

Willbros Group, Inc.\NEW\  
Form 10-Q  
November 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

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 1-34259

**Willbros Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(Jurisdiction of  
incorporation)

**30-0513080**  
(I.R.S. Employer

Identification Number)

**4400 Post Oak Parkway**

**Suite 1000**

**Houston, TX 77027**

**Telephone No.: 713-403-8000**

(Address, including zip code, and telephone number, including  
area code, of principal executive offices of registrant)

**NOT APPLICABLE**

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

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

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

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

Large Accelerated Filer ☐ Accelerated Filer ☒

Non-Accelerated Filer ☐ Smaller reporting company ☐

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

The number of shares of the registrant's Common Stock, \$.05 par value, outstanding as of November 2, 2012 was 49,097,011.

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**WILLBROS GROUP, INC.**

**FORM 10-Q**

**FOR QUARTER ENDED SEPTEMBER 30, 2012**

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**Table of Contents****WILLBROS GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

(Unaudited)

**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

|                                                                       | September 30,<br>2012 | December 31,<br>2011 |
|-----------------------------------------------------------------------|-----------------------|----------------------|
| <b><u>ASSETS</u></b>                                                  |                       |                      |
| Current assets:                                                       |                       |                      |
| Cash and cash equivalents                                             | \$ 15,908             | \$ 58,686            |
| Accounts receivable, net                                              | 437,045               | 301,515              |
| Contract cost and recognized income not yet billed                    | 105,288               | 37,090               |
| Prepaid expenses and other assets                                     | 46,895                | 43,129               |
| Parts and supplies inventories                                        | 11,395                | 11,893               |
| Deferred income taxes                                                 | 3,162                 | 1,845                |
| Assets held for sale                                                  |                       | 32,758               |
| Total current assets                                                  | 619,693               | 486,916              |
| Property, plant and equipment, net                                    | 150,631               | 166,475              |
| Goodwill                                                              | 8,067                 | 8,067                |
| Other intangible assets, net                                          | 168,397               | 179,916              |
| Other assets                                                          | 28,399                | 20,397               |
| Total assets                                                          | \$ 975,187            | \$ 861,771           |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                    |                       |                      |
| Current liabilities:                                                  |                       |                      |
| Accounts payable and accrued liabilities                              | \$ 368,970            | \$ 221,557           |
| Contract billings in excess of cost and recognized income             | 31,764                | 18,000               |
| Current portion of capital lease obligations                          | 1,819                 | 2,818                |
| Notes payable and current portion of long-term debt                   | 45,265                | 31,623               |
| Current portion of settlement obligation of discontinued operations   | 4,500                 | 14,000               |
| Accrued income taxes                                                  | 8,040                 | 4,983                |
| Liabilities held for sale                                             |                       | 13,990               |
| Other current liabilities                                             | 5,082                 | 7,475                |
| Total current liabilities                                             | 465,440               | 314,446              |
| Long-term debt                                                        | 207,569               | 230,707              |
| Capital lease obligations                                             | 2,552                 | 3,646                |
| Long-term portion of settlement obligation of discontinued operations | 39,000                | 41,500               |
| Long-term liabilities for unrecognized tax benefits                   | 4,518                 | 4,030                |
| Deferred income taxes                                                 | 2,561                 | 2,994                |
| Other long-term liabilities                                           | 34,641                | 32,870               |
| Total liabilities                                                     | 756,281               | 630,193              |
| Contingencies and commitments (Note 12)                               |                       |                      |
| Stockholders' equity:                                                 |                       |                      |

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Preferred stock, par value \$.01 per share, 1,000,000 shares authorized, none issued

Common stock, par value \$.05 per share, 70,000,000 shares authorized and 50,055,153 shares issued at September 30, 2012 (49,423,152 at December 31, 2011)

|                                                                                             |           |           |
|---------------------------------------------------------------------------------------------|-----------|-----------|
|                                                                                             | 2,502     | 2,471     |
| Capital in excess of par value                                                              | 685,831   | 680,289   |
| Accumulated deficit                                                                         | (472,722) | (455,840) |
| Treasury stock at cost, 964,094 shares at September 30, 2012 (829,526 at December 31, 2011) | (11,370)  | (10,839)  |
| Accumulated other comprehensive income                                                      | 13,709    | 14,570    |

|                                                 |         |         |
|-------------------------------------------------|---------|---------|
| Total Willbros Group, Inc. stockholders' equity | 217,950 | 230,651 |
| Noncontrolling interest                         | 956     | 927     |

|                            |         |         |
|----------------------------|---------|---------|
| Total stockholders' equity | 218,906 | 231,578 |
|----------------------------|---------|---------|

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total liabilities and stockholders' equity | \$ 975,187 | \$ 861,771 |
|--------------------------------------------|------------|------------|

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****WILLBROS GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except share and per share amounts)

(Unaudited)

|                                                                                        | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|----------------------------------------------------------------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
|                                                                                        | 2012                                | 2011         | 2012                               | 2011         |
| Contract revenue                                                                       | \$ 588,921                          | \$ 444,036   | \$ 1,507,205                       | \$ 1,210,499 |
| Operating expenses:                                                                    |                                     |              |                                    |              |
| Contract                                                                               | 538,394                             | 395,786      | 1,380,633                          | 1,096,192    |
| Amortization of intangibles                                                            | 3,913                               | 3,918        | 11,645                             | 11,752       |
| General and administrative                                                             | 39,099                              | 31,152       | 112,034                            | 99,423       |
| Settlement of project dispute                                                          |                                     |              |                                    | 8,236        |
| Goodwill impairment                                                                    |                                     | 143,543      |                                    | 143,543      |
| Changes in fair value of contingent earnout                                            |                                     | (4,000)      |                                    | (10,000)     |
| Other charges                                                                          | 33                                  |              | 169                                | 87           |
|                                                                                        | 581,439                             | 570,399      | 1,504,481                          | 1,349,233    |
| Operating income (loss)                                                                | 7,482                               | (126,363)    | 2,724                              | (138,734)    |
| Other income (expense):                                                                |                                     |              |                                    |              |
| Interest expense, net                                                                  | (6,482)                             | (11,029)     | (21,500)                           | (36,275)     |
| Loss on early extinguishment of debt                                                   |                                     |              | (3,405)                            | (4,124)      |
| Other, net                                                                             | (42)                                | (264)        | (283)                              | (284)        |
|                                                                                        | (6,524)                             | (11,293)     | (25,188)                           | (40,683)     |
| Income (loss) from continuing operations before income taxes                           | 958                                 | (137,656)    | (22,464)                           | (179,417)    |
| Provision (benefit) for income taxes                                                   | 1,012                               | (16,369)     | 3,937                              | (28,527)     |
| Loss from continuing operations                                                        | (54)                                | (121,287)    | (26,401)                           | (150,890)    |
| Income (loss) from discontinued operations net of provision (benefit) for income taxes | 789                                 | (10,716)     | 10,464                             | (27,882)     |
| Net income (loss)                                                                      | 735                                 | (132,003)    | (15,937)                           | (178,772)    |
| Less: Income attributable to noncontrolling interest                                   | (273)                               | (296)        | (945)                              | (878)        |
| Net income (loss) attributable to Willbros Group, Inc.                                 | \$ 462                              | \$ (132,299) | \$ (16,882)                        | \$ (179,650) |
| Reconciliation of net income (loss) attributable to Willbros Group, Inc.               |                                     |              |                                    |              |
| Loss from continuing operations                                                        | \$ (327)                            | \$ (121,583) | \$ (27,346)                        | \$ (151,768) |
| Income (loss) from discontinued operations                                             | 789                                 | (10,716)     | 10,464                             | (27,882)     |
| Net income (loss) attributable to Willbros Group, Inc.                                 | \$ 462                              | \$ (132,299) | \$ (16,882)                        | \$ (179,650) |
| Basic income (loss) per share attributable to Company shareholders:                    |                                     |              |                                    |              |
| Loss from continuing operations                                                        | \$ (0.01)                           | \$ (2.56)    | \$ (0.57)                          | \$ (3.20)    |

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|                                                                       |            |            |            |            |
|-----------------------------------------------------------------------|------------|------------|------------|------------|
| Income (loss) from discontinued operations                            | 0.02       | (0.23)     | 0.22       | (0.59)     |
| Net income (loss)                                                     | \$ 0.01    | \$ (2.79)  | \$ (0.35)  | \$ (3.79)  |
| Diluted income (loss) per share attributable to Company shareholders: |            |            |            |            |
| Loss from continuing operations                                       | \$ (0.01)  | \$ (2.56)  | \$ (0.57)  | \$ (3.20)  |
| Income (loss) from discontinued operations                            | 0.02       | (0.23)     | 0.22       | (0.59)     |
| Net income (loss)                                                     | \$ 0.01    | \$ (2.79)  | \$ (0.35)  | \$ (3.79)  |
| Weighted average number of common shares outstanding:                 |            |            |            |            |
| Basic                                                                 | 48,119,758 | 47,533,967 | 47,965,380 | 47,429,059 |
| Diluted                                                               | 48,119,758 | 47,533,967 | 47,965,380 | 47,429,059 |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****WILLBROS GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands, except share and per share amounts)****(Unaudited)**

|                                                                        | <b>Three Months Ended<br/>September 30,</b> |              | <b>Nine Months Ended<br/>September 30,</b> |              |
|------------------------------------------------------------------------|---------------------------------------------|--------------|--------------------------------------------|--------------|
|                                                                        | <b>2012</b>                                 | <b>2011</b>  | <b>2012</b>                                | <b>2011</b>  |
| Net income (loss)                                                      | \$ 735                                      | \$ (132,003) | \$ (15,937)                                | \$ (178,772) |
| Other comprehensive income (loss), net of tax                          |                                             |              |                                            |              |
| Foreign currency translation adjustments                               | 423                                         | (5,726)      | (1,093)                                    | (2,617)      |
| Changes in derivative financial instruments                            | 198                                         | (731)        | 232                                        | (1,850)      |
| Total other comprehensive income (loss), net of tax                    | 621                                         | (6,457)      | (861)                                      | (4,467)      |
| Total comprehensive income (loss)                                      | 1,356                                       | (138,460)    | (16,798)                                   | (183,239)    |
| Less: Comprehensive income attributable to noncontrolling interest     | (273)                                       | (296)        | (945)                                      | (878)        |
| Total comprehensive income (loss) attributable to Willbros Group, Inc. | \$ 1,083                                    | \$ (138,756) | \$ (17,743)                                | \$ (184,117) |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****WILLBROS GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands, except share and per share amounts)

(Unaudited)

|                                                                                           | Nine Months<br>Ended September 30, |              |
|-------------------------------------------------------------------------------------------|------------------------------------|--------------|
|                                                                                           | 2012                               | 2011         |
| Cash flows from operating activities:                                                     |                                    |              |
| Net loss                                                                                  | \$ (15,937)                        | \$ (178,772) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                    |              |
| (Income) loss from discontinued operations                                                | (10,464)                           | 27,882       |
| Depreciation and amortization                                                             | 37,838                             | 46,565       |
| Loss on early extinguishment of debt                                                      | 3,405                              | 4,124        |
| Goodwill impairment                                                                       |                                    | 143,543      |
| Changes in fair value of contingent earnout liability                                     |                                    | (10,000)     |
| Stock-based compensation                                                                  | 5,773                              | 7,103        |
| Amortization of debt issuance cost                                                        | 3,218                              | 6,169        |
| Non-cash interest expense                                                                 | 1,649                              | 5,899        |
| Deferred income tax benefit                                                               | (1,710)                            | (37,200)     |
| Settlement of project dispute                                                             |                                    | 8,236        |
| Provision for bad debts                                                                   | 712                                | 766          |
| Other non-cash                                                                            | (3,627)                            | (4,882)      |
| Changes in operating assets and liabilities:                                              |                                    |              |
| Accounts receivable, net                                                                  | (134,829)                          | (44,228)     |
| Payments on government fines                                                              |                                    | (6,575)      |
| Contract cost and recognized income not yet billed                                        | (67,998)                           | (11,814)     |
| Prepaid expenses and other assets                                                         | 12,367                             | 18,702       |
| Accounts payable and accrued liabilities                                                  | 147,543                            | 60,930       |
| Accrued income taxes                                                                      | 3,027                              | 1,099        |
| Contract billings in excess of cost and recognized income                                 | 13,703                             | 6,168        |
| Other assets and liabilities                                                              | (9,480)                            | (3,915)      |
| Cash provided by (used in) operating activities of continuing operations                  | (14,810)                           | 39,800       |
| Cash used in operating activities of discontinued operations                              | (13,910)                           | (31,535)     |
| Cash provided by (used in) operating activities                                           | (28,720)                           | 8,265        |
| Cash flows from investing activities:                                                     |                                    |              |
| Proceeds from working capital settlement                                                  |                                    | 9,402        |
| Proceeds from sales of property, plant and equipment                                      | 11,585                             | 32,407       |
| Purchase of property, plant and equipment                                                 | (11,015)                           | (9,241)      |
| Cash provided by investing activities of continuing operations                            | 570                                | 32,568       |
| Cash provided by investing activities of discontinued operations                          | 15,103                             | 8,316        |
| Cash provided by investing activities                                                     | 15,673                             | 40,884       |
| Cash flows from financing activities:                                                     |                                    |              |
| Proceeds from revolver and notes payable                                                  | 57,000                             | 59,357       |
| Payments on capital leases                                                                | (2,093)                            | (8,204)      |
| Payment of revolver and notes payable                                                     | (39,140)                           | (65,725)     |
| Payments on term loan                                                                     | (46,700)                           | (94,679)     |

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|                                                                                                |           |           |
|------------------------------------------------------------------------------------------------|-----------|-----------|
| Payments to reacquire common stock                                                             | (531)     | (754)     |
| Costs of debt issues                                                                           |           | (4,935)   |
| Dividend distribution to noncontrolling interest                                               | (916)     | (848)     |
| Cash used in financing activities of continuing operations                                     | (32,380)  | (115,788) |
| Cash used in financing activities of discontinued operations                                   |           | (5)       |
| Cash used in financing activities                                                              | (32,380)  | (115,793) |
| Effect of exchange rate changes on cash and cash equivalents                                   | (2,110)   | (253)     |
| Net decrease in cash and cash equivalents                                                      | (47,537)  | (66,897)  |
| Cash and cash equivalents of continuing operations at beginning of period                      | 58,686    | 134,305   |
| Cash and cash equivalents of discontinued operations at beginning of period                    | 4,759     | 6,796     |
| Cash and cash equivalents at beginning of period                                               | 63,445    | 141,101   |
| Cash and cash equivalents at end of period                                                     | 15,908    | 74,204    |
| Less: cash and cash equivalents of discontinued operations at end of period                    |           | (5,604)   |
| Cash and cash equivalents of continuing operations at end of period                            | \$ 15,908 | \$ 68,600 |
| Supplemental disclosures of cash flow information:                                             |           |           |
| Cash paid for interest (including discontinued operations)                                     | \$ 15,453 | \$ 23,955 |
| Income tax refunds, net of payments of \$3,719 and \$4,249 (including discontinued operations) | \$ 13,443 | \$ 1,922  |
| Supplemental non-cash investing and financing transactions:                                    |           |           |
| Prepaid insurance obtained by note payable                                                     | \$ 15,953 | \$ 6,829  |
| See accompanying notes to condensed consolidated financial statements.                         |           |           |

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### **WILLBROS GROUP, INC.**

#### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share amounts)**

**(Unaudited)**

#### **1. The Company and Basis of Presentation**

Willbros Group, Inc., a Delaware corporation, and its subsidiaries (the Company, Willbros or WGI), is a global contractor specializing in energy infrastructure, serving the oil and gas, refinery, petrochemical and power industries. The Company's offerings include engineering, procurement and construction (either individually or as an integrated EPC service offering); ongoing maintenance; and other specialty services. The Company's principal markets for continuing operations are the United States, Canada, and Oman. The Company obtains its work through competitive bidding and through negotiations with prospective clients. Contract values range from several thousand dollars to several hundred million dollars and contract durations range from a few weeks to more than two years.

The accompanying Condensed Consolidated Balance Sheet as of December 31, 2011, which has been derived from audited consolidated financial statements, and the Condensed Consolidated Financial Statements as of September 30, 2012 and 2011, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to those rules and regulations. However, the Company believes the presentations and disclosures herein are adequate to make the information not misleading. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's December 31, 2011 audited Consolidated Financial Statements and notes thereto contained in the Company's Current Report on Form 8-K dated June 29, 2012, filed June 29, 2012.

In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments necessary to fairly state the financial position as of September 30, 2012, and the results of operations and cash flows of the Company for all interim periods presented. The results of operations and cash flows for the nine months ended September 30, 2012 are not necessarily indicative of the operating results and cash flows to be achieved for the full year.

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

As discussed in Note 14 Discontinuance of Operations, Held for Sale Operations and Asset Disposals, the Company has disposed of certain assets and operations classified as discontinued operations (collectively the Discontinued Operations). Accordingly, these Condensed Consolidated Financial Statements reflect these operations as Discontinued Operations in all periods presented. The disclosures in the Notes to the Condensed Consolidated Financial Statements relate to continuing operations except as otherwise indicated.

*Reclassifications* Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation. These reclassifications relate to the sale of the assets and operations of InterCon Construction Inc. (InterCon) in the fourth quarter of 2011, which were reclassified to Discontinued Operations.

*Out-of-Period Adjustments* The Company recorded out-of-period adjustments during the nine months ended September 30, 2012 to correct errors to eliminate Cumulative Translation Adjustment balances that stemmed from the dissolution and liquidation of foreign currency based subsidiaries in jurisdictions where the Company no longer conducts business. The net impact of these adjustments for the nine months ended September 30, 2012, was an increase to the Company's income from discontinued operations and a decrease to net loss in the amount of \$2,805. The adjustments did not have any impact on the Company's pre-tax loss or loss from continuing operations for the nine months ended September 30, 2012. The Company does not believe these adjustments are material, individually or in the aggregate, to its Condensed

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Consolidated Financial Statements for the nine months ended September 30, 2012 after considering its expected 2012 annual financial results, nor does it believe such items are material to any of its previously issued annual or quarterly financial statements.

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**WILLBROS GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share amounts)**

**(Unaudited)**

**2. New Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued amendments to fair value measurement to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards ( IFRS ). The amendments result from a joint project with the International Accounting Standards Board, which also issued new guidance on fair value measurements. The amendments provide a framework for how companies should measure fair value when used in financial reporting, and sets out required disclosures. The amendments are intended to clarify how fair value should be measured, predominantly converge the U.S. and IFRS guidance, and expand the disclosures that are required. The standard is effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. The implementation of this accounting guidance did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income in consolidated financial statements. The new accounting guidance requires the presentation of the components of net income and other comprehensive income either in a single continuous financial statement, or in two separate but consecutive financial statements. The accounting standard eliminates the option to present other comprehensive income and its components as part of the statement of stockholders' equity. This standard is effective for fiscal years beginning after December 15, 2011, including interim periods, and early adoption is permitted. The Company complied with this new accounting guidance during the quarter ended March 31, 2012.

In September 2011, the FASB issued a new accounting standard related to testing goodwill for impairment. The standard gives entities the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step goodwill impairment test. If an entity believes that, as a result of its qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test. The standard also includes new qualitative indicators that replace those previously used to determine whether an interim goodwill impairment test is required to be performed. This standard is effective for fiscal years beginning after December 15, 2011, including interim periods, and early adoption is permitted. The implementation of this accounting standard did not have a material impact on the Company's consolidated financial statements.

**3. Contracts in Progress**

Contract cost and recognized income not yet billed on uncompleted contracts arise when recorded revenues for a contract exceed the amounts billed under the terms of the contracts. Contract billings in excess of cost and recognized income arise when billed amounts exceed revenues recorded. Amounts are billable to customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Also included in contract cost and recognized income not yet billed on uncompleted contracts are amounts the Company seeks to collect from customers for change orders approved in scope but not for price associated with that scope change (unapproved change orders). Revenue for these amounts is recorded equal to the lesser of the expected revenue or cost incurred when realization of price approval is probable. Estimating revenues from unapproved change orders involves the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded unapproved change orders may be made in the near-term. If the Company does not successfully resolve these matters, a reduction in revenues may be required to amounts that have been previously recorded.

