and Canada contract income increased \$2,407 during the first six months of 2005. Contract margin also increased by .6% during this period. The increased contract income and margin is mainly due to improved margins at our North America RPI division along with increased engineering activity and slightly higher engineering margins. International contract income increased \$1,067 in the first six months of 2005. The increase is mainly due to the increased construction activity in Nigeria on the large EPC contracts with Shell Petroleum Development Company and Mobil producing Nigeria. The additional Nigeria contract income was partially offset by declines in Iraq, Bolivia, and Venezuela as these projects were completed or closed out in fiscal year 2004. The additional work in Nigeria in 2005 was subject to a much lower contract margin as compared to the margin recognized from the completed 2004 Iraq project. The margin in the first six months of 2004 also benefited from the Bolivia Transierra settlement. International contract margins declined 5.5% during the first six months of 2005.

### OTHER OPERATING EXPENSES

Depreciation and amortization increased \$2,585 (34%) during the first six months of 2005 as compared to the same restated period in 2004 primarily due to additions to equipment in Nigeria over the last year, and depreciation on the new information system.

G&A expenses increased \$14,224 (66%) to \$35,842 in the first six months of 2005 from \$21,618 in the restated first six months of last year. The increase in G&A expenses includes \$6,468 related to the Audit Committee's internal investigation, \$1,440 in Nigeria due to increased activity, \$517 in Bolivia as close-out costs of the work country, \$539 in North America due to increased activity, \$5,777 increase in IT support costs and additional Houston office labor costs to support the effort of Audit Committee's independent investigation and increased operating activity.

### NON-OPERATING ITEMS

We recognized \$8,246 of tax expense on a \$11,571 pre-tax loss in the first six months of 2005. The \$5,210 tax expense increase in the first six months of 2005 resulted primarily from \$103,576 of increased revenue in Nigeria

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as compared to the same restated first six months in 2004. Tax expense of \$8,246 in the first six months of 2005 results primarily from accruing income taxes in Nigeria where taxes are calculated and based on a deemed income (percentage of revenue) instead of actual pre-tax income.

### LIQUIDITY AND CAPITAL RESOURCES

#### CAPITAL REQUIREMENTS

Our primary requirements for capital are to acquire, upgrade and maintain equipment, provide working capital for current projects, finance the mobilization of employees and equipment to new projects, establish a presence in countries where we perceive growth opportunities and finance the possible acquisition of new businesses and equity investments. Historically, we have met these capital requirements primarily from operating cash flows, borrowings under our credit facility and debt and equity financings.

#### WORKING CAPITAL

Cash and cash equivalents decreased \$24,268 (31%) to \$54,452 at June 30, 2005 from \$78,720 at December 31, 2004. This decrease was primarily due to \$17,226 of investing activities related to the acquisition of equipment, \$5,426 cash used in operations, and a \$2,767 net reduction of notes payable and long-term debt. Offsetting these decreases were cash provided by proceeds from sale of equipment of \$1,538.

Working capital decreased \$30,248 (28%) from decreased cash of \$24,268 and increased current liabilities of \$33,043, offset by increased prepaid expenses, including inventory, of \$7,704 and increased receivables and unbilled revenue of \$19,359.

Cash flows from operations improved by \$6,085 compared to the restated same period in 2004, from a negative cash flow of \$11,511 to a negative cash flow of \$5,426.

We believe the anticipated increase in revenue, a focus on reducing working capital requirements internationally, and increased analysis in the area of capital asset additions will improve cash flow from operations in 2005.

#### CONVERTIBLE NOTES

On March 12, 2004, the Company completed a primary offering of \$60,000 of 2.75 percent Convertible Senior Notes (the "Convertible Notes"). On April 13, 2004, the initial purchasers of the Convertible 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 Convertible Notes total \$70,000. The Convertible 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 Convertible Notes mature on March 15, 2024 unless the notes are repurchased, redeemed or converted earlier. The Company may redeem the Convertible Notes for cash on or after March 15, 2011, at 100 percent of the principal amount of the notes plus accrued interest. The holders of the Convertible Notes have the right to require the Company to purchase the Convertible Notes, including unpaid interest, on March 15, 2011, 2014, and 2019 or upon a change of control related event. On March 15, 2011 and 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 Convertible 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



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3,595,277 shares at June 30, 2005). The notes will be convertible only upon the occurrence of certain specified events including, but not limited to, if, at certain times, the closing sale price of the Company's common stock exceeds 120 percent of the then current conversion price, or \$23.36 per share based on the initial conversion price. Unamortized debt issue costs of \$2,672 associated with the Convertible Notes are included in other assets at June 30, 2005 and are being amortized over the seven-year period ending March 2011. In the event of a default under any Company credit agreement other than the indentures covering the Convertible Notes, (1) in which the Company fails to pay

25

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 Convertible Notes. Since the non-compliance issues under the 2004 Credit Facility discussed in Note 8 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 Convertible Notes.

