

WILLBROS GROUP INC

Form 424B3

November 01, 2007

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Filed pursuant to Rule 424(b)(3)
Registration No. 333-135540

Prospectus Supplement No. 10
(To Prospectus dated May 4, 2007)

6,468,620
SHARES
WILLBROS GROUP, INC.
COMMON STOCK

This prospectus supplement No. 10 supplements and amends the prospectus dated May 4, 2007, as supplemented and amended by that certain prospectus supplement No. 1 dated May 10, 2007, that certain prospectus supplement No. 2 dated May 17, 2007, that certain prospectus supplement No. 3 dated May 24, 2007, that certain prospectus supplement No. 4 dated May 30, 2007, that certain prospectus supplement No. 5 dated June 8, 2007, that certain prospectus supplement No. 6 dated August 7, 2007, that certain prospectus supplement No. 7 dated August 9, 2007, that certain prospectus supplement No. 8 dated August 21, 2007 and that certain prospectus supplement No. 9 dated September 14, 2007 (the Prospectus). This prospectus supplement should be read in conjunction with the Prospectus, which is to be delivered with this prospectus supplement.

This prospectus supplement includes the attached Quarterly Report on Form 10-Q (the Form 10-Q) of Willbros Group, Inc. (the Company), for the three months ended September 30, 2007, filed by the Company with the Securities and Exchange Commission on November 1, 2007. The exhibits to the Form 10-Q are not included with this prospectus supplement and are not incorporated by reference herein.

There are significant risks associated with an investment in our securities. These risks are described under the caption Risk Factors beginning on page 6 of the Prospectus, as the same may be updated in prospectus supplements.

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

The date of this prospectus supplement is November 1, 2007.

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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, 2007

OR

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

For the transition period from _____ to _____

Commission file number 1-11953

Willbros Group, Inc.

(Exact name of registrant as specified in its charter)

Republic of Panama

(Jurisdiction of incorporation)

98-0160660

(I.R.S. Employer Identification Number)

Plaza 2000 Building

50th Street, 8th Floor

P.O. Box 0816-01098

Panama, Republic of Panama

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

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

NOT APPLICABLE

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

The number of shares of the registrant's Common Stock, \$.05 par value, outstanding as of October 15, 2007 was 29,131,831.

WILLBROS GROUP, INC.
FORM 10-Q
FOR QUARTER ENDED SEPTEMBER 30, 2007

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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, 2007 | December 31, 2006 |
|--|-----------------------------------|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 58,709 | \$ 37,643 |
| Accounts receivable, net of allowance for bad debts of \$789 and \$598 | 181,733 | 137,104 |
| Contract cost and recognized income not yet billed | 29,029 | 11,027 |
| Prepaid expenses | 16,322 | 17,299 |
| Parts and supplies inventories | 2,773 | 2,069 |
| Assets of discontinued operations | 4,658 | 294,192 |
| Total current assets | 293,224 | 499,334 |
| Deferred tax assets | 7,978 | 6,792 |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$89,028 and \$78,941 | 120,393 | 65,347 |
| Goodwill | 13,184 | 6,683 |
| Other assets | 9,075 | 11,826 |
| Total assets | \$ 443,854 | \$ 589,982 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Notes payable and current portion of long-term debt | \$ 11,237 | \$ 5,562 |
| Current portion of government obligations | 8,075 | |
| Accounts payable and accrued liabilities | 134,425 | 122,352 |
| Contract billings in excess of cost and recognized income | 7,891 | 14,947 |
| Accrued income taxes | 4,671 | 3,556 |
| Liabilities of discontinued operations | 4,639 | 182,092 |
| Total current liabilities | 170,938 | 328,509 |
| 2.75% convertible senior notes | 70,000 | 70,000 |
| 6.5% senior convertible notes | 32,050 | 84,500 |
| Long-term debt | 26,085 | 7,077 |
| Long-term portion of government obligations | 24,225 | |
| Long-term liability for unrecognized tax benefits | 6,492 | |
| Deferred tax liabilities | 7,369 | 1,728 |
| Other liabilities | 237 | 237 |

| | | |
|---|------------|------------|
| Total liabilities | 337,396 | 492,051 |
| Contingencies and commitments (Note 13) | | |
| Stockholders' equity: | | |
| Class A preferred stock, par value \$.01 per share, 1,000,000 shares authorized, none issued | | |
| Common stock, par value \$.05 per share, 70,000,000 shares authorized; 29,337,338 shares issued (25,848,596 at December 31, 2006) | 1,467 | 1,292 |
| Capital in excess of par value | 273,840 | 217,036 |
| Accumulated deficit | (181,912) | (120,603) |
| Treasury stock at cost, 205,507 shares (167,844 at December 31, 2006) | (2,667) | (2,154) |
| Accumulated other comprehensive income | 15,730 | 2,360 |
| Total stockholders' equity | 106,458 | 97,931 |
| Total liabilities and stockholders' equity | \$ 443,854 | \$ 589,982 |

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(Unaudited)

| | Three Months | | Nine Months | |
|---|----------------------------|-------------|----------------------------|-------------|
| | Ended September 30, | | Ended September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Contract revenue | \$ 246,716 | \$ 125,466 | \$ 610,168 | \$ 352,181 |
| Operating expenses: | | | | |
| Contract | 207,089 | 113,418 | 538,790 | 320,628 |
| Depreciation and amortization | 5,457 | 3,265 | 13,223 | 9,180 |
| General and administrative | 17,448 | 11,092 | 42,295 | 33,133 |
| Government fines | (2,000) | | 22,000 | |
| | 227,994 | 127,775 | 616,308 | 362,941 |
| Operating income (loss) | 18,722 | (2,309) | (6,140) | (10,760) |
| Other income (expense): | | | | |
| Interest income | 1,029 | 337 | 4,433 | 1,350 |
| Interest expense | (2,071) | (3,046) | (6,552) | (7,482) |
| Other net | (1,327) | 432 | (2,019) | 105 |
| Loss on early extinguishment of debt | | | (15,375) | |
| | (2,369) | (2,277) | (19,513) | (6,027) |
| Income (loss) from continuing operations before income taxes | 16,353 | (4,586) | (25,653) | (16,787) |
| Provision for income taxes | 6,081 | 379 | 7,793 | 1,811 |
| Net income (loss) from continuing operations | 10,272 | (4,965) | (33,446) | (18,598) |
| Loss from discontinued operations net of provision for income taxes | (9,126) | (17,136) | (21,494) | (46,249) |
| Net income (loss) | \$ 1,146 | \$ (22,101) | \$ (54,940) | \$ (64,847) |
| Basic income (loss) per common share: | | | | |
| Income (loss) from continuing operations | \$ 0.36 | \$ (0.23) | \$ (1.22) | \$ (0.87) |
| Loss from discontinued operations | (0.32) | (0.80) | (0.78) | (2.15) |
| Net income (loss) | \$ 0.04 | \$ (1.03) | \$ (2.00) | \$ (3.02) |

Diluted income (loss) per common share:

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| | | | | | | | | |
|--|----|---------------------|----|--------|----|--------|----|--------|
| Income (loss) from continuing operations | \$ | 0.32 ⁽¹⁾ | \$ | (0.23) | \$ | (1.22) | \$ | (0.87) |
| Loss from discontinued operations | | (0.26) | | (0.80) | | (0.78) | | (2.15) |
| Net income (loss) | \$ | 0.06 | \$ | (1.03) | \$ | (2.00) | \$ | (3.02) |

Weighted average number of common shares outstanding:

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 28,804,907 | 21,557,695 | 27,421,927 | 21,480,730 |
| Diluted | 34,844,482 | 21,557,695 | 27,421,927 | 21,480,730 |

(1) See Note 8
Income (Loss)
Per Share for a
reconciliation of
the numerator
for the diluted
income per
share
calculation.

