

WILLBROS GROUP INC
Form S-1/A
December 13, 2006
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As filed with the Securities and Exchange Commission on December 13, 2006.

Registration No. 333-135540

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

WILLBROS GROUP, INC.

(Exact name of registrant as specified in its charter)

Republic of Panama
(State or other jurisdiction of
incorporation or organization)

1623
(Primary Standard Industrial
Classification Code Number)

98-0160660
(I.R.S. Employer
Identification Number)

Plaza 2000 Building
50th Street, 8th Floor

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P.O. Box 0816-01098

Panama, Republic of Panama

Telephone No.: +50-7-213-0947

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Michael F. Curran

Chairman of the Board and Chief Executive Officer

Willbros Group, Inc.

c/o Willbros USA, Inc.

4400 Post Oak Parkway,

Suite 1000

Houston, Texas 77027

(713) 403-8000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

WITH COPIES TO:

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Approximate date of commencement of proposed sale of the securities to the public: From time to time, at the discretion of the selling stockholders, after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 12, 2006

6,468,620

SHARES

WILLBROS GROUP, INC.

COMMON STOCK

This prospectus relates to the offer and sale from time to time of up to an aggregate of 6,468,620 shares of our common stock for the account of the selling stockholders named in this prospectus. The selling stockholders, or their transferees, pledgees, donees or other successors in interest, may sell their shares of common stock by the methods described under Plan of Distribution.

The shares of common stock being registered for resale consist of shares of common stock issuable upon the conversion of convertible notes sold in a private placement completed on March 23, 2006, which private placement is more fully described under the heading Willbros Group, Inc. Convertible Notes.

We will not receive any of the proceeds from the sale by the selling stockholders of the shares of common stock.

Our common stock is listed on the New York Stock Exchange under the symbol WG. On December 11, 2006, the last reported sales price for our common stock was \$18.45.

There are significant risks associated with an investment in our securities. See Risk Factors beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, _____.

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You should rely only on the information contained in or specifically incorporated by reference into this prospectus. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus or incorporated by reference into this prospectus may only be accurate on the date of those documents.

Unless the context otherwise requires, all references in this prospectus to Willbros, the Company, we, us and our refer to Willbros Group, Inc., its consolidated subsidiaries and their predecessors.

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WILLBROS GROUP, INC.

Our Business

We are an independent international contractor serving the oil, gas and power industries and government entities worldwide. We currently operate our business in two segments: the United States and Canada (which we refer to as *United States & Canada*) and all other countries outside of the United States & Canada (which we refer to as *International*). We provide construction, engineering and specialty services to industry and governmental entities worldwide, specializing in pipelines and associated facilities for onshore, coastal and offshore locations. We are also involved in asset development, ownership and operations as an extension of our portfolio of industry services. We place particular emphasis on projects in countries where we believe our experience gives us a competitive advantage, including several developing countries.

Our construction services include, among others, the building, fabrication, installation, assembly, maintenance and replacement of:

major cross country pipelines;

offshore pipelines;

gathering systems;

flow stations;

pump stations;

meter stations;

gas compressor stations;

gas processing facilities;

oil and gas production facilities;

subsea facilities;

offshore jackets and decks;

modular processing facilities;

piers;

pressure vessels;

dock facilities; and

bridges.

Construction services are provided utilizing a large fleet of company-owned and leased equipment that includes marine vessels, barges, dredges, pipelaying equipment, heavy construction equipment, transportation equipment and camp equipment. Our equipment fleet is supported by an extensive inventory of spare parts and tools, which we strategically position and maintain throughout the world to maximize availability and minimize cost. We also own fabrication facilities in Canada and Nigeria. Through our construction resources, we also provide specialty services, including asset development and operations. Our asset development and operations (also referred to as facility operations) include assets developed under Build, Own and Operate contracts, such as the fueling facilities operated for the Defense Energy Support Center, an agency of the U.S. government.

Our engineering services include, among others:

feasibility studies;

conceptual engineering services;

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detailed design services;

route/site selection;

construction management;

turnkey engineer, procure, and construct, or EPC arrangements;

alliance arrangements;

material procurement;

overall project management;

permitting services;

commissioning/startup; and

bid support for other Willbros subsidiaries.

We provide our engineering services through engineering resources located in Salt Lake City (Murray), Utah; Tulsa, Oklahoma and Houston, Texas.

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

surveying;

right of way acquisition;

material receiving and control;

construction management;

facilities startup assistance; and

operation of facilities.

Finally, we provide specialty service capabilities, including, among others:

dredging;

pipe corrosion coating;

concrete weight coating;

pipe double jointing;

piling;

pressure vessels;

marine repair/heavy lift services;

transport of dry and liquid cargo;

rig moves;

maintenance and repair services;

operation and development of facilities; and

building, owning and operating military fueling facilities.