On June 10, 2005, the Company received a letter from a law firm representing an investor claiming to be the owner of in excess of 25% of the Convertible Notes asserting that, as a result of the Company's failure to timely file with the SEC its 2004 Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, it was placing the Company on notice of an event of default under the indenture dated as of March 12, 2004 between the Company as issuer, and JPMorgan Chase Bank, N.A., as trustee (the "Indenture"), which governs the Convertible Notes. The Company indicated that it does not believe that it has failed to perform its obligations under the relevant provisions of the Indenture referenced in the letter. On August 19, 2005, the Company entered into a settlement agreement with the beneficial owner of the Convertible Notes on behalf of whom the notice of default was sent, pursuant to which the Company agreed to use commercially reasonable efforts to solicit the requisite vote to approve an amendment to the Indenture (the "Indenture Amendment"). The Company has obtained the requisite vote and on September 22, 2005, the Indenture Amendment became effective.

The Indenture Amendment extends the initial date on or after which the Convertible Notes may be redeemed by the Company to March 15, 2013 from March 15, 2011. In addition, a new provision was added to the Indenture which would require 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 Convertible Notes or (b) all scheduled interest on the Convertible Notes from the date of the transaction through March 15, 2013.

### 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 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 percent 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 percent to 2.00 percent or on a Eurodollar rate plus a margin ranging from 1.75 percent to 3.00

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percent. The 2004 Credit Facility is collateralized by substantially all of the Company's assets, including stock of the 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 spare parts. Unamortized debt issue costs of \$2,238 associated with the 2004 Credit Facility are included in other assets at June 30, 2005 and are amortized over the term of the 2004 Credit Facility ending March 2007.

As of June 30, 2005, there were no borrowings under the 2004 Credit Facility and there were \$50,156 in outstanding letters of credit. Letters of credit reduce the availability on the facility by 75 percent of their amount outstanding; however, the total value of letters of credit outstanding may not exceed \$150,000 (see "Waiver Amendment" below).

### 2004 Credit Facility Waivers

For the quarter ended June 30, 2004, due to the Company's operating results and EBITDA (earnings before net interest, income taxes, depreciation and amortization) levels, an Amendment and Waiver Agreement (the "Waiver Agreement") was obtained from the syndicated bank group to waive non-compliance with a financial covenant to the credit agreement at June 30, 2004 and to amend certain financial covenants. The Waiver Agreement provides for an amendment of certain quarterly financial covenants and the multiple of EBITDA calculation with respect to the borrowing base determination through September 30, 2005.

In January 2005, the Company obtained a Consent and Waiver from its syndicated bank group, covering a period through June 29, 2005, waiving certain defaults and covenants which related to the filing of tax returns, the payment of taxes when due, tax liens and legal proceedings against the Company related to a tax

26

assessment in Bolivia. (See Note 2 of the Notes to the Condensed Consolidated Financial Statements included in this report) Additional Consent and Waivers were obtained from the syndicated bank group as of April 8 and June 13, 2005 with respect to these defaults and non-compliance with certain financial covenants as of June 13, 2005.

### 2004 Credit Facility Amendment

On July 19, 2005, the Company entered into a Second Amendment and Waiver Agreement ("Waiver Amendment") of the 2004 Credit Facility with the syndicated bank group to obtain continuing waivers regarding its non-compliance with certain financial and non-financial covenants in the 2004 Credit Facility. Under the terms of the Waiver Amendment, the total credit availability under the 2004 Credit Facility is reduced to \$100,000 as of the effective date of the Waiver Amendment. Subject to certain conditions, the bank group agreed to permanently waive all existing and probable technical defaults under the 2004 Credit Facility as long as the Company submits year-end 2004 financial statements and interim financial statements for the quarters ended March 31 and June 30, 2005 by September 30, 2005. These conditions relate primarily to submissions of various financial statements and other financial and borrowing base related information.