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share and per share amounts)
(Unaudited)

| | Common Stock | Capital in | Accumulated | Treasury | Accumulated | Total | |
|--|--------------|------------|---------------------|--------------|-------------|----------------------------|---------------------|
| | Shares | Par Value | Excess of Par Value | Deficit | Stock | Other Comprehensive Income | Stockholders Equity |
| Balance, January 1, 2007 | 25,848,596 | \$ 1,292 | \$ 217,036 | \$ (120,603) | \$ (2,154) | \$ 2,360 | \$ 97,931 |
| Cumulative effect of adoption of FIN 48 | | | | (6,369) | | | (6,369) |
| Balance January 1, 2007, as adjusted | 25,848,596 | 1,292 | 217,036 | (126,972) | (2,154) | 2,360 | 91,562 |
| Comprehensive loss: | | | | | | | |
| Net loss | | | | (54,940) | | | (54,940) |
| Realization of loss on sale of Nigeria assets and operations | | | | | | 3,773 ⁽¹⁾ | 3,773 |
| Foreign currency translation adjustment | | | | | | 9,597 | 9,597 |
| Total comprehensive loss | | | | | | | (41,570) |
| Deferred compensation | | | 3,010 | | | | 3,010 |
| Restricted stock grants | 384,077 | 19 | (19) | | | | |
| Vesting of restricted stock rights | 9,583 | 1 | (1) | | | | |
| Additions to treasury stock, vesting restricted stock | | | | | (513) | | (513) |
| Exercise of stock options | 107,500 | 6 | 1,544 | | | | 1,550 |
| Stock issued on conversion of 6.5% senior convertible notes | 2,987,582 | 149 | 52,301 | | | | 52,450 |

| | | | | | | | | |
|---------------------------------------|------------|----------|------------|---------------------|------------|-----------|--|------------|
| Additional costs of private placement | | | | (31) ⁽²⁾ | | | | (31) |
| Balance, September 30, 2007 | 29,337,338 | \$ 1,467 | \$ 273,840 | \$ (181,912) | \$ (2,667) | \$ 15,730 | | \$ 106,458 |

(1) Removal of previously recorded foreign currency translation adjustments associated with the Company's Nigeria operations.

(2) Private placement completed October 26, 2006.

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share and per share amounts)
(Unaudited)

| | Nine Months | |
|--|----------------------------|-------------|
| | Ended September 30, | |
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net loss | \$ (54,940) | \$ (64,847) |
| Reconciliation of net loss to net cash used in operating activities: | | |
| Government fines | 22,000 | |
| Loss from discontinued operations | 21,494 | 46,249 |
| Depreciation and amortization | 13,223 | 9,180 |
| Amortization of debt issue costs | 1,557 | 1,911 |
| Amortization of deferred compensation | 3,010 | 3,054 |
| Amortization of discount on notes receivable for stock purchases | | (12) |
| Loss on early extinguishment of debt | 15,375 | |
| Gain on sales of property, plant and equipment | (716) | (4,563) |
| Provision for bad debts | 181 | 181 |
| Deferred income tax provision | 1,063 | 90 |
| Equity in joint ventures | | (753) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (36,923) | (17,630) |
| Contract cost and recognized income not yet billed | (15,226) | (7,344) |
| Prepaid expenses | 11,239 | 5,055 |
| Parts and supplies inventories | (704) | 224 |
| Other assets | (879) | (1,503) |
| Accounts payable and accrued liabilities | 3,466 | 13,830 |
| Accrued income taxes | 608 | (1,446) |
| Long-term liability for unrecognized tax benefits | 315 | |
| Contract billings in excess of cost and recognized income | (6,772) | 5,604 |
| Other liabilities | | 3 |
| Cash used in operating activities of continuing operations | (22,629) | (12,717) |
| Cash provided by (used in) operating activities of discontinued operations | 2,980 | (59,585) |
| Cash used in operating activities | (19,649) | (72,302) |
| Cash flows from investing activities: | | |
| Proceeds from the sale of discontinued operations, net | 105,568 | 32,082 |
| Proceeds from sales of property, plant and equipment | 1,428 | 8,243 |
| Increase in restricted cash | | (1,500) |
| Purchases of property, plant and equipment | (15,890) | (12,389) |
| Acquisition of subsidiary | (24,154) | |
| Cash provided by investing activities of continuing operations | 66,952 | 26,436 |
| Cash used in investing activities of discontinued operations | | (2,191) |
| Cash provided by investing activities | 66,952 | 24,245 |

Cash flows from financing activities:

| | | |
|---|----------|---------|
| Proceeds from issuance of 6.5% senior convertible notes | | 19,500 |
| Loss on early extinguishment of debt | (12,993) | |
| Proceeds from issuance of common stock, net | 1,519 | 2,226 |
| Repayment of notes payable | (8,665) | (9,385) |
| Costs of debt issues | (286) | (3,776) |
| Acquisition of treasury stock | (513) | (554) |
| Repayments of long-term debt | | (134) |
| Payments on capital leases | (7,507) | (36) |

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| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2007 | 2006 |
| Cash provided by (used in) financing activities of continuing operations | \$ (28,445) | \$ 7,841 |
| Cash provided by financing activities of discontinued operations | | |
| Cash provided by (used in) financing activities | (28,445) | 7,841 |
| Effect of exchange rate changes on cash and cash equivalents | 2,208 | (241) |
| Cash provided by (used in) all activities | 21,066 | (40,457) |
| Cash and cash equivalents, beginning of period | 37,643 | 55,933 |
| Cash and cash equivalents, end of period | \$ 58,709 | \$ 15,476 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest (including discontinued operations) | \$ 5,659 | \$ 4,601 |
| Cash paid for income taxes (including discontinued operations) | \$ 8,438 | \$ 10,790 |
| Supplemental non-cash investing and financing transactions: | | |
| Prepaid insurance obtained by note payable (including discontinued operations) | \$ 10,051 | \$ 9,385 |
| Equipment and property obtained by capital leases | \$ 29,780 | \$ 11,635 |
| Settlement of officer note receivable for stock | \$ | \$ 243 |
| Deferred government obligation payments (including discontinued operations) | \$ 32,300 | \$ |

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)
(Unaudited)

1. Basis of Presentation

Willbros Group, Inc., a Republic of Panama corporation, and all of its majority-owned subsidiaries (the Company or WGI) provide construction; engineering; and engineering, procurement and construction (EPC) services to the energy industry and government entities. 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 may 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, 2006, which has been derived from audited consolidated financial statements, and the preceding unaudited interim Condensed Consolidated Financial Statements as of September 30, 2007, 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 generally accepted accounting principles 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 unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company's December 31, 2006 audited Consolidated Financial Statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position as of September 30, 2007, the results of operations and cash flows of the Company for all interim periods presented, and stockholders equity for the nine months ended September 30, 2007. The results of operations and cash flows for the nine months ended September 30, 2007 are not necessarily indicative of the operating results and cash flows to be achieved for the full year.

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

As discussed in Note 4 Discontinuance of Operations, Asset Disposals, and Transition Services Agreement, the Company sold its TXP-4 Plant on January 12, 2006, its Venezuelan operations and assets on August 17 and November 28, 2006, and its assets and operations in Nigeria on February 7, 2007. 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.

Certain prior period amounts have been reclassified to be consistent with current presentation.

Cash and cash equivalents as of December 31, 2006 and September 30, 2007 includes \$10,000 of cash required as a minimum balance as stipulated by the Company's 2006 Credit Facility. See Note 7 Long-term Debt.

Inventories, consisting of parts and supplies, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Parts and supplies inventories are evaluated at least annually and adjusted for excess quantities and obsolete items.

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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*SFAS No. 157*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for the Company's fiscal year beginning January 1, 2008. The Company is currently evaluating what impact, if any, this statement will have on its consolidated financial statements.

SFAS No. 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating what impact, if any, this statement will have on its consolidated financial statements.

FIN 48

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48). The Company adopted FIN 48 on January 1, 2007. FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. income tax examination by tax authorities for years before 2003 and no longer subject to Canadian income tax for years before 2001 or in Oman for years before 2005.

As a result of the implementation of FIN 48, the Company recognized a \$6,369 increase in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 accumulated deficit. During the third quarter of 2007, the Company received new documentation and support regarding existing uncertain tax positions and adjusted the FIN 48 liability accordingly. Management has identified additional uncertain tax positions based on information not previously available. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | |
|---|----------|
| Effect of adopting FIN 48 at January 1, 2007 | \$ 6,369 |
| Income tax liabilities recognized prior to adoption of FIN 48 | 158 |
| Change in measurement of existing tax positions | (1,931) |
| Additions based on tax positions related to the current year | 110 |
| Newly identified tax positions | 1,786 |
| Balance at September 30, 2007 | \$ 6,492 |

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company has recognized interest and penalties in its cumulative adjustment to the beginning accumulated deficit in the amount of \$568. During the nine months ended September 30, 2007, the Company has recognized \$18 in interest expense. Interest expense was significantly reduced during the third quarter of 2007 as a result of the change

in measurement of existing tax positions primarily related to prior years and previously recognized in retained earnings upon the adoption of FIN 48. Interest and penalties are included in the table above.