We trace our roots to the construction business of Williams Brothers Company, founded in 1908. Through successors to that business, we have completed many landmark projects around the world, including the Big Inch and Little Big Inch War Emergency Pipelines (1942-44), the Mid-America Pipeline (1960), the

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TransNiger Pipeline (1962-64), the Trans-Ecuadorian Pipeline (1970-72), the northernmost portion of the Trans-Alaska Pipeline System (1974-76), the All-American Pipeline System (1984-86), Colombia's Alto Magdalena Pipeline System (1989-90), a portion of the Pacific Gas Transmission System expansion (1992-93), and through a joint venture led by a subsidiary of ours, the Chad-Cameroon Pipeline (2000-2003).

Over the years, we have been employed by more than 400 clients to carry out work in 55 countries. Within the past ten years, we have worked in Africa, Asia, Australia, the Middle East, North America and South America. We have historically had a steady base of operations in the United States, Canada, Nigeria, Oman, and Venezuela, which has been complemented by major projects in Australia, Bolivia, Cameroon, Chad, Colombia, Ecuador, Egypt, Gabon, Indonesia, Ivory Coast, Kuwait, Mexico and Pakistan.

Our Executive Offices

We are incorporated in the Republic of Panama and maintain our headquarters at Plaza 2000 Building, 50th Street, 8th Floor, P.O. Box 0816-01098, Panama, Republic of Panama; our telephone number is +50-7-213-0947. Administrative services are provided to us by our subsidiary, Willbros USA, Inc., whose administrative headquarters are located at 4400 Post Oak Parkway, Suite 1000, Houston, Texas 77027, and whose telephone number is (713) 403-8000. Information contained on our website <http://www.willbros.com>, is not, and you must not consider such information to be, a part of this prospectus.

Convertible Notes

On December 22, 2005, we entered into a purchase agreement for a private placement of \$65.0 million aggregate principal amount of our 6.5% Senior Convertible Notes due 2012, which we refer to as the convertible notes. The purchase agreement provided that at any time during a period of 90 days following the initial December 23, 2005 closing of the sale of \$65.0 million in aggregate principal amount of convertible notes, the noteholders could purchase up to an additional \$19.5 million in aggregate principal amount of convertible notes. On January 19, 2006, February 2, 2006 and March 23, 2006, the noteholders exercised their respective options to purchase an additional \$19.5 million in aggregate principal amount of convertible notes. As a result, the aggregate principal amount of the convertible notes is \$84.5 million, which is the maximum aggregate principal amount of convertible notes that may be sold under the purchase agreement. The convertible notes are convertible into a number of shares of our common stock at a conversion rate of 56.9606 shares of common stock per \$1,000 principal amount of convertible notes, which is equivalent to an initial conversion price of approximately \$17.56 per share, subject to adjustment in certain circumstances.

We agreed, pursuant to a registration rights agreement entered into in connection with such transaction, to register for resale by the noteholders the shares of common stock issuable upon conversion of the convertible notes. This prospectus covers the resale by each of the noteholders of such shares.

Additional information about the convertible notes is available in our Current Reports on Form 8-K filed with the SEC on December 23, 2005, January 19, 2006, February 3, 2006 and March 29, 2006.

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RISK FACTORS

Before you invest in our common stock, you should be aware that there are various risks. You should carefully consider the risk factors set forth in this prospectus as well as other information we include or incorporate by reference in this prospectus, before you decide whether an investment in our securities is suitable for you. These are not the only risks and uncertainties we face. Additional risks and uncertainties that we are presently unaware of or currently consider immaterial may also adversely affect our business operations.

Governmental investigations into the activities of the Company, J. Kenneth Tillery, the former President of our principal international subsidiary, and other current and former employees of the Company could adversely affect us.

In late December 2004, we learned that tax authorities in Bolivia had charged our Bolivian subsidiary with failure to pay taxes owed, filing improper tax returns and the falsification of tax documents. As a result of the Company's investigation, we determined that J. Kenneth Tillery, then President of Willbros International, Inc. (WII) and the individual principally responsible at that time for the Company's international operations outside of the United States and Canada, was aware of the circumstances that led to the Bolivian charges. Mr. Tillery resigned from the Company on January 6, 2005. Based on our preliminary investigation, we determined that our Bolivian subsidiary had also failed to properly withhold taxes on payments made in Bolivia and had failed to file tax returns related to those withholding taxes. We reported this information to the Bolivian government. In March, 2005, we paid approximately \$3.3 million to resolve outstanding assessments with the Bolivian tax authorities.