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands, except share and per share amounts)

(Unaudited)

**3. Contracts in Progress (continued)**

Contract cost and recognized income not yet billed and related amounts billed as of September 30, 2012 and December 31, 2011 was as follows:

|                                                           | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-----------------------------------------------------------|-------------------------------|------------------------------|
| Cost incurred on contracts in progress                    | \$ 786,840                    | \$ 690,196                   |
| Recognized income                                         | 116,283                       | 94,345                       |
|                                                           | 903,123                       | 784,541                      |
| Progress billings and advance payments                    | (829,599)                     | (765,451)                    |
|                                                           | \$ 73,524                     | \$ 19,090                    |
| Contract cost and recognized income not yet billed        | \$ 105,288                    | \$ 37,090                    |
| Contract billings in excess of cost and recognized income | (31,764)                      | (18,000)                     |
|                                                           | \$ 73,524                     | \$ 19,090                    |

Contract cost and recognized income not yet billed includes \$3,920 and \$1,367 at September 30, 2012 and December 31, 2011, respectively, on completed contracts.

The balances billed but not paid by customers pursuant to retainage provisions in certain contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the majority of the retention balances at each balance sheet date will be collected within the next twelve months. Retainage balances at September 30, 2012 and December 31, 2011, were approximately \$32,647 and \$22,328, respectively, and are included in accounts receivable.

**4. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012, by business segment, are detailed below:

| <i>Utility T&amp;D</i>          | <b>Goodwill</b> | <b>Impairment<br/>Reserves</b> | <b>Total, Net</b> |
|---------------------------------|-----------------|--------------------------------|-------------------|
| Balance as of July 1, 2010      | \$ 168,919      | \$                             | \$ 168,919        |
| Purchase price adjustments      | 446             |                                | 446               |
| Balance as of December 31, 2010 | \$ 169,365      | \$                             | \$ 169,365        |
| Purchase price adjustments      | (9,402)         |                                | (9,402)           |

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|                                       |            |              |           |
|---------------------------------------|------------|--------------|-----------|
| Reorganization of reporting structure | (8,353)    |              | (8,353)   |
| Impairment losses                     |            | (143,543)    | (143,543) |
| Balance as of December 31, 2011       | \$ 151,610 | \$ (143,543) | \$ 8,067  |
| Impairment losses                     |            |              |           |
| Balance as of September 30, 2012      | \$ 151,610 | \$ (143,543) | \$ 8,067  |

The changes in the carrying amounts of intangible assets for the nine months ended September 30, 2012 are detailed below:

|                                                | Customer Relationships | Trademark / Tradename | Non-compete Agreements | Technology | Total      |
|------------------------------------------------|------------------------|-----------------------|------------------------|------------|------------|
| Balance as of December 31, 2011                | \$ 162,707             | \$ 11,984             | \$ 550                 | \$ 4,675   | \$ 179,916 |
| Amortization                                   | (10,010)               | (1,054)               | (166)                  | (415)      | (11,645)   |
| Other                                          |                        | 126                   |                        |            | 126        |
| Balance as of September 30, 2012               | \$ 152,697             | \$ 11,056             | \$ 384                 | \$ 4,260   | \$ 168,397 |
| Weighted Average Remaining Amortization Period | 11.6 years             | 7.6 years             | 1.8 years              | 7.8 years  |            |

Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from 5 to 15 years.

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(In thousands, except share and per share amounts)

(Unaudited)

**4. Goodwill and Other Intangible Assets (continued)**

Estimated amortization expense for the remainder of 2012 and each of the subsequent five years and thereafter is as follows:

| <b>Fiscal year:</b>       |                   |
|---------------------------|-------------------|
| Remainder of 2012         | \$ 3,910          |
| 2013                      | 15,638            |
| 2014                      | 15,528            |
| 2015                      | 15,418            |
| 2016                      | 15,418            |
| 2017                      | 15,418            |
| Thereafter                | 87,067            |
| <b>Total amortization</b> | <b>\$ 168,397</b> |

**5. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of September 30, 2012 and December 31, 2011 were as follows:

|                                                       | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-------------------------------------------------------|-------------------------------|------------------------------|
| Trade accounts payable                                | \$ 188,065                    | \$ 94,331                    |
| Accrued contract costs and related liabilities        | 62,753                        | 36,409                       |
| Payroll and payroll liabilities                       | 61,321                        | 40,294                       |
| Accrued self-insured claims                           | 29,500                        | 25,786                       |
| Other accrued liabilities                             | 27,331                        | 24,737                       |
| <b>Total accounts payable and accrued liabilities</b> | <b>\$ 368,970</b>             | <b>\$ 221,557</b>            |

**6. Long Term Debt**

Long term debt as of September 30, 2012 and December 31, 2011 was as follows:

| <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-------------------------------|------------------------------|
|-------------------------------|------------------------------|

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|                                                               |            |            |
|---------------------------------------------------------------|------------|------------|
| Term Loan, net of unamortized discount of \$3,821 and \$7,138 | \$ 125,350 | \$ 168,733 |
| Borrowings under Revolving Credit Facility                    | 84,357     | 59,357     |
| 6.5% Senior Convertible Notes                                 | 32,050     | 32,050     |
| Capital lease obligations                                     | 4,371      | 6,464      |
| Other obligations                                             | 11,077     | 2,190      |
| Total debt                                                    | 257,205    | 268,794    |
| Less: current portion                                         | (47,084)   | (34,441)   |
| Long-term debt, net                                           | \$ 210,121 | \$ 234,353 |

## *Amended and Restated Credit Agreement*

Pursuant to an Amendment and Restatement Agreement dated as of November 8, 2012, the Company's credit agreement dated as of June 30, 2010, (the "2010 Credit Agreement") was amended and restated in its entirety (the "Amended and Restated Credit Agreement"). The 2010 Credit Agreement consisted of a four-year, \$300,000 term loan facility (the "Term Loan Facility") maturing on June 30, 2014 and a three-year revolving credit facility of \$175,000 maturing on June 30, 2013 (the "Revolving Credit Facility").

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share amounts)**

**(Unaudited)**

**6. Long Term Debt (continued)**

Under the Amended and Restated Credit Agreement, certain existing lenders under the Revolving Credit Facility, holding an aggregate amount of commitments equal to \$115,000, agreed that the maturity applicable to such commitments would be extended one year, to June 30, 2014.

The Amended and Restated Credit Agreement provides for additional term loans in an amount equal to \$60,000, which will be pari passu in right of payment with, and secured on a pari passu basis with the Company's existing Term Loan outstanding under the 2010 Credit Agreement. The additional term loans were drawn in full on the effective date of the Amended and Restated Credit Agreement. The additional term loans were issued at a discount such that the funded portion was equal to 97 percent of the principal amount of additional term loans. The additional term loans will mature on June 30, 2014, the same maturity date as the Company's existing Term Loan under the 2010 Credit Agreement.

Under the 2010 Credit Agreement, the Revolving Credit Facility was available for letters of credit and for revolving loans, which could be used for working capital and general corporate purposes. 100 percent of the Revolving Credit Facility could be used to obtain letters of credit and revolving loans had a sublimit of \$150,000. On March 4, 2011, as part of an amendment to the 2010 Credit Agreement, the Company agreed to limit its revolver borrowings to \$25,000, with the exception of proceeds from revolving borrowings used to make any payments in respect of both the 2.75% Convertible Senior Notes (the "2.75% Notes") and the 6.5% Senior Convertible Notes (the "6.5% Notes"), until its Maximum Total Leverage Ratio is 3.00 to 1.00 or less. As permitted under this amendment, the Company borrowed \$25,000 against the Revolving Credit Facility in the third quarter of 2012.

The Amended and Restated Credit Agreement effectively modifies the sublimit described above by including a sublimit for any new borrowings under the Revolving Credit Facility after the effective date of the Amended and Restated Credit Agreement. This sublimit for new borrowings will range from \$0 to \$50,000 as determined by reference to a formula, which will permit new revolver borrowings only if the Company first makes voluntary prepayments and/or mandatory repayments or prepayments of revolver borrowings from the net proceeds of asset sales, equity issuances or other sources. This new sublimit will not apply to new borrowings under the Revolving Credit Facility which are used to make payments of amounts due or outstanding in respect of the 6.5% Notes. However, if on or after March 31, 2013, the Company has received net proceeds from asset sales or equity issuances equal to or exceeding \$90,000, the sublimit for borrowings will be \$50,000 with an increase to \$75,000 after the close of any fiscal quarter in which its Maximum Total Leverage Ratio is 2.25 to 1.00 or less, in each case, including any borrowings under the Revolving Credit Facility used to make payments of amounts due or outstanding in respect of the 6.5% Notes.

Interest payable under the 2010 Credit Agreement was determined by the loan type. As of September 30, 2012, the interest rates on the Term Loan Facility and Revolving Credit Facility (both Eurocurrency rate loans) were 9.5% and 4.2%, respectively. Interest payments on Eurocurrency rate loans were payable in arrears on the last day of such interest period, and, in the case of interest periods of greater than three months, on each business day which occurs at three month intervals from the first day of such interest period. Interest payments on base rate loans are payable quarterly in arrears on the last business day of each calendar quarter. The applicable margins for revolving loans under the Amended and Restated Credit Agreement remains unchanged through June 30, 2013. However, beginning on July 1, 2013 and continuing through the June 30, 2014 extended maturity date, the applicable margin on revolving Eurocurrency rate loans increases to 7.5%, and the applicable margin on revolving base rate loans increases to 6.5%, in each case irrespective of the then current Maximum Total Leverage Ratio.

Under the Amended and Restated Credit Agreement, mandatory prepayments in respect of asset dispositions, events of loss and equity issuances may be applied at the option of the borrower to revolving loans, outstanding term loans, or any combination thereof, without any reduction in the commitments under the Revolving Credit Facility.

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The table below sets forth the primary covenants in the Amended and Restated Credit Agreement, which have been modified from the 2010 Credit Agreement and the calculation with respect to these covenants at September 30, 2012:

|                                                                                                                                                                                    | <b>Covenants<br/>Requirements</b> | <b>Actual Ratios at<br/>September 30, 2012</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------------------------|
| Maximum Total Leverage Ratio <sup>(1)</sup> (debt divided by Covenant EBITDA) should be equal to or less than:                                                                     | 5.50 to 1                         | 4.20                                           |
| Minimum Interest Coverage Ratio <sup>(2)</sup> (Covenant EBITDA divided by interest expense as defined in the Amended and Restated Credit Agreement) should be equal to or exceed: | 2.25 to 1                         | 2.90                                           |

<sup>(1)</sup> The Maximum Total Leverage Ratio decreases to 4.00 as of December 31, 2012, 3.25 as of March 31, 2013, 3.00 as of June 30, 2013 and 2.75 as of September 30, 2013.

<sup>(2)</sup> The Minimum Interest Coverage Ratio increases to 2.75 as of December 31, 2012 and 3.00 as of December 31, 2013.

Depending on its financial performance, the Company may be required to request additional amendments, or waivers for the primary covenants, dispose of assets, or obtain refinancing in future periods. There can be no assurance that the Company will be able to obtain additional amendments or waivers, complete asset sales, or negotiate agreeable refinancing terms should it become needed.

The Amended and Restated Credit Agreement also includes customary affirmative and negative covenants, including:

Limitations on capital expenditures (greater of \$70,000 or 25% of EBITDA).

Limitations on indebtedness.

Limitations on liens.

Limitations on certain asset sales and dispositions.

Limitations on certain acquisitions and asset purchases if certain liquidity levels are not maintained.

A default under the Amended and Restated Credit Agreement may be triggered by events such as a failure to comply with financial covenants or other covenants or a failure to make payments when due under the Amended and Restated Credit Agreement; a failure to make payments when due in respect of, or a failure to perform obligations relating to, debt obligations in excess of \$15,000; a change of control of the Company; and

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certain insolvency proceedings. A default under the Amended and Restated Credit Agreement would permit the Administrative Agent, Crédit Agricole, and the lenders to terminate their commitment to make cash advances or issue letters of credit, require the immediate repayment of any outstanding cash advances with interest and require the cash collateralization of outstanding letter of credit obligations.

As of September 30, 2012, the Company would not have complied with the Maximum Total Leverage Ratio under the 2010 Credit Agreement. However, certain covenants, including the Maximum Total Leverage Ratio, previously in effect under the 2010 Credit Agreement, were modified under the Amended and Restated Credit Agreement, effective as of September 30, 2012. As a result of the modification of these covenants under the Amended and Restated Credit Agreement, the Company avoided a covenant default under the 2010 Credit Agreement as of September 30, 2012.

As of September 30, 2012, the Company complied with all covenants under the Amended and Restated Credit Agreement.

During the nine months ended September 30, 2012, the Company made payments of \$46,700 against its existing Term Loan that resulted in the recognition of a \$3,405 loss on early extinguishment of debt. These losses represent the write-off of unamortized Original Issue Discount and financing costs inclusive of early payment fees.

Incurrd unamortized debt issue costs associated with the 2010 Credit Agreement are \$4,938 and \$9,427 as of September 30, 2012 and December 31, 2011, respectively. These debt issue costs are included in Other assets on the Condensed Consolidated Balance Sheet at September 30, 2012. These costs will continue to be amortized to interest expense over the remaining terms of the Revolving Credit Facility and Term Loan Facility, respectively.

### ***6.5% Senior Convertible Notes***

In December 2005, the Company completed a private placement of \$65,000 aggregate principal amount of its 6.5% Notes, pursuant to a purchase agreement. During the first quarter of 2006, the initial purchasers of the 6.5% Notes exercised their options to purchase an additional \$19,500 aggregate principal amount of the 6.5% Notes. The primary offering and the purchase option of the 6.5% Notes totaled \$84,500. The 6.5% Notes are convertible into shares of the Company's common stock at a conversion rate of 56.9606 shares of common stock per \$1,000 principal amount of notes representing a conversion price of approximately \$17.56 per share. The 6.5% Notes are general senior unsecured obligations. Interest is due semi-annually on June 15 and December 15.

The 6.5% Notes mature on December 15, 2012 unless the notes are repurchased or converted earlier. The Company does not have the right to redeem the 6.5% Notes prior to maturity. Upon maturity, the principal amount plus the accrued interest through the

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****6. Long Term Debt (continued)**

day prior to the maturity date is payable only in cash. The 6.5% Notes remain outstanding as of September 30, 2012 and continue to be subject to the terms and conditions of the Indenture governing the 6.5% Notes. An aggregate principal amount of \$32,050 remains outstanding (net of \$0 discount) and has been classified as current and included within Notes payable and current portion of long-term debt on the Condensed Consolidated Balance Sheet at September 30, 2012. The holders of the 6.5% Notes have the right to require the Company to purchase the 6.5% Notes for cash upon the occurrence of a Fundamental Change, as defined in the Indenture. In addition to the amounts described above, the Company will be required to pay a make-whole premium to the holders of the 6.5% Notes who elect to convert their notes into the Company's common stock in connection with a Fundamental Change. The make-whole premium is payable in additional shares of common stock and is calculated based on a formula with the premium ranging from 0.0 percent to 28.0 percent depending on when the Fundamental Change occurs and the price of the Company's stock at the time the Fundamental Change occurs. In the event of a default of \$10,000 or more on any credit agreement, including the Amended and Restated Credit Agreement, a corresponding event of default would result under the 6.5% Notes.

On September 16, 2011, following receipt of the requisite consents of the holders of the 6.5% Notes, the Company entered into a fourth supplemental indenture (the Fourth Supplemental Indenture) to the Indenture for the 6.5% Notes. The Fourth Supplemental Indenture amended Section 6.13 of the Indenture to change the Maximum Total Leverage Ratio to 5.50 to 1.00 during the fiscal quarter ending March 31, 2012, 3.75 to 1.00 during the fiscal quarter ending June 30, 2012 and 3.50 to 1.00 during the fiscal quarters ending September 30, 2012 and December 31, 2012. Section 6.13 is a debt incurrence test and the calculation of the Maximum Total Leverage Ratio mirrors the calculation in the Amended and Restated Credit Agreement. In addition, the Fourth Supplemental Indenture conformed the definition of Consolidated EBITDA in the Indenture to the definition of Consolidated EBITDA in the 2010 Credit Agreement.

On November 7, 2012, following receipt of the required consents, the Company entered into a fifth supplemental indenture (the Fifth Supplemental Indenture) to the Indenture for the 6.5% Notes. The Fifth Supplemental Indenture further amended Section 6.13 of the Indenture so that certain restrictions on the Company's ability to incur indebtedness are not applicable to borrowings by the Company under the Amended and Restated Credit Agreement during the period from and including the effective date of the Fifth Supplemental Indenture through and including December 15, 2012.

***Fair Value of Debt***

The estimated fair value of the Company's debt instruments as of September 30, 2012 and December 31, 2011 was as follows:

|                                            | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--------------------------------------------|-------------------------------|------------------------------|
| Term Loan                                  | \$ 131,539                    | \$ 178,947                   |
| Borrowings under Revolving Credit Facility | 84,357                        | 59,357                       |
| 6.5% Senior Convertible Notes              | 32,190                        | 31,613                       |
| Capital lease obligations                  | 4,371                         | 6,464                        |
| Other obligations                          | 11,077                        | 2,190                        |
| Total fair value of debt instruments       | \$ 263,534                    | \$ 278,571                   |

The fair value of the Company's 6.5% Notes was estimated using market prices and is classified within Level 1 of the fair value hierarchy. The Term Loan, revolver borrowings, capital lease obligations and other obligations are classified within Level 2 of the fair value hierarchy. The fair values of these instruments have been estimated using discounted cash flow analysis based on the Company's incremental borrowing rate for similar borrowing arrangements. A significant increase or decrease in the inputs could result in a directionally opposite change in the fair value of these instruments.

#### **7. Retirement Benefits**

The Company has defined contribution plans that are funded by participating employee contributions and the Company. The Company matches employee contributions, up to a maximum of 5 percent of salary, in the form of cash. Company contributions for the nine months ended September 30, 2012 and 2011 were \$6,377 and \$2,281, respectively. Company contributions were suspended at the end of March 2011 and resumed in November 2011.

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**7. Retirement Benefits (continued)**

The Company is also subject to collective bargaining agreements with various unions. As a result, the Company participates with other companies in the unions' multi-employer pension and other postretirement benefit plans. These plans cover all employees who are members of such unions. The Employee Retirement Income Security Act of 1974, as amended by the Multi-Employer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multi-employer plan in the event of the employer's withdrawal from, or upon termination of, such plan. The Company has no intention to withdraw from these plans. The plans do not maintain information on the net assets and actuarial present value of the plans' unfunded vested benefits allocable to the Company, and the amounts, if any, for which the Company may be contingently liable, are not ascertainable at this time. Contributions to all union multi-employer pension and other postretirement plans by the Company for the nine months ended September 30, 2012 and 2011 were \$28,182 and \$29,696 respectively.

**8. Income Taxes**

The effective tax rate on continuing operations was a negative 17.5 percent and 15.8 percent for the nine months ended September 30, 2012 and 2011, respectively. Tax expense for discrete items for the nine months ended September 30, 2012 is \$4,040, which is primarily related to foreign tax settlements from 2006 through 2009, increases to foreign uncertain tax positions from 2004 through 2012, tax withholdings on planned dividend distributions from foreign affiliates and for Texas Margins Tax. The Company has not recorded the benefit of current year losses in the United States. As of September 30, 2012, U.S. federal and state deferred tax assets continue to be covered by valuation allowances. The ultimate realization of deferred tax assets is dependent upon the generation of future U.S. taxable income. The Company considers the impact of reversing taxable temporary differences, future forecasted income and available tax planning strategies, when forecasting future taxable income and in evaluating whether deferred tax assets are more likely than not to be realized.

The effective tax rate on continuing operations was 105.5 percent and 11.9 percent for the three months ended September 30, 2012 and 2011, respectively. Tax expense for discrete items for the three months ended September 30, 2012 is \$1,126, which primarily relates to 2008 and 2009 foreign tax settlements, increases to uncertain tax positions for 2004 through 2012, tax withholding on planned dividend distributions from foreign affiliates and Texas Margins Tax.

In April 2011, the Company discontinued its strategy of reinvesting foreign earnings in foreign operations. This change in strategy continues through September 30, 2012. Due to the current deficit in foreign earnings and profits, the Company does not anticipate a significant tax expense related to future repatriations of foreign earnings in the United States.

The Company expects that the statute of limitations will expire on an uncertain tax position within the next twelve months. Assuming that the statute of limitations expires, the Company would release reserves in the amount of \$583.

**9. Stockholders' Equity**

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

***Stock Ownership Plans***

In May 1996, the Company established the Willbros Group, Inc. 1996 Stock Plan (the "1996 Plan") with 1,125,000 shares of common stock authorized for issuance to provide for awards to key employees of the Company, and the Willbros Group, Inc. Director Stock Plan (the "Director

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Plan ) with 125,000 shares of common stock authorized for issuance to provide for the grant of stock options to non-employee directors. The number of shares authorized for issuance under the 1996 Plan, and the Director Plan, was increased to 4,825,000 and 225,000, respectively, by stockholder approval. The Director Plan expired August 16, 2006.