The Waiver Amendment also modified certain of the ongoing financial

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covenants under the 2004 Credit Facility and established a requirement that the Company maintain a minimum cash balance of \$15,000. Until such time as the waiver becomes permanent, the Company has certain additional reporting requirements, including periodic cash balance reporting. In addition, the Waiver Amendment prohibits the Company from borrowing cash under the 2004 Credit Facility until the waiver becomes permanent. Since the Company was not able to submit the referenced statements by September 30, 2005, the waiver did not become permanent.

Additionally, the Company was not in compliance with certain of the financial covenants under the 2004 Credit Facility at September 30, 2005 and the Company has not obtained a waiver. The Company also believes it will not be in compliance with certain of the financial covenants under the 2004 Credit Facility at December 31, 2005. As a result of the covenant violations and the failure to provide certain financial statements by September 30, 2005, the bank syndicate has the right to discontinue advances under the facility as well as the issuance of new letters of credit. The inability of the Company to access new letters of credit could negatively impact the Company's ability to take on new work, or bid additional work where letters of credit are required, in order to bid on a project. Additionally, the bank syndicate could request that the Company provide cash collateral for outstanding letters of credit.

As the Company has done in the past, management believes that it will be able to negotiate a waiver with the syndicated bank group with respect to these violations. In the event the waivers are not obtained, the Company would expect to arrange for alternative financing which could include the following components, individually or in combination: (1) establishing a credit facility with a new bank group, (2) raising equity capital, (3) selling certain assets or (4) issuing debt in either a public or private transaction.

### LIQUIDITY

We believe that cash flows from operations, future borrowing capacity under the 2004 Credit Facility and the net proceeds from the Convertible Notes offering will be sufficient to finance working capital and capital expenditures for ongoing operations at our present level of activity. Capital expenditures for equipment for the remainder of 2005 is estimated at \$15,000. We believe that while there are numerous factors that could and will have an impact on our cash flow, both positively and negatively, the vast majority of which, should they occur, could be funded from our operations, existing cash balances, or future borrowing capacity. However, should the DOJ, SEC, or OFAC, as a result of their investigation, levy material civil and/or criminal fines or penalties against the Company, these fines could have a material adverse effect on the Company's liquidity and operations. For a list of events which could cause actual results to differ from our expectations and a discussion of risk factors that could impact cash flow, please refer to the section entitled "Risk Factors" contained in Items 1 and 2 in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

### CONTRACTUAL OBLIGATIONS

As of June 30, 2005, we had \$70,000 of outstanding debt related to the Convertible Notes.

During the first quarter of 2005, the Company entered into a capital lease agreement for a 90,000 square foot building on 10 acres of land in Edmonton, Alberta with an option to purchase the building for a total of \$6,514, (Canadian \$8,000). Under the terms of the agreement, the Company made payments of approximately \$620 (Canadian \$750) through June 30, 2005, and will purchase the building in December 2005 for a lump sum payment of approximately \$5,894 (Canadian \$7,250).

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Other contractual obligations and commercial commitments, as detailed in the Company's annual report on Form 10-K for the year ended December 31, 2004, did not materially change outside of payments made in the

27

normal course of business, except that a \$2,600 capital lease with a remaining life of three years related to a new information system was paid off in March 2005.

### NEW ACCOUNTING PRONOUNCEMENTS

See Note 4 of the Notes to the Condensed Consolidated Financial Statements included in this report for a summary of recently issued accounting standards.

### FORWARD-LOOKING STATEMENTS

THIS FORM 10-Q INCLUDES "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACTS, INCLUDED IN THIS FORM 10-Q 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 AND POWER 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 CERTAIN 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:

- o THE RESULTS OF GOVERNMENT INVESTIGATIONS INTO THE ACTIONS OF THE COMPANY AND OF CURRENT AND FORMER EMPLOYEES OF THE COMPANY, INCLUDING J. KENNETH TILLERY, THE FORMER PRESIDENT OF WILLBROS INTERNATIONAL, INC.;
- o THE IMPOSITION OF FINES, PENALTIES OR OTHER SANCTIONS THAT MIGHT BE IMPOSED AS A RESULT OF GOVERNMENT INVESTIGATIONS;
- o DIFFICULTIES WE MAY ENCOUNTER IN OBTAINING NEW BUSINESS, RETAINING EXISTING BUSINESS AND/OR COLLECTING RECEIVABLES IN NIGERIA AND ELSEWHERE BECAUSE OF THE SEVERANCE OF LONG-TERM RELATIONSHIPS WITH CONSULTANTS AND OTHER INDIVIDUALS;
- o ADVERSE RESULTS THAT WE COULD SUFFER IN CIVIL LITIGATION INVOLVING OR ARISING FROM THE ACTIONS OF CURRENT AND FORMER EMPLOYEES AND OFFICERS OF THE COMPANY;
- o THE ASSERTION BY PARTIES TO CONTRACTS WITH US THAT THE ACTIONS OF CURRENT AND FORMER EMPLOYEES OF THE COMPANY WERE IMPROPER WHICH