On January 18, 2005, the Company's Audit Committee engaged independent outside legal counsel for the purpose of conducting an investigation into the circumstances surrounding the Bolivian tax assessment as well as other activities which were previously under the control of Mr. Tillery. The independent counsel retained forensic accountants to assist with the investigation.

The investigations conducted by the Audit Committee and senior management have revealed information indicating that Mr. Tillery, and others who directly or indirectly reported to him, engaged in activities that were and are specifically contrary to established Company policies and possibly the laws of several countries, including the United States. A summary description of the activities carried out by Mr. Tillery and others that may have damaged the Company or that may cause such damage in the future is provided in the risk factor below entitled *The actions of Mr. Tillery and others have harmed the Company and may harm the Company in the future.* Our investigations determined the following:

Under the direction of Mr. Tillery and others acting under his direction, the Company's Bolivian subsidiary filed incorrect tax returns, failed to file required tax returns and failed to pay taxes owed.

Mr. Tillery and other employees or consultants of WII or its subsidiaries may have made or caused others to make payments directly or indirectly to government officials in connection with the submission of incorrect tax information.

Mr. Tillery and other employees or consultants of WII or its subsidiaries may have made or caused others to make payments directly or indirectly to government officials and client representatives in connection with the award and retention of business in Nigeria, the reduction of Nigerian tax obligations, the facilitation of Nigerian customs clearances and the disposition of Nigerian legal proceedings.

Mr. Tillery and other employees or consultants of WII or its subsidiaries have made or caused others to make payments directly or indirectly to government officials in connection with attempts to obtain and/or retain business in Ecuador.

Mr. Tillery and other employees or consultants of WII or its subsidiaries usurped corporate opportunities and owned undisclosed interests in enterprises with which the Company had material relationships.

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Mr. Tillery and other employees or consultants of WII or its subsidiaries may have engaged in discussions or entered into arrangements with competitors of the Company regarding bidding strategies for projects outside the United States.

Mr. Tillery may have acquiesced to or approved a prior commitment by another to make an improper future payment in Mexico.

Mr. Tillery and other employees of WII or its subsidiaries may have received kickbacks, payments and/or other improper benefits from Company consultants, suppliers and/or competitors or may otherwise have benefited personally as a result of the activities described above.

Mr. Tillery and other employees or consultants of WII or its subsidiaries may have intentionally mischaracterized Company expenditures resulting in the Company's books not accurately reflecting the true nature of such expenditures.

Acts carried out by Mr. Tillery and others acting under his direction with respect to a bid for work in Sudan may constitute facilitation efforts prohibited by U.S. law, a violation of U.S. trade sanctions and the unauthorized export of technical information.

Some of the actions of Mr. Tillery and other employees or consultants of WII or its subsidiaries may have caused the Company to violate U.S. securities laws, including the Foreign Corrupt Practices Act (FCPA), and/or other U.S. and foreign laws.

Following Mr. Tillery's resignation, other employees of WII or its subsidiaries may have continued to carry out improper activities previously initiated by Mr. Tillery. Those employees may have made payments directly to certain government officials or to third party consultants with the understanding that such payments would be paid to government officials.

We have voluntarily reported the results of our investigations to both the United States Securities and Exchange Commission (SEC) and the United States Department of Justice (DOJ). We have also voluntarily reported the potentially improper facilitation and export activities to the United States Department of Treasury's Office of Foreign Assets Control (OFAC), and to the DOJ and to the SEC. OFAC has commenced an investigation of the reported facilitation and export activities. The SEC and the DOJ are each conducting their own investigations of other actions taken by the Company and its employees and representatives that may constitute violations of U.S. law. We are cooperating fully with all such investigations. If the Company or one of its subsidiaries is found to have violated the U.S. securities laws (including the FCPA), that entity could be subject to civil penalties of up to \$650,000 per violation, and criminal penalties of up to the greater of \$2 million per violation or twice the gross pecuniary gain resulting from the improper conduct and other sanctions. If the Company or one of its subsidiaries is found to have violated U.S. trade sanctions or U.S. export restrictions that entity could be subject to civil penalties of up to \$11,000 per violation and criminal penalties of up to \$250,000 per violation. In each case there could be multiple violations. The Company and its subsidiaries could also be barred from participating in future U.S. government contracts and from participating in certain U.S. export transactions. It is also possible that governmental agencies could require that we enter into a criminal plea agreement or a deferred prosecution agreement which could include fines, penalties, monitoring arrangements and other sanctions. There may be other penalties that could apply under other U.S. laws or the laws of foreign jurisdictions. The Company cannot predict the outcome of the investigations being conducted by the SEC, the DOJ and OFAC, including the Company's exposure to civil or criminal fines or penalties, or other regulatory action which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has terminated employment relationships and commercial and/or consulting arrangements with multiple entities and individuals by whom, through whom and to whom potentially improper payments may have been made in Bolivia, Nigeria and Ecuador. In at least two instances, we have received claims that such terminations are unjustified and may constitute a breach of contract. There can be no assurance that the severance of long term relationships with influential consultants and other individuals will not adversely impact the

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Company's ability to retain business it currently has, its ability to collect receivables currently outstanding or its ability to collect receivables from new business, particularly in Nigeria.