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WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)
(Unaudited)

3. Acquisitions

Effective July 1, 2007, the Company acquired the assets and operations of Midwest Management (1987) Ltd. (Midwest) pursuant to a Share Purchase Agreement. Midwest provides pipeline construction, rehabilitation and maintenance, water crossing installations or replacements, and facilities fabrication to the oil and gas industry, predominantly in western Canada.

The acquisition was accounted for using the purchase method of accounting prescribed by Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141). The excess of the purchase price over assets acquired and liabilities assumed was allocated to goodwill, which is not deductible for income tax purposes. A summary of the initial purchase price allocation as of September 30, 2007 is as follows:

| | |
|-------------------------------|-----------|
| Current assets | \$ 7,610 |
| Property, plant and equipment | 18,258 |
| Goodwill | 5,734 |
| Current liabilities | (3,692) |
| Deferred income tax liability | (3,756) |
| Net assets acquired | \$ 24,154 |

The total purchase price amount was \$24,154, consisting of \$22,793 in purchase price and approximately \$1,361 in transaction costs. The final purchase price is subject to the finalization of a working capital adjustment.

4. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement**Strategic Decisions**

In 2006, the Company announced that it intended to sell the TXP-4 Plant, and its assets and operations in Venezuela and Nigeria, which led to their classification as discontinued operations (Discontinued Operations). The net assets and net liabilities related to the Discontinued Operations are shown on the Condensed Consolidated Balance Sheets as Assets of discontinued operations and Liabilities of discontinued operations, respectively. The results of the Discontinued Operations are shown on the Condensed Consolidated Statements of Operations as Loss from discontinued operations, net of provision for income taxes for all periods presented.

Nigeria Assets and Nigeria Based Operations*Share Purchase Agreement*

On February 7, 2007, the Company sold its Nigeria assets and Nigeria based operations in West Africa to Ascot Offshore Nigeria Limited (Ascot), a Nigerian oilfield services company, for total consideration of \$155,250 (the Purchase Price). The sale was pursuant to a Share Purchase Agreement by and between the Company and Ascot dated as of February 7, 2007 (the Agreement), providing for the purchase by Ascot of all of the share capital of WG Nigeria Holdings Limited (WGNHL), the holding company for Willbros West Africa, Inc., Willbros (Nigeria) Limited, Willbros (Offshore) Nigeria Limited and WG Nigeria Equipment Limited.

In connection with the sale of its Nigeria assets and operations, the Company and its subsidiary Willbros International, Inc. (WII) entered into an indemnity agreement with Ascot and Berkeley Group plc (Berkeley) (the Indemnity Agreement), pursuant to which Ascot and Berkeley will indemnify the Company and WII for any obligations incurred by the Company or WII in connection with the parent company performance guarantees (the Guarantees) that the Company and WII previously issued and maintained on behalf of certain former subsidiaries now owned by Ascot under certain working contracts between the subsidiaries and their customers. Either the Company, WII or both are contractually obligated, in varying degrees, under the Guarantees to perform or cause to be performed work related to several ongoing projects. Among the Guarantees covered by the Indemnity Agreement are five contracts under which the Company estimates that, at February 7, 2007, there was aggregate remaining contract

revenue, excluding any additional claim revenue, of \$352,107 and aggregate estimated cost to complete of \$293,562. At the February 7, 2007 sale date, one of the contracts covered by the Guarantees was estimated to be in a loss position with an accrual for such loss of \$33,157. The associated liability was included in the liabilities acquired by Ascot. No claims have been made against the Guarantees.

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WILLBROS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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4. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

Global Settlement Agreement (GSA)

On September 7, 2007, the Company finalized the GSA with Ascot. The significant components of the agreement include:

A reduction to the purchase price of \$25,000;

Ascot agreed to provide supplemental backstop letters of credit in the amount of \$20,322 issued by a non-Nigerian bank approved by the Company;

Ascot provided specific indemnities related to two ongoing projects that Ascot acquired as part of the Agreement;

Ascot and the Company agreed that all working capital adjustments as provided for in the Agreement were resolved; and

Except as provided in the GSA, Ascot and the Company waived all of their respective rights and obligations relating to indemnifications provided in the February 7, 2007 Share Purchase Agreement concerning any breach of a covenant or any representation or warranty.

As a result of the GSA, the Company has recognized a cumulative gain on the sale of its Nigeria assets and operations of \$183. The GSA was settled by a payment to Ascot from the Company in the amount of \$11,076. This amount represents the agreed upon reduction to the purchase price, due to Ascot, of \$25,000, reduced by amounts owed by Ascot to the Company of \$11,299 for services rendered under the Transition Services Agreement (TSA) and \$2,625 due from Ascot in the form of a note from the closing of the Agreement. Because of the GSA, Ascot's account with the Company was current as of September 30, 2007.

Letters of Credit

At September 30, 2007, the Company had four letters of credit outstanding totaling \$20,322 associated with Discontinued Operations (the Discontinued LC's). At the time of the February 7, 2007, sale of the Nigeria assets and operations, in accordance with FASB Interpretation No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others (FIN 45), a liability was recognized for \$1,575 related to the letters of credit. This liability will be released as each of the Discontinued LCs are released or expire and the Company is relieved of its risk related to the Discontinued LC's. The Discontinued LC's are scheduled to expire in the amount of \$440 on December 19, 2007, \$19,759 on August 31, 2008, and \$123 on February 28, 2009.

In accordance with the Agreement, the Discontinued LC's are backstopped by U.S. dollar denominated letters of credit issued by Intercontinental Bank Plc, a Nigerian bank. Additionally, in accordance with the GSA, the Discontinued LC's are supplementally backstopped by letters of credit issued by an international bank based in Paris, France, with a Standard and Poor's rating of AA+/Stable as of October 25, 2007. These backstop letters of credit provide loss security to the Company in the event any of the Company's outstanding Discontinued LC's are called.

Transition Services Agreement

Concurrent with the Nigeria sale, the Company entered into a two-year TSA with Ascot. Under the agreement, the Company is primarily providing labor in the form of seconded employees to work under the direction of Ascot along with specifically defined work orders for services generally covered in the TSA. Ascot has agreed to reimburse the Company for these services. Through September 30, 2007, these reimbursable contract costs totaled approximately \$21,582. The after-tax residual net loss from providing these transition services is \$370, or less than 2% of the incurred costs for the nine months ended September 30, 2007. Both the Company and Ascot are working to shift the transition services provided by the Company to direct services secured by Ascot.

Although the services provided under the TSA generate transactions between the Company and Ascot, the amounts are not considered to be significant. Additionally, the Company's level of support has decreased over the term of the TSA to date, as the employees and services provided by the Company shift to direct employees and services secured by Ascot. The Company does not have the ability to significantly influence the operating or financial policies of Ascot. Under the provisions of Emerging Issues Task Force Issue 03-13, Applying the Conditions of Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations (EITF 03-13), the Company has no significant continuing involvement in the operations of the former assets and operations owned in Nigeria. Accordingly, income generated by the TSA is shown, net of costs incurred, as a component of Loss from discontinued operations, net of provision for income taxes on the Condensed Consolidated Statement of Operations, and its assets and liabilities are shown as Assets of discontinued operations and Liabilities of discontinued operations, respectively, in the Condensed Consolidated Balance Sheets.

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4. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

Residual Equipment in Nigeria

In conjunction with the TSA, the Company has made available certain equipment to Ascot for use in Nigeria; this equipment was not sold to Ascot under the Agreement. Through September 30, 2007, the Company has not resolved the rental rates for this equipment with Ascot for the period February 8, 2007 through September 30, 2007. As agreed in the GSA, on September 14, 2007, the Company received an appraisal for this equipment; the fair-value of the equipment was \$8,477. The Company's net book value for this equipment at September 30, 2007 was \$2,377. This equipment is comprised of construction equipment, rolling stock, and generator sets. The Company and Ascot are working to resolve the issue of rental equipment, either through cash settlement or through an exchange of equipment.

