GLOBAL INDUSTRIES LTD
Form 10-Q
November 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission File Number: 0-21086
Global Industries, Ltd.
(Exact name of registrant as specified in its charter)

Louisiana	**72-1212563**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8000 Global Drive	
Carlyss, Louisiana	**70665**
(Address of principal executive offices)	(Zip Code)

(337) 583-5000
(Registrant s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changes since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of the Registrant s Common Stock outstanding as of November 5, 2007, was 114,972,953.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Global Industries, Ltd.

We have reviewed the accompanying Condensed Consolidated Balance Sheet of Global Industries, Ltd. and subsidiaries (the Company) as of September 30, 2007, and the related Condensed Consolidated Statements of Operations and Cash Flows for the three-month and nine-month periods ended September 30, 2007. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such Condensed Consolidated Interim Financial Statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet of Global Industries, Ltd. and subsidiaries as of December 31, 2006, and the related Consolidated Statements of Operations, Shareholders Equity, and Cash Flows for the year then ended (not presented herein); and in our report dated March 1, 2007, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment,* on January 1, 2006. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2006 is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

DELOITTE & TOUCHE LLP
November 7, 2007
Houston, Texas

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GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30 2007	December 31 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 674,625	$ 352,178
Restricted cash	1,111	1,073
Marketable securities	100,805	
Accounts receivable net of allowance of $3,620 for 2007 and $17,203 for 2006	192,849	197,258
Unbilled work on uncompleted contracts	60,965	90,980
Contract costs incurred not yet recognized	8,589	22,721
Deferred income taxes	2,795	2,781
Prepaid expenses and other	16,713	16,147
Total current assets	1,058,452	683,138
Property and Equipment, net	343,460	316,876
Other Assets		
Accounts receivable long-term	6,669	7,731
Deferred charges, net	36,172	19,862
Deferred income taxes	223	2,711
Goodwill, net	37,388	37,388
Other	8,423	3,291
Total other assets	88,875	70,983
Total	$ 1,490,787	$ 1,070,997
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 3,960	$ 3,960
Accounts payable	117,054	127,009
Employee-related liabilities	28,421	25,643
Income taxes payable	27,734	38,092
Accrued interest payable	2,257	2,134
Advance billings on uncompleted contracts	30,650	4,557
Other accrued liabilities	20,334	21,617
Total current liabilities	230,410	223,012

Long-Term Debt	390,340	69,300
Deferred Income Taxes	43,820	51,714
Other Liabilities	10,401	1,406
Commitments and Contingencies		
Shareholders Equity		
Common stock, $0.01 par value, authorized 150,000 shares and issued 117,854 and 116,252 shares in 2007 and 2006, respectively	1,178	1,162
Additional paid-in capital	411,793	379,297
Retained earnings	482,305	353,834
Treasury stock at cost, 2,888 in 2007 and 25 in 2006	(76,858)	(644)
Accumulated other comprehensive loss	(2,602)	(8,084)
Total shareholders equity	815,816	725,565
Total	$ 1,490,787	$ 1,070,997

See Notes to Condensed Consolidated Financial Statements.

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GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Revenues	$ 203,536	$ 316,865	$ 729,485	$ 930,763
Cost of operations	146,714	212,027	505,056	676,658
Gross profit	56,822	104,838	224,429	254,105
Loss on asset impairments				4,485
Reduction in litigation provision				(13,699)
Net loss (gain) on asset disposal	(9)	(2,618)	(1,317)	(3,125)
Selling, general and administrative expenses	20,749	17,570	58,777	48,566
Operating income	36,082	89,886	166,969	217,878
Other expense (income)				
Interest expense	3,718	3,372	8,491	7,868
Other (income), net	(10,777)	(2,920)	(22,193)	(4,013)
Income before taxes	43,141	89,434	180,671	214,023
Income taxes	11,666	25,765	53,611	69,207
Net income	$ 31,475	$ 63,669	$ 127,060	$ 144,816
Earnings Per Common Share				
Basic	$ 0.27	$ 0.55	$ 1.09	$ 1.25
Diluted	$ 0.27	$ 0.54	$ 1.08	$ 1.24
Weighted Average Common Shares Outstanding				
Basic	115,715	115,988	116,503	115,418
Diluted	117,292	117,673	118,108	117,167

See Notes to Condensed Consolidated Financial Statements.