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CONSTITUTES A BREACH OF, OR OTHERWISE GIVE RISE TO CLAIMS UNDER, CONTRACTS TO WHICH WE ARE A PARTY;

- DETERMINATION THAT THE ACTIONS OF CURRENT AND FORMER EMPLOYEES OF THE COMPANY CAUSED US TO BREACH OUR CREDIT AGREEMENTS OR DEBT INSTRUMENTS, WHICH COULD RESULT IN THE LACK OF ACCESS TO OUR CREDIT FACILITIES AND THE REQUIREMENT TO CASH COLLATERALIZE OUR EXISTING LETTERS OF CREDIT;
- THE COMMENCEMENT BY FOREIGN GOVERNMENTAL AUTHORITIES OF INVESTIGATIONS INTO THE ACTIONS OF CURRENT AND FORMER EMPLOYEES OF THE COMPANY, 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 THE COMPANY'S ESTABLISHED POLICIES AND RULES;
- CURTAILMENT OF CAPITAL EXPENDITURES IN THE OIL, GAS, AND POWER INDUSTRIES;
- POLITICAL OR SOCIAL CIRCUMSTANCES IMPEDING THE PROGRESS OF OUR WORK;
- FAILURE TO OBTAIN THE TIMELY AWARD OF ONE OR MORE PROJECTS;
- CANCELLATION OF PROJECTS;
- INCLEMENT WEATHER;
- PROJECT COST OVERRUNS, UNFORESEEN SCHEDULE DELAYS, AND THE APPLICATION OF LIQUIDATED DAMAGES;
- FAILING TO REALIZE COST RECOVERIES FROM PROJECTS COMPLETED OR IN PROGRESS WITHIN A REASONABLE PERIOD AFTER COMPLETION OF THE RELEVANT PROJECT;
- INABILITY TO IDENTIFY AND ACQUIRE SUITABLE ACQUISITION TARGETS ON REASONABLE TERMS;

28

- INABILITY TO OBTAIN ADEQUATE FINANCING;
- 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;
- CHANGES IN THE SCOPE OF OUR EXPECTED INSURANCE COVERAGE;
- INABILITY TO MANAGE INSURABLE RISK AT AN AFFORDABLE COST;

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- o THE OCCURRENCE OF THE RISK FACTORS LISTED ELSEWHERE IN THIS FORM 10-K AND IN OUR OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME; AND
- o OTHER FACTORS, MOST OF WHICH ARE BEYOND OUR CONTROL.

CONSEQUENTLY, ALL OF THE FORWARD-LOOKING STATEMENTS MADE IN THIS FORM 10-Q 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 THE CURRENT AND FORMER EMPLOYEES OF THE COMPANY, SEE THE RISK FACTORS INCLUDED IN THE COMPANY'S 2004 ANNUAL REPORT ON FORM 10-K BEGINNING ON PAGE 27.

29

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk is our exposure to changes in non-U.S. currency exchange rates. We attempt to negotiate contracts which provide for payment in U.S. dollars, but we 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, we seek to match anticipated non-U.S. currency revenue with expenses in the same currency whenever possible. To the extent we are unable to match non-U.S. currency revenue with expenses in the same currency, we may use forward contracts, options or other common hedging techniques in the same non-U.S. currencies. We had no forward contracts or options at June 30, 2005 and 2004 or during the three-month periods then ended.

The carrying amounts for cash and cash equivalents, accounts receivable, notes payable and accounts payable and accrued liabilities shown in the consolidated balance sheets approximate fair value at June 30, 2005 due to the generally short maturities of these items. At June 30, 2005, our investments were primarily in short-term dollar denominated bank deposits with maturities of a few days, or in longer term deposits where funds can be withdrawn on demand without penalty. We have the ability and expect to hold our investments to maturity.