Venezuela

Business Disposal

On November 28, 2006, the Company completed the sale of its assets and operations in Venezuela. The Company received total compensation of \$7,000 in cash and \$3,300 in the form of a commitment from the buyer, to be paid on or before December 4, 2013. The repayment commitment is secured by a 10% interest in a Venezuelan financing joint venture. As of September 30, 2007, no payment on the commitment has been made. The Company estimates no gain or loss on the sale of its assets and operations in Venezuela.

TXP-4 Plant

Asset Disposal

On January 12, 2006, the Company completed the sale of its TXP-4 Plant. The Company received cash payments of \$27,944 for the sale and realized a gain of \$1,342, net of taxes of \$691.

In addition to the cash payments described above, Williams Field Services Company (Williams) agreed to pay the Company a portion of any recovery that Williams may obtain based on damages, loss or injury related to the TXP-4 Plant up to \$3,400. This settlement is contingent upon Williams' recovery from various third parties and is the only ongoing potential source of cash flows subsequent to the sale date. The timing and amount of any resolution to these claims cannot be estimated. No additional payments have been received.

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4. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)**Results of Discontinued Operations**

Condensed Statements of Operations of the Discontinued Operations are as follows:

| | Three Months Ended September 30, 2007 | | | | Discontinued Operations |
|-------------------------------|---------------------------------------|----------------|-----------|---------------|----------------------------|
| | Nigeria | Nigeria TSA | Venezuela | Opal TXP-4 | |
| Contract revenue | \$ | \$ 4,825 | \$ | \$ | \$ 4,825 |
| Operating expenses: | | | | | |
| Contract | | 4,690 | | | 4,690 |
| Depreciation and amortization | | 178 | | | 178 |
| General and administrative | | 124 | | | 124 |
| Profit disgorgement | 10,300 | | | | 10,300 |
| | 10,300 | 4,992 | | | 15,292 |
| Operating loss | (10,300) | (167) | | | (10,467) |
| Other income | 1,441 | 54 | | | 1,495 |
| Loss before income taxes | (8,859) | (113) | | | (8,972) |
| Provision for income taxes | | 154 | | | 154 |
| Net loss | \$ (8,859) | \$ (267) | \$ | \$ | \$ (9,126) |

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

| | | | | | |
|----------|-------------|----|----------|----|-------------|
| Net loss | \$ (17,018) | \$ | \$ (118) | \$ | \$ (17,136) |
|----------|-------------|----|----------|----|-------------|

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4. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)

| | Nine Months Ended September 30, 2007 | | | | Discontinued |
|-----------------------------------|--------------------------------------|----------------|-----------|---------------|--------------|
| | Nigeria | Nigeria TSA | Venezuela | Opal TXP-4 | Operations |
| Contract revenue | \$ 30,046 | \$ 21,906 | \$ | \$ | \$ 51,952 |
| Operating expenses: | | | | | |
| Contract | 34,360 | 20,527 | | | 54,887 |
| Depreciation and amortization | | 490 | | | 490 |
| General and administrative | 3,472 | 565 | | | 4,037 |
| Profit disgorgement | 10,300 | | | | 10,300 |
| | 48,132 | 21,582 | | | 69,714 |
| Operating income (loss) | (18,086) | 324 | | | (17,762) |
| Other income (expense) | (1,946) | 55 | | | (1,891) |
| Income (loss) before income taxes | (20,032) | 379 | | | (19,653) |
| Provision for income taxes | 1,092 | 749 | | | 1,841 |
| Net loss | \$ (21,124) | \$ (370) | \$ | \$ | \$ (21,494) |

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

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4. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)
Financial Position of Discontinued Operations

Condensed Consolidated Balance Sheets of the Discontinued Operations are as follows:

| | September 30, 2007 | | | | Discontinued |
|---|--------------------|----------------|-----------|---------------|--------------|
| | Nigeria | Nigeria TSA | Venezuela | Opal TXP-4 | Operations |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ | \$ 130 | \$ | \$ | \$ 130 |
| Accounts receivable, net | | 1,602 | | | 1,602 |
| Prepaid expenses | | 1,065 | | | 1,065 |
| Total current assets | | 2,797 | | | 2,797 |
| Property, plant and equipment, net | | 1,228 | | | 1,228 |
| Other noncurrent assets | | 633 | | | 633 |
| Total assets | | 4,658 | | | 4,658 |
| Current liabilities | | 4,639 | | | 4,639 |
| Total current liabilities | | 4,639 | | | 4,639 |
| Net assets of discontinued operations | \$ | \$ 19 | \$ | \$ | \$ 19 |
| | | | | | |
| | December 31, 2006 | | | | Discontinued |
| | Nigeria | Nigeria TSA | Venezuela | Opal TXP-4 | Operations |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 12,964 | \$ | \$ | \$ | \$ 12,964 |
| Restricted cash | 36,683 | | | | 36,683 |
| Accounts receivable, net | 76,673 | | | | 76,673 |
| Contract cost and recognized income not yet billed | 79,364 | | | | 79,364 |
| Prepaid expenses | 16,017 | | | | 16,017 |
| Parts and supplies inventories | 21,645 | | | | 21,645 |
| Total current assets | 243,346 | | | | 243,346 |
| Property, plant and equipment, net | 50,723 | | | | 50,723 |
| Other noncurrent assets | 123 | | | | 123 |
| Total assets | 294,192 | | | | 294,192 |
| Current liabilities | 148,135 | | | | 148,135 |
| Loss provision on contracts | 33,957 | | | | 33,957 |

| | | | | | |
|---------------------------------------|------------|----|----|----|------------|
| Total current liabilities | 182,092 | | | | 182,092 |
| Net assets of discontinued operations | \$ 112,100 | \$ | \$ | \$ | \$ 112,100 |

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4. Discontinuance of Operations, Asset Disposals, and Transition Services Agreement (continued)*Profit Disgorgement*

Subsequent to September 30, 2007, the Company reached an agreement in principle with the staff of the SEC to resolve the investigation of possible violations of the Foreign Corrupt Practices Act and the U.S. securities laws related to projects in Bolivia, Ecuador and Nigeria. As a result of this agreement in principle, subject to approval by the SEC commissioners, the Company has recorded a \$10,300 charge to discontinued operations. The \$10,300 is profit disgorgement, inclusive of accrued interest on the disgorged profit, related to a single Nigeria project included in the February 7, 2007 sale of the Company's Nigeria assets and operations. The disgorged profit was previously recognized in the results from discontinued operations, and accordingly, the full amount of \$10,300 is recorded as a charge to discontinued operations in the third quarter of 2007. This classification is consistent with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). See Note 13 Contingencies, Commitments and Other Circumstances for further discussion of the agreement in principle.

Cash and Cash Equivalents

Nigeria had restricted cash of \$36,683 on December 31, 2006. The December 31, 2006 balance was in a consortium bank account that required the approval of the Company and its consortium partner to disburse funds. Additionally, cash and cash equivalents for Nigeria contained \$9,482 at December 31, 2006, that was appropriated for use by specific projects.

Parts and Supplies Inventories

Nigeria had parts and supplies inventories of \$21,645, net of reserves of \$12,159, at December 31, 2006.

Loss Provision on Contracts

The Company had recognized \$33,957 of estimated losses related to two projects in Nigeria as of December 31, 2006.

Contingencies, Commitments and Other Circumstances

At December 31, 2006, other assets and accounts receivable of the Discontinued Operations include anticipated recoveries from insurance or third parties of \$1,191, primarily related to the repair of pipelines.

5. Contracts in Progress

Contract cost and recognized income not yet billed on uncompleted contracts arise when revenues have been recorded, but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from 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 are recorded equal to cost incurred when realization of price approval is probable and the estimated amount is equal to or greater than the Company's cost related to the unapproved change order. Unapproved change orders involve 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 net expense (recorded as a reduction in revenues), may be required, in addition to amounts that have been previously recorded.