In 2006, the Company established the 2006 Director Restricted Stock Plan (the 2006 Director Plan ) with 50,000 shares authorized for issuance to grant shares of restricted stock and restricted stock rights to non-employee directors. The number of shares authorized for issuance under the 2006 Director Plan was increased in 2008 to 250,000 and in 2012 to 550,000, by stockholder approval. On May 26, 2010, the Company established the Willbros Group, Inc. 2010 Stock and Incentive Compensation Plan (the 2010 Plan ) with 2,100,000 shares of common stock authorized for issuance (increased in 2012 to 3,450,000 shares by stockholder approval) to provide for awards to key employees of the Company. All future grants of stock awards to key employees will be made through the 2010 Plan. As a result, the 1996 Plan was frozen, with the exception of normal vesting, forfeiture and other activity associated with awards previously granted under the 1996 Plan. At September 30, 2012, the 2010 Plan had 1,944,050 shares available for grant.

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**WILLBROS GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**(Unaudited)**

**9. Stockholders Equity (continued)**

Restricted stock and restricted stock units or rights, also described collectively as restricted stock units ( RSUs ), and options granted to employees vest generally over a three to four year period. Options granted under the 2010 Plan expire 10 years subsequent to the grant date. Upon stock option exercise, common shares are issued from treasury stock. Options granted under the Director Plan are fully vested. Restricted stock and restricted stock rights granted under the 2006 Director Plan vest one year after the date of grant. At September 30, 2012, the 2006 Director Plan had 217,193 shares available for grant. For RSUs granted prior to March of 2009, certain provisions allow for accelerated vesting upon eligible retirement. Additionally, certain provisions allow for accelerated vesting in the event of involuntary termination not for cause or a change of control of the Company. Compensation expense recognized in relation to the accelerated vesting of RSUs due to retirement and separation from the Company, totaled \$606 and \$97 for the three months ended September 30, 2012 and 2011, respectively, and totaled \$1,087 and \$305 for the nine months ended September 30, 2012 and 2011, respectively.

Stock-based compensation related to RSUs is recorded based on the Company's stock price as of the grant date. Expense from stock-based compensation awards totaled \$1,848 and \$3,635 for the three months ended September 30, 2012 and 2011, respectively, and totaled \$5,773 and \$7,103 for the nine months ended September 30, 2012 and 2011, respectively.

The Company determines the fair value of its stock options as of its grant date using the Black-Scholes valuation method. No options were granted during the nine months ended September 30, 2012 and 2011.

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The Company's stock option activity and related information consist of:

|                                 | <b>Shares</b> | <b>Weighted-Average Exercise Price</b> |
|---------------------------------|---------------|----------------------------------------|
| Outstanding, January 1, 2012    | 227,750       | \$ 15.28                               |
| Granted                         |               |                                        |
| Exercised                       |               |                                        |
| Forfeited or expired            |               |                                        |
| Outstanding September 30, 2012  | 227,750       | \$ 15.28                               |
| Exercisable, September 30, 2012 | 227,750       | \$ 15.28                               |

As of September 30, 2012, the aggregate intrinsic value of stock options outstanding and stock options exercisable was \$0. The weighted average remaining contractual term of outstanding options and exercisable options is 2.67 years and 2.67 years, respectively, at September 30, 2012. The total intrinsic value of options exercised was \$0 during the nine months ended September 30, 2012 and 2011. The total fair value of options vested during the nine months ended September 30, 2012 and 2011 was \$0 and \$135, respectively.

The Company's RSU activity and related information for the nine months ended September 30, 2012 consist of:

|                                 | <b>Shares</b> | <b>Weighted-Average Grant-Date Fair Value</b> |
|---------------------------------|---------------|-----------------------------------------------|
| Outstanding, January 1, 2012    | 1,143,011     | \$ 10.84                                      |
| Granted                         | 876,731       | 3.84                                          |
| Vested                          | (599,987)     | 10.48                                         |
| Forfeited                       | (109,637)     | 7.97                                          |
| Outstanding, September 30, 2012 | 1,310,118     | \$ 6.72                                       |

The total fair value of RSUs vested during the nine months ended September 30, 2012 and 2011 was \$6,290 and \$5,970, respectively.

As of September 30, 2012, there was a total of \$6,156 of unrecognized compensation cost, net of estimated forfeitures, related to all non-vested stock-based compensation arrangements granted under the Company's stock ownership plans. That cost is expected to be recognized over a weighted-average period of 2.24 years.

**10. Income (Loss) Per Share**

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share is based on the weighted average number of shares outstanding during each period and the assumed exercise of potentially dilutive stock options and warrants and vesting of RSUs less the number of treasury shares assumed to be purchased from the proceeds using the average market price of the Company's stock for each of the periods presented. The Company's convertible notes are included in the calculation of diluted income per share under the if-converted method. Additionally, diluted income (loss) per share for continuing operations is calculated excluding the after-tax interest expense associated with the convertible notes since these notes are treated as if converted into common stock.

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Basic and diluted loss per common share from continuing operations for the three months and nine months ended September 30, 2012 and 2011 are computed as follows:

|                                                                                                            | <b>Three Months<br/>Ended September 30,</b> |              | <b>Nine Months<br/>Ended September 30,</b> |              |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------|--------------------------------------------|--------------|
|                                                                                                            | <b>2012</b>                                 | <b>2011</b>  | <b>2012</b>                                | <b>2011</b>  |
| Loss from continuing operations                                                                            | \$ (54)                                     | \$ (121,287) | \$ (26,401)                                | \$ (150,890) |
| Less: Income attributable to noncontrolling interest                                                       | (273)                                       | (296)        | (945)                                      | (878)        |
| Net loss from continuing operations attributable to Willbros Group, Inc. (numerator for basic calculation) | (327)                                       | (121,583)    | (27,346)                                   | (151,768)    |
| Add: Interest and debt issuance costs associated with convertible notes                                    |                                             |              |                                            |              |
| Net loss from continuing operations applicable to common shares (numerator for diluted calculation)        | \$ (327)                                    | \$ (121,583) | \$ (27,346)                                | \$ (151,768) |
| Weighted average number of common shares outstanding for basic loss per share                              | 48,119,758                                  | 47,533,967   | 47,965,380                                 | 47,429,059   |
| Weighted average number of potentially dilutive common shares outstanding                                  |                                             |              |                                            |              |
| Weighted average number of common shares outstanding for diluted income per share                          | 48,119,758                                  | 47,533,967   | 47,965,380                                 | 47,429,059   |
| Loss per common share from continuing operations:                                                          |                                             |              |                                            |              |
| Basic                                                                                                      | \$ (0.01)                                   | \$ (2.56)    | \$ (0.57)                                  | \$ (3.20)    |
| Diluted                                                                                                    | \$ (0.01)                                   | \$ (2.56)    | \$ (0.57)                                  | \$ (3.20)    |

The Company has excluded shares potentially issuable under the terms of use of the securities listed below from the computation of diluted loss per share, as the effect would be anti-dilutive:

|                               | <b>Three Months<br/>Ended September 30,</b> |             |
|-------------------------------|---------------------------------------------|-------------|
|                               | <b>2012</b>                                 | <b>2011</b> |
| 6.5% Senior Convertible Notes | 1,825,587                                   | 1,825,587   |
| Stock options                 | 227,750                                     | 227,750     |

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|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Warrants to purchase common stock <sup>(1)</sup> |           | 536,925   |
| Restricted stock and restricted stock rights     | 388,753   | 183,581   |
|                                                  | 2,442,090 | 2,773,843 |

- <sup>(1)</sup> In the fourth quarter of 2011, 536,925 warrants that were issued in conjunction with a private placement of equity in 2006, expired, unexercised.

### 11. Segment Information

The Company's segments are comprised of strategic businesses that are defined by the industries or geographic regions they serve. Each is managed as an operation with well-established strategic directions and performance requirements. In January 2012, in an effort to manage the Company more effectively, Willbros changed its organizational structure such that its operating results will be reported by the following three segments: *Oil & Gas*, *Utility T&D* and *Canada*. As such, previously reported periods have been recast to conform to this new organization structure. Management evaluates the performance of each operating segment based on operating income. To support the segments, the Company has a focused corporate operation led by the executive management team, which, in addition to oversight and leadership, provides general, administrative and financing functions for the organization. The costs to provide these services are allocated, as are certain other corporate costs, to the three operating segments.

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****11. Segment Information (continued)**

The following tables reflect the Company's operations by reportable segment for the three months ended September 30, 2012 and 2011:

For the three months ended September 30, 2012:

|                                                                       | <i>Oil &amp; Gas</i> | <i>Utility T&amp;D</i> | <i>Canada</i> | <i>Eliminations</i> | <i>Consolidated</i> |
|-----------------------------------------------------------------------|----------------------|------------------------|---------------|---------------------|---------------------|
| Revenue                                                               | \$ 369,573           | \$ 161,820             | \$ 57,555     | \$ (27)             | \$ 588,921          |
| Operating expenses                                                    | 359,770              | 164,184                | 57,512        | (27)                | 581,439             |
| Operating income (loss)                                               | \$ 9,803             | \$ (2,364)             | \$ 43         | \$                  | 7,482               |
| Other expense                                                         |                      |                        |               |                     | (6,524)             |
| Provision for income taxes                                            |                      |                        |               |                     | 1,012               |
| Loss from continuing operations                                       |                      |                        |               |                     | (54)                |
| Income from discontinued operations net of provision for income taxes |                      |                        |               |                     | 789                 |
| Net income                                                            |                      |                        |               |                     | 735                 |
| Less: Income attributable to noncontrolling interest                  |                      |                        |               |                     | (273)               |
| Net income attributable to Willbros Group, Inc.                       |                      |                        |               |                     | \$ 462              |

For the three months ended September 30, 2011:

|                                                                   | <i>Oil &amp; Gas</i> | <i>Utility T&amp;D</i> | <i>Canada</i> | <i>Eliminations</i> | <i>Consolidated</i> |
|-------------------------------------------------------------------|----------------------|------------------------|---------------|---------------------|---------------------|
| Revenue                                                           | \$ 252,642           | \$ 149,167             | \$ 42,298     | \$ (71)             | \$ 444,036          |
| Operating expenses                                                | 245,272              | 148,379                | 37,276        | (71)                | 430,856             |
| Goodwill impairment                                               |                      | 143,543                |               |                     | 143,543             |
| Changes in fair value of contingent earnout                       |                      |                        |               |                     | (4,000)             |
| Operating income (loss)                                           | \$ 7,370             | \$ (142,755)           | \$ 5,022      | \$                  | (126,363)           |
| Other expense                                                     |                      |                        |               |                     | (11,293)            |
| Benefit for income taxes                                          |                      |                        |               |                     | (16,369)            |
| Loss from continuing operations                                   |                      |                        |               |                     | (121,287)           |
| Loss from discontinued operations net of benefit for income taxes |                      |                        |               |                     | (10,716)            |

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|                                                      |           |
|------------------------------------------------------|-----------|
| Net loss                                             | (132,003) |
| Less: Income attributable to noncontrolling interest | (296)     |

Net loss attributable to Willbros Group, Inc. \$ (132,299)

The following tables reflect the Company's operations by reportable segment for the nine months ended September 30, 2012 and 2011:

For the nine months ended September 30, 2012:

|                                                                       | <i>Oil &amp; Gas</i> | <i>Utility T&amp;D</i> | <i>Canada</i> | <i>Eliminations</i> | <i>Consolidated</i> |
|-----------------------------------------------------------------------|----------------------|------------------------|---------------|---------------------|---------------------|
| Revenue                                                               | \$ 906,883           | \$ 471,654             | \$ 128,880    | \$ (212)            | \$ 1,507,205        |
| Operating expenses                                                    | 895,846              | 474,049                | 134,798       | (212)               | 1,504,481           |
| Operating income (loss)                                               | \$ 11,037            | \$ (2,395)             | \$ (5,918)    | \$                  | 2,724               |
| Other expense                                                         |                      |                        |               |                     | (25,188)            |
| Provision for income taxes                                            |                      |                        |               |                     | 3,937               |
| Loss from continuing operations                                       |                      |                        |               |                     | (26,401)            |
| Income from discontinued operations net of provision for income taxes |                      |                        |               |                     | 10,464              |
| Net loss                                                              |                      |                        |               |                     | (15,937)            |
| Less: Income attributable to noncontrolling interest                  |                      |                        |               |                     | (945)               |
| Net loss attributable to Willbros Group, Inc.                         |                      |                        |               |                     | \$ (16,882)         |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands, except share and per share amounts)

(Unaudited)

**11. Segment Information (continued)**

For the nine months ended September 30, 2011:

|                                                                   | <i>Oil &amp; Gas</i> | <i>Utility<br/>T&amp;D</i> | <i>Canada</i> | <i>Eliminations</i> | <i>Consolidated</i> |
|-------------------------------------------------------------------|----------------------|----------------------------|---------------|---------------------|---------------------|
| Revenue                                                           | \$ 669,661           | \$ 428,823                 | \$ 112,255    | \$ (240)            | \$ 1,210,499        |
| Operating expenses                                                | 664,914              | 433,718                    | 109,062       | (240)               | 1,207,454           |
| Goodwill impairment                                               |                      | 143,543                    |               |                     | 143,543             |
| Settlement of project dispute                                     | 8,236                |                            |               |                     | 8,236               |
| Changes in fair value of contingent earnout                       |                      |                            |               |                     | (10,000)            |
| Operating income (loss)                                           | \$ (3,489)           | \$ (148,438)               | \$ 3,193      | \$                  | (138,734)           |
| Other expense                                                     |                      |                            |               |                     | (40,683)            |
| Benefit for income taxes                                          |                      |                            |               |                     | (28,527)            |
| Loss from continuing operations                                   |                      |                            |               |                     | (150,890)           |
| Loss from discontinued operations net of benefit for income taxes |                      |                            |               |                     | (27,882)            |
| Net loss                                                          |                      |                            |               |                     | (178,772)           |
| Less: Income attributable to noncontrolling interest              |                      |                            |               |                     | (878)               |
| Net loss attributable to Willbros Group, Inc.                     |                      |                            |               |                     | \$ (179,650)        |

Total assets by segment as of September 30, 2012 and December 31, 2011 are presented below:

|                                     | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-------------------------------------|-------------------------------|------------------------------|
| <i>Oil &amp; Gas</i>                | \$ 481,613                    | \$ 263,899                   |
| <i>Utility T&amp;D</i>              | 373,586                       | 410,812                      |
| <i>Canada</i>                       | 74,516                        | 79,998                       |
| Corporate                           | 45,472                        | 79,054                       |
| Total assets, continuing operations | \$ 975,187                    | \$ 833,763                   |

**12. Contingencies, Commitments and Other Circumstances**

## ***Contingencies***

### ***Resolution of criminal and regulatory matters***

In May of 2008, the United States Department of Justice (the DOJ) filed an Information and Deferred Prosecution Agreement (DPA) in the United States District Court in Houston concluding its investigation into violations of the Foreign Corrupt Practices Act of 1977, as amended (the FCPA), by Willbros Group, Inc. and its subsidiary Willbros International, Inc. (WII). Also in May 2008, WGI reached a final settlement with the SEC to resolve its previously disclosed investigation of possible violations of the FCPA and possible violations of the Securities Act and the Securities Exchange Act of 1934, as amended. These investigations stemmed primarily from the Company's former operations in Bolivia, Ecuador and Nigeria. The settlements together required the Company to pay a total of \$32,300 in penalties and disgorgement, over approximately three years, plus post-judgment interest on \$7,725, all of which has now been paid. As part of its agreement with the SEC, the Company is subject to a permanent injunction barring future violations of certain provisions of the federal securities laws. As to its agreement with the DOJ, both WGI and WII were subject to the DPA for a period of three years. Among its terms, the DPA provided that, in exchange for WGI's and WII's full compliance with the DPA, the DOJ would not continue a criminal prosecution of WGI and WII and with the successful completion of the DPA's terms, the DOJ would move to dismiss the criminal investigation.

As provided for in the DPA, in 2009, the Company retained a government-approved independent monitor, at the Company's expense, for a two and one-half year period, who reported to the DOJ on the Company's compliance with the FCPA and other applicable laws. During the monitorship, the Company provided the monitor with access to information, documents, records, facilities and employees and the monitor filed three written reports with the DOJ. In the reports, the monitor made numerous findings and recommendations to the Company with respect to the improvement of its internal controls and policies and procedures for detecting and preventing violations of applicable anti-corruption laws, and the Company made significant efforts to implement the recommendations.

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**WILLBROS GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share amounts)**

**(Unaudited)**

**12. Contingencies, Commitments and Other Circumstances (continued)**

In the third and final report issued on March 2, 2012, the monitor reviewed the significant changes in the Company since the occurrence of the events leading to filing of the criminal information and the DPA, as well as the Company's progress in implementing the monitor's recommendations in the first and second reports. The monitor concluded the third report by certifying that the anti-bribery compliance program of Willbros is appropriately designed and implemented to ensure compliance with the FCPA and other applicable anti-corruption laws. This certification led to the DOJ filing its motion to dismiss the criminal information and the court's signing the order of dismissal, with prejudice, on April 2, 2012. The dismissal with prejudice means that the Company may no longer be prosecuted for the offenses listed in the criminal information.

Failure by the Company to abide by the FCPA or other laws could result in prosecution and other regulatory sanctions.

*Silver Eagle*

Construction and Turnaround Services, LLC (CTS), a subsidiary of the Company, has current uncollected invoices totaling \$5,525 from Silver Eagle Refining, Inc. (Silver Eagle) on a construction and engineering support contract entered into in January 2011. Silver Eagle paid all of CTS invoices on the project until July 28, 2011, but has made only one payment after that date. The contract is cost-reimbursable, with labor hours being reimbursable at agreed rates and subcontractor and material costs being reimbursable at cost plus agreed markups.

The contract provides that Silver Eagle has ten days from receipt to dispute an invoice, failing which Silver Eagle will be deemed to have waived its right to withhold payment. No such dispute has ever been timely communicated to CTS.

On August 26, 2011, CTS filed a mechanic's lien on Silver Eagle's refinery for the full amount of its claim and further, on August 31, 2011, filed an arbitration action against Silver Eagle. Subsequently, CTS filed an action in Utah State Court to foreclose on its mechanic lien. This action is stayed until the arbitration proceedings are completed.

A three-party arbitration panel has been selected and the Company expects the arbitration hearing to occur in the first half of 2013.

The Company believes its lien rights provide substantial protection in the event Silver Eagle is unable to meet its obligations.

The Company believes that its performance of the project fully conforms to all contractual requirements and that the arbitration proceedings will result in an award in CTS' favor for the full amount of the outstanding invoices. The Company further believes that any collection risk is mitigated by its lien rights. Accordingly, at September 30, 2012 and December 31, 2011, the Company has not recorded an allowance for doubtful accounts against the outstanding receivable.

*Other*

In addition to the matters discussed above and in Note 14 - Discontinuance of Operations, Held for Sale Operations and Asset Disposals, the Company is 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 consolidated results of operations, financial position or cash flows.

*Commitments*

From time to time, the Company enters into commercial commitments, usually in the form of commercial and standby letters of credit, surety bonds and financial guarantees. Contracts with the Company's customers may require the Company to secure letters of credit or surety 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 surety bonds in lieu of contract retention provisions, where the client withholds a percentage of the contract value until project completion or expiration of a warranty period. Retention commitments can be called upon in the event of warranty or project completion issues, as prescribed in the contracts. At September 30, 2012, the Company had approximately \$63,904 of outstanding letters of credit, all of which related to continuing operations. This amount represents the maximum amount of payments the Company could be required to make if these letters of credit are drawn upon. Additionally, the Company issues surety bonds customarily required by commercial terms on

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**WILLBROS GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share amounts)**

**(Unaudited)**

**12. Contingencies, Commitments and Other Circumstances (continued)**

construction projects. At September 30, 2012, the Company had bonds outstanding, primarily performance bonds, with a face value at \$503,376 related to continuing operations. This amount represents the bond penalty amount of future payments the Company could be required to make if the Company fails to perform its obligations under such contracts. The performance bonds do not have a stated expiration date; rather, each is released when the contract is accepted by the owner. The Company's maximum exposure as it relates to the value of the bonds outstanding is lowered on each bonded project as the cost to complete is reduced. As of September 30, 2012, no liability has been recognized for letters of credit or surety bonds.

*Other Circumstances*

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, riots, and 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 would have a material effect on the financial statements, and no such events have been provided for in the accompanying Condensed 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 the Company operates, management believes the Company follows the current practices in those countries and as applicable under the FCPA. 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. 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 Condensed Consolidated Financial Statements.