The actions of Mr. Tillery and others have harmed the Company and may harm the Company in the future.

Mr. Tillery became the Managing Director of the Company's affiliate in Nigeria in 1995. Evidence that arose from our investigations indicates that Mr. Tillery thereafter acquired interests in, or began exercising some control over, several entities that did business with the Company and did not disclose such interests and relationships to the Company. Mr. Tillery authorized and directed numerous transactions between Company subsidiaries and entities in which he owned an interest or over which he exercised control. That practice continued until his resignation from the Company. Mr. Tillery obtained significant personal benefit from such dealings and such benefit should have been made available to the Company. In some cases, the Company may still be acquiring goods or services from entities in which Mr. Tillery has an interest because suitable alternatives have not yet been found or legal constraints prevent the immediate termination of those relationships. However, the Company has discontinued all payments to all such entities that it believes might constitute a violation of law. During the course of his employment with various subsidiaries of the Company, Mr. Tillery submitted numerous certifications disclaiming any related party interests or transactions with the Company or its subsidiaries. His failure to disclose his interests was a violation of the Company's written policies and may have caused the Company to violate rules or laws related to the public disclosure of such information.

Although no Company official is authorized to do so, Mr. Tillery used the apparent authority of his positions with Company subsidiaries and affiliates to personally make or cause to be made numerous unauthorized payments from the Company's bank accounts and cash reserves. Some such payments were significant and were used, for among other purposes:

to influence various officials and judicial authorities for the purpose of reducing tax obligations;

to dispose of lawsuits and/or influence a variety of legal matters; and

to facilitate actions by customs officials in connection with the importation and exportation of materials and equipment.

Mr. Tillery and other employees of WII or its subsidiaries also caused substantial payments to be made from Company funds for the nominal purpose of obtaining consulting or advisory services when the actual purpose of at least a portion of the amounts paid was to fund payments to government or client officials for the purpose of obtaining or retaining Company business. Some of these payments appear to have benefited Mr. Tillery's own personal interests as well as those of others who cooperated with him. There is a significant probability that such activities constituted violations of U.S. and other laws. See the risk factor above entitled *Governmental investigations into the activities of the Company, J. Kenneth Tillery, the former President of our principal international subsidiary, and other current and former employees of the Company could adversely affect us.*

Our reputation and our ability to do business may be impaired by the corrupt behavior of Mr. Tillery and other employees of WII or its subsidiaries.

We are committed to conducting business worldwide in a legal and ethical manner. Many of our clients make compliance with applicable laws and ethical conduct a condition to their business relationships. The actions of Mr. Tillery and other employees of WII or its subsidiaries may cause us to be disqualified from some business opportunities with clients and others who require their business partners to maintain high ethical standards. In addition, certain of the actions already taken by Mr. Tillery and others may continue to impose serious obstacles to implementation of the enhanced compliance controls procedures we are striving to implement, particularly in Nigeria. Some individuals who received the improper payments may threaten the personal safety of our employees and may seek to bar us from continuing to win or carry out business with entities that are subject to their influence. In addition, those individuals may seek to cause such entities to stop or delay payments that are due us.

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Special risks associated with doing business in highly corrupt environments may adversely affect our business.

Although we have elected to sell our operations in Nigeria, our international business operations may continue to include projects in countries where corruption is prevalent. Since the anti-bribery restrictions of the FCPA make it illegal for us to give anything of value to foreign officials in order to obtain or retain any business or other advantage, we may be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence.

If the tentative settlement of a class action lawsuit against us is not completed, we may incur liability in excess of the limits of our insurance coverage.

On May 18, 2005 a securities class-action lawsuit, captioned *Legion Partners, LLP v. Willbros Group, Inc. et al.*, was filed in the United States District Court for the Southern District of Texas against us and certain of our present and former officers and directors. Thereafter, three nearly identical lawsuits were filed. Plaintiffs purported to represent a class composed of all persons who purchased or otherwise acquired our common stock and/or other securities between May 6, 2002 and May 16, 2005, inclusive. These complaints generally alleged violations by the defendants of Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 under the Exchange Act and Section 20(a) of the Exchange Act and alleged, among other things, that defendants made false or misleading statements of material fact about our financial statements. The plaintiffs sought unspecified monetary damages and other relief. On October 17, 2005, the Court ordered these actions consolidated and appointed ADAR Investments, LLC as Lead Plaintiff and Bernstein, Liebhard & Lifshitz of New York as Lead Plaintiff's counsel.