Contract cost and recognized income not yet billed, and contract billings in excess of cost and recognized income, as of September 30, 2007 and December 31, 2006 were as follows:

| September 30, 2007 | December 31, 2006 |
|--------------------------|-------------------------|
|--------------------------|-------------------------|

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| | | | | |
|---|----|---------|----|----------|
| Contract cost and recognized income not yet billed | \$ | 29,029 | \$ | 11,027 |
| Contract billings in excess of cost and recognized income | | (7,891) | | (14,947) |
| | \$ | 21,138 | \$ | (3,920) |

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5. Contracts in Progress (continued)

Contract cost and recognized income not yet billed includes \$3,245 and \$1,191 at September 30, 2007, and December 31, 2006, respectively, on completed contracts. Included in the \$3,245 unbilled at September 30, 2007, is a \$1,736 change order related to one project that has been invoiced and collected subsequent to quarter end.

6. Government Obligations

Government obligations represent amounts to become due to government entities, specifically the Department of Justice (DOJ) and the SEC, as final settlement of the investigations involving possible violations of the Foreign Corrupt Practices Act (the FCPA) and possible violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. These investigations stem primarily from the Company s former operations in Bolivia, Ecuador and Nigeria. In October 2007, the Company reached agreements in principle, subject to approval by the DOJ and the SEC, to settle their investigations. The agreements in principle provide for an anticipated aggregate payment of \$32,300 consisting of \$22,000 in fines payable to the DOJ related to FCPA violations and \$10,300 of profit disgorgement payable to the SEC.

As a result of the agreements in principle, the Company has increased its accrual related to these investigations by \$8,300. This increase is recorded in the third quarter of 2007 and is comprised of: 1) a \$2,000 reduction in the Company s second quarter of 2007 estimate of \$24,000 in fines resulting from the DOJ actions that was recorded as a charge to continuing operations, and 2) an additional \$10,300 of profit disgorgement, inclusive of accrued interest on the disgorged profit, resulting from SEC actions. The profit disgorgement is related to a single Nigeria project included in the February 7, 2007 sale of the Company s Nigeria assets and operations. The disgorged profit was previously recognized in the results from discontinued operations, and accordingly, the full amount of \$10,300 is recorded as a charge to discontinued operations in the third quarter of 2007.

The aggregate obligation of \$32,300 has been classified on the Condensed Consolidated Balance Sheets as \$8,075 in Current portion of government obligations and the remaining \$24,225 in Long-term portion of government obligations. This division is based on payment terms in the agreements in principle that provide for four equal installments, first on signing of the final settlements and annually for approximately three years thereafter.

The agreements in principle are contingent upon the parties agreement to the terms of a final settlement agreement, and approval by the DOJ and SEC and confirmation by a federal district court. There can be no assurance that the settlement will be finalized. See Note 13 Contingencies, Commitments and Other Circumstances for further discussion of the agreements in principle.

7. Long-term Debt

Long-term debt as of September 30, 2007 and December 31, 2006 was as follows:

| | September 30, 2007 | December 31, 2006 |
|--------------------------------|--------------------------|-------------------------|
| 2.75% convertible senior notes | \$ 70,000 | \$ 70,000 |
| Capital lease obligations | 34,797 | 11,601 |
| 6.5% senior convertible notes | 32,050 | 84,500 |
| Other obligations | 113 | 51 |
| 2006 Credit Facility | | |
| Total debt | 136,960 | 166,152 |
| Less current portion | (8,825) | (4,575) |
| Long-term debt | \$ 128,135 | \$ 161,577 |

2006 Credit Facility

On October 27, 2006, Willbros USA, Inc., a wholly-owned subsidiary of the Company, entered into a new \$100,000 three-year senior secured synthetic credit facility (the 2006 Credit Facility) with a group of lenders led by Calyon New York Branch (Calyon). The 2006 Credit Facility replaced the Company s 2004 Credit Facility. The Company may elect to increase the total capacity under the 2006 Credit Facility to \$150,000, with Calyon s consent. Through December 31, 2007, the Company has received a commitment from Calyon to increase the capacity under the 2006 Credit Facility to \$125,000 subject to certain terms and conditions.

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7. Long-term Debt (continued)

The 2006 Credit Facility may be used for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings, which may be made up to \$25,000 less the amount of any letter of credit advances or financial letters of credit, must be repaid at least once a year and no new revolving advances may be made for a period of 10 consecutive business days thereafter.

Fees payable under the 2006 Credit Facility include a facility fee at a rate per annum equal to 5.0 percent of the 2006 Credit Facility capacity, payable quarterly in arrears (the facility fee will be reduced to 2.75 percent if the Company obtains a rating from S&P and Moody's greater than B and B2, respectively), and a letter of credit fee equal to 0.125 percent per annum of aggregate commitments. Interest on any borrowings is payable quarterly in arrears at the adjusted base rate minus 1.00 percent or at a Eurodollar rate at the Company's option. The 2006 Credit Facility is collateralized by substantially all of the Company's assets, including stock of the Company's principal subsidiaries. The Company may not make any acquisitions involving cash consideration in excess of \$5,000 in any 12-month period, and \$10,000 in the aggregate, without the approval of a majority of the lenders under the 2006 Credit Facility. The 2006 Credit Facility contains a requirement for the maintenance of a \$10,000 minimum cash balance, prohibits the payment of cash dividends and includes customary affirmative and negative covenants, such as limitations on the creation of certain new indebtedness and liens, restrictions on certain transactions and payments, maintenance of a maximum senior leverage ratio, a minimum fixed charge coverage ratio, and minimum tangible net worth requirement. A default may be triggered by events such as a failure to comply with financial covenants or other covenants, a failure to make payments when due, a failure to make payments when due in respect of or a failure to perform obligations relating to debt obligations in excess of \$5,000, a change of control of the Company or certain insolvency proceedings as defined by the 2006 Credit Facility. The 2006 Credit Facility is guaranteed by the Company and certain other subsidiaries. Unamortized costs associated with the creation of the 2006 Credit Facility total \$1,463 and \$1,986 and are included in other assets at September 30, 2007 and December 31, 2006, respectively. Because the 2006 Credit Facility has only been used to provide letters of credit, these costs are being amortized to general and administrative expense over the three-year term of the credit facility ending October 2009.

On May 9, 2007, the Company received consent under the 2006 Credit Facility for the cash acquisition of Midwest. This consent stipulates that the cash consideration should not exceed \$C18,500, plus actual working capital, working capital adjustment and reasonable fees and expenses incurred in connection with the acquisition of Midwest.

On May 16, 2007, the Company entered into an amendment to allow for cash payments not to exceed \$21,000 during the term of the 2006 Credit Facility with respect to fractional shares or as a part of a separately negotiated inducement to the holders of the 6.5% Senior Convertible Notes and 2.75% Convertible Senior Notes.

As of September 30, 2007, there were no borrowings outstanding under the 2006 Credit Facility and there were \$80,168 in outstanding letters of credit, consisting of \$59,846 issued for projects in continuing operations and \$20,322 issued for projects related to Discontinued Operations. As of December 31, 2006, there were no borrowings outstanding under the 2006 Credit Facility and there were \$64,545 in outstanding letters of credit, consisting of \$41,920 issued for projects in continuing operations and \$22,625 issued for projects related to Discontinued Operations. The Company is currently prohibited from borrowing under the 2006 Credit Facility due to debt incurrence restrictions in the 6.5% Notes.

The 2006 Credit Facility includes customary affirmative and negative covenants, such as limitations on the creation of new indebtedness and on certain liens, restrictions on certain transactions and maintenance of the following financial covenants:

A consolidated tangible net worth in an amount of not less than the sum of \$116,561 plus 50 percent of consolidated net income earned in each quarter ended after December 31, 2006;

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A maximum senior leverage ratio of 1.00 to 1.00 for the quarter ending September 30, 2007, and for each quarter thereafter;

A fixed charge coverage ratio of not less than 3.00 to 1.00, for the quarter ended September 30, 2007, and for each quarter thereafter; and

A prohibition on capital expenditures (cost of assets added through purchase or capital lease) if the Company's liquidity falls below \$50,000.

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7. Long-term Debt (continued)

If these covenants are violated, it would be considered an event of default entitling the lenders to terminate the remaining commitment, call all outstanding letters of credit, and accelerate any principal and interest outstanding. As of September 30, 2007;

The Company's consolidated tangible net worth was \$151,934, which was approximately \$35,373 in excess of the tangible net worth the Company was required to maintain under the credit facility;

The Company is in compliance with the maximum senior leverage ratio because it has incurred no revolving advance or other senior debt;

The Company's fixed charge coverage ratio was 6.17 to 1.00; and

The Company's cash balance as of September 30, 2007 was \$58,709, which allowed the Company to add \$53,926 of fixed assets to the balance sheet during the previous 12 months.