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GLOBAL INDUSTRIES, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30	
	2007	**2006**
Cash Flows From Operating Activities		
Net Income	$ 127,060	$ 144,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,100	38,802
Stock-based compensation expense	13,081	9,724
Provision for doubtful accounts	(2,668)	22,359
Gain on sale or disposal of property and equipment	(1,317)	(3,125)
Derivative gain	(612)	
Loss on asset impairments		4,485
Reduction in litigation provision		(13,699)
Deferred income taxes	(6,253)	17,875
Latin America tax penalties, fees, and adjustments		1,684
Excess tax benefits from stock-based compensation.	(3,499)	(1,417)
Other		(66)
Changes in operating assets and liabilities Receivables, unbilled work, and contract costs	52,286	(125,052)
Prepaid expenses and other	3,337	12,555
Accounts payable, employee-related liabilities and other accrued liabilities	15,720	13,972
Deferred dry-dock costs incurred	(18,371)	(12,239)
Litigation settlement payment		(22,050)
Net cash provided by operating activities.	210,864	88,624
Cash Flows From Investing Activities		
Proceeds from sale of assets	3,665	3,587
Additions to property and equipment	(48,568)	(35,757)
Purchase of short-term investments	(100,805)	
Decrease in (additions to) restricted cash	(38)	441
Net cash (used in) investing activities	(145,746)	(31,729)
Cash Flows From Financing Activities		
Additions to deferred charges	(6,928)	(683)
Proceeds from long-term debt	325,000	
Repayment of long-term debt	(3,960)	(3,960)
Proceeds from sale of common stock, net	15,932	8,112
Repurchase of common stock	(76,214)	(432)
Excess tax benefits from stock-based compensation	3,499	1,417

Net cash provided by financing activities.	257,329	4,454
Cash and cash equivalents		
Increase	322,447	61,349
Beginning of period	352,178	127,138
End of period	$ 674,625	$ 188,487
Supplemental Disclosures		
Interest Paid	$ 5,676	$ 12,396
Income Taxes Paid	$ 61,149	$ 42,433

See Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

1. ***Basis of Presentation*** The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Global Industries, Ltd. and its subsidiaries (the Company, we, us, or our).

In the opinion of management of the Company, all adjustments (such adjustments consisting only of a normal and recurring nature) necessary for a fair presentation of the operating results for the interim periods presented have been included in the unaudited Condensed Consolidated Financial Statements. Operating results for the periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These financial statements should be read in conjunction with our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

2. ***Accounting Change Recognizing Uncertain Income Tax Positions*** In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for tax positions taken, or expected to be taken, on a tax return. The Company adopted the provisions of FIN 48 on January 1, 2007, which requires a cumulative effect of accounting change to the opening balance of retained earnings upon adoption. Accordingly, the Company recognized a $1.4 million cumulative adjustment for such tax positions as an increase to the opening balance of retained earnings on January 1, 2007, as reflected in the accompanying financial position for the period ended September 30, 2007. Please see Note 12 for additional information regarding the adoption of FIN 48.
3. ***Marketable Securities*** The Company has invested in auction rate securities which are debt and preferred stock instruments having longer-dated legal maturities (in most cases, many years), but with interest rates that are generally reset every 28-49 days under an auction system. Because the Company regularly liquidates its investments in these securities for reasons including, among others, changes in the availability of and the yield on alternative investments, the Company has classified these securities as available-for-sale. The coupon interest rate for these securities ranged from 3.90% to 4.75%, on a tax exempt basis, for the quarter ended September 30, 2007. Short-term marketable securities are carried at cost, which approximates fair value. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. Investments classified as available-for-sale are carried at an estimated fair value with any unrealized gain or loss recorded in accumulated other comprehensive income. There was no unrealized gain or loss associated with the auction rate securities that were outstanding at September 30, 2007.
4. ***Receivables*** Receivables are presented in the following balance sheet accounts: (1) accounts receivable, (2) accounts receivable long-term, (3) unbilled work on uncompleted contracts, and (4) contract costs incurred not yet recognized. *Accounts receivable* at September 30, 2007 included $0.1 million which was not immediately collectible due to contractually specified retainage requirements. This amount is expected to be collected within the next twelve months. *Accounts receivable* at December 31, 2006 included $4.4 million which was related to retainage.