The Company attempts to manage contract risk by implementing a standard contracting philosophy to minimize liabilities assumed in the agreements with the Company's clients. With the acquisitions the Company has made in the last few years, however, there may be contracts or master service agreements in place that do not meet the Company's current contracting standards. While the Company has made efforts to improve its contractual terms with its clients, this process takes time to implement and the Company is not always successful in achieving improvements. The Company also attempts to mitigate the risk by maintaining primary and excess insurance, of certain specified limits, in the event a loss was to ensue.

See Note 14 - Discontinuance of Operations, Held for Sale Operations and Asset Disposals for discussion of commitments and contingencies associated with Discontinued Operations.

**13. Fair Value Measurements**

The FASB's standard on fair value measurements defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

*Fair Value Hierarchy*

The FASB's standard on fair value measurements establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This standard establishes three levels of inputs that may be used to measure fair value:

**Level 1**      Quoted prices in active markets for identical assets or liabilities.

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****13. Fair Value Measurements (continued)****Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities.**Level 3** Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, notes payable, long-term debt and interest rate contracts. The fair value estimates of the Company's financial instruments have been determined using available market information and appropriate valuation methodologies and approximates carrying value.

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The Company measures its financial assets and financial liabilities at fair value on a recurring basis. The fair value of these financial assets and liabilities was determined using the following inputs as of September 30, 2012:

|                                     | Total    | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Other<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------|----------|----------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| <b>Liabilities:</b>                 |          |                                                                            |                                                        |                                                             |
| Interest rate swaps                 | \$ 1,729 | \$                                                                         | \$ 1,729                                               | \$                                                          |
| <i>Contingent Earnout Liability</i> |          |                                                                            |                                                        |                                                             |

In connection with the acquisition of InfrastruX Group, Inc. ( InfrastruX ) on July 1, 2010, InfrastruX shareholders were eligible to receive earnout payments of up to \$125,000 if certain EBITDA targets were met during 2010 and 2011. These payments would have been paid to former InfrastruX shareholders who qualified as accredited investors as defined by the SEC in a combination of cash and non-convertible, non-voting preferred stock of the Company, pursuant to the terms within the Merger Agreement, and to non-accredited former InfrastruX shareholders and former holders of InfrastruX RSUs in the form of cash.

As a result, the Company estimated the fair value of the contingent earnout liability based on its probability assessment of InfrastruX's EBITDA achievements during the earnout period. In developing these estimates, the Company considered its revenue and EBITDA projections, its historical results, and general macro-economic environment and industry trends. This fair value measurement was based on significant revenue and EBITDA inputs not observed in the market, which represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

In accordance with the FASB's standard on business combinations, the Company reviewed the contingent earnout liability on a quarterly basis in order to determine its fair value. Changes in the fair value of the liability were recorded within operating expenses in the period in which the change was made.

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The following table represents a reconciliation of the change in the fair value measurement of the contingent earnout liability for the three and nine months ended September 30, 2012 and 2011:

|                                                      | <b>Three Months<br/>Ended<br/>September 30,</b> |             |
|------------------------------------------------------|-------------------------------------------------|-------------|
|                                                      | <b>2012</b>                                     | <b>2011</b> |
| Beginning balance                                    | \$                                              | \$ 4,000    |
| Change in fair value of contingent earnout liability |                                                 | (4,000)     |
| Ending balance                                       | \$                                              | \$          |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****13. Fair Value Measurements (continued)**

|                                                      | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |
|------------------------------------------------------|------------------------------------------------|-------------|
|                                                      | <b>2012</b>                                    | <b>2011</b> |
| Beginning balance                                    | \$                                             | \$ 10,000   |
| Change in fair value of contingent earnout liability |                                                | (10,000)    |
| Ending balance                                       | \$                                             | \$          |

The contingent earnout liability was written off during the nine months ended September 30, 2011 due to a decrease in the probability-weighted estimated achievement of InfrastruX's EBITDA targets as set forth in the Merger Agreement.

*Hedging Arrangements*

The Company attempts to negotiate contracts that provide for payment in U.S. dollars, but it may be required to take all or a portion of payment under a contract in another currency. To mitigate non-U.S. currency exchange risk, the Company seeks to match anticipated non-U.S. currency revenue with expenses in the same currency whenever possible. To the extent it is unable to match non-U.S. currency revenue with expenses in the same currency, the Company may use forward contracts, options or other common hedging techniques in the same non-U.S. currencies. The Company had no derivative financial instruments to hedge currency risk at September 30, 2012 or December 31, 2011.

*Interest Rate Swaps*

In conjunction with the 2010 Credit Agreement, the Company is subject to hedging arrangements to fix or otherwise limit the interest cost of its existing Term Loan and Revolving Credit Facility. The Company is subject to interest rate risk on its debt and investment of cash and cash equivalents arising in the normal course of business, as the Company does not engage in speculative trading strategies.

The Company currently has two interest rate swap agreements outstanding for a total notional amount of \$150,000 in order to hedge changes in the variable rate interest expense on \$150,000 of its existing Term Loan and the Revolving Credit Facility LIBOR indexed debt. Under each swap agreement, the Company receives interest at a rate based on the maximum of either three-month LIBOR or 2% and pays interest at a fixed rate of 2.68%, effective March 28, 2012 through June 30, 2014. The swap agreements are designated and qualify as cash flow hedging instruments, with the effective portion of the swaps' change in fair value recorded in Other Comprehensive Income (OCI). The interest rate swaps are deemed to be highly effective hedges, and resulted in no gain or loss recorded for hedge ineffectiveness in the Condensed Consolidated Statements of Operations. Amounts in OCI are reported in interest expense when the hedged interest payments on the underlying debt are recognized. The carrying amount and fair value of the swap agreements are equivalent since the Company accounts for these instruments at fair value. The value of the Company's swap agreements are derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The inputs to the valuation pricing models are observable in the market, and as such are generally classified as Level 2 in the fair value hierarchy. For validation purposes, the swap valuations are periodically compared to those produced by swap counterparties. Amounts of OCI relating to the interest rate swaps expected to be recognized in interest expense in the coming 12 months total \$983.

*Interest Rate Caps*

In September 2010, the Company entered into two interest rate cap agreements for notional amounts of \$75,000 each in order to limit its exposure to an increase of the interest rate above 3 percent, effective September 28, 2010 through March 28, 2012. Total premiums of \$98 were paid for the interest rate cap agreements. Through June 1, 2011, the cap agreements were designated and qualified as cash flow hedging instruments, with the effective portion of the caps change in fair value recorded in OCI. Amounts in OCI and the premiums paid for the caps were reported in interest expense as the hedged interest payments on the underlying debt were recognized during the period when the caps were designated as cash flow hedges. Through June 1, 2011, the interest rate caps were deemed to be highly effective, resulting in an immaterial amount of hedge ineffectiveness recorded. On June 1, 2011, the caps were de-designated due to the interest rate being fixed on the underlying debt through the remaining term of the caps; changes in the value of the caps subsequent to that date were reported in earnings. The amount reported in earnings for the undesignated interest rate caps for the nine months ended September 30, 2012 and 2011 is immaterial.

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## WILLBROS GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

(Unaudited)

## 13. Fair Value Measurements (continued)

|                                | Liability Derivatives  |            |                        |            |
|--------------------------------|------------------------|------------|------------------------|------------|
|                                | September 30, 2012     |            | December 31, 2011      |            |
|                                | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate contracts- swaps | Other current          |            | Other current          |            |
|                                | liabilities            | \$ 929     | liabilities            | \$ 671     |
| Interest rate contracts- swaps | Other long-term        |            | Other long-term        |            |
|                                | liabilities            | 735        | liabilities            | 1,173      |
| Interest rate contracts- swaps | Accounts payable       |            | Accounts payable       |            |
|                                | and accrued            |            | and accrued            |            |
|                                | liabilities            | 65         | liabilities            |            |
| Total derivatives              |                        | \$ 1,729   |                        | \$ 1,844   |

For the Three Months Ended September 30,  
Location of Gain

|                                     | or (Loss)                                                          |          | Reclassified from Accumulated OCI into Income (Effective Portion)                |         | Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) |      | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) |      |
|-------------------------------------|--------------------------------------------------------------------|----------|----------------------------------------------------------------------------------|---------|-------------------------------------------------------------------------------------|------|-----------------------------------------------------------------------------------|------|
|                                     |                                                                    |          |                                                                                  |         |                                                                                     |      |                                                                                   |      |
| Derivatives in ASC                  | Amount of Loss Recognized in OCI on Derivative (Effective Portion) |          | Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) |         | Income on Derivative (Ineffective Portion)                                          |      | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) |      |
| 815 Cash Flow Hedging Relationships | 2012                                                               | 2011     | 2012                                                                             | 2011    | 2012                                                                                | 2011 | 2012                                                                              | 2011 |
| Interest rate contracts             | \$ (59)                                                            | \$ (731) | \$ (261)                                                                         | \$ (11) | Interest expense, net                                                               |      | \$                                                                                | \$   |

#### 14. Discontinuance of Operations, Held for Sale Operations and Asset Disposals

In April 2011, as part of its ongoing strategic evaluation of operations, the Company made the decision to exit the Canadian cross-country pipeline construction market and dispose of the related business.

In October 2011, as part of its ongoing strategic evaluation of operations, the Company approved the sale of InterCon, within the *Utility T&D* segment.

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**WILLBROS GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share amounts)**

**(Unaudited)**

**14. Discontinuance of Operations, Held for Sale Operations and Asset Disposals (continued)**

**Nigeria Assets and Nigeria-Based Operations**

*Litigation and Settlement*

On March 29, 2012, the Company and Willbros Global Holdings, Inc., formerly known as Willbros Group, Inc., a Panama corporation ( *WGHI* ), which is now a subsidiary of the Company, entered into a settlement agreement (the *Settlement Agreement* ) with West African Gas Pipeline Company Limited ( *WAPCo* ) to settle a lawsuit filed against *WGHI* by *WAPCo* in 2010 under English law in the London High Court in which *WAPCo* was seeking \$273,650 plus costs and interest. The lawsuit was based upon a parent company guarantee issued by *WGHI* to *WAPCo* in connection with a Nigerian project undertaken by a *WGHI* subsidiary that was later sold to a third party. *WAPCo* alleged that the third party defaulted in the performance of the project and thereafter brought the lawsuit against *WGHI* under the parent company guarantee for its claimed losses.

The Settlement Agreement provides that *WGHI* will make payments to *WAPCo* over a period of six years totaling \$55,500 as follows:

During 2012:

\$4,000 on March 31;

\$4,000 on June 30;

\$4,000 on September 30; and

\$2,000 on December 31.

During 2013:

\$2,500 on June 30; and

\$2,500 on December 31.

During 2014:

\$3,750 on June 30; and

\$3,750 on December 31.

During 2015:

\$4,000 on June 30; and

\$4,000 on December 31.

During 2016:

\$5,000 on June 30; and

\$5,000 on December 31.

During 2017:

\$5,500 on June 30; and

\$5,500 on December 31.

The Settlement Agreement also provides that the payments due in the years 2015, 2016 and 2017 may be accelerated and become payable in whole or in part in the fourth quarter of 2014 in the event the Company achieves certain metrics (the "Acceleration Metrics"). The Acceleration Metrics include, among other things, achieving a leverage ratio of debt to EBITDA of 2.25 to 1.00 or less or increasing the Company's overall indebtedness, which accelerates an amount equal to one-half of the increase in indebtedness. The Company recently entered in an Amended and Restated Credit Agreement that increased its overall indebtedness by \$60,000. As a result, all of the payments due in years 2015, 2016 and 2017, totaling \$29,000, have been accelerated and are now due in the fourth quarter of 2014.

The Company timely paid each of the \$4,000 payments that became due on March 31, June 30, and September 30, 2012.

WGI and WGHI are jointly and severally liable for payment of the amount due to WAPCo under the Settlement Agreement. WGHI and WGI are subject to a penalty rate of interest and collection efforts in the London court in the event they fail to meet any of the payments required by the Settlement Agreement. Under the Settlement Agreement, WGHI forgoes any right to pursue third parties related to the Nigerian project unless they first assert a claim against WGHI.

The Company currently has no employees working in Nigeria and does not intend to return to Nigeria.

#### **Business Disposals**

In the fourth quarter of 2011, the Company completed the sale of all assets and operations of InterCon, which was determined to be a non-strategic subsidiary within the *Utility T&D* segment. The Company received total compensation of \$18,749 in cash and \$250

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****14. Discontinuance of Operations, Held for Sale Operations and Asset Disposals (continued)**

in the form of an escrow deposit from the buyer, which was paid in full in the fourth quarter of 2012. As a result of this transaction, the Company recorded a loss on sale of \$2,381 to discontinued operations, net of tax.

**Results of Discontinued Operations**

The major classes of revenue and income (losses) with respect to the Discontinued Operations are as follows:

| <b>Three Months Ended September 30, 2012</b> |               |                      |              |              |  |
|----------------------------------------------|---------------|----------------------|--------------|--------------|--|
|                                              | <b>Canada</b> | <b>WAPCo / Other</b> | <b>Libya</b> | <b>Total</b> |  |
| Contract revenue                             | \$ 825        | \$                   | \$           | \$ 825       |  |
| Operating income (loss)                      | 852           | (39)                 | (14)         | 799          |  |
| Income (loss) before income taxes            | 854           | (39)                 | (14)         | 801          |  |
| Provision for income taxes                   | 12            |                      |              | 12           |  |
| Net income (loss)                            | \$ 842        | \$ (39)              | \$ (14)      | \$ 789       |  |

  

| <b>Three Months Ended September 30, 2011</b> |               |                      |              |                 |              |
|----------------------------------------------|---------------|----------------------|--------------|-----------------|--------------|
|                                              | <b>Canada</b> | <b>WAPCo / Other</b> | <b>Libya</b> | <b>InterCon</b> | <b>Total</b> |
| Contract revenue                             | \$ 27,314     | \$                   | \$           | \$ 22,067       | \$ 49,381    |
| Operating income (loss)                      | (7,388)       | (6,506)              | (163)        | 642             | (13,415)     |
| Income (loss) before income taxes            | (7,384)       | (6,506)              | (163)        | 645             | (13,408)     |
| Provision (benefit) for income taxes         | (2,924)       |                      |              | 232             | (2,692)      |
| Net income (loss)                            | \$ (4,460)    | \$ (6,506)           | \$ (163)     | \$ 413          | \$ (10,716)  |

| <b>Nine Months Ended September 30, 2012</b> |               |                      |              |              |
|---------------------------------------------|---------------|----------------------|--------------|--------------|
|                                             | <b>Canada</b> | <b>WAPCo / Other</b> | <b>Libya</b> | <b>Total</b> |
| Contract revenue                            | \$ 31,588     | \$                   | \$           | \$ 31,588    |
| Operating income (loss)                     | 13,340        | (4,233)              | (14)         | 9,093        |
| Income (loss) before income taxes           | 14,409        | (1,428)              | (14)         | 12,967       |
| Provision for income taxes                  | 2,503         |                      |              | 2,503        |
| Net income (loss)                           | \$ 11,906     | \$ (1,428)           | \$ (14)      | \$ 10,464    |

|                          | Nine Months Ended September 30, 2011 |                  |          |            |             |
|--------------------------|--------------------------------------|------------------|----------|------------|-------------|
|                          | Canada                               | WAPCo /<br>Other | Libya    | InterCon   | Total       |
| Contract revenue         | \$ 119,792                           | \$               | \$       | \$ 42,826  | \$ 162,618  |
| Operating loss           | (20,694)                             | (12,115)         | (459)    | (2,945)    | (36,213)    |
| Loss before income taxes | (20,385)                             | (12,115)         | (459)    | (2,945)    | (35,904)    |
| Benefit for income taxes | (6,973)                              |                  |          | (1,049)    | (8,022)     |
| Net loss                 | \$ (13,412)                          | \$ (12,115)      | \$ (459) | \$ (1,896) | \$ (27,882) |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands, except share and per share amounts)

(Unaudited)

**14. Discontinuance of Operations, Held for Sale Operations and Asset Disposals (continued)**

Condensed balance sheets with respect to the Discontinued Operations are as follows:

|                                            |        | September 30, 2012 |       |             |
|--------------------------------------------|--------|--------------------|-------|-------------|
|                                            | Canada | WAPCo /<br>Other   | Libya | Total       |
| Total assets                               | \$     | \$                 | \$    | \$          |
| Total liabilities                          |        | 43,500             |       | 43,500      |
| Net liabilities of discontinued operations | \$     | \$ (43,500)        | \$    | \$ (43,500) |

|                                                     |           | December 31, 2011 |       |             |
|-----------------------------------------------------|-----------|-------------------|-------|-------------|
|                                                     | Canada    | WAPCo /<br>Other  | Libya | Total       |
| Total assets                                        | \$ 27,917 | \$ 1              | \$ 90 | \$ 28,008   |
| Total liabilities                                   | 11,782    | 57,715            | (7)   | 69,490      |
| Net assets (liabilities) of discontinued operations | \$ 16,135 | \$ (57,714)       | \$ 97 | \$ (41,482) |

**15. Condensed Consolidating Guarantor Financial Statements**

Willbros Group, Inc. (the "Parent") and its 100% owned U.S. subsidiaries (the "Guarantors") may fully and unconditionally guarantee, on a joint and several basis, the obligations of the Company under debt securities registered under a universal shelf registration statement on Form S-3 filed by the Company with the SEC. As of September 30, 2012, none of these debt securities have been issued. There are currently no restrictions on the ability of the Guarantors to transfer funds to the Parent in the form of cash dividends or advances. Condensed consolidating financial information for a) the Parent, b) the Guarantors and c) all other direct and indirect subsidiaries (the "Non-Guarantors") as of September 30, 2012 and December 31, 2011 and for each of the three months and nine months ended September 30, 2012 and 2011 follows.

The Company revised its condensed consolidating statement of cash flows for the period ended September 30, 2011 to correct the form and content of the condensed presentation in accordance with S-X Rule 3-10 and Rule 10-01. The revision was made to show individual cash changes from investing and financing activities within the condensed consolidating statement of cash flows. This revision did not impact the previously reported total amounts for investing and financing activities within the parent, guarantor and non-guarantor columns and did not impact the consolidated financial statements.