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt. At June 30, 2005, none of our indebtedness was subject to variable interest rates.

30

### ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2005. Based on this evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded

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that, as of June 30, 2005, the disclosure controls and procedures are not effective in alerting them on a timely basis to material information required to be included in our periodic filings with the Securities and Exchange Commission.

Company management with oversight from the Audit Committee has devoted substantial effort to the remediation of its material weaknesses described in Item 9A "Controls and Procedures" in the Company's 2004 Annual Report on Form 10-K. Specifically, we have undertaken the following actions to remediate these material weaknesses:

Remediation steps taken in the fourth quarter of 2004:

- o Increased staffing and training of the finance and accounting personnel at the business unit level.
- o Adoption of a more frequent rotation policy for the financial staff at our business units.

Actions taken in 2005:

- o Initiation of an enhanced worldwide awareness program to educate employees with respect to the content of our Whistle Blower policy to better achieve reporting of any suspected problems.
- o Realignment of the reporting of all business units' financial staff directly to the Corporate Controller's Office.
- o Adoption of a more frequent rotation policy for the operations staff at our business units.
- o Adoption of a policy requiring approval of the General Counsel or the Chief Financial Officer for the engagement of legal, accounting and tax advisors.
- o Implementation of an "enhanced and stand-alone" FCPA Compliance Program (separate from that incorporated previously into our Code of Business Conduct and Ethics), inclusive of a "Definitive FCPA Policy Statement" from the Board of Directors and an FCPA Compliance Procedure providing for, among other measures, routine training Company-wide, starting in Nigeria, Latin America and Oman.
- o Requirement that employees in a position of authority, as well as professional consultants, identify any direct or indirect ownership interest in entities doing business with the Company. Included in this disclosure will be any entities owned or controlled in whole or in part by immediate family members such as spouses.
- o Improvements to strengthen existing internal controls relating specifically to Nigerian cash disbursements, approved vendor lists and approval levels for individuals, subsidiaries and senior management.
- o Expansion and formalization of the review process by corporate tax personnel of all international tax returns on at least a quarterly basis. Book and tax liability accounts will be reconciled and compared with tax returns as filed. This process was already in place for the North American subsidiaries.
- o Movement of the internal audit function from an outsourced function with an independent accounting firm to an in-house department to facilitate more frequent and more in-depth examination of controls throughout the Company.

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Company management with oversight from the Audit Committee is implementing numerous other improvements as described below:

- o Appointment of a senior-level Company employee with primary responsibility for implementation, oversight and enforcement of the (i) Definitive FCPA Policy Statement; (ii) the Code of Business Conduct and Ethics; and (iii) the Whistleblower Policy, and publish that appointment through the Company. The appointee will have a direct communication line to the Audit Committee.

The above changes are all part of our overall plan that is intended to remediate the material weaknesses described in Item 9A "Controls and Procedures" in the Company's 2004 Annual Report on Form 10-K.

31

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

For information regarding legal proceedings, see Item 3. Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2004, and Note 11 of our "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Form 10-Q, which information from Note 11 as to legal proceedings is incorporated by reference into this Item.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

#### Item 3. Defaults upon Senior Securities

Not applicable

#### Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

#### Item 5. Other Information

Not applicable

#### Item 6. Exhibits

Exhibits:

The following documents are included as exhibits to this Form 10-Q. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed herewith.

32



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- 4. First Supplemental Indenture, dated September 22, 2005, between us and JPMorgan Chase Bank, N.A., successor to JPMorgan Chase Bank, as trustee, to the Indenture, dated March 12, 2004, between us and JPMorgan Chase Bank, as trustee (Filed as Exhibit 4.1 to our current report on Form 8-K dated September 22, 2005, filed September 28, 2005).
  
- 10. Second Amendment and Waiver dated July 19, 2005, to the Amended and Restated Credit Agreement dated March 12, 2004, among us, certain designated subsidiaries, certain financial institutions, Calyon New York Branch, as administrative agent, and CIBC, Inc., as syndication agent (Filed as Exhibit 10 to our current report on Form 8-K dated July 19, 2005, filed July 25, 2005).
  
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

33

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WILLBROS GROUP, INC.

Date: November 21, 2005

By: /s/ Warren L. Williams

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Warren L. Williams  
Senior Vice President, Chief Financial  
Officer and Treasurer

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(Principal Financial Officer and  
Principal Accounting Officer)

34

## EXHIBIT INDEX

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35