The balance of *accounts receivable long-term* at September 30, 2007 and December 31, 2006 represents amounts related to retainage which were not expected to be collected within the next twelve months.

The balance of *unbilled work on uncompleted contracts* includes (a) amounts receivable from customers for work that has not yet been billed pursuant to contractually specified milestone billing requirements and (b) revenue accruals. The claims and unapproved change orders included in our receivables amounted to $36.2 million at September 30, 2007 and $21.4 million at December 31, 2006.

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Costs and Estimated Earnings on Uncompleted Contracts

	September 30 2007	December 31 2006
	(In thousands)	
Costs incurred on uncompleted contracts	$ 773,140	$ 663,381
Estimated earnings	294,149	197,693
Costs and estimated earnings on uncompleted contracts	1,067,289	861,074
Less: Billings to date	(1,050,434)	(796,353)
	16,855	64,721
Plus: Accrued revenue	16,112	21,702
Less: Advance billings on uncompleted contracts	(2,652)	
	$ 30,315	$ 86,423
Included in accompanying balance sheets under the following captions:		
Unbilled work on uncompleted contracts	$ 60,965	$ 90,980
Advance billings on uncompleted contracts	(30,650)	(4,557)
	$ 30,315	$ 86,423

5. ***Property and Equipment*** Property and equipment are stated at cost less accumulated depreciation. Expenditures for property and equipment and items that substantially increase the useful lives of existing assets are capitalized at cost and depreciated. Routine expenditures for repairs and maintenance are expensed as incurred. Except for major construction vessels that are depreciated on the units-of-production (UOP) method over estimated vessel operating days, depreciation is provided utilizing the straight-line method over the estimated useful lives of the assets. The UOP method is based on vessel utilization days and more closely correlates depreciation expense to vessel revenue. In addition, the UOP method provides for a minimum depreciation floor in periods with nominal vessel use. In general, if we applied only a straight-line depreciation method, less depreciation expense would be recorded in periods of high utilization and revenues, and more depreciation expense would be recorded in periods of low vessel utilization and revenues. Property and equipment at September 30, 2007 and December 31, 2006 is presented net of $306.5 million and $286.0 million of accumulated depreciation, respectively.
6. ***Long-Term Debt*** The components of long-term debt are as follows:

	September 30 2007	December 31 2006
	(In thousands)	
United States Government Guaranteed Ship Financing Bond (Title XI bonds) carry 7.71% interest rate and mature in February 2025	$ 69,300	$ 73,260
Revolving Credit Facility with a syndicate of commercial banks, interest payable at variable rates		
Senior Convertible Debentures carry 2.75% interest rate and mature August 2027	325,000	

Total long-term debt	394,300	73,260
Less: current maturities	3,960	3,960
Long-term debt less current maturities	$ 390,340	$ 69,300

Effective July 27, 2007, the Company issued $325.0 million of 2.75% Senior Convertible Debentures in a private placement due August 1, 2027, with interest payable semiannually. The debentures are our unsecured obligations ranking equally with our other unsecured senior indebtedness. The full amount of debentures were accounted for as a liability and the related debt issuance costs of approximately $6.7 million were deferred and

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will be amortized over the next seven years, which is the earliest call date under the indenture for the debentures.
The debentures are convertible into cash, and if applicable, into shares of the Company s common stock, or under certain circumstances and at our election, solely into the Company s common stock, based on a conversion rate of 28.1821 shares per $1,000 principal amount of debentures, which represents an initial conversion price of $35.48 per share. The debentures are subject to redemption for cash by us any time on or after August 1, 2014 at a price equal to 100% of the principal amount of the debentures being redeemed plus accrued and unpaid interest. The holders of the debentures may require us to repurchase their debentures for cash on August 1, 2017 and August 1, 2022 at a price equal to 100% of the principal amount of the debentures being redeemed plus accrued or unpaid interest, or upon the occurrence of certain types of fundamental changes.