In August 2006, we reached an agreement in principle to settle this consolidated securities class action lawsuit. Under the terms of the agreement in principle, we and the plaintiffs will negotiate and seek court approval of the definitive settlement. The settlement will be funded by our insurance carrier, and will include the dismissal of all claims without any liability or wrongdoing attributed to us or any other defendant.

We can provide no assurance that we will be successful in negotiating a definitive settlement or that the Court will approve any such definitive settlement. If we are unable to obtain a definitive settlement or if any such settlement does not receive court approval, we may incur liability which exceeds the limits of our insurance coverage, and any such excess liability could have a material adverse effect on our financial condition and results of operations.

Our management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2004 and December 31, 2005 because of the existence of material weaknesses in our internal control over financial reporting. The failure to remediate these material weaknesses, or any control deficiencies that we may discover in the future, could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis. As a result, our business, operating results and liquidity could be harmed.

As disclosed in our Annual Reports on Form 10-K for 2004 and 2005 and in our Quarterly Reports on Form 10-Q for each of the first three quarters of 2005, management's assessment of our internal controls over financial reporting identified several material weaknesses. These material weaknesses led to the restatement of our previously issued consolidated financial statements for fiscal years 2002 and 2003 and the first three quarters of 2004. Although we made progress in executing our remediation plans during 2005, including the remediation of two material weaknesses, as of December 31, 2005, management concluded that we did not maintain effective internal control over financial reporting due to the following remaining material weaknesses in internal controls:

Company-Level Controls: As we finalized the preparation of the 2005 financial statements, we determined that a material weakness in our internal control over financial reporting exists related to our financial statement close process. This material weakness resulted in delays in our ability to timely close our books and records during 2005. Such delays in closing the books and records are at least in part a

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contributing factor to the delays we experienced in filing our quarterly and annual financial statements with the SEC. This material weakness resulted primarily from insufficient staffing of qualified accounting personnel.

Construction Contract Management: A material weakness exists related to controls over the project reporting used in the accounting process. On certain of our Nigerian projects, cost estimates were not updated to reflect current information, and insufficient measures were taken to independently verify uniform and reliable cost estimates. This material weakness can affect project related accounts, and it specifically resulted in adjustments to revenue and cost of sales on certain contracts during the preparation of our financial statements.

We are actively working to strengthen our accounting and finance functions to correct the identified material weaknesses in our internal controls. In 2006, our efforts have included:

hiring additional senior accounting personnel at the corporate administrative offices;

developing documentation and consistent execution of controls over our financial statement close process;

initiating efforts to develop more standardized and timely project management reporting and management review processes through documentation;

expanding operations and accounting supervisory controls over consistency of the project reporting process and documentation for Nigeria contracts through the addition of supervisory personnel;

recruiting candidates in order to expeditiously fill vacancies in our accounting, finance and project management functions;

continuing to increase our supervision of accounting personnel;

initiating a process to transfer a number of the significant accounting controls from Port Harcourt, Nigeria to Lagos and other locations outside the Port Harcourt area. This is expected to be completed during the quarter ended December 31, 2006; and

continuing our review and monitoring of the accounting department structure and organization, both in terms of size and expertise. However, if we are unable to remediate the remaining material weaknesses, and any other control deficiencies identified in the future, and otherwise continue to improve our internal controls and disclosure controls, our ability to report our financial results on a timely and accurate basis could be adversely affected, which could result in a loss of investor confidence in our financial reports or have a material adverse affect on our ability to operate our business or access sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls or fraud, even effective internal control over financial reporting may not prevent or detect all misstatements.

Our business is highly dependent upon the level of capital expenditures by oil, gas and power companies on infrastructure.

Our revenue and cash flow are primarily dependent upon major engineering and construction projects. The availability of these types of projects is dependent upon the condition of the oil, gas and power industries, and, specifically, the level of capital expenditures of oil, gas and power companies on infrastructure. Our failure to obtain major projects, the delay in awards of major projects, the cancellation of major projects or delays in completion of contracts are factors that could result in the under-utilization of our resources, which would have an adverse impact on our revenue and cash flow. There are numerous factors beyond our control that influence the level of capital expenditures of oil, gas and power companies, including:

current and projected oil, gas and power prices;

the demand for electricity;

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the abilities of oil, gas and power companies to generate, access and deploy capital;

exploration, production and transportation costs;

the discovery rate of new oil and gas reserves;

the sale and expiration dates of oil and gas leases and concessions;

regulatory restraints on the rates that power companies may charge their customers;

local and international political and economic conditions;

the ability or willingness of host country government entities to fund their budgetary commitments; and

technological advances.