At September 30, 2007, the Company was in compliance with all of these covenants.

6.5% Senior Convertible Notes

On December 22, 2005, the Company entered into a purchase agreement (the *Purchase Agreement*) for a private placement of \$65,000 aggregate principal amount of its 6.5% Senior Convertible Notes due 2012 (the *6.5% Notes*). The private placement closed on December 23, 2005. During the first quarter of 2006, the initial purchasers of the 6.5% Notes exercised their options to purchase an additional \$19,500 aggregate principal amount of the 6.5% Notes. Collectively, the primary offering and the purchase option of the 6.5% Notes total \$84,500. The net proceeds of the offering were used to retire existing indebtedness and provide additional liquidity to support working capital needs.

The 6.5% Notes are governed by an indenture, dated December 23, 2005, that was entered into by and among the Company, as issuer, Willbros USA, Inc., as guarantor (*WUSAI*), and The Bank of New York Mellon Corporation, as Trustee (the *Indenture*), and were issued under the Purchase Agreement by and among the Company and the initial purchasers of the 6.5% Notes (the *Purchasers*), in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the *Securities Act*). The 6.5% Notes are convertible into shares of the Company's stock and these underlying shares have been registered with the SEC. The 6.5% Notes, however, have not been registered with the SEC.

Pursuant to the Purchase Agreement, the Company and WUSAI have agreed to indemnify the Purchasers, their affiliates and agents, against certain liabilities, including liabilities under the Securities Act. The 6.5% Notes are convertible into shares of the Company's common stock at a conversion rate of 56.9606 shares of common stock per \$1,000.00 principal amount of notes (representing a conversion price of approximately \$17.56 per share resulting in 1,825,589 shares at September 30, 2007), subject to adjustment in certain circumstances. The 6.5% Notes are general senior unsecured obligations. Interest is due semi-annually on June 15 and December 15, and began on June 15, 2006.

The 6.5% Notes mature on December 15, 2012 unless the notes are repurchased or converted earlier. The Company does not have the right to redeem the 6.5% Notes. The holders of the 6.5% Notes have the right to require the Company to purchase the 6.5% Notes for cash, including unpaid interest, on December 15, 2010. The holders of the 6.5% Notes also have the right to require the Company to purchase the 6.5% Notes for cash upon the occurrence of a fundamental change, as defined in the Indenture. 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 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.

Upon conversion of the 6.5% Notes, the Company has the right to deliver, in lieu of shares of its common stock, cash or a combination of cash and shares of its common stock. Under the Indenture, the Company is required to notify holders of the 6.5% Notes of its method for settling the principal amount of the 6.5% Notes upon conversion. This notification, once provided, is irrevocable and legally binding upon the Company with regard to any conversion of the 6.5% Notes. On March 21, 2006, the Company notified holders of the 6.5% Notes of its election to satisfy its conversion obligation with respect to the principal amount of any 6.5% Notes surrendered for conversion by paying the holders of such surrendered 6.5% Notes 100 percent of the principal conversion obligation in the form of common stock of the Company. Until the 6.5% Notes are surrendered for conversion, the Company will not be required to notify holders of its method for settling the excess amount of the conversion obligation relating to the amount of the conversion value above the principal amount, if any. In the event of a default of \$10,000 or more on any credit agreement, including the 2006 Credit Facility and the 2.75% Notes, a corresponding event of default would result under the 6.5% Notes.

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7. Long-term Debt (continued)

On May 18, 2007, the Company completed two transactions to induce conversion with two Purchasers of the 6.5% Notes. Under the conversion agreements, the Purchasers converted \$36,250 in aggregate principal amount of the 6.5% Notes into 2,064,821 shares of the Company's \$0.05 par value common stock. As an inducement for the Purchasers to convert, the Company made aggregate cash payments to the Purchasers of \$8,972, plus \$1,001 in accrued interest for the current interest period. In connection with the induced conversion, the Company recorded a loss on early extinguishment of debt of \$10,894. The loss on early extinguishment of debt is inclusive of the cash premium paid to induce conversion and \$1,922 of unamortized debt costs.

On May 29 and May 30, 2007, the Company completed two additional transactions to induce conversion with two Purchasers of the 6.5% Notes. Under the conversion agreements, the Purchasers converted \$16,200 in aggregate principal amount of the 6.5% Notes into 922,761 shares of the Company's common stock. As an inducement for the Purchasers to convert, the Company made aggregate cash payments to the Purchasers of \$3,748, plus \$480 in accrued interest for the current interest period. In connection with the induced conversion, the Company recorded a loss on early extinguishment of debt of \$4,481. The loss on early extinguishment of debt is inclusive of the cash premium paid to induce conversion and the write-off of \$733 of unamortized debt issue costs.

As of September 30, 2007, \$32,050 of aggregate principal amount of the 6.5% Notes remains outstanding. Unamortized debt issuance costs of \$1,361 and \$4,103 associated with the 6.5% Notes are included in other assets at September 30, 2007 and December 31, 2006, respectively, and are being amortized over the seven-year period ending December 2012.

A covenant in the indenture for the 6.5% Notes prohibits the Company from incurring any additional indebtedness if its consolidated leverage ratio exceeds 4.00 to 1.00. As of September 30, 2007, this covenant precluded the Company from borrowing under the 2006 Credit Facility. Capital leases are not considered indebtedness under this provision except to the extent by which they exceed \$50,000.

2.75% Convertible Senior Notes

On March 12, 2004, the Company completed a primary offering of \$60,000 of 2.75% Convertible Senior Notes (the 2.75% Notes). On April 13, 2004, the initial purchasers of the 2.75% Notes exercised their option to purchase an additional \$10,000 aggregate principal amount of the notes. Collectively, the primary offering and purchase option of the 2.75% Notes totaled \$70,000. The 2.75% Notes are general senior unsecured obligations. Interest is paid semi-annually on March 15 and September 15 and payments began on September 15, 2004. The 2.75% Notes mature on March 15, 2024 unless the notes are repurchased, redeemed or converted earlier. The Company may redeem the 2.75% Notes for cash on or after March 15, 2011, at 100 percent of the principal amount of the notes plus accrued interest. The holders of the 2.75% Notes have the right to require the Company to purchase the 2.75% Notes, including unpaid interest, on March 15, 2011, 2014, and 2019, or upon a change of control related event. On March 15, 2011, or upon a change in control event, the Company must pay the purchase price in cash. On March 15, 2014 and 2019, the Company has the option of providing its common stock in lieu of cash or a combination of common stock and cash to fund purchases. The holders of the 2.75% Notes may, under certain circumstances, convert the notes into shares of the Company's common stock at an initial conversion ratio of 51.3611 shares of common stock per \$1,000.00 principal amount of notes (representing a conversion price of approximately \$19.47 per share resulting in 3,595,277 shares at September 30, 2007 subject to adjustment in certain circumstances). The notes will be convertible only upon the occurrence of certain specified events including, but not limited to, if, at certain times, the closing sale price of the Company's common stock exceeds 120 percent of the then current conversion price, or \$23.36 per share, based on the initial conversion price. In the event of a default under any Company credit agreement other than the indenture covering the 2.75% Notes, (1) in which the Company fails to pay principal or interest on indebtedness with an aggregate principal balance of \$10,000 or more; or (2) in which indebtedness with a principal balance of \$10,000 or more is accelerated, an event of default would result under the 2.75% Notes.

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7. Long-term Debt (continued)

On June 10, 2005, the Company received a letter from a law firm representing an investor claiming to be the owner of in excess of 25 percent of the 2.75% Notes asserting that, as a result of the Company's failure to timely file with the SEC its 2004 Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, it was placing the Company on notice of an event of default under the indenture dated as of March 12, 2004 between the Company, as issuer, and JPMorgan Chase Bank, N.A., as trustee (the Indenture), which governs the 2.75% Notes. The Company indicated that it did not believe that it had failed to perform its obligations under the relevant provisions of the Indenture referenced in the letter. On August 19, 2005, the Company entered into a settlement agreement with the beneficial owner of the 2.75% Notes on behalf of whom the notice of default was sent, pursuant to which the Company agreed to use commercially reasonable efforts to solicit the requisite vote to approve an amendment to the Indenture (the Indenture Amendment). The Company obtained the requisite vote and on September 22, 2005, the Indenture Amendment became effective.