The Company used $75.0 million of proceeds from the issuance of the debentures to repurchase 2.8 million shares of the Company s common stock. The net proceeds received from the issuance of the debentures after the repurchase of Company common stock were $243.3 million.

Concurrent with the issuance of the convertible debentures, the Company amended certain negative covenants in its Revolving Credit Facility to allow for the issuance of the debentures and to allow the use of $75.0 million of net proceeds from the debentures to repurchase shares of the Company s common stock. On October 18, 2007, the Revolving Credit Facility was further amended to increase the overall borrowing capacity, reduce the interest rate premiums (spreads) to be paid on our borrowings, reduce the scope of certain negative covenants and extend the term of the facility. The borrowing capacity was extended from $130.0 million to $150.0 million with an increase in the optional provision for expansion from $150.0 million to $250.0 million. The amended Revolving Credit Facility permits borrowings based on a floating spread over prime rate ranging from 0.00% to 0.75% or London Interbank Offered Rate (LIBOR) ranging from 0.75% to 1.75% based upon certain of our financial ratios and matures on October 18, 2012. The bank fees associated with these amendments were approximately $0.4 million.

7. ***Commitments and Contingencies***

Contingencies Pursuant to a tax audit of a Nigerian subsidiary of the Company for the years of 1998 through 2003, tax authorities in Nigeria have issued a payroll tax assessment against the Company in the amount of $24.4 million. The assessment alleges that certain persons were working on projects in Nigeria and were subject to payroll taxes which were not paid. However, due to the specific persons listed in the assessment and the periods of time which they are alleged to have worked in Nigeria, we believe that this claim is substantially without merit. We recorded a reserve of $0.1 million for this assessment in the second quarter of 2006. This reserve reflects management s best estimate for our Nigerian payroll tax liability associated with this assessment. In October 2006, we received a formal demand for payment from the Nigerian tax authorities. The Company appealed the assessment in court. In the third quarter of 2007, the Nigerian court held in the Company s favor.

On February 21, 2007, we received a $29.7 million tax assessment from Algeria for income tax, business tax and value added tax for 2005 and 2004. We are indemnified by our clients for the value added tax portion, or approximately $10.4 million, of the assessment. We accrued income taxes for the Algerian tax liability in conjunction with the project in 2005 and 2004. We believe the ultimate amount due will not be materially different from the amount accrued. We have engaged outside tax counsel to assist us in resolving the tax assessment, and they are presently in discussions with the Algerian tax authorities.

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In September 2007, the Company announced that it was conducting an internal investigation of its West Africa operations, focusing on the legality, under the U.S. Foreign Corrupt Practices Act (FCPA) and local laws, of one of its subsidiary s reimbursement of certain expenses incurred by a customs agent in connection with shipments of materials and the temporary importation of vessels into West African waters. The Company further announced that the Audit Committee of the Company s Board of Directors had engaged the law firm of Mayer, Brown, Rowe & Maw LLP, an international law firm with significant experience in investigating and advising on FCPA matters, to lead the investigation.

The Company has voluntarily contacted the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice to advise them that an independent investigation is under way and that it intends to cooperate fully with both agencies. The internal investigation is in an early stage, and no conclusion can be drawn at this time as to whether either agency will open an investigation to separately investigate this matter, or, if an investigation is opened, what potential remedies these agencies may seek. The Company cannot determine at this time the ultimate effect of implementing any necessary corrective measures for its operations in Nigeria.

The Company has concluded that it is premature for it to determine whether it needs to make any financial reserve for any potential liabilities that may result from these activities given the status of the internal investigation. Management and the Audit Committee will work with independent counsel and appropriate personnel within the Company to implement promptly such measures as are considered appropriate.