If we are not able to renegotiate our surety bond lines, our ability to operate may be significantly restricted.

Our new bonding facility to provide surety bonds on a case-by-case basis for projects in North America requires that we post backstop letters of credit for a percentage of the bond which is acceptable to insurer. We are currently negotiating with our bonding company to eliminate the requirement to provide backstop letters of credit, but we can provide no assurance that we will be successful in removing this requirement. If we are unable to obtain surety bonds, or if the cost of obtaining surety bonds is prohibitive, our ability to bid some projects may be adversely affected, in the event other forms of performance guarantees such as letters of credit or parent guarantees are deemed insufficient or unacceptable. In addition, the requirement that we post backstop letters of credit until such time as the bonded projects are substantially completed reduces the amount of funds available to us under our credit facility for other corporate purposes.

Our significant international operations are subject to political and economic risks of developing countries.

We have substantial operations and/or assets in Africa (Nigeria and Offshore West Africa) and the Middle East (Oman). Approximately 58 percent of our contract revenue for 2005 was derived from activities outside of North America, and approximately 57 percent of our long-lived assets as of December 31, 2005 were located outside of North America. Although we plan to sell our operations in Nigeria and recently completed the sale of our operations in Venezuela, we anticipate that a significant portion of our contract revenues will be derived from, and a significant portion of our long-lived assets will continue to be located in, developing countries.

Conducting operations in developing countries presents significant commercial challenges for our business. A disruption of activities, or loss of use of the equipment or installations, at any location in which we have significant assets or operations could have a material adverse effect on our financial condition and results of operations. In particular, Nigeria and Africa may continue to represent a significant percentage of our assets, backlog and revenue. These areas have experienced periods of extreme political instability in recent years. Accordingly, we are subject to risks which ordinarily would not be expected to exist to the same extent in the United States, Canada, Japan or Western Europe. Some of these risks include:

civil uprisings, riots and war, which can make it impractical to continue operations, adversely affect both budgets and schedules and expose us to losses;

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repatriating foreign currency received in excess of local currency requirements and converting it into dollars or other fungible currency;

exchange rate fluctuations, which can reduce the purchasing power of local currencies and cause our costs to exceed our budget, reducing our operating margin in the affected country;

expropriation of assets, by either a recognized or unrecognized foreign government, which can disrupt our business activities and create delays and corresponding losses;

availability of suitable personnel and equipment, which can be affected by government policy, or changes in policy, which limit the importation of skilled craftsmen or specialized equipment in areas where local resources are insufficient;

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government instability, which can cause investment in capital projects by our potential customers to be withdrawn or delayed, reducing or eliminating the viability of some markets for our services;

decrees, laws, regulations, interpretations and court decisions under legal systems, which are not always fully developed and which may be retroactively applied and cause us to incur unanticipated and/or unrecoverable costs as well as delays which may result in real or opportunity costs; and

terrorist attacks such as those which occurred on September 11, 2001 in the United States, which could impact insurance rates, insurance coverages and the level of economic activity, and produce instability in financial markets.

Our operations in developing countries may be adversely affected in the event any governmental agencies in these countries interpret laws, regulations or court decisions in a manner which might be considered inconsistent or inequitable in the United States, Canada, Japan or Western Europe. We may be subject to unanticipated taxes, including income taxes, excise duties, import taxes, export taxes, sales taxes or other governmental assessments which could have a material adverse effect on our results of operations for any quarter or year.

These risks may result in a material adverse effect on our results of operations.

We may be adversely affected by a concentration of business in a particular country. Despite our decision to discontinue operations in Nigeria, we may continue to incur significant losses resulting from our current operations in that country.

Due to a limited number of major projects worldwide, we currently have, and expect that we will continue to have, a substantial portion of our resources dedicated to projects located in a few countries. Therefore, our results of operations are susceptible to adverse events beyond our control that may occur in a particular country in which our business may be concentrated at that time. Economic downturns in such countries could also have an adverse impact our operations. At December 31, 2005, our property, plant, equipment and spare parts were located in Nigeria, the United States, Canada, Offshore West Africa, South America and the Middle East and 69 percent of our backlog was located in Nigeria and Offshore West Africa. Our operations and assets are subject to various risks inherent in conducting business in these countries and regions.

For example, in Nigeria, a spate of attacks on oil installations and the kidnapping of oil workers in the Niger Delta has escalated with the emergence of a group calling itself the Movement for the Emancipation of the Niger Delta, or MEND. The crux of the Niger Delta conflict is the escalation of a longstanding troubled relationship between the Federal Government of Nigeria and communities in the oil producing areas of the Niger Delta region, with the latter asserting that historically there has been inequitable sharing of Niger Delta oil revenue.