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands, except share and per share amounts)

(Unaudited)

**15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING BALANCE SHEET**

|                                                                     | Parent     | Guarantors | September 30, 2012<br>Non-Guarantors | Eliminations | Consolidated |
|---------------------------------------------------------------------|------------|------------|--------------------------------------|--------------|--------------|
| <b>ASSETS</b>                                                       |            |            |                                      |              |              |
| Current assets:                                                     |            |            |                                      |              |              |
| Cash and cash equivalents                                           | \$ 237     | \$ 6,769   | \$ 8,902                             | \$           | \$ 15,908    |
| Accounts receivable, net                                            |            | 380,928    | 56,117                               |              | 437,045      |
| Contract cost and recognized income not yet billed                  |            | 92,636     | 12,652                               |              | 105,288      |
| Prepaid expenses and other assets                                   | 3,901      | 57,677     | 1,654                                | (16,337)     | 46,895       |
| Parts and supplies inventories                                      |            | 6,366      | 5,029                                |              | 11,395       |
| Deferred income taxes                                               | 2,612      |            | 2,887                                | (2,337)      | 3,162        |
| Receivables from affiliated companies                               | 138,185    | 47,766     |                                      | (185,951)    |              |
| Total current assets                                                | 144,935    | 592,142    | 87,241                               | (204,625)    | 619,693      |
| Property, plant and equipment, net                                  |            | 129,628    | 21,003                               |              | 150,631      |
| Goodwill                                                            |            | 8,067      |                                      |              | 8,067        |
| Other intangible assets, net                                        |            | 168,397    |                                      |              | 168,397      |
| Deferred income taxes                                               | 103,529    |            | 2,144                                | (105,673)    |              |
| Investment in subsidiaries                                          | 23,737     |            |                                      | (23,737)     |              |
| Other assets                                                        | 43         | 27,899     | 457                                  |              | 28,399       |
| Total assets                                                        | \$ 272,244 | \$ 926,133 | \$ 110,845                           | \$ (334,035) | \$ 975,187   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                         |            |            |                                      |              |              |
| Current liabilities:                                                |            |            |                                      |              |              |
| Accounts payable and accrued liabilities                            | \$ 668     | \$ 323,663 | \$ 44,639                            | \$           | \$ 368,970   |
| Contract billings in excess of cost and recognized income           |            | 30,629     | 1,135                                |              | 31,764       |
| Current portion of capital lease obligations                        |            | 1,823      | (4)                                  |              | 1,819        |
| Notes payable and current portion of long-term debt                 | 32,050     | 13,215     |                                      |              | 45,265       |
| Current portion of settlement obligation of discontinued operations |            |            | 4,500                                |              | 4,500        |
| Accrued income taxes                                                | 18,692     |            | 5,685                                | (16,337)     | 8,040        |
| Other current liabilities                                           |            | 2,738      | 4,681                                | (2,337)      | 5,082        |
| Payables to affiliated companies                                    |            | 58,738     | 127,213                              | (185,951)    |              |
| Total current liabilities                                           | 51,410     | 430,806    | 187,849                              | (204,625)    | 465,440      |
| Long-term debt                                                      |            | 207,569    |                                      |              | 207,569      |

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|                                                                       |                   |                   |                   |                     |                   |
|-----------------------------------------------------------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| Capital lease obligations                                             |                   | 2,554             | (2)               |                     | 2,552             |
| Long-term portion of settlement obligation of discontinued operations |                   |                   | 39,000            |                     | 39,000            |
| Long-term liabilities for unrecognized tax benefits                   | 1,928             |                   | 2,590             |                     | 4,518             |
| Deferred income taxes                                                 |                   | 105,095           | 3,139             | (105,673)           | 2,561             |
| Other long-term liabilities                                           |                   | 34,420            | 221               |                     | 34,641            |
| <b>Total liabilities</b>                                              | <b>53,338</b>     | <b>780,444</b>    | <b>232,797</b>    | <b>(310,298)</b>    | <b>756,281</b>    |
| Stockholders' equity:                                                 |                   |                   |                   |                     |                   |
| <b>Total stockholders' equity</b>                                     | <b>218,906</b>    | <b>145,689</b>    | <b>(121,952)</b>  | <b>(23,737)</b>     | <b>218,906</b>    |
| <b>Total liabilities and stockholders' equity</b>                     | <b>\$ 272,244</b> | <b>\$ 926,133</b> | <b>\$ 110,845</b> | <b>\$ (334,035)</b> | <b>\$ 975,187</b> |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands, except share and per share amounts)

(Unaudited)

**15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING BALANCE SHEET**

|                                                                     | Parent     | Guarantors | December 31, 2011<br>Non-Guarantors | Eliminations | Consolidated |
|---------------------------------------------------------------------|------------|------------|-------------------------------------|--------------|--------------|
| <b>ASSETS</b>                                                       |            |            |                                     |              |              |
| Current assets:                                                     |            |            |                                     |              |              |
| Cash and cash equivalents                                           | \$ 188     | \$ 27,885  | \$ 30,613                           | \$           | \$ 58,686    |
| Accounts receivable, net                                            | 109        | 249,126    | 52,280                              |              | 301,515      |
| Contract cost and recognized income not yet billed                  |            | 36,443     | 647                                 |              | 37,090       |
| Prepaid expenses and other assets                                   | 14,960     | 21,094     | 7,502                               | (427)        | 43,129       |
| Parts and supplies inventories                                      |            | 7,553      | 4,340                               |              | 11,893       |
| Deferred income taxes                                               | 3,001      | 8,351      | (1,156)                             | (8,351)      | 1,845        |
| Assets held for sale                                                |            |            | 32,758                              |              | 32,758       |
| Receivables from affiliated companies                               | 444,106    | 77,068     |                                     | (521,174)    |              |
| Total current assets                                                | 462,364    | 427,520    | 126,984                             | (529,952)    | 486,916      |
| Property, plant and equipment, net                                  |            | 147,969    | 18,506                              |              | 166,475      |
| Goodwill                                                            |            | 8,067      |                                     |              | 8,067        |
| Other intangible assets, net                                        |            | 179,916    |                                     |              | 179,916      |
| Deferred income taxes                                               | 103,326    |            | 33                                  | (103,359)    |              |
| Investment in subsidiaries                                          | 29,860     |            |                                     | (29,860)     |              |
| Other assets                                                        | 189        | 19,519     | 689                                 |              | 20,397       |
| Total assets                                                        | \$ 595,739 | \$ 782,991 | \$ 146,212                          | \$ (663,171) | \$ 861,771   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                          |            |            |                                     |              |              |
| Current liabilities:                                                |            |            |                                     |              |              |
| Accounts payable and accrued liabilities                            | \$ 57      | \$ 195,087 | \$ 26,413                           | \$           | \$ 221,557   |
| Contract billings in excess of cost and recognized income           |            | 16,145     | 1,855                               |              | 18,000       |
| Current portion of capital lease obligations                        |            | 2,822      | (4)                                 |              | 2,818        |
| Notes payable and current portion of long-term debt                 | 32,050     |            |                                     | (427)        | 31,623       |
| Current portion of settlement obligation of discontinued operations |            |            | 14,000                              |              | 14,000       |
| Accrued income taxes                                                | 11,325     |            | 2,009                               | (8,351)      | 4,983        |
| Liabilities held for sale                                           |            |            | 13,990                              |              | 13,990       |
| Other current liabilities                                           | 207        | 1,105      | 6,163                               |              | 7,475        |
| Payables to affiliated companies                                    | 318,683    | 37,039     | 165,452                             | (521,174)    |              |

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|                                                                       |                |                |                |                  |                |
|-----------------------------------------------------------------------|----------------|----------------|----------------|------------------|----------------|
| Total current liabilities                                             | 362,322        | 252,198        | 229,878        | (529,952)        | 314,446        |
| Long-term debt                                                        |                | 230,707        |                |                  | 230,707        |
| Capital lease obligations                                             |                | 3,648          | (2)            |                  | 3,646          |
| Long-term portion of settlement obligation of discontinued operations |                |                | 41,500         |                  | 41,500         |
| Contingent earnout                                                    |                |                |                |                  |                |
| Long-term liabilities for unrecognized tax benefits                   | 1,839          |                | 2,191          |                  | 4,030          |
| Deferred income taxes                                                 |                | 105,095        | 1,258          | (103,359)        | 2,994          |
| Other long-term liabilities                                           |                | 31,934         | 936            |                  | 32,870         |
| <br>Total liabilities                                                 | <br>364,161    | <br>623,582    | <br>275,761    | <br>(633,311)    | <br>630,193    |
| Stockholders' equity:                                                 |                |                |                |                  |                |
| Total stockholders' equity                                            | 231,578        | 159,409        | (129,549)      | (29,860)         | 231,578        |
| <br>Total liabilities and stockholders' equity                        | <br>\$ 595,739 | <br>\$ 782,991 | <br>\$ 146,212 | <br>\$ (663,171) | <br>\$ 861,771 |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

|                                                                     | <b>Three Months Ended September 30, 2012</b> |                   |                       |                     |                     |
|---------------------------------------------------------------------|----------------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                     | <b>Parent</b>                                | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Contract revenue                                                    | \$                                           | \$ 513,761        | \$ 75,160             | \$                  | \$ 588,921          |
| Operating expenses:                                                 |                                              |                   |                       |                     |                     |
| Contract                                                            |                                              | 468,198           | 70,196                |                     | 538,394             |
| Amortization of intangibles                                         |                                              | 3,913             |                       |                     | 3,913               |
| General and administrative                                          | 1,207                                        | 35,563            | 2,329                 |                     | 39,099              |
| Other charges                                                       |                                              | 33                |                       |                     | 33                  |
| Operating income (loss)                                             | (1,207)                                      | 6,054             | 2,635                 |                     | 7,482               |
| Other income (expense):                                             |                                              |                   |                       |                     |                     |
| Equity in income (loss) of consolidated subsidiaries                | 1,687                                        |                   | (273)                 | (1,414)             |                     |
| Interest expense, net                                               | (564)                                        | (5,961)           | 43                    |                     | (6,482)             |
| Loss on early extinguishment of debt                                |                                              |                   |                       |                     |                     |
| Other, net                                                          |                                              | (101)             | 59                    |                     | (42)                |
| Income (loss) from continuing operations before income taxes        | (84)                                         | (8)               | 2,464                 | (1,414)             | 958                 |
| Provision (benefit) for income taxes                                | (546)                                        |                   | 1,558                 |                     | 1,012               |
| Income (loss) from continuing operations                            | 462                                          | (8)               | 906                   | (1,414)             | (54)                |
| Income from discontinued operations net of benefit for income taxes |                                              |                   | 789                   |                     | 789                 |
| Net income (loss)                                                   | 462                                          | (8)               | 1,695                 | (1,414)             | 735                 |
| Less: Income attributable to noncontrolling interest                |                                              |                   |                       | (273)               | (273)               |
| Net income (loss) attributable to Willbros Group, Inc.              | \$ 462                                       | \$ (8)            | \$ 1,695              | \$ (1,687)          | \$ 462              |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

|                                                                               | <b>Three Months Ended September 30, 2011</b> |                   |                       |                     |                     |
|-------------------------------------------------------------------------------|----------------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                               | <b>Parent</b>                                | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Contract revenue                                                              | \$                                           | \$ 383,425        | \$ 60,611             | \$                  | \$ 444,036          |
| Operating expenses:                                                           |                                              |                   |                       |                     |                     |
| Contract                                                                      |                                              | 353,415           | 42,371                |                     | 395,786             |
| Amortization of intangibles                                                   |                                              | 3,918             |                       |                     | 3,918               |
| General and administrative                                                    | 5,595                                        | 21,385            | 4,172                 |                     | 31,152              |
| Goodwill impairment                                                           |                                              | 143,543           |                       |                     | 143,543             |
| Changes in fair value of contingent earnout                                   |                                              | (4,000)           |                       |                     | (4,000)             |
| Operating income (loss)                                                       | (5,595)                                      | (134,836)         | 14,068                |                     | (126,363)           |
| Other income (expense):                                                       |                                              |                   |                       |                     |                     |
| Equity in income (loss) of consolidated subsidiaries                          | (158,245)                                    |                   | (296)                 | 158,541             |                     |
| Interest expense, net                                                         | (536)                                        | (10,530)          | 37                    |                     | (11,029)            |
| Other, net                                                                    | (212)                                        | (98)              | 46                    |                     | (264)               |
| Income (loss) from continuing operations before income taxes                  | (164,588)                                    | (145,464)         | 13,855                | 158,541             | (137,656)           |
| Provision (benefit) for income taxes                                          | (32,289)                                     | 11,553            | 4,367                 |                     | (16,369)            |
| Income (loss) from continuing operations                                      | (132,299)                                    | (157,017)         | 9,488                 | 158,541             | (121,287)           |
| Loss from discontinued operations net of provision (benefit) for income taxes |                                              | (105)             | (10,611)              |                     | (10,716)            |
| Net income (loss)                                                             | (132,299)                                    | (157,122)         | (1,123)               | 158,541             | (132,003)           |
| Less: Income attributable to noncontrolling interest                          |                                              |                   |                       | (296)               | (296)               |
| Net income (loss) attributable to Willbros Group, Inc.                        | \$ (132,299)                                 | \$ (157,122)      | \$ (1,123)            | \$ 158,245          | \$ (132,299)        |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

|                                                                     | <b>Nine Months Ended September 30, 2012</b> |                   |                       |                     |                     |
|---------------------------------------------------------------------|---------------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                     | <b>Parent</b>                               | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Contract revenue                                                    | \$                                          | \$ 1,317,650      | \$ 189,555            | \$                  | \$ 1,507,205        |
| Operating expenses:                                                 |                                             |                   |                       |                     |                     |
| Contract                                                            |                                             | 1,200,653         | 179,980               |                     | 1,380,633           |
| Amortization of intangibles                                         |                                             | 11,645            |                       |                     | 11,645              |
| General and administrative                                          | 2,760                                       | 101,950           | 7,324                 |                     | 112,034             |
| Other charges                                                       |                                             | 169               |                       |                     | 169                 |
| Operating income (loss)                                             | (2,760)                                     | 3,233             | 2,251                 |                     | 2,724               |
| Other income (expense):                                             |                                             |                   |                       |                     |                     |
| Equity in income (loss) of consolidated subsidiaries                | (6,123)                                     |                   | (945)                 | 7,068               |                     |
| Interest income (expense), net                                      | (1,692)                                     | (19,875)          | 67                    |                     | (21,500)            |
| Loss on early extinguishment of debt                                |                                             | (3,405)           |                       |                     | (3,405)             |
| Other, net                                                          | 2,892                                       | (1,630)           | (1,545)               |                     | (283)               |
| Income (loss) from continuing operations before income taxes        | (7,683)                                     | (21,677)          | (172)                 | 7,068               | (22,464)            |
| Provision (benefit) for income taxes                                | 9,199                                       | (7,957)           | 2,695                 |                     | 3,937               |
| Income (loss) from continuing operations                            | (16,882)                                    | (13,720)          | (2,867)               | 7,068               | (26,401)            |
| Income from discontinued operations net of benefit for income taxes |                                             |                   | 10,464                |                     | 10,464              |
| Net income (loss)                                                   | (16,882)                                    | (13,720)          | 7,597                 | 7,068               | (15,937)            |
| Less: Income attributable to noncontrolling interest                |                                             |                   |                       | (945)               | (945)               |
| Net income (loss) attributable to Willbros Group, Inc.              | \$ (16,882)                                 | \$ (13,720)       | \$ 7,597              | \$ 6,123            | \$ (16,882)         |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

|                                                                               | <b>Nine Months Ended September 30, 2011</b> |                   |                       |                     |                     |
|-------------------------------------------------------------------------------|---------------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                               | <b>Parent</b>                               | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Contract revenue                                                              | \$                                          | \$ 1,043,068      | \$ 167,431            | \$                  | \$ 1,210,499        |
| Operating expenses:                                                           |                                             |                   |                       |                     |                     |
| Contract                                                                      |                                             | 947,403           | 148,789               |                     | 1,096,192           |
| Amortization of intangibles                                                   |                                             | 11,752            |                       |                     | 11,752              |
| General and administrative                                                    | 16,855                                      | 71,263            | 11,305                |                     | 99,423              |
| Settlement of project dispute                                                 |                                             | 8,236             |                       |                     | 8,236               |
| Goodwill impairment                                                           |                                             | 143,543           |                       |                     | 143,543             |
| Changes in fair value of contingent earnout                                   |                                             | (10,000)          |                       |                     | (10,000)            |
| Other charges                                                                 |                                             | 87                |                       |                     | 87                  |
| Operating income (loss)                                                       | (16,855)                                    | (129,216)         | 7,337                 |                     | (138,734)           |
| Other income (expense):                                                       |                                             |                   |                       |                     |                     |
| Equity in income (loss) of consolidated subsidiaries                          | (204,990)                                   |                   | (878)                 | 205,868             |                     |
| Interest expense, net                                                         | (2,672)                                     | (33,703)          | 100                   |                     | (36,275)            |
| Loss on early extinguishment of debt                                          |                                             | (4,124)           |                       |                     | (4,124)             |
| Other, net                                                                    | (136)                                       | (4,243)           | 4,095                 |                     | (284)               |
| Income (loss) from continuing operations before income taxes                  | (224,653)                                   | (171,286)         | 10,654                | 205,868             | (179,417)           |
| Provision (benefit) for income taxes                                          | (45,003)                                    | 13,239            | 3,237                 |                     | (28,527)            |
| Income (loss) from continuing operations                                      | (179,650)                                   | (184,525)         | 7,417                 | 205,868             | (150,890)           |
| Loss from discontinued operations net of provision (benefit) for income taxes |                                             | (2,414)           | (25,468)              |                     | (27,882)            |
| Net income (loss)                                                             | (179,650)                                   | (186,939)         | (18,051)              | 205,868             | (178,772)           |
| Less: Income attributable to noncontrolling interest                          |                                             |                   |                       | (878)               | (878)               |
| Net income (loss) attributable to Willbros Group, Inc.                        | \$ (179,650)                                | \$ (186,939)      | \$ (18,051)           | \$ 204,990          | \$ (179,650)        |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

|                                                                        | <b>Three Months Ended September 30, 2012</b> |                   |                             |                     |                     |
|------------------------------------------------------------------------|----------------------------------------------|-------------------|-----------------------------|---------------------|---------------------|
|                                                                        | <b>Parent</b>                                | <b>Guarantors</b> | <b>Non -<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Net income (loss)                                                      | \$ 462                                       | \$ (8)            | \$ 1,695                    | \$ (1,414)          | \$ 735              |
| Other comprehensive income (loss), net of tax                          |                                              |                   |                             |                     |                     |
| Foreign currency translation adjustments                               | 423                                          |                   | 423                         | (423)               | 423                 |
| Changes in derivative financial instruments                            |                                              | 198               |                             |                     | 198                 |
| Total other comprehensive income (loss), net of tax                    | 423                                          | 198               | 423                         | (423)               | 621                 |
| Total comprehensive income (loss)                                      | 885                                          | 190               | 2,118                       | (1,837)             | 1,356               |
| Less: comprehensive income attributable to noncontrolling interest     |                                              |                   |                             | (273)               | (273)               |
| Total comprehensive income (loss) attributable to Willbros Group, Inc. | \$ 885                                       | \$ 190            | \$ 2,118                    | \$ (2,110)          | \$ 1,083            |

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

|                                                                    | <b>Three Months Ended September 30, 2011</b> |                   |                             |                     |                     |
|--------------------------------------------------------------------|----------------------------------------------|-------------------|-----------------------------|---------------------|---------------------|
|                                                                    | <b>Parent</b>                                | <b>Guarantors</b> | <b>Non -<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Net income (loss)                                                  | \$ (132,299)                                 | \$ (157,122)      | \$ (1,123)                  | \$ 158,541          | \$ (132,003)        |
| Other comprehensive income (loss), net of tax:                     |                                              |                   |                             |                     |                     |
| Foreign currency translation adjustments                           | (5,726)                                      |                   | (5,726)                     | 5,726               | (5,726)             |
| Changes in derivative financial instruments                        |                                              | (731)             |                             |                     | (731)               |
| Total other comprehensive income (loss), net of tax                | (5,726)                                      | (731)             | (5,726)                     | 5,726               | (6,457)             |
| Total comprehensive income (loss)                                  | (138,025)                                    | (157,853)         | (6,849)                     | 164,267             | (138,460)           |
| Less: comprehensive income attributable to noncontrolling interest |                                              |                   |                             | (296)               | (296)               |

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Total comprehensive income (loss) attributable to Willbros Group, Inc.

|              |              |            |            |              |
|--------------|--------------|------------|------------|--------------|
| \$ (138,025) | \$ (157,853) | \$ (6,849) | \$ 163,971 | \$ (138,756) |
|--------------|--------------|------------|------------|--------------|

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

|                                                                        | <b>Nine Months September 30, 2012</b> |                   |                       |                     |                     |
|------------------------------------------------------------------------|---------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                        | <b>Parent</b>                         | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Net income (loss)                                                      | \$ (16,882)                           | \$ (13,720)       | \$ 7,597              | \$ 7,068            | \$ (15,937)         |
| Other comprehensive income (loss), net of tax:                         |                                       |                   |                       |                     |                     |
| Foreign currency translation adjustments                               | (1,093)                               |                   | (1,093)               | 1,093               | (1,093)             |
| Changes in derivative financial instruments                            |                                       | 232               |                       |                     | 232                 |
| Total other comprehensive income (loss), net of tax                    | (1,093)                               | 232               | (1,093)               | 1,093               | (861)               |
| Total comprehensive income (loss)                                      | (17,975)                              | (13,488)          | 6,504                 | 8,161               | (16,798)            |
| Less: comprehensive income attributable to noncontrolling interest     |                                       |                   |                       | (945)               | (945)               |
| Total comprehensive income (loss) attributable to Willbros Group, Inc. | \$ (17,975)                           | \$ (13,488)       | \$ 6,504              | \$ 7,216            | \$ (17,743)         |

**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

|                                                                    | <b>Nine Months September 30, 2011</b> |                   |                       |                     |                     |
|--------------------------------------------------------------------|---------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                    | <b>Parent</b>                         | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Net income (loss)                                                  | \$ (179,650)                          | \$ (186,939)      | \$ (18,051)           | \$ 205,868          | \$ (178,772)        |
| Other comprehensive income (loss), net of tax:                     |                                       |                   |                       |                     |                     |
| Foreign currency translation adjustments                           | (2,617)                               |                   | (2,617)               | 2,617               | (2,617)             |
| Changes in derivative financial instruments                        |                                       | (1,850)           |                       |                     | (1,850)             |
| Total other comprehensive income (loss), net of tax                | (2,617)                               | (1,850)           | (2,617)               | 2,617               | (4,467)             |
| Total comprehensive income (loss)                                  | (182,267)                             | (188,789)         | (20,668)              | 208,485             | (183,239)           |
| Less: comprehensive income attributable to noncontrolling interest |                                       |                   |                       | (878)               | (878)               |

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Total comprehensive income (loss) attributable to Willbros Group, Inc.

|              |              |             |            |              |
|--------------|--------------|-------------|------------|--------------|
| \$ (182,267) | \$ (188,789) | \$ (20,668) | \$ 207,607 | \$ (184,117) |
|--------------|--------------|-------------|------------|--------------|