In addition to the previously mentioned tax and legal matters, we are a party to legal proceedings and potential claims arising in the ordinary course of business. We do not believe that these matters arising in the ordinary course of our business will have a material impact on our financial statements in future periods.

Commitments In the normal course of our business, we provide guarantees and bonds for performance, bids, and payments pursuant to agreements to perform construction services, or in connection with bidding to obtain such agreements. At September 30, 2007, the aggregate amount of guarantees (including letters of credit) was $94.6 million, which are due to expire by October 2009. The aggregate amount of the bonds, in particular surety bonds, was $71.3 million as of September 30, 2007. These bonds are due to expire by December 2008.

We estimate that the cost to complete capital expenditure projects in progress at September 30, 2007, including construction of the recently announced Global 1200 heavy-lift vessel, will be approximately $258.7 million.

8. ***Derivative Financial Instruments*** Due to the international nature of our business operations and the variable interest rate provisions of our Revolving Credit Facility, we are exposed to certain risks associated with changes in foreign currency exchange rates and, if applicable, interest rate fluctuation on outstanding borrowings. From time to time, we enter into derivative agreements (hedging instruments) to hedge our exposure to specific foreign currency (hedged items). We do not use derivative financial instruments for trading purposes.

We did not enter into any new derivative positions during the three and nine months ended September 30, 2007. As discussed in Note 13 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, we record in earnings the changes in fair market value and cash settlements with respect to our Euro forward exchange agreements as they were previously determined to be ineffective hedges, and we account for our Norwegian Kroner forward exchange agreements as cash flow hedges, as defined by Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities.* The Norwegian Kroner hedges were effective for the three and nine months ended September 30, 2007 and 2006. As of September 30, 2007, the Company had $6.4 million in unrealized gains, net of tax, in accumulated other comprehensive income related to forward exchange hedges. Included in this total is approximately $2.5 million of net unrealized gains which are expected to be realized in earnings during the twelve months following September 30, 2007.

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9. ***Comprehensive Income***

Other Comprehensive Income Comprehensive income included changes in the fair value of certain derivative financial instruments which qualify for hedge accounting treatment. The differences between net income and comprehensive income for each of the comparable periods presented are as follows.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
	(In thousands)			
Net Income	$ 31,475	$ 63,669	$ 127,060	$ 144,816
Unrealized net gain (loss) on derivative instruments	4,958	(4,849)	8,435	(1,984)
Less: deferred taxes	(1,735)	1,638	(2,953)	641
Comprehensive Income	$ 34,698	$ 60,458	$ 132,542	$ 143,473

Accumulated Other Comprehensive Income (Loss) - A roll-forward of the amounts included in accumulated other comprehensive income (loss), net of taxes, is shown below.

	Accumulated Translation Adjustment	**Foreign Exchange Agreements**	**Accumulated Other Comprehensive Income/(Loss)**
		(In thousands)	
Balance at December 31, 2006	$ (8,978)	$ 894	$ (8,084)
Change in value		5,550	5,550
Reclassifications to earnings		(68)	(68)
Balance at September 30, 2007	$ (8,978)	$ 6,376	$ (2,602)

The amount of accumulated translation adjustment included in accumulated other comprehensive income (loss) relates to subsidiaries whose functional currency was not the U.S. dollar. The amount of gain on forward exchange agreements included in accumulated other comprehensive income (loss) is associated with forward exchange agreements which hedge the Company s foreign currency commitments under long-term vessel charters. This gain (or potential loss) will be reclassified to results of operations as the associated hedged items are settled and will offset any variability in foreign exchange rates which occurs subsequent to the initiation of the hedges.

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10. ***Earnings Per Share*** The following table presents the reconciliation between basic shares and diluted shares.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
	(In thousands, except per share data)			
Net Income	$ 31,475	$ 63,669	$ 127,060	$ 144,816
Common shares dilution				
Weighted-average shares outstanding basic	115,715	115,988	116,503	115,418
Effect of dilutive securities				
Stock options	1,166	1,261	1,194	1,325
Performance shares and units	411	424	411	424
Weighted-average shares outstanding diluted	117,292	117,673	118,108	117,167