In Nigeria we continue to see the spread and escalation of hostilities against oil and gas installations and the work forces charged with construction, maintenance and operation of those installations. The attacks by militants have directly and indirectly affected us on a continuous basis since the hostage taking incident of February 18, 2006. However, since mid-June, the situation in Nigeria has worsened, with attacks increasing throughout the country. Additional production operations in the Delta area have been and remain, shut in. These disruptions have had the combined effect of supporting higher oil prices and either frustrating projects or creating a force majeure event for our ongoing projects in Nigeria. In the current work environment, with the Nigeria government and local operating companies unable to provide the security necessary for us to conduct project operations, our project activities are frustrated and we cannot expose our personnel on an ongoing basis to the very real and escalating threat posed by these militant and hostile community disturbances. Further, there exists the ongoing possibility that labor unrest could escalate into violence at the Choba facility due to a continuing labor dispute over a new May 2006 labor agreement.

In late September 2006, violence in the Port Harcourt area escalated to the point where we elected to transfer employees out of this area to ensure their continued safety. We have subsequently reduced our Choba facility staff to a minimum number required to support a caretaker status. Critical ongoing support functions have been shifted to Lagos and other locations outside the Port Harcourt area.

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We reported a loss from discontinued operations of \$17.1 million, or \$0.80 per share, during the three-month period ended September 30, 2006, as compared to a \$8,603 loss, or \$0.41 per share for the same period in 2005. Net loss from discontinued operations for the nine-month periods ended September 30, 2006 and 2005 were \$46.2 million, or \$2.15 per share, and \$13.5 million, or \$0.64 per share, respectively. The loss from discontinued operations for the three-month and nine-month periods ended September 30, 2006 is almost entirely attributable to our Nigeria operations. The operating results in Nigeria for the third quarter of 2006 were negatively impacted by schedule delays; increasing costs related to labor, equipment, materials, and security; disputes with clients related to change orders, and the implementation of our Nigeria exit strategy.

We continue to work with our clients in achieving settlements on unapproved change orders and claims related to this year's events in Nigeria. In addition to contractually pursuing recovery of substantial costs associated with force majeure and other work interruption events, we have incurred significant costs under fixed-sum contracts that are not billable because we are unable to continue work and achieve the billing milestones. There can be no certainty at this time that we will be able to satisfactorily resolve the open change orders and claims with our clients, although several clients have made a substantial effort to work with us. We are also in the process of eliminating all Nigeria related costs, except for those that are essential to support the sale and the operations in the Lagos area and adjacent countries.

If conditions in Nigeria remain the same or continue to deteriorate and we are unable to resolve various contractual claims with our clients, our cash flow and financial results may continue to be adversely affected. Moreover, expenses involved in discontinuing our operations in Nigeria may exceed our estimates. In particular, we may encounter difficulties in connection with the sale and disposition of our operations and assets there generally, including, without limitation, collecting receivables, exporting select items of equipment and materials, and restructuring and/or severing long-term relationships there with partners, labor organizations, and/or other entities and individuals formerly associated with our business there over the years.

Our business is dependent on a limited number of key clients.

We operate primarily in the oil, gas and power industries, providing construction, engineering and facilities development and operations services to a limited number of clients. Much of our success depends on developing and maintaining relationships with our major clients and obtaining a share of contracts from these clients. The loss of any of our major clients could have a material adverse effect on our operations. Our 10 largest clients were responsible for 73 percent of our revenue in 2005 (64 percent in 2004 and 75 percent in 2003). Operating units of Royal Dutch Shell Group and Exxon Mobil accounted for 32 percent and 11 percent, respectively, of our total revenue in 2005.

Our dependence upon fixed-price contracts could adversely affect our operating results.

A substantial portion of our projects are currently performed on a fixed-price basis. Under a fixed-price contract, we agree on the price that we will receive for the entire project, based upon a defined scope, which includes specific assumptions and project criteria. If our estimates of our own costs to complete the project are below the actual costs that we may incur, our margins will decrease, and we may incur a loss. The revenue, cost and gross profit realized on a fixed-price contract will often vary from the estimated amounts because of unforeseen conditions or changes in job conditions and variations in labor and equipment productivity over the term of the contract. If we are unsuccessful in mitigating these risks, we may realize gross profits that are different from those originally estimated and incur reduced profitability or losses on projects. Depending on the size of a project, these variations from estimated contract performance could have a significant effect on our operating results for any quarter or year. In general, turnkey contracts to be performed on a fixed-price basis involve an increased risk of significant variations. This is a result of the long-term nature of these contracts and the inherent difficulties in estimating costs and of the interrelationship of the integrated services to be provided under these contracts whereby unanticipated costs or delays in performing part of the contract can have compounding effects by increasing costs of performing other parts of the contract.