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

|                                                                                        | <b>Nine Months Ended September 30, 2012</b> |                   |                       |                     |                     |
|----------------------------------------------------------------------------------------|---------------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                                        | <b>Parent</b>                               | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| <b>Cash flows from operating activities</b>                                            |                                             |                   |                       |                     |                     |
| Cash flows from operating activities of continuing operations                          | \$ 580                                      | \$ 16,866         | \$ (32,256)           | \$                  | \$ (14,810)         |
| Cash flows from operating activities of discontinued operations                        |                                             |                   | (13,910)              |                     | (13,910)            |
| Net cash from operating activities                                                     | 580                                         | 16,866            | (46,166)              |                     | (28,720)            |
| <b>Cash flows from investing activities:</b>                                           |                                             |                   |                       |                     |                     |
| Proceeds from sales of property, plant and equipment                                   |                                             | 3,110             | 8,475                 |                     | 11,585              |
| Purchase of property, plant and equipment                                              |                                             | (10,159)          | (856)                 |                     | (11,015)            |
| Cash flows from investing activities of continuing operations                          |                                             | (7,049)           | 7,619                 |                     | 570                 |
| Cash flows from investing activities of discontinued operations                        |                                             |                   | 15,103                |                     | 15,103              |
| Net cash from investing activities                                                     |                                             | (7,049)           | 22,722                |                     | 15,673              |
| <b>Cash flows from financing activities:</b>                                           |                                             |                   |                       |                     |                     |
| Proceeds from revolver and notes payable                                               |                                             | 57,000            |                       |                     | 57,000              |
| Payments on capital leases                                                             |                                             | (2,093)           |                       |                     | (2,093)             |
| Payment of revolver and notes payable                                                  |                                             | (39,140)          |                       |                     | (39,140)            |
| Payments on term loan                                                                  |                                             | (46,700)          |                       |                     | (46,700)            |
| Payments to reacquire common stock                                                     | (531)                                       |                   |                       |                     | (531)               |
| Dividend distribution to noncontrolling interest                                       |                                             |                   | (916)                 |                     | (916)               |
| Cash flows from financing activities of continuing operations                          | (531)                                       | (30,933)          | (916)                 |                     | (32,380)            |
| Cash flows from financing activities of discontinued operations                        |                                             |                   |                       |                     |                     |
| Net cash from financing activities                                                     | (531)                                       | (30,933)          | (916)                 |                     | (32,380)            |
| Effect of exchange rate changes on cash and cash equivalents                           |                                             |                   | (2,110)               |                     | (2,110)             |
| Net increase (decrease) in cash and cash equivalents                                   | 49                                          | (21,116)          | (26,470)              |                     | (47,537)            |
| Cash and cash equivalents of continuing operations at beginning of period (12/31/11)   | 188                                         | 27,885            | 30,613                |                     | 58,686              |
| Cash and cash equivalents of discontinued operations at beginning of period (12/31/11) |                                             |                   | 4,759                 |                     | 4,759               |
| Cash and cash equivalents at beginning of period (12/31/11)                            | 188                                         | 27,885            | 35,372                |                     | 63,445              |

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|                                                                                       |        |          |          |           |
|---------------------------------------------------------------------------------------|--------|----------|----------|-----------|
| Cash and cash equivalents at end of period (9/30/12)                                  | 237    | 6,769    | 8,902    | 15,908    |
| Less: cash and cash equivalents of discontinued operations at end of period (9/30/12) |        |          |          |           |
| Cash and cash equivalents of continuing operations at end of period (9/30/12)         | \$ 237 | \$ 6,769 | \$ 8,902 | \$ 15,908 |

**Table of Contents****WILLBROS GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share amounts)****(Unaudited)****15. Condensed Consolidating Guarantor Financial Statements (continued)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

|                                                                 | <b>Nine Months Ended September 30, 2011</b> |                   |                       |                     |                     |
|-----------------------------------------------------------------|---------------------------------------------|-------------------|-----------------------|---------------------|---------------------|
|                                                                 | <b>Parent</b>                               | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| <b>Cash flows from operating activities</b>                     |                                             |                   |                       |                     |                     |
| Cash flows from operating activities of continuing operations   | \$ 754                                      | \$ 84,972         | \$ (45,900)           | \$ (26)             | \$ 39,800           |
| Cash flows from operating activities of discontinued operations |                                             | (4,041)           | (27,494)              |                     | (31,535)            |
| Net cash from operating activities                              | 754                                         | 80,931            | (73,394)              | (26)                | 8,265               |
| <b>Cash flows from investing activities:</b>                    |                                             |                   |                       |                     |                     |
| Proceeds from working capital settlement                        |                                             | 9,402             |                       |                     | 9,402               |
| Proceeds from sales of property, plant and equipment            |                                             | 19,902            | 12,505                |                     | 32,407              |
| Purchase of property, plant and equipment                       |                                             | (8,956)           | (285)                 |                     | (9,241)             |
| Cash flows from investing activities of continuing operations   |                                             | 20,348            | 12,220                |                     | 32,568              |
| Cash flows from investing activities of discontinued operations |                                             | 577               | 7,739                 |                     | 8,316               |
| Net cash from investing activities                              |                                             | 20,925            | 19,959                |                     | 40,884              |
| <b>Cash flows from financing activities:</b>                    |                                             |                   |                       |                     |                     |
| Proceeds from revolver and notes payable                        |                                             | 59,357            |                       |                     | 59,357              |
| Payments on capital leases                                      |                                             | (8,204)           |                       |                     | (8,204)             |
| Payment of revolver and notes payable                           |                                             | (65,725)          |                       |                     | (65,725)            |
| Payments on term loan                                           |                                             | (94,679)          |                       |                     | (94,679)            |
| Payments to reacquire common stock                              | (754)                                       |                   |                       |                     | (754)               |
| Costs of debt issues                                            |                                             | (4,935)           |                       |                     | (4,935)             |
| Dividend distribution to noncontrolling interest                |                                             |                   | (848)                 |                     | (848)               |
| Cash flows from financing activities of continuing operations   | (754)                                       | (114,186)         | (848)                 |                     | (115,788)           |
| Cash flows from financing activities of discontinued operations |                                             |                   | (5)                   |                     | (5)                 |
| Net cash from financing activities                              | (754)                                       | (114,186)         | (853)                 |                     | (115,793)           |
|                                                                 |                                             |                   | (253)                 |                     | (253)               |

## Effect of exchange rate changes on cash and cash equivalents

|                                                                                        |          |           |           |                   |
|----------------------------------------------------------------------------------------|----------|-----------|-----------|-------------------|
| Net increase (decrease) in cash and cash equivalents                                   | (12,330) | (54,541)  | (26)      | (66,897)          |
| Cash and cash equivalents of continuing operations at beginning of period (12/31/10)   | 60,483   | 73,822    |           | 134,305           |
| Cash and cash equivalents of discontinued operations at beginning of period (12/31/10) |          | 6,796     |           | 6,796             |
| Cash and cash equivalents at beginning of period (12/31/10)                            | 60,483   | 80,618    |           | 141,101           |
| Cash and cash equivalents at end of period (9/30/11)                                   | 48,153   | 26,077    | (26)      | 74,204            |
| Less: cash and cash equivalents of discontinued operations at end of period (9/30/11)  | 267      | (5,871)   |           | (5,604)           |
| Cash and cash equivalents of continuing operations at end of period (9/30/11)          | \$       | \$ 48,420 | \$ 20,206 | \$ (26) \$ 68,600 |

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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (In thousands, except share and per share amounts or unless otherwise noted)**

The following discussion and analysis should be read in conjunction with the unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2012 and 2011, included in Item 1 of this Form 10-Q, 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 Current Report on Form 8-K dated June 29, 2012, filed June 29, 2012.

#### **OVERVIEW**

Willbros is a global provider of engineering and construction services to the oil, gas, refinery, petrochemical and power industries with a focus on infrastructure such as oil and gas pipeline systems, electric transmission and distribution ( T&D ) systems and refining and processing plants. Our offerings include engineering, procurement and construction (either individually or as an integrated EPC service offering), turnarounds, maintenance and other specialty services.

#### **Our Vision**

We continue to believe that long-term fundamentals support increasing demand for our services and substantiate our vision for Willbros to be a multi-billion dollar engineering and construction company with a diversified revenue stream, stable and predictable results, and high growth opportunities.

To accomplish this, we are actively working towards achieving the following objectives:

Diversifying geographically to broaden our regional presence and exposure to customers who demand local service providers;

Increasing professional services (project/program management, engineering, design, procurement and logistics) capabilities to minimize cyclical and risk associated with large capital projects in favor of recurring service work;

Managing our resources to mitigate the seasonality of our business model;

Positioning Willbros as a service provider and employer of choice;

Developing long-term client partnerships and alliances by focusing team driven sales efforts on key clients and exceeding performance expectations at competitive prices; and

Establishing industry best practices, particularly for safety and performance.

#### **Our Values**

We believe the values we adhere to as an organization shape the relationships and performance of our company. We are committed to strong leadership across the organization to achieve Excellence, Accountability and Compliance in everything we do, recognizing that Compliance is the catalyst for successfully applying all of our values. Our core values are:

Safety – always perform safely for the protection of our people and our stakeholders;

Honesty & Integrity always do the right thing;

Our People respect and care for their well-being and development; maintain an atmosphere of trust, empowerment and teamwork; ensure the best people are in the right position;

Our Customers understand their needs and develop responsive solutions; promote mutually beneficial relationships and deliver a good job on time;

Superior Financial Performance deliver financial results that place us at the forefront of our peer group;

Vision & Innovation understand the drivers of our business environment; promote constant curiosity, imagination and creativity about our business and opportunities; seek continuous improvement; and

Effective Communications present a clear, consistent and accurate message to our people, our customers and the public.

We believe that adhering to and living these values will result in a high performance organization, which can differentiate itself and compete effectively, providing incremental value to our customers, our employees and all our stakeholders.

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### **Third Quarter of 2012**

In the third quarter of 2012, we reported contract revenue of \$588,921 and operating income of \$7,482, which is a slight improvement to our reported operating income of \$5,854 in the second quarter. The third quarter results were negatively impacted by two loss projects identified in the second quarter, the Red River Pipeline project in Texas and the Woodland Hills Pump Station project in Canada, as well as one new loss project in New England. The aggregate third quarter losses attributed to these three projects was approximately \$11,900. The project in New England is a fixed price transmission project, which moved into a loss position due to customer changes and delays. We are in the process of submitting claims and change orders in connection with this project to return it to profitability.

Positive performance in our *Oil & Gas* segment was attributable to our engineering, EPC and integrity activities, which was partially offset by the negative impact of the Red River Pipeline project. Our regional delivery business continues to benefit from the high level of investment in the liquids-rich shale plays and reached an annualized contract revenue run rate of over \$300,000 in the third quarter. In addition, a project in south Louisiana that was delayed during the second quarter is now underway and made a meaningful contribution to our third quarter results.

Our *Utility T&D* segment continues to experience improved operating results in the Texas electric distribution, the eastern distribution and the cable restoration markets. Our transmission and distribution business in the Northeast again incurred an operating loss for the quarter, which was largely the result of the fixed price transmission project discussed above.

Third quarter contract revenue for our Canada segment increased \$20,199 from the second quarter. This higher revenue level better matches our levels of current indirect costs and general and administrative charges in the segment. Through the addition of quality backlog, Canada reported slightly positive operating income for the quarter, which was inclusive of losses attributed to the Woodland Hills Pump Station project discussed above.

Third quarter operating results remain negatively impacted by businesses that continue to underperform relative to similar peer group company businesses. Last year, we started a systematic program to turn around these under-performing businesses. We have experienced some notable successes; however, several businesses may require an unmanageable level of investment and time considered necessary to generate improved results. We expect to reach a decision regarding the long-term value of these businesses in the next several months.

On November 8, 2012, we amended and restated our credit agreement dated as of June 30, 2010 (the 2010 Credit Agreement ) and borrowed \$60,000 in additional term loans in order to improve our liquidity, which has been diminished by cash consumed to support our considerable contract revenue growth in the second and third quarter. For additional information, see the discussion in Note 6 Long Term Debt in the Notes to the Condensed Consolidated Financial Statements and in Liquidity and Capital Resources in this Item 2.

### **Outlook**

For the fourth quarter of 2012, our end markets in our *Oil & Gas*, *Utility T&D* and *Canada* segments are expected to be impacted by different factors, resulting in risks and opportunities specific to each. Generally, we believe our end markets will continue to improve and will continue to be influenced by local market economics and political factors. However, we believe the business environment, while improving, will remain highly competitive.

Our *Oil & Gas* segment continues to benefit from the high level of investment in the liquids-rich shale plays. We also expect to benefit from a higher level of regional activity, where our contract risks are significantly lower than in cross-country pipeline construction. Low natural gas prices and the new domestic crude supplies are factors in our increased professional services activity in our engineering business, and pipeline integrity issues nationwide are contributing to a build of recurring services backlog in our professional services business. Our current backlog and the success of our regional offices causes us to expect better utilization and cost recovery in this segment than we achieved in the fourth quarter of 2011. We will be paying close attention to natural gas storage levels, drilling rig counts and crude oil pricing, as we believe these are early indicators of potential impacts on our businesses. We expect macroeconomic events globally and the recently completed national election in the United States to influence industry sentiment regarding proposed expansions and capital projects.

Our *Utility T&D* segment continues to improve its operating performance in the Texas distribution market and we are focused on changes to drive similar improvement in our business in the Northeast. Competitive Renewable Energy Zone ( CREZ ) work in Texas will continue to anchor activity in this segment through 2013, after which we expect to have sufficient capacity, developed on relevant projects, to capture higher margin work in the national market. We believe that the distribution business, especially in Texas, is beginning to rebound. In the third quarter, this segment was negatively impacted by a project in New England, which moved into a loss position due to delays and changes attributable to engineering, material and rights of way. We have a change order team preparing a comprehensive submittal to the client and believe our contract with the client supports our position. We continue to believe that the political environment will support continued investment in basic electrical

infrastructure to reduce reliability concerns and meet mandated renewable generation capacity. Storm related services, while difficult to forecast, offer some near-term upside, even after allowing for the delay of regularly scheduled activities, which are postponed by storm call-outs.

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Our *Canada* segment is transitioning to a model focused on the oil sands mine sites and in situ extraction developments. We believe the oil sands market offers us long-term recurring services opportunities to provide maintenance, fabrication, and capital project engineering and construction. We expect additional backlog build as we focus on improving the risk profile of this business model. We continue to see robust bidding opportunities but will exercise conservative bidding practices as we develop the project capabilities demanded by the capital projects market. Our best relevant skill sets are in the maintenance and construction of hydro-transport and tailings lines and API storage tanks, and we will emphasize those services, complemented by our experienced fabrication, module and overlay services, which are well established. This market is characterized by increased caution on the part of customers, as resources are becoming scarcer, and crude oil prices are diminished from annual highs earlier this year. We believe the high level of proven reserves, estimated in 2010 by the International Energy Agency to be 173 billion barrels and among the three largest reserve bases in the world, and the political stability of the country, will continue to attract investment and drive both capital project and maintenance opportunities for our service offerings.

While we continue to press forward on the pace of our initiatives for improvement, we are pleased to see that management actions thus far have had a positive impact on the financial performance of several non-performing businesses. We will continue to emphasize project execution and risk management as well as address our seasonality issues.

### ***Other Financial Measures***

#### ***Adjusted EBITDA from Continuing Operations***

We define Adjusted EBITDA from continuing operations as income (loss) from continuing operations before interest expense, income tax expense (benefit) and depreciation and amortization, adjusted for selected items which management does not consider representative of our ongoing operations and certain non-cash items of the Company. These adjustments are included in various performance metrics under our credit facilities and other financing arrangements. These adjustments are itemized in the following table. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA from continuing operations, you should be aware that in the future we may incur expenses that are the same as, or similar to, some of the adjustments in this presentation. Our presentation of Adjusted EBITDA from continuing operations should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Management uses Adjusted EBITDA from continuing operations as a supplemental performance measure for:

Comparing normalized operating results with corresponding historical periods and with the operational performance of other companies in our industry; and

Presentations made to analysts, investment banks and other members of the financial community who use this information in order to make investment decisions about us.

Adjusted EBITDA from continuing operations is not a financial measurement recognized under U.S. generally accepted accounting principles, or U.S. GAAP. When analyzing our operating performance, investors should use Adjusted EBITDA from continuing operations in addition to, and not as an alternative for, net income, operating income, or any other performance measure derived in accordance with U.S. GAAP, or as an alternative to cash flow from operating activities as a measure of our liquidity. Because not all companies use identical calculations, our presentation of Adjusted EBITDA from continuing operations may be different from similarly titled measures of other companies.

Adjusted EBITDA from continuing operations decreased \$2,547 to \$44,182 for the nine months ended September 30, 2012 compared to \$46,729 during the nine months ended September 30, 2011. The decrease is primarily attributable to higher general and administrative expenses for the nine months ended September 30, 2012 driven largely through growth within the liquids-rich shale plays across the United States and through increased charges in connection with the ongoing remediation of our material weakness in accounting for income taxes.

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A reconciliation of Adjusted EBITDA from continuing operations to U.S. GAAP financial information follows:

|                                                                      | Nine Months Ended     |                       |
|----------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                      | September 30,<br>2012 | September 30,<br>2011 |
| Loss from continuing operations attributable to Willbros Group, Inc. | \$ (27,346)           | \$ (151,768)          |
| Interest expense, net                                                | 21,500                | 36,275                |
| Provision (benefit) for income taxes                                 | 3,937                 | (28,527)              |
| Depreciation and amortization                                        | 37,838                | 46,565                |
| Goodwill impairment                                                  |                       | 143,543               |
| Change in fair value of contingent earn-out                          |                       | (10,000)              |
| Loss on early extinguishment of debt                                 | 3,405                 | 4,124                 |
| Stock based compensation                                             | 5,773                 | 7,103                 |
| Acquisition costs                                                    |                       | 179                   |
| Restructuring and reorganization costs                               | 169                   | 173                   |
| Gains on sales of assets                                             | (3,627)               | (4,882)               |
| DOJ monitor cost                                                     | 1,588                 | 3,066                 |
| Noncontrolling interest                                              | 945                   | 878                   |
| Adjusted EBITDA from continuing operations                           | \$ 44,182             | \$ 46,729             |

*Backlog*

In our industry, backlog is considered an indicator of potential future performance as it represents a portion of the future revenue stream. Our strategy is focused on capturing quality backlog with margins commensurate with the risks associated with a given project.

We believe the backlog figures are firm, subject only to the cancellation and modification provisions contained in various contracts. Additionally, due to the short duration of many jobs, revenue associated with jobs won and performed within a reporting period will not be reflected in quarterly backlog reports. We generate revenue from numerous sources, including contracts of long or short duration entered into during a year as well as from various contractual processes, including change orders, extra work and variations in the scope of work. These revenue sources are not added to backlog until realization is assured.

Backlog broadly consists of anticipated revenue from the uncompleted portions of existing contracts and contracts whose award is reasonably assured. Our backlog presentation reflects not only the 12-month lump sum and Master Service Agreement ( MSA ) work, but also the full-term value of work under contract, including MSA work, as we believe that this information is helpful in providing additional long-term visibility. We determine the amount of backlog for work under ongoing MSA maintenance and construction contracts by using recurring historical trends inherent in the MSAs, factoring in seasonal demand and projecting customer needs based upon ongoing communications with the customer. We also include in backlog our share of work to be performed under contracts signed by joint ventures in which we have an ownership interest.

Our 12-month and total backlog increased \$203,797 and \$83,515, respectively, from December 31, 2011 balances. Historically, a substantial amount of pipeline construction revenue in a given year has not been in our backlog at the beginning of that year.

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The following table shows our backlog from continuing operations by operating segment and geographic location as of September 30, 2012 and December 31, 2011:

|                        | September 30, 2012 |         | December 31, 2011 |         |            |         |              |         |
|------------------------|--------------------|---------|-------------------|---------|------------|---------|--------------|---------|
|                        | 12 Month           | Percent | Total             | Percent | 12 Month   | Percent | Total        | Percent |
| <i>Oil &amp; Gas</i>   | \$ 469,226         | 43.9%   | \$ 615,609        | 27.3%   | \$ 383,653 | 44.4%   | \$ 517,597   | 23.9%   |
| <i>Utility T&amp;D</i> | 429,785            | 40.2%   | 1,281,542         | 56.8%   | 382,569    | 44.2%   | 1,345,204    | 61.9%   |
| <i>Canada</i>          | 169,910            | 15.9%   | 358,581           | 15.9%   | 98,902     | 11.4%   | 309,416      | 14.2%   |
| Backlog                | \$ 1,068,921       | 100.0%  | \$ 2,255,732      | 100.0%  | \$ 865,124 | 100.0%  | \$ 2,172,217 | 100.0%  |

|                                                  | September 30, 2012 |         | December 31, 2011 |         |
|--------------------------------------------------|--------------------|---------|-------------------|---------|
|                                                  | Total              | Percent | Total             | Percent |
| <b><u>Total Backlog by Geographic Region</u></b> |                    |         |                   |         |
| United States                                    | \$ 1,745,120       | 77.4%   | \$ 1,718,920      | 79.2%   |
| Canada                                           | 358,581            | 15.9%   | 309,416           | 14.2%   |
| Middle East/North Africa                         | 145,368            | 6.4%    | 135,698           | 6.2%    |
| Other International                              | 6,663              | 0.3%    | 8,183             | 0.4%    |
| Backlog                                          | \$ 2,255,732       | 100.0%  | \$ 2,172,217      | 100.0%  |

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

In our Annual Report on Form 10-K for the year ended December 31, 2011, we identified and disclosed our significant accounting policies. Subsequent to December 31, 2011, there has been no change to our significant accounting policies.