The Indenture Amendment extended the initial date on or after which the 2.75% Notes may be redeemed by the Company to March 15, 2013 from March 15, 2011. In addition, a new provision was added to the Indenture which requires the Company, in the event of a fundamental change which is a change of control event in which 10 percent or more of the consideration in the transaction consists of cash, to make a coupon make-whole payment equal to the present value (discounted at the U.S. treasury rate) of the lesser of (a) two years of scheduled payments of interest on the 2.75% Notes or (b) all scheduled interest on the 2.75% Notes from the date of the transaction through March 15, 2013.

On August 15, 2007, the Company notified holders of the 2.75% Notes of its election to satisfy its conversion obligation with respect to the principal amount of any 2.75% Notes surrendered for conversion by paying the holders of such surrendered 2.75% Notes 100 percent of the principal conversion obligation in the form of common stock of the Company. Until the 2.75% Notes are surrendered for conversion, the Company will not be required to notify holders of its method for settling the excess amount of the conversion obligation relating to the amount of the conversion value above the principal amount, if any.

Unamortized debt issue costs of \$1,787 and \$2,175 associated with the 2.75% Notes are included in other assets at September 30, 2007 and December 31, 2006, respectively, and are being amortized over the seven-year period ending March 2011.

2004 Credit Facility

On March 12, 2004, the existing \$125,000 June 2002 credit agreement with Calyon was amended, restated and increased to \$150,000 (the 2004 Credit Facility). The 2004 Credit Facility would have matured on March 12, 2007 but was replaced on October 27, 2006 by the 2006 Credit Facility (See 2006 Credit Facility above). The 2004 Credit Facility was available for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings were limited to the lesser of 40 percent of the borrowing base or \$30,000. Interest was payable quarterly at a base rate plus a margin ranging from 0.75 percent to 2.00 percent or on a Eurodollar rate plus a margin ranging from 1.75 percent to 3.00 percent. The 2004 Credit Facility was collateralized by substantially all of the Company's assets, including stock of the Company's principal subsidiaries, prohibited the payment of cash dividends and required the Company to maintain certain financial ratios. The borrowing base was calculated using varying percentages of cash, accounts receivable, accrued revenue, contract cost and recognized income not yet billed, property, plant and equipment, and spare parts.

During the period from August 6, 2004 to August 18, 2006, the Company entered into various amendments and waivers to the 2004 Credit Facility with its syndicated bank group to waive non-compliance with certain financial and non-financial covenants. Among other things, the amendments provided that (1) certain financial covenants and reporting obligations were waived and/or modified to reflect the Company's current and anticipated future operating performance, (2) the ultimate reduction of the facility to \$50,000 with a letter of credit limit of \$50,000 less the face

amount of letters of credit issued prior to August 18, 2006, and required that each new letter of credit must be fully cash collateralized and that a letter of credit fee of 0.25 percent be paid for each cash collateralized letter of credit and (3) the Company maintain a minimum cash balance of \$15,000. The Sixth Amendment expired on September 30, 2006, and availability under the 2004 Credit Facility was reduced to zero. On October 27, 2006, the 2004 Credit Facility was replaced with the 2006 Credit Facility.

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7. Long-term Debt (continued)***Capital Leases***

During 2006 and 2007 the Company entered into multiple capital lease agreements to acquire construction equipment. These leases in aggregate added approximately \$34,725, net, to the Company's total capital lease obligation. In aggregate, these leases have interest rates ranging from 6.80% to 8.95% and have typical terms of at least 36 months.

Assets held under capital leases at September 30, 2007 and December 31, 2006 are summarized below:

| | September 30, 2007 | December 31, 2006 |
|---------------------------------------|--------------------------|-------------------------|
| Construction equipment | \$ 40,681 | \$ 10,662 |
| Land and buildings | | 1,446 |
| Furniture and office equipment | 535 | 535 |
| Total assets held under capital lease | 41,216 | 12,643 |
| Less accumulated depreciation | (6,743) | (1,572) |
| Net assets under capital lease | \$ 34,473 | \$ 11,071 |

8. Income (Loss) Per Share

Basic earnings per share (EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS is based on the weighted average number of shares outstanding during each period and the assumed exercise of potential dilutive stock options and warrants and vesting of restricted stock and restricted stock rights 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 were included in the calculation of diluted income per share under the if-converted method. Additionally, diluted income 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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8. Income (Loss) Per Share (continued)

Basic and diluted income (loss) from continuing operations per common share for the three and nine months ended September 30, 2007 and 2006 are computed as follows:

| | Three Months | | Nine Months | |
|--|----------------------------|-------------|----------------------------|-------------|
| | Ended September 30, | | Ended September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net income (loss) from continuing operations | \$ 10,272 | \$ (4,965) | \$ (33,446) | \$ (18,598) |
| Add: Interest and debt issuance costs associated with convertible notes | 780 | | | |
| Net income (loss) from continuing operations applicable to common shares | \$ 11,052 | \$ (4,965) | \$ (33,446) | \$ (18,598) |
| Weighted average number of common shares outstanding for basic income (loss) per share | 28,804,907 | 21,557,695 | 27,421,927 | 21,480,730 |
| Weighted average number of dilutive potential common shares outstanding | 6,039,575 | | | |
| Weighted average number of common shares outstanding for diluted income (loss) per share | 34,844,482 | 21,557,695 | 27,421,927 | 21,480,730 |
| Income (loss) per common share from continuing operations: | | | | |
| Basic | \$ 0.36 | \$ (0.23) | \$ (1.22) | \$ (0.87) |
| Diluted | \$ 0.32 | \$ (0.23) | \$ (1.22) | \$ (0.87) |

The Company incurred net losses for the nine months ended September 30, 2007, and the three and nine months ended 2006 and has therefore excluded the securities listed below from the computation of diluted loss per share, as the effect would be anti-dilutive:

| | Three Months | | Nine Months | |
|--|----------------------------|-------------|----------------------------|-------------|
| | Ended September 30, | | Ended September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| 2.75% Convertible senior notes | | 3,595,277 | 3,595,277 | 3,595,277 |
| 6.5% Senior convertible notes | | 4,813,171 | 1,825,589 | 4,813,171 |
| Stock options | | 833,900 | 686,750 | 833,900 |
| Warrants to purchase common stock | | | 558,354 | |
| Restricted stock and restricted stock rights | | 248,000 | 612,637 | 248,000 |
| | | 9,490,348 | 7,278,607 | 9,490,348 |

In accordance with Emerging Issues Task Force Issue 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share , the 5,420,866 shares issuable upon conversion of both the 6.5% Notes and the 2.75% Notes will be included in diluted earnings per share if those securities are dilutive, regardless of whether the conversion prices of \$19.47 and \$17.56, respectively, have been met.

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9. Segment Information

The Company's segments are strategic business units that are managed separately as each has different operational requirements and strategies. Beginning the first quarter of 2007, the Company defines its operating segments based on the Company's core lines of business rather than geographic markets as presented in prior periods. The Company's operating segments are defined as the following reportable segments: *Construction*, *Engineering*, and *Engineering, Procurement and Construction (EPC)*. The three reportable segments operate primarily in the United States, Canada, and the Middle East. Previously, the Company's reportable segments were *U.S. & Canada* and *International*. Prior period balances have been reclassified to reflect this change. Management evaluates the performance of each operating segment based on operating margin. The Company's corporate operations include the general, administrative, and financing functions of the organization. The costs of these functions are allocated between the three operating segments. The Company has chosen not to allocate Government fines to the segments. The Company's corporate operations also include various other assets, some of which are allocated between the three operating segments. There are no material inter-segment revenues in the periods presented.

The following tables reflect the Company's reconciliation of segment operating results to the net income (loss) in the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2007 and 2006:

For the three months ended September 30, 2007:

| | <i>Construction</i> | <i>Engineering</i> | <i>EPC</i> | Corporate | Consolidated |
|--|---------------------|--------------------|------------|-----------|--------------|
| Contract revenue | \$ 193,984 | \$ 25,584 | \$ 27,148 | \$ | \$ 246,716 |
| Operating expenses: | | | | | |
| Contract | 163,404 | 19,034 | 24,651 | | 207,089 |
| Depreciation and amortization | 4,996 | 170 | 291 | | 5,457 |
| General and administrative | 12,216 | 3,349 | 1,883 | | 17,448 |
| Government fines | | | | (2,000) | (2,000) |
| | 180,616 | 22,553 | 26,825 | (2,000) | 227,994 |
| Operating income: | \$ 13,368 | \$ 3,031 | \$ 323 | \$ 2,000 | 18,722 |
| Interest and other income (expense), net | | | | | (2,369) |
| Provision for income taxes | | | | | 6,081 |
| Net income from continuing operations | | | | | 10,272 |
| Net loss from discontinued operations, net of provision for income taxes | | | | | (9,126) |
| Net income | | | | | \$ 1,146 |

For the three months ended September 30, 2006:

| | <i>Construction</i> | <i>Engineering</i> | <i>EPC</i> | Corporate | Consolidated |
|---------------------|---------------------|--------------------|------------|-----------|--------------|
| Contract revenue | \$ 91,204 | \$ 20,216 | \$ 14,046 | \$ | \$ 125,466 |
| Operating expenses: | | | | | |
| Contract | 82,912 | 17,292 | 13,214 | | 113,418 |

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| | | | | |
|--|------------|--------|----------|-------------|
| Depreciation and amortization | 2,325 | 230 | 710 | 3,265 |
| General and administrative | 8,549 | 2,144 | 399 | 11,092 |
| | 93,786 | 19,666 | 14,323 | 127,775 |
| Operating income (loss): | \$ (2,582) | \$ 550 | \$ (277) | \$ (2,309) |
| Interest and other income (expense), net | | | | (2,277) |
| Provision for income taxes | | | | 379 |
| Net loss from continuing operations | | | | (4,965) |
| Net loss from discontinued operations, net of provision for income taxes | | | | (17,136) |
| Net loss | | | | \$ (22,101) |

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9. Segment Information (continued)

For the nine months ended September 30, 2007:

| | <i>Construction</i> | <i>Engineering</i> | <i>EPC</i> | Corporate | Consolidated |
|--|---------------------|--------------------|------------|-------------|--------------|
| Contract revenue | \$ 476,638 | \$ 66,040 | \$ 67,490 | \$ | \$ 610,168 |
| Operating expenses: | | | | | |
| Contract | 427,966 | 49,166 | 61,658 | | 538,790 |
| Depreciation and amortization | 11,629 | 511 | 1,083 | | 13,223 |
| General and administrative | 31,083 | 7,063 | 4,149 | | 42,295 |
| Government fines | | | | 22,000 | 22,000 |
| | 470,678 | 56,740 | 66,890 | 22,000 | 616,308 |
| Operating income (loss): | \$ 5,960 | \$ 9,300 | \$ 600 | \$ (22,000) | (6,140) |
| Interest and other income (expense), net | | | | | (19,513) |
| Provision for income taxes | | | | | 7,793 |
| Net loss from continuing operations | | | | | (33,446) |
| Net loss from discontinued operations, net of provision for income taxes | | | | | (21,494) |
| Net loss | | | | | \$ (54,940) |

For the nine months ended September 30, 2006:

| | <i>Construction</i> | <i>Engineering</i> | <i>EPC</i> | Corporate | Consolidated |
|--|---------------------|--------------------|------------|-----------|--------------|
| Contract revenue | \$ 257,587 | \$ 55,621 | \$ 38,973 | \$ | \$ 352,181 |
| Operating expenses: | | | | | |
| Contract | 238,172 | 46,598 | 35,858 | | 320,628 |
| Depreciation and amortization | 6,450 | 672 | 2,058 | | 9,180 |
| General and administrative | 25,460 | 6,390 | 1,283 | | 33,133 |
| | 270,082 | 53,660 | 39,199 | | 362,941 |
| Operating income (loss): | \$ (12,495) | \$ 1,961 | \$ (226) | \$ | (10,760) |
| Interest and other income (expense), net | | | | | (6,027) |
| Provision for income taxes | | | | | 1,811 |
| Net loss from continuing operations | | | | | (18,598) |
| Net loss from discontinued operations, net of provision for income taxes | | | | | (46,249) |

Net loss \$ (64,847)

Total assets by segment as of September 30, 2007 and December 31, 2006 are presented below:

| | September 30, 2007 | December 31, 2006 |
|----------------------|-----------------------------------|----------------------------------|
| <i>Construction</i> | \$ 326,025 | \$ 198,528 |
| <i>Engineering</i> | 27,525 | 15,342 |
| <i>EPC</i> | 7,881 | 13,336 |
| Corporate | 77,765 | 68,584 |
| | | |
| Total segment assets | \$ 439,196 | \$ 295,790 |

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10. Stockholders Equity

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

Stock Ownership Plans

During 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 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 4,075,000 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.

Restricted stock and restricted stock rights, also described collectively as restricted stock units (RSU s), and options granted under the 1996 Plan vest generally over a three to four year period. 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, 2007, the 1996 Plan had 424,379 shares and the 2006 Director Plan had 34,419 shares available for grant. Of the shares available at September 30, 2007, 225,000 shares in the 1996 Stock Plan are reserved for future grants required under employment agreements. Certain provisions allow for accelerated vesting based on increases of share prices and on eligible retirement. During the nine months ended September 30, 2007 and 2006, \$35 and \$381 of compensation expense was recognized due to accelerated vesting of RSU s due to retirements and separation from the Company.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, Share Based Payment (SFAS 123R) using the modified prospective application method. Under this method, compensation cost recognized in the three and six months ended September 30, 2007 and 2006, includes the applicable amounts of: (a) compensation expense of all share-based payments granted prior to, but not yet vested as of, January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation), and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R). The Company uses the Black-Scholes valuation method to determine the fair value of stock options granted as of the grant date.

Prior to January 1, 2006, the Company accounted for awards granted under the incentive plans following the recognition and measurement principles of Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123. Because it is the Company s policy to grant stock options at the market price on the date of grant, the intrinsic value of these grants was zero and, therefore, no compensation expense was recorded.

Share-based compensation related to RSU s is recorded based on the Company s stock price as of the grant date. Recognition of share-based compensation related to RSU s was not impacted by the adoption of SFAS No. 123R. Expense from both stock options and RSU s totaled \$3,010 and \$3,054, respectively, for the nine months ended September 30, 2007 and 2006 and \$1,088 and \$1,186, respectively, for the three months ended September 30, 2007 and 2006.

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10. Stockholders Equity (continued)

The fair values of options granted during the nine months ended September 30, 2007 and 2006, were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------|
| | 2007 | 2006 |
| Weighted average grant date fair value | \$ 9.69 | \$ 6.72 |
| Weighted average assumptions used: | | |
| Expected volatility | 40.13% | 45.66% |
| Expected lives | 3.51yrs | 3.46yrs |
| Risk-free interest rates | 4.42% | 4.66% |
| Expected dividend yield | 0.00% | 0.00% |

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

Stock option activity for the nine months ended September 30, 2007 consists of:

| | Number of Options | Weighted Average Exercise Price |
|-----------------------------------|----------------------|--|
| Outstanding at January 1, 2007 | 806,750 | \$ 13.46 |
| Granted | 10,000 | 27.80 |
| Exercised | 107,500 | 14.40 |
| Forfeited | 22,500 | 8.09 |
| Outstanding at September 30, 2007 | 686,750 | \$ 13.69 |
| Exercisable at September 30, 2007 | 512,583 | \$ 12.22 |

As of September 30, 2007, the aggregate intrinsic value of stock options outstanding and stock options exercisable was \$13,946 and \$11,162, respectively. The weighted average remaining contractual term of outstanding options is 4.70 years and the weighted average remaining contractual term of the exercisable options is 5.73 years at September 30, 2007. The total intrinsic value of options exercised during the nine months ended September 30, 2007 and 2006 was \$1,491 and \$2,174, respectively.

The total fair value of options vested during the nine months ended September 30, 2007 and 2006 was \$229 and \$184, respectively, and \$88 and \$158 during the three months ended September 30, 2007 and 2006, respectively.

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10. Stockholders' Equity (continued)

The Company's non-vested options at September 30, 2007 and the changes in non-vested options during the nine months ended September 30, 2007 are as follows:

**Weighted
Average**