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Percentage-of-completion method of accounting for contract revenue may result in material adjustments that would adversely affect our operating results.

We recognize contract revenue using the percentage-of-completion method on long-term fixed price contracts. Under this method, estimated contract revenue is accrued based generally on the percentage that costs to date bear to total estimated costs, taking into consideration physical completion. Estimated contract losses are recognized in full when determined. Accordingly, contract revenue and total cost estimates are reviewed and revised periodically as the work progresses and as change orders are approved, and adjustments based upon the percentage-of-completion are reflected in contract revenue in the period when these estimates are revised. These estimates are based on management's reasonable assumptions and our historical experience, and are only estimates. Variation of actual results from these assumptions or our historical experience could be material. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract revenue, we would recognize a credit or a charge against current earnings, which could be material.

Terrorist attacks and war or risk of war may adversely affect our results of operations, our ability to raise capital or secure insurance or our future growth.

The continued threat of terrorism and the impact of military and other action, including U.S. military operations in Iraq, will likely lead to continued volatility in prices for crude oil and natural gas and could affect the markets for our operations. In addition, future acts of terrorism could be directed against companies operating both outside and inside the United States. Further, the U.S. government has issued public warnings that indicate that pipelines and other energy assets might be specific targets of terrorist organizations. These developments have subjected our operations to increased risks and, depending on their ultimate magnitude, could have a material adverse effect on our business.

Our operations are subject to a number of operational risks.

Our business operations include pipeline construction, dredging, fabrication, pipeline rehabilitation services, marine support services and the operation of vessels and heavy equipment. These operations involve a high degree of operational risk. Natural disasters, adverse weather conditions, collisions and operator or navigational error could cause personal injury or loss of life, severe damage to and destruction of property, equipment and the environment and suspension of operations. In locations where we perform work with equipment that is owned by others, our continued use of the equipment can be subject to unexpected or arbitrary interruption or termination. The occurrence of any of these events could result in work stoppage, loss of revenue, casualty loss, increased costs and significant liability to third parties.

The insurance protection we maintain may not be sufficient or effective under all circumstances or against all hazards to which we may be subject. An enforceable claim for which we are not fully insured could have a material adverse effect on our financial condition and results of operations. Moreover, we may not be able to maintain adequate insurance in the future at rates that we consider reasonable.

We may become liable for the obligations of our joint ventures and our subcontractors.

Some of our projects are performed through joint ventures with other parties. In addition to the usual liability of contractors for the completion of contracts and the warranty of our work, where work is performed through a joint venture, we also have potential liability for the work performed by our joint ventures. In these projects, even if we satisfactorily complete our project responsibilities within budget, we may incur additional unforeseen costs due to the failure of our joint ventures to perform or complete work in accordance with contract specifications.

We act as prime contractor on a majority of the construction projects we undertake. In our capacity as prime contractor and when acting as a subcontractor, we perform most of the work on our projects with our own resources and typically subcontract only such specialized activities as hazardous waste removal, nondestructive inspection, tank erection, catering and security. In the construction industry, the prime contractor is normally responsible for the performance of the entire contract, including subcontract work. Thus, when acting as a prime

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contractor, we are subject to the risk associated with the failure of one or more subcontractors to perform as anticipated.

Governmental regulations could adversely affect our business.

Many aspects of our operations are subject to governmental regulations in the countries in which we operate, including those relating to currency conversion and repatriation, taxation of our earnings and earnings of our personnel, the increasing requirement in some countries to make greater use of local employees and suppliers, including, in some jurisdictions, mandates that provide for greater local participation in the ownership and control of certain local business assets. For example, in Nigeria, the Ministry of Transport is charged with enforcement of the Cabotage Act, a relatively new piece of legislation, still without implementing regulations, that requires local ownership and operation of certain marine vessels operating in Nigerian waters, subject to phased-in application procedures and discretionary waivers under certain circumstances. In addition, we depend on the demand for our services from the oil, gas and power industries, and, therefore, our business is affected by changing taxes, price controls and laws and regulations relating to the oil, gas and power industries generally. The adoption of laws and regulations by the countries or the states in which we operate that are intended to curtail exploration and development drilling for oil and gas or the development of power generation facilities for economic and other policy reasons, could adversely affect our operations by limiting demand for our services.

Our operations are also subject to the risk of changes in laws and policies which may impose restrictions on our business, including trade restrictions, which could have a material adverse effect on our operations. Other types of governmental regulation which could, if enacted or implemented, adversely affect our operations include:

expropriation or nationalization decrees;

confiscatory tax systems;

primary or secondary boycotts directed at specific countries or companies;

embargoes;

extensive import restrictions or other trade barriers;