**Table of Contents****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 and gas, refinery, petrochemical and power industries worldwide. Contract revenue and cost vary from year-to-year as 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 demand for our services.

***Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011***

|                                                                                        | Three Months Ended |                       |            |
|----------------------------------------------------------------------------------------|--------------------|-----------------------|------------|
|                                                                                        | 2012               | September 30,<br>2011 | Change     |
| Contract revenue                                                                       |                    |                       |            |
| <i>Oil &amp; Gas</i>                                                                   | \$ 369,573         | \$ 252,642            | \$ 116,931 |
| <i>Utility T&amp;D</i>                                                                 | 161,820            | 149,167               | 12,653     |
| <i>Canada</i>                                                                          | 57,555             | 42,298                | 15,257     |
| Eliminations                                                                           | (27)               | (71)                  | 44         |
| <i>Total</i>                                                                           | 588,921            | 444,036               | 144,885    |
| General and administrative                                                             | 39,099             | 31,152                | 7,947      |
| Operating income (loss)                                                                |                    |                       |            |
| <i>Oil &amp; Gas</i>                                                                   | 9,803              | 7,370                 | 2,433      |
| <i>Utility T&amp;D</i>                                                                 | (2,364)            | (142,755)             | 140,391    |
| <i>Canada</i>                                                                          | 43                 | 5,022                 | (4,979)    |
| Corporate                                                                              |                    | 4,000                 | (4,000)    |
| <i>Total</i>                                                                           | 7,482              | (126,363)             | 133,845    |
| Other income (expense)                                                                 | (6,524)            | (11,293)              | 4,769      |
| Income (loss) from continuing operations before income taxes                           | 958                | (137,656)             | 138,614    |
| Provision (benefit) for income taxes                                                   | 1,012              | (16,369)              | 17,381     |
| Loss from continuing operations                                                        | (54)               | (121,287)             | 121,233    |
| Income (loss) from discontinued operations net of provision (benefit) for income taxes | 789                | (10,716)              | 11,505     |
| Net income (loss)                                                                      | \$ 735             | \$ (132,003)          | \$ 132,738 |

**Consolidated Results*****Contract Revenue***

Contract revenue improved \$144,885 with increased revenues across all three segments. The increase is primarily attributable to higher demand for professional services, business growth within the liquids-rich shale plays across the United States, increased work in the oil sands and work under our alliance agreement with Oncor.

***General and Administrative Expenses***

General and administrative expense increased \$7,947 mainly from business growth within the liquids-rich shale plays across the United States along with associated revenue increases. In addition, we incurred increased general and administrative costs in connection with the ongoing remediation of our material weakness in accounting for income taxes. General and administrative expense as a percentage of contract revenue is

6.6 percent for the current quarter, a slight decrease as compared to 7.0 percent for the third quarter of 2011.

*Operating Income*

Operating income improved \$133,845 primarily due to a \$143,543 goodwill impairment charge in the third quarter of 2011 that did not recur in the third quarter of 2012. The improvement was partially offset by losses on the Red River Pipeline project in Texas, losses on the Woodland Hills Pump station project in Canada, losses on a fixed price transmission project in New England and a change to the fair value of our contingent earnout liability in the third quarter of 2011 that did not recur in the third quarter of 2012.

*Other Income (Expense)*

Other income (expense) improved \$4,769 primarily due to a decrease in net interest expense of \$4,547. The decrease in net interest expense mainly resulted from cumulative debt payments that reduced our existing Term Loan balance by \$75,400 over the previous twelve months.

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### *Provision (Benefit) for Income Taxes*

Provision for income taxes increased \$17,381 driven primarily by a mix of losses incurred in the third quarter of 2012 that could not be tax benefited. Discrete activity in the third quarter of 2011 that did not recur in 2012 included the recognition of a deferred tax benefit of \$25,671 associated with the impairment of goodwill and additional tax expense of \$7,655 associated with the repatriation of foreign earnings and profits.

### *Income (Loss) from Discontinued Operations, Net of Taxes*

Income (loss) from discontinued operations, net of taxes increased \$11,505. The increase is partially attributed to the settlement of an outstanding claim on a completed project, a gain related to the sale of certain assets disposed of as part of the liquidation of our Canada cross-country pipeline business as well as the release of certain project contingencies that resulted from the wrap-up of a final Canada cross-country project line. The prior year's quarter was negatively impacted by legal costs of \$6,264 associated with the West African Gas Pipeline Company Limited ( WAPCo ) litigation that was settled in the first quarter of 2012.

## **Segment Results**

### *Oil & Gas Segment*

Contract revenue increased \$116,931 driven predominantly by an increase in demand for our cross-country pipeline construction services as well as through business growth and expansion into the liquids-rich shale plays across the United States.

Operating income increased \$2,433 primarily through increased profitability in our professional services businesses, which consists primarily of engineering, EPC and integrity work. The increase was partially offset by losses incurred on the Red River Pipeline Project in Texas and margin erosion on another project.

### *Utility T&D Segment*

Contract revenue increased \$12,653 primarily related to additional work performed under our alliance agreement with Oncor as well as increased demand for services in the Marcellus shale region. The increase was partially offset by decreased contract revenue in large overhead transmission project work in the Northeast.

Operating loss improved \$140,391 primarily related to the one-time goodwill impairment charge of \$143,543 in the third quarter of 2011 that did not recur in the third quarter of 2012, as well as continued improvement in our Texas electric distribution business. The improvement in our Texas operations was more than offset by increased operating losses in the Northeast primarily driven by customer changes and delays associated with a fixed price transmission project.

### *Canada Segment*

Contract revenue increased \$15,257 primarily due to additional services for construction and maintenance projects with our key customers in the oil sands area, additional services for new module construction and pipe fabrication orders and revenue generated from our ongoing tanks and facilities construction projects.

Operating income decreased \$4,979 mainly related to losses incurred on the Woodland Hills Pump Station project, higher equipment lease and rental costs and increased contract overhead costs and delays in the start of new tank projects. In addition, the third quarter of 2012 includes start-up costs for our electrical and instrumentation, project and specialty services and module fabrication businesses. Improved operating income related to our traditional construction and maintenance projects in the oil sands partially offset the negative impact from these additional costs.

### *Corporate*

The change in fair value of the contingent earnout recorded during the third quarter of 2011 was characterized as a Corporate change in estimate and is not allocated to the reporting segments. For additional information regarding the contingent earnout, see the discussion in Note 13 - Fair Value Measurements.



**Table of Contents***Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011*

|                                                                                        | Nine Months Ended |                       |            |
|----------------------------------------------------------------------------------------|-------------------|-----------------------|------------|
|                                                                                        | 2012              | September 30,<br>2011 | Change     |
| Contract revenue                                                                       |                   |                       |            |
| Oil & Gas                                                                              | \$ 906,883        | \$ 669,661            | \$ 237,222 |
| Utility T&D                                                                            | 471,654           | 428,823               | 42,831     |
| Canada                                                                                 | 128,880           | 112,255               | 16,625     |
| Eliminations                                                                           | (212)             | (240)                 | 28         |
| <i>Total</i>                                                                           | 1,507,205         | 1,210,499             | 296,706    |
| General and administrative                                                             | 112,034           | 99,423                | 12,611     |
| Operating income (loss)                                                                |                   |                       |            |
| Oil & Gas                                                                              | 11,037            | (3,489)               | 14,526     |
| Utility T&D                                                                            | (2,395)           | (148,438)             | 146,043    |
| Canada                                                                                 | (5,918)           | 3,193                 | (9,111)    |
| Corporate                                                                              |                   | 10,000                | (10,000)   |
| <i>Total</i>                                                                           | 2,724             | (138,734)             | 141,458    |
| Other expense                                                                          | (25,188)          | (40,683)              | 15,495     |
| Loss from continuing operations before income taxes                                    | (22,464)          | (179,417)             | 156,953    |
| Provision (benefit) for income taxes                                                   | 3,937             | (28,527)              | 32,464     |
| Loss from continuing operations                                                        | (26,401)          | (150,890)             | 124,489    |
| Income (loss) from discontinued operations net of provision (benefit) for income taxes | 10,464            | (27,882)              | 38,346     |
| Net loss                                                                               | \$ (15,937)       | \$ (178,772)          | \$ 162,835 |

**Consolidated Results***Contract Revenue*

Contract revenue improved \$296,706 with increased revenues across all three segments. The increase is primarily attributable to higher demand for professional services, business growth within the liquids-rich shale plays across the United States and increased work under our alliance agreement with Oncor.

*General and Administrative Expenses*

General and administrative expense increased \$12,611 mainly from business growth within the liquids-rich shale plays across the United States along with associated revenue increases. In addition, we incurred increased general and administrative costs in connection with the ongoing remediation of our material weakness in accounting for income taxes. General and administrative expense as a percentage of contract revenue is 7.4 percent for the first nine months of 2012 as compared to 8.2 percent for the first nine months of 2011.

*Operating Income (Loss)*

Operating income (loss) improved \$141,458 primarily due to a \$143,543 goodwill impairment charge in the third quarter of 2011 and an \$8,236 non-cash charge for the TransCanada settlement in the second quarter of 2011. Neither of these charges recurred in the first nine months of 2012. The improvement was partially offset by losses on the Red River Pipeline project in Texas, losses in the Woodland Hills Pump Station project in Canada, increased operating losses in the Northeast and a change to the fair value of our contingent earnout liability in the first nine months of 2011 that did not recur in the first nine months of 2012.

*Other Income (Expense)*

Other income (expense) improved \$15,495 primarily due to a decrease in net interest expense of \$14,775 and a decrease of \$719 in debt extinguishment costs. The decrease in net interest expense mainly resulted from cumulative debt payments that reduced our existing Term Loan balance by \$75,400 over the previous twelve months. The decrease in charges classified as debt extinguishment costs resulted from a reduction in debt payments during the first nine months of 2012.

*Provision (Benefit) for Income Taxes*

Provision for income taxes increased \$32,464 driven primarily by losses incurred in the nine months of 2012 that could not be tax benefited whereas losses and discrete items incurred in the nine months of 2011 were fully benefited. In addition, a full valuation allowance against our U.S. net operating loss has been recorded.

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### *Income (Loss) from Discontinued Operations, Net of Taxes*

Income (loss) from discontinued operations, net of taxes increased \$38,346, driven primarily from a gain of approximately \$10,684 related to the sale of certain assets disposed of as part of the liquidation of our Canada cross-country pipeline business. In addition, we settled a project claim and released certain project contingencies that resulted from the wrap-up of a final Canada cross-country pipeline project. The increase was further impacted by a reduction in legal and consulting costs of \$7,906 associated with the WAPCo litigation that was settled in the first quarter of 2012 as well as the sale of InterCon Construction Inc. ( InterCon ) in the fourth quarter of 2011. Losses of \$1,896 associated with Intercon in the first nine months of 2011 did not recur in the first nine months of 2012.

## **Segment Results**

### *Oil & Gas Segment*

Contract revenue increased \$237,222 driven predominantly by increased demand for our EPC services as well as through business growth and expansion into the liquids-rich shale plays across the United States.

Operating income increased \$14,526, although \$8,236 of the increase was attributable to a non-cash charge for the TransCanada settlement during the first nine months of 2011 that did not recur during the first nine months of 2012. The remaining increase was driven by improved profitability in our professional services businesses, which consists primarily of engineering, EPC and integrity work, partially offset by decreased performance in field services and international construction services.

### *Utility T&D Segment*

Contract revenue increased \$42,831 primarily related to additional work performed under our alliance agreement with Oncor as well as increased demand for services in the Marcellus shale region. The increase was offset by decreased contract revenue in the Northeast due to a reduction of large overhead transmission project work.

Operating loss improved \$146,043 primarily related to the one-time goodwill impairment charge of \$143,543 during the first nine months of 2011 that did not recur during the first nine months of 2012. The remainder of the improvement was mainly related to continued improvement in our Texas electric distribution business, partially offset by increased operating losses in the Northeast.

### *Canada Segment*

Contract revenue increased \$16,625 primarily due to additional services for construction and maintenance projects with our key customers in the oil sands area and additional services for new module construction and pipe fabrication orders.

Operating income decreased \$9,111 primarily due to losses incurred on the Woodland Hills Pump Station project and increased equipment lease and rental costs subsequent to the sale of equipment assets earlier in the year. In addition, start-up costs for our electrical and instrumentation, project and specialty services and module fabrication businesses resulted in increased expenses during the first nine months of 2012.

### *Corporate*

The change in fair value of the contingent earnout recorded during the first nine months of 2011 was characterized as a Corporate change in estimate and is not allocated to the reporting segments. For additional information regarding the contingent earnout, see the discussion in Note 13 - Fair Value Measurements.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our financing objective is to maintain financial flexibility to meet the material, equipment and personnel needs to support our project and MSA commitments, and pursue our expansion and diversification objectives, while reducing debt.

### **Additional Sources and Uses of Capital**

Pursuant to our Amendment and Restatement Agreement dated as of November 8, 2012, the 2010 Credit Agreement was amended and restated in its entirety (the Amended and Restated Credit Agreement ). Under the Amended and Restated Credit Agreement, certain existing lenders

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under the Revolving Credit Facility holding an aggregate amount of commitments equal to \$115,000, agreed that the maturity applicable to such commitments would be extended by one year, to June 30, 2014.

The Amended and Restated Credit Agreement provides for additional term loans in an amount equal to \$60,000, which will be pari passu in right of payment with, and secured on a pari passu basis with our existing Term Loan outstanding under the 2010 Credit Agreement. The additional term loans were drawn in full on the effective date of the Amended and Restated Credit Agreement. The additional term loans were issued at a discount such that the funded portion was equal to 97 percent of the principal amount of additional term loans. The additional term loans will mature on June 30, 2014, the same maturity date as our existing Term Loan under the 2010 Credit Agreement.

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Under the 2010 Credit Agreement, the Revolving Credit Facility was available for letters of credit and for revolving loans, which could be used for working capital and general corporate purposes. 100 percent of the Revolving Credit Facility could be used to obtain letters of credit and revolving loans had a sublimit of \$150,000. On March 4, 2011, as part of an amendment to the 2010 Credit Agreement, we agreed to limit our revolver borrowings to \$25,000, with the exception of proceeds from revolving borrowings used to make any payments in respect of both the 2.75% Convertible Senior Notes (the "2.75% Notes") and the 6.5% Senior Convertible Notes (the "6.5% Notes"), until our Maximum Total Leverage Ratio is 3.00 to 1.00 or less. As permitted under this amendment, we borrowed \$25,000 against our Revolving Credit Facility in the third quarter of 2012. As of September 30, 2012, we had \$84,357 in outstanding borrowings (of which \$59,357 was borrowed to fund the purchase of the 2.75% Notes) and \$63,904 in letters of credit outstanding, with \$26,739 remaining against our \$175,000 capacity. We intend to borrow \$32,050 under the Revolving Credit Facility in order to fund the repayment of the 6.5% Notes (currently due on December 15, 2012).

The Amended and Restated Credit Agreement effectively modifies the sublimit described above by including a sublimit for any new borrowings under the Revolving Credit Facility after the effective date of the Amended and Restated Credit Agreement. This sublimit for new borrowings will range from \$0 to \$50,000 as determined by reference to a formula, which will permit new revolver borrowings only if we first make voluntary prepayments and/or mandatory repayments or prepayments of revolver borrowings from the net proceeds of asset sales, equity issuances or other sources. The new sublimit will not apply to new borrowings under the Revolving Credit Facility, which are used to make payments of amounts due or outstanding in respect of the 6.5% Notes. However, if on or after March 31, 2013, we have received net proceeds from asset sales or equity issuances equal to or exceeding \$90,000, the sublimit for borrowings will be \$50,000 with an increase to \$75,000 after the close of any fiscal quarter in which our Maximum Total Leverage Ratio is 2.25 to 1.00 or less, in each case, including any borrowings under the Revolving Credit Facility used to make payments of amounts due or outstanding in respect of the 6.5% Notes.

We believe that sales of non-strategic assets and cash flow from operations will allow us to operate under the reduced commitment amount of \$115,000 for the Revolving Credit Facility subsequent to June 30, 2013. We continue to pursue opportunities to sell non-strategic and under-performing assets (including equipment, real property and businesses) as well as take steps to generate positive operating cash flow in order to pay down debts, reduce our financial leverage, and strengthen our overall balance sheet.

For additional information regarding the Amended and Restated Credit Agreement, see the discussion in Note 6 Long Term Debt.

## **Covenants**

On November 7, 2012, following receipt of the required consents, we entered into a fifth supplemental indenture (the "Fifth Supplemental Indenture") to the Indenture for the 6.5% Notes. The Fifth Supplemental Indenture further amended Section 6.13 of the Indenture so that certain restrictions on our ability to incur indebtedness are not applicable to our borrowings under the Amended and Restated Credit Agreement during the period from and including the effective date of the Fifth Supplemental Indenture through and including December 15, 2012.

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The table below sets forth the primary covenants in the Amended and Restated Credit Agreement, which have been modified from the 2010 Credit Agreement and the calculation with respect to these covenants at September 30, 2012:

|                                                                                                                                                                                    | <b>Covenants<br/>Requirements</b> | <b>Actual Ratios at<br/>September 30, 2012</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------------------------------------|
| Maximum Total Leverage Ratio <sup>(1)</sup> (debt divided by Covenant EBITDA) should be equal to or less than:                                                                     | 5.50 to 1                         | 4.20                                           |
| Minimum Interest Coverage Ratio <sup>(2)</sup> (Covenant EBITDA divided by interest expense as defined in the Amended and Restated Credit Agreement) should be equal to or exceed: | 2.25 to 1                         | 2.90                                           |

<sup>(1)</sup> The Maximum Total Leverage Ratio decreases to 4.00 as of December 31, 2012, 3.25 as of March 31, 2013, 3.00 as of June 30, 2013 and 2.75 as of September 30, 2013.

<sup>(2)</sup> The Minimum Interest Coverage Ratio increases to 2.75 as of December 31, 2012 and 3.00 as of December 31, 2013.

Depending on our financial performance, we may be required to request additional amendments, or waivers for the primary covenants, dispose of assets, or obtain refinancing in future periods. There can be no assurance that we will be able to obtain additional amendments or waivers, complete asset sales, or negotiate agreeable refinancing terms should it become needed.

The Amended and Restated Credit Agreement also includes customary affirmative and negative covenants, including:

Limitations on capital expenditures (greater of \$70,000 or 25% of EBITDA).

Limitations on indebtedness.

Limitations on liens.

Limitations on certain asset sales and dispositions.

Limitations on certain acquisitions and asset purchases if certain liquidity levels are not maintained.

A default under the Amended and Restated Credit Agreement may be triggered by events such as a failure to comply with financial covenants or other covenants or a failure to make payments when due under the Amended and Restated Agreement a failure to make payments when due in respect of, or a failure to perform obligations relating to, debt obligations in excess of \$15,000; a change of control of the Company; and certain insolvency proceedings. A default under the Amended and Restated Credit Agreement would permit the Administrative Agent, Crédit Agricole, and the lenders to terminate their commitment to make cash advances or issue letters of credit, require the immediate repayment of any outstanding cash advances with interest and require the cash collateralization of outstanding letter of credit obligations.

As of September 30, 2012, we would not have complied with the Maximum Total Leverage Ratio under the 2010 Credit Agreement. However, certain covenants, including the Maximum Total Leverage Ratio, previously in effect under the 2010 Credit Agreement, were modified under the Amended and Restated Credit Agreement, effective as of September 30, 2012. As a result of the modification of these covenants under the Amended and Restated Credit Agreement, we avoided a covenant default under the 2010 Credit Agreement as of September 30, 2012.

As of September 30, 2012, we complied with all covenants under the Amended and Restated Credit Agreement.

**Cash Balances**

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As of September 30, 2012, we had cash and cash equivalents of \$15,908. Our cash and cash equivalent balances held in the United States and foreign countries were \$6,855 and \$9,053, respectively. In 2011, we discontinued our strategy of reinvesting non-U.S. earnings in foreign operations.

Our working capital position for continuing operations decreased \$13,699 to \$158,753 at September 30, 2012 from \$172,452 at December 31, 2011, primarily attributed to \$46,700 in payments against our existing Term Loan for the first nine months of 2012, partially offset by increased accounts receivable and costs in excess of billings during the first nine months of 2012. Significantly reducing our existing Term Loan balance has resulted in lower cash balances. In order to compensate, we have placed additional emphasis in achieving a cash neutral position in our customer contract negotiations and balancing our receivable collections with our vendor payments. Occasionally, vendor payments have been delayed when clients delayed payments or we were delayed in reaching project milestone payments to improve our liquidity.

Accounts payable have increased during the first nine months of 2012 due to increased levels of business activity. With peak annual activity levels during the second and third quarter, we expect that liquidity will improve as collections from customers increase over the remainder of the year. The primary liquidity improvement results from accessing \$60,000 of new term loans under the Amended and Restated Credit Agreement referred to above.

**Table of Contents****Settlement Agreement**

On March 29, 2012, we entered into a Settlement Agreement with WAPCo to settle the WAGP project litigation. The Settlement Agreement provides that we will make payments to WAPCo over a period of six years totaling \$55,500. We timely made each of the \$4,000 payments that became due on March 31, June 30, and September 30, 2012. An additional payment of \$2,000 will be made in the fourth quarter of 2012.

The Settlement Agreement also provides that the payments due in the years 2015, 2016 and 2017 may be accelerated and become payable in whole or in part in the fourth quarter of 2014 in the event we achieve certain metrics (the "Acceleration Metrics"). The Acceleration Metrics include, among other things, achieving a leverage ratio of debt to EBITDA of 2.25 to 1.00 or less or increasing our overall indebtedness, which accelerates at an amount equal to one-half of the increase in indebtedness. As discussed above, we recently entered into an Amended and Restated Credit Agreement that increased our overall indebtedness by \$60,000. As a result, all of the payments due in years 2015, 2016 and 2017, totaling \$29,000, have been accelerated and are now due in the fourth quarter of 2014.

For additional information regarding the Settlement Agreement, see the discussion in Note 14 "Discontinuance of Operations, Held for Sale Operations and Asset Disposals."

**Cash Flows**

Statements of cash flows for entities with international operations that use the local currency as the functional currency exclude the effects of the changes in foreign currency exchange rates that occur during any given period, as these are non-cash charges. As a result, changes reflected in certain accounts on the Condensed Consolidated Statements of Cash Flows may not reflect the changes in corresponding accounts on the Condensed Consolidated Balance Sheets.

Cash flows provided by (used in) continuing operations by type of activity were as follows for the nine months ended September 30, 2012 and 2011:

|                                               | <b>2012</b>        | <b>2011</b>        | <b>Increase<br/>(Decrease)</b> |
|-----------------------------------------------|--------------------|--------------------|--------------------------------|
| Operating activities                          | \$ (14,810)        | \$ 39,800          | \$ (54,610)                    |
| Investing activities                          | 570                | 32,568             | (31,998)                       |
| Financing activities                          | (32,380)           | (115,788)          | 83,408                         |
| Effect of exchange rate changes               | (2,110)            | (253)              | (1,857)                        |
| <b>Cash used in all continuing activities</b> | <b>\$ (48,730)</b> | <b>\$ (43,673)</b> | <b>\$ (5,057)</b>              |

*Operating Activities*

Cash flow from operations is primarily influenced by demand for our services, operating margins and the type of services we provide, but can also be influenced by working capital needs such as the timing of collection of receivables and the settlement of payables and other obligations. Working capital needs are generally higher during the summer and fall months when the majority of our capital-intensive projects are executed. Conversely, working capital assets are typically converted to cash during the late fall and winter months. Operating activities from continuing operations used net cash of \$14,810 during the nine months ended September 30, 2012 as compared to \$39,800 provided during the same period in 2011. The \$54,610 decrease in cash flow provided by operating activities is primarily a result of the following:

A decrease in cash flow provided by accounts receivable of \$61,000 attributed to the TransCanada settlement in the second quarter of 2011 that did not recur in 2012;

A decrease in cash flow provided by accounts receivable of \$29,601 attributed to changes in business activity and the timing of cash collections during the period;

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A decrease in cash flow provided by contracts in progress of \$48,649 attributed to changes in business activity; and

A decrease in cash flow provided by other changes in operating assets and liabilities of \$3,397 attributed to changes in business activity.

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This was partially offset by:

An increase in cash flow provided by accounts payable of \$86,613 related to the timing of cash disbursements during the period.

### *Investing Activities*

Investing activities provided net cash of \$570 during the nine months ended September 30, 2012 as compared to \$32,568 during the same period in 2011. The \$31,998 decrease in cash flow provided by investing activities is primarily the result of a working capital settlement that provided cash of \$9,402 in the first quarter of 2011 related to the acquisition of InfrastruX, as well as a decrease of proceeds from sales of property, plant and equipment of \$20,822 during the first nine months of 2012 as compared to the same period in 2011.

### *Financing Activities*

Financing activities used net cash of \$32,380 during the nine months ended September 30, 2012 as compared to \$115,788 used during the same period in 2011. The \$83,408 decrease in cash flow used in financing activities is primarily a result of the following:

A \$47,979 decrease in payments made against our existing Term Loan during the nine months ended September 30, 2012;

A \$26,585 decrease in payments made against our Revolving Credit Facility and notes payable during the nine months ended September 30, 2012;

A \$6,111 decrease in payments on capital lease obligations during the first nine months of 2012 as compared to the same period in 2011; and

A \$4,935 decrease in costs incurred in connection with the 2010 Credit Agreement in 2011.

### *Discontinued Operations*

Cash flows used in operating activities decreased \$17,625 in the first nine months of 2012 as compared to the same period in 2011 primarily through an increase in operating income. In addition, cash used in connection with InterCon totaled \$4,000 during the first nine months of 2011 and did not recur in the first nine months of 2012.

Cash flows provided by investing activities increased \$6,787 during the first nine months of 2012 as a result of a gain in connection with the sale of various assets related to our Canadian cross-country pipeline business.

## **Interest Rate Risk**

### *Interest Rate Swaps*

We are subject to hedging arrangements to fix or otherwise limit the interest cost of our existing Term Loan and Revolving Credit Facility. We are subject to interest rate risk on our debt and investment of cash and cash equivalents arising in the normal course of business, as we do not engage in speculative trading strategies.

We currently have two interest rate swap agreements outstanding for a total notional amount of \$150,000 in order to hedge changes in our variable rate interest expense on \$150,000 of our existing Term Loan and Revolving Credit Facility LIBOR indexed debt. Under each swap agreement, we receive interest at a rate based on the maximum of either three-month LIBOR or 2% and pay interest at a fixed rate of 2.68%, effective March 28, 2012 through June 30, 2014. The swap agreements are designated and qualify as cash flow hedging instruments, with the effective portion of the swaps' change in fair value recorded in Other Comprehensive Income (OCI). The interest rate swaps are deemed to be highly effective hedges, and resulted in no gain or loss recorded for hedge ineffectiveness in the Condensed Consolidated Statements of

Operations. Amounts in OCI are reported in interest expense when the hedged interest payments on the underlying debt are recognized. The carrying amount and fair value of our swap agreements are equivalent since we account for these instruments at fair value. The value of our swap agreements are derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The inputs to the valuation pricing models are observable in the market, and as such are generally classified as Level 2 in the fair value hierarchy. For validation purposes, the swap valuations are periodically compared to those produced by swap counterparties. Amounts of OCI relating to the interest rate swaps expected to be recognized in interest expense in the coming 12 months total \$983.

#### *Interest Rate Caps*

In September 2010, we entered into two interest rate cap agreements for notional amounts of \$75,000 each in order to limit our exposure to an increase of the interest rate above 3.00 percent, effective September 28, 2010 through March 28, 2012. Total premiums of \$98 were paid for the interest rate cap agreements. Through June 1, 2011, the cap agreements were designated and qualified as cash flow hedging instruments, with the effective portion of the caps' change in fair value recorded in OCI. Amounts in OCI and the premiums paid for the caps were reported in interest expense as the hedged interest payments on the underlying debt were recognized during the period when the caps were designated as cash flow hedges. Through June 1, 2011, the interest rate caps were deemed to be

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highly effective, resulting in an immaterial amount of hedge ineffectiveness recorded. On June 1, 2011, the caps were de-designated due to the interest rate being fixed on the underlying debt through the remaining term of the caps; changes in the value of the caps subsequent to that date were reported in earnings. The amount reported in earnings for the undesignated interest rate caps for the three and nine months ended September 30, 2012 and 2011 is immaterial. The fair value of the interest rate cap agreements was determined using a model with Level 2 inputs including quoted market prices for contracts with similar terms and maturity dates.

## **Capital Requirements**

We believe that our financial results combined with our current liquidity and financial management will ensure sufficient cash to meet our capital requirements for continuing operations. As such, we are focused on the following significant capital requirements:

Providing working capital for projects in process and those scheduled to begin in the fourth quarter of 2012; or

Funding our 2012 capital budget of approximately \$28,400 of which \$16,806 remained unspent as of September 30, 2012.

## **Contractual Obligations**

During the nine months ended September 30, 2012, we made payments of \$46,700 against our existing Term Loan, which resulted in the recognition of a \$3,405 loss on early extinguishment of debt. These losses represent the write-off of unamortized Original Issue Discount and financing costs inclusive of early payment fees. Such losses are recorded in the line item *Loss on early extinguishment of debt* for the nine months ended September 30, 2012.

Other commercial commitments, as detailed in our Current Report on Form 8-K dated June 29, 2012, filed June 29, 2012, did not materially change except for payments made in the normal course of business.

## **NEW ACCOUNTING PRONOUNCEMENTS**

See Note 2 *New Accounting Pronouncements* in the Notes to the Condensed Consolidated Financial Statements included in this Form 10-Q for a summary of any recently issued accounting standards.

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### **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, future financial performance, the amount and nature of future investments by governments, expansion and other development trends of the oil and gas, refinery, petrochemical 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 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:

curtailment of capital expenditures and the unavailability of project funding in the oil and gas, refinery, petrochemical and power industries;

increased capacity and decreased demand for our services in the more competitive industry segments that we serve;

reduced creditworthiness of our customer base and higher risk of non-payment of receivables;

inability to lower our cost structure to remain competitive in the market or to achieve anticipated operating margins;

inability of the energy service sector to reduce costs in the short term to a level where our customers' project economics support a reasonable level of development work;

inability to predict the timing of an increase in energy sector capital spending, which results in staffing below the level required when the market fully recovers;

reduction of services to existing and prospective clients as they bring historically out-sourced services back in-house to preserve intellectual capital and minimize layoffs;

the consequences we may encounter if we violate the Foreign Corrupt Practices Act (the "FCPA") or other anti-corruption laws in view of the 2008 final settlements with the DOJ and the Securities and Exchange Commission ("SEC") in which we admitted prior FCPA violations, including the imposition of civil or criminal fines, penalties, enhanced monitoring arrangements, or other sanctions that might be imposed;

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

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the consequences we may encounter if we are unable to make payments required of us pursuant to our settlement agreement of the West African Gas Pipeline Company Limited lawsuit;

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

adverse weather conditions not anticipated in bids and estimates;

project cost overruns, unforeseen schedule delays, poor performance by our subcontractors and the application of liquidated damages;

the occurrence during the course of our operations of accidents and injuries to our personnel, as well as to third parties, that negatively affect our safety record, which is a factor used by many clients to pre-qualify and otherwise award work to contractors in our industry;

cancellation of projects, in whole or in part, for any reason;

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

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

inability to obtain and maintain legal registration status in one or more foreign countries in which we are seeking to do business;

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

failure of our processes and procedures to identify contractual and execution risks in new work opportunities;

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

inability to execute cost-reimbursable projects within the target cost, thus eroding contract margin and, potentially, contract income on any such project;

inability to obtain sufficient surety bonds or letters of credit;

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 and interpretation of U.S. and foreign tax laws that impact our worldwide provision for income taxes and effective income tax rate;

changes in applicable laws or regulations, or changed interpretations thereof, including climate change regulation;

changes in the scope of our expected insurance coverage;

inability to manage insurable risk at an affordable cost;

enforceable claims for which we are not fully insured;

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incurrence of insurable claims in excess of our insurance coverage;

the occurrence of the risk factors listed elsewhere in this Form 10-Q or described in our periodic filings with the SEC; and

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 because of new information, future events or otherwise, except as may be required by law.

Unless the context otherwise requires, all references in this Form 10-Q to Willbros, the Company, we, us and our refer to Willbros Group, Inc. and its consolidated subsidiaries and their predecessors. Unless the context otherwise requires, all references in this Form 10-Q to dollar amounts, except share and per share amounts, are expressed in thousands.

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

Our primary market risk is our exposure to changes in non-U.S. (primarily Canada) 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 expense in the same currency whenever possible. To the extent we are unable to match non-U.S. currency revenue with expense 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 September 30, 2012 and 2011.

The carrying amounts for cash and cash equivalents, accounts receivable, notes payable and accounts payable and accrued liabilities shown in the Condensed Consolidated Balance Sheets approximate fair value at September 30, 2012 due to the generally short maturities of these items. At September 30, 2012, we invested primarily in short-term dollar denominated bank deposits. We have the ability and expect to hold our investments to maturity.

Under the 2010 Credit Agreement, we are subject to hedging arrangements to fix or otherwise limit the interest cost of our existing Term Loan and the Revolving Credit Facility. We currently have two interest rate swap agreements outstanding for a total notional amount of \$150,000 in order to hedge changes in our variable rate interest expense on \$150,000 of our existing Term Loan and Revolving Credit Facility LIBOR indexed debt. Under each swap agreement, we receive interest at a rate based on the maximum of either three-month LIBOR or 2% and pay interest at a fixed rate of 2.68%, effective March 28, 2012 through June 30, 2014. Each swap agreement is designated and qualifies as a cash flow hedging instrument and is deemed a highly effective hedge. The fair value of the swap agreements was \$1,729 at September 30, 2012 and was based on using a model with Level 2 inputs including quoted market prices for contracts with similar terms and maturity dates. A 100 basis point increase in interest rates would increase the fair value of the swaps by \$407. Conversely, a 100 basis point decrease in interest rates (subject to minimum rates of zero) would decrease the fair value of the swaps by \$12.

We also entered into two interest rate cap agreements for notional amounts of \$75,000 each in order to limit exposure to an increase of the interest rate above 3 percent, effective September 28, 2010 through March 28, 2012. Through June 1, 2011, the cap agreements were designated and qualified as cash flow hedging instruments and were deemed to be highly effective hedges. On June 1, 2011, the caps were de-designated due to the interest rate being fixed on the underlying debt through the remaining term of the caps; changes in the value of the caps subsequent to that date were reported in earnings. The amount reported in earnings for the undesignated interest rate caps for the three and nine months ended September 30, 2012 and 2011 is immaterial. The fair value of the interest rate cap agreements was \$0 at September 30, 2012.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to management, including principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of September 30, 2012, we have carried out an evaluation under the supervision of, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the design and operation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on our evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of September 30, 2012 due to the material weakness in internal control over financial reporting, as described below.

In light of the material weakness described below, the Company performed additional analysis and other post-closing procedures to ensure our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management concluded that the financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.



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### **Material Weakness in Internal Control Over Financial Reporting and Status of Remediation Efforts**

As reported in our 2011 Annual Report on Form 10-K, as of December 31, 2011, we did not maintain effective controls over the completeness, accuracy and presentation of our accounting for income taxes, including the income tax provision and related income tax assets and liabilities. Specifically, we failed to correctly apply relevant accounting principles for the recognition and presentation of income taxes, failed to appropriately verify the data used in the preparation of the income tax provision and income tax reserve computations and failed to perform a timely review and approval of income tax schedules.

In response to the identified material weakness in the accounting for income taxes, our management, with oversight from the Company's Audit Committee, continues to implement the remediation steps listed in Item 9A of our 2011 Annual Report on Form 10-K. More specifically, in the third quarter of 2012, our management has performed the following:

Reevaluated the roles and responsibilities within our tax function, which culminated in the hiring of four additional experienced tax managers, including a new Vice President – Tax;

Implemented an automated tax software package;

Completed a preliminary Tax Basis Balance Sheet; and

Enhanced our standardized documentation and processes to ensure the completeness and accuracy of our income tax provision, tax depreciation calculations and other related balance sheet accounts.

We are committed to continuous improvement of our internal control processes and to continuous review of our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address the material weakness or determine to modify certain of the remediation procedures described above. Our management, with oversight from the Company's Audit Committee, will continue to take steps to remediate the known material weakness as expeditiously as possible and enhance the overall design and capability of our control environment.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter ended September 30, 2012.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

For information regarding legal proceedings, see the discussion under the caption "Nigeria Assets and Nigeria-Based Operations – Litigation and Settlement" in Note 14 "Discontinuance of Operations, Held for Sale Operations and Asset Disposals of our Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Form 10-Q, which information from Note 14 is incorporated by reference herein.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors involving us from those previously disclosed in Item 1A of Part I included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, except for changes to our goodwill risk factor which was updated and filed with our Current Report on Form 8-K dated June 29, 2012, filed June 29, 2012.

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

The following table provides information about purchases of our common stock by us during the quarter ended September 30, 2012:

|                                        |                                                                    |                                                                | <b>Total Number<br/>of Shares<br/>Purchased<br/>as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum Number<br/>(or<br/>Approximate<br/>Dollar Value)<br/>of<br/>Shares That<br/>May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|----------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                        | <b>Total<br/>Number of<br/>Shares<br/>Purchased <sup>(1)</sup></b> | <b>Average<br/>Price Paid<br/>Per<br/>Share <sup>(2)</sup></b> |                                                                                                                         |                                                                                                                                                                 |
| July 1, 2012 – July 31, 2012           | 22,543                                                             | \$ 7.20                                                        |                                                                                                                         |                                                                                                                                                                 |
| August 1, 2012 – August 31, 2012       | 567                                                                | 6.31                                                           |                                                                                                                         |                                                                                                                                                                 |
| September 1, 2012 – September 30, 2012 |                                                                    |                                                                |                                                                                                                         |                                                                                                                                                                 |
| <b>Total</b>                           | <b>23,110</b>                                                      | <b>\$ 7.18</b>                                                 |                                                                                                                         |                                                                                                                                                                 |

(1) Represents shares of common stock acquired from certain of our officers and key employees under the share withholding provisions of our 1996 Stock Plan and 2010 Stock and Incentive Compensation Plan for the payment of taxes associated with the vesting of shares of restricted stock and restricted stock units granted under such plans.

(2) The price paid per common share represents the closing sales price of a share of our common stock, as reported in the New York Stock Exchange composite transactions, on the day that the stock was acquired by us.

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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### **Item 6. 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.

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4       | Fifth Supplemental Indenture dated as of November 7, 2012, among Willbros Group, Inc., a Delaware corporation, Willbros United States Holdings, Inc., a Delaware corporation (formerly known as Willbros USA, Inc.), and BOKF, NA dba Bank of Texas, as trustee (filed as Exhibit 4 to our current report on Form 8-K dated November 7, 2012, filed November 8, 2012).                                                                                                                                                                                                                                                                                            |
| 10.1    | Amendment Number 6 to Willbros Group, Inc. Amended and Restated 2006 Director Restricted Stock Plan dated August 23, 2012.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 10.2    | Separation Agreement and Release effective September 7, 2012, between Hawkeye LLC, Willbros United States Holdings, Inc., Willbros Group, Inc. and Michael J. Giarratano.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.3    | Amendment and Restatement Agreement dated as of November 8, 2012 to the Credit Agreement, dated as of June 30, 2010, among Willbros United States Holdings, Inc., as borrower, Willbros Group, Inc. and certain subsidiaries thereof, as guarantors, the lenders from time to time party thereto, Credit Agricole Corporate and Investment Bank, as Administrative Agent, Collateral Agent and Issuing Bank, UBS Securities LLC, as Syndication Agent, and Natixis, the Bank of Nova Scotia and Capital One, N.A., as Co-Documentation Agents, as amended (filed as Exhibit 10 to our current report on Form 8-K dated November 7, 2012, filed November 8, 2012). |
| 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 101.INS | XBRL Instance Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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**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 8, 2012

By: /s/ Van A. Welch  
Van A. Welch  
Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

**Table of Contents****EXHIBIT INDEX**

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.

| Exhibit |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Number  | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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| 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 101.INS | XBRL Instance Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |