

Willbros Group, Inc.\NEW\
Form 10-Q
November 06, 2015
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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, 2015

OR

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

For the transition period from _____ to _____
Commission file number 1-34259

Willbros Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware 30-0513080
(Jurisdiction (I.R.S. Employer
of incorporation) Identification Number)

4400 Post Oak Parkway
Suite 1000
Houston, TX 77027

Telephone No.: 713-403-8000

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

NOT APPLICABLE

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

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

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller reporting company

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

The number of shares of the registrant's Common Stock, \$.05 par value, outstanding as of October 30, 2015 was 62,077,267.

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 FOR QUARTER ENDED SEPTEMBER 30, 2015

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

| | September 30, 2015 | December 31, 2014 | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$48,105 | \$23,273 | |
| Accounts receivable, net | 206,392 | 347,137 | |
| Contract cost and recognized income not yet billed | 30,998 | 39,781 | |
| Prepaid expenses and other current assets | 29,690 | 25,432 | |
| Parts and supplies inventories | 1,233 | 3,555 | |
| Deferred income taxes | 2,303 | 6,621 | |
| Assets associated with discontinued operations | 3,217 | 7,057 | |
| Total current assets | 321,938 | 452,856 | |
| Property, plant and equipment, net | 66,297 | 94,432 | |
| Intangible assets, net | 90,221 | 116,130 | |
| Deferred income taxes | 786 | 711 | |
| Other assets | 34,588 | 28,078 | |
| Total assets | \$513,830 | \$692,207 | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$134,212 | \$207,313 | |
| Contract billings in excess of cost and recognized income | 13,095 | 16,371 | |
| Current portion of capital lease obligations | 698 | 917 | |
| Notes payable and current portion of long-term debt | 9,226 | 7,476 | |
| Accrued income taxes | 1,318 | 2,430 | |
| Other current liabilities | 7,813 | 7,462 | |
| Liabilities associated with discontinued operations | 1,052 | 5,185 | |
| Total current liabilities | 167,414 | 247,154 | |
| Long-term debt | 206,019 | 280,170 | |
| Capital lease obligations | — | 467 | |
| Long-term liabilities for unrecognized tax benefits | — | 117 | |
| Deferred income taxes | 2,576 | 6,895 | |
| Other long-term liabilities | 39,537 | 43,579 | |
| Total liabilities | 415,546 | 578,382 | |
| Contingencies and commitments (Note 14) | | | |
| Stockholders' equity: | | | |
| Preferred stock, par value \$.01 per share, 1,000,000 shares authorized, none issued | — | — | |
| Common stock, par value \$.05 per share, 105,000,000 shares authorized and 63,717,436 shares issued at September 30, 2015 (70,000,000 shares authorized and 52,094,931 shares issued at December 31, 2014) | 3,178 | 2,597 | |
| Additional paid-in capital | 742,394 | 703,728 | |
| Accumulated deficit | (627,654) | (581,745) |) |
| | (14,200) | (13,832) |) |

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Treasury stock at cost, 1,627,389 shares at September 30, 2015 (1,430,690 at December 31, 2014)

| | | |
|-------------------------------------------------|-----------|-----------|
| Accumulated other comprehensive income (loss) | (5,723 |) 2,788 |
| Total Willbros Group, Inc. stockholders' equity | 97,995 | 113,536 |
| Noncontrolling interest | 289 | 289 |
| Total stockholders' equity | 98,284 | 113,825 |
| Total liabilities and stockholders' equity | \$513,830 | \$692,207 |

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 Ended | | Nine Months Ended | |
|------------------------------------------------------------------------------|--------------------|-------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Contract revenue | \$266,750 | \$559,693 | \$900,605 | \$1,576,021 |
| Operating expenses: | | | | |
| Contract costs | 245,354 | 499,690 | 836,164 | 1,435,106 |
| Amortization of intangibles | 2,493 | 3,068 | 8,207 | 9,306 |
| General and administrative | 22,451 | 45,517 | 84,593 | 119,280 |
| (Gain) loss on sale of subsidiaries | 591 | — | (55,781) |) — |
| Other charges | 5,920 | — | 14,605 | — |
| | 276,809 | 548,275 | 887,788 | 1,563,692 |
| Operating income (loss) | (10,059) |) 11,418 | 12,817 | 12,329 |
| Non-operating expenses: | | | | |
| Interest expense, net | (6,110) |) (7,467) |) (20,938) |) (22,662) |
| Debt covenant suspension and extinguishment charges | (931) |) — | (37,112) |) (948) |
| Other, net | (31) |) (342) |) (244) |) (453) |
| | (7,072) |) (7,809) |) (58,294) |) (24,063) |
| Income (loss) from continuing operations before income taxes | (17,131) |) 3,609 | (45,477) |) (11,734) |
| Provision for income taxes | 1,274 | 2,739 | 1,382 | 9,283 |
| Income (loss) from continuing operations | (18,405) |) 870 | (46,859) |) (21,017) |
| Income (loss) from discontinued operations net of provision for income taxes | 1,206 | (4,229) |) 950 | (22,843) |
| Net loss | \$(17,199) |) \$(3,359) |) \$(45,909) |) \$(43,860) |
| Basic income (loss) per share attributable to Company shareholders: | | | | |
| Income (loss) from continuing operations | \$(0.31) |) \$0.02 | \$(0.82) |) \$(0.43) |
| Income (loss) from discontinued operations | 0.02 | (0.09) |) 0.02 | (0.46) |
| Net loss | \$(0.29) |) \$(0.07) |) \$(0.80) |) \$(0.89) |
| Diluted income (loss) per share attributable to Company shareholders: | | | | |
| Income (loss) from continuing operations | \$(0.31) |) \$0.02 | \$(0.82) |) \$(0.43) |
| Income (loss) from discontinued operations | 0.02 | (0.08) |) 0.02 | (0.46) |
| Net loss | \$(0.29) |) \$(0.06) |) \$(0.80) |) \$(0.89) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 60,335,717 | 49,414,847 | 56,833,178 | 49,201,697 |
| Diluted | 60,335,717 | 50,226,661 | 56,833,178 | 49,201,697 |

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------------------|--------------------|------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net loss | \$(17,199 |) \$(3,359 |) \$(45,909 |) \$(43,860 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustments | (3,851 |) (2,529 |) (7,055 |) (2,516 |
| Changes in derivative financial instruments | (1,323 |) 462 | (1,456 |) (1,168 |
| Total other comprehensive loss, net of tax | (5,174 |) (2,067 |) (8,511 |) (3,684 |
| Total comprehensive loss | \$(22,373 |) \$(5,426 |) \$(54,420 |) \$(47,544 |

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | Nine Months Ended September 30, | | |
|-------------------------------------------------------------------------------------------|------------------------------------|-------------|---|
| | 2015 | 2014 | |
| Cash flows from operating activities: | | | |
| Net loss | \$(45,909 |) \$(43,860 |) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| (Income) loss from discontinued operations | (950 |) 22,843 | |
| Depreciation and amortization | 23,018 | 27,410 | |
| Loss on sale of long-lived asset | 2,226 | — | |
| Debt covenant suspension and extinguishment charges | 37,112 | 948 | |
| Stock-based compensation | 5,266 | 9,371 | |
| Amortization of debt issuance costs | 468 | 672 | |
| Non-cash interest expense | — | 981 | |
| Deferred income tax expense (benefit) | (210 |) 3,418 | |
| Gain on disposal of property and equipment | (2,861 |) (3,260 |) |
| Gain on sale of subsidiaries | (55,781 |) — | |
| Provision for bad debts | 1,914 | 2,342 | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 99,683 | (28,789 |) |
| Contract cost and recognized income not yet billed | 5,958 | 2,867 | |
| Prepaid expenses and other current assets | (5,387 |) (10,032 |) |
| Accounts payable and accrued liabilities | (51,923 |) 17,742 | |
| Accrued income taxes | (1,107 |) (6,202 |) |
| Contract billings in excess of cost and recognized income | (2,355 |) (2,749 |) |
| Other assets and liabilities, net | (16,028 |) 5,030 | |
| Cash used in operating activities of continuing operations | (6,866 |) (1,268 |) |
| Cash provided by operating activities of discontinued operations | 209 | 3,461 | |
| Cash provided by (used in) operating activities | (6,657 |) 2,193 | |
| Cash flows from investing activities: | | | |
| Proceeds from sales of property, plant and equipment | 8,331 | 4,629 | |
| Proceeds from sale of subsidiaries | 97,344 | 46,152 | |
| Purchases of property, plant and equipment | (2,419 |) (11,691 |) |
| Cash provided by investing activities of continuing operations | 103,256 | 39,090 | |
| Cash provided by investing activities of discontinued operations | 448 | 472 | |
| Cash provided by investing activities | 103,704 | 39,562 | |
| Cash flows from financing activities: | | | |
| Proceeds from revolver and notes payable | 41,340 | 45,000 | |
| Payments on capital leases | (686 |) (693 |) |
| Payments of revolver and notes payable | (30,649 |) (49,501 |) |
| Payments on term loan facility | (80,349 |) (29,152 |) |
| Cost of debt issuance | (751 |) — | |
| Payments to reacquire common stock | (368 |) (1,301 |) |
| Cash used in financing activities of continuing operations | (71,463 |) (35,647 |) |
| Cash used in financing activities of discontinued operations | — | (100 |) |

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| | | | |
|-----------------------------------------------------------------------------|----------|-----------|---|
| Cash used in financing activities | (71,463 |) (35,747 |) |
| Effect of exchange rate changes on cash and cash equivalents | (752 |) (683 |) |
| Net increase in cash and cash equivalents | 24,832 | 5,325 | |
| Cash and cash equivalents of continuing operations at beginning of period | 23,273 | 42,569 | |
| Cash and cash equivalents of discontinued operations at beginning of period | — | 1,041 | |
| Cash and cash equivalents at beginning of period | 23,273 | 43,610 | |
| Cash and cash equivalents at end of period | 48,105 | 48,935 | |
| Less: cash and cash equivalents of discontinued operations at end of period | — | — | |
| Cash and cash equivalents of continuing operations at end of period | \$48,105 | \$48,935 | |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid for interest (including discontinued operations) | \$21,448 | \$20,873 | |
| Cash paid for income taxes (including discontinued operations) | \$3,341 | \$16,176 | |
| See accompanying notes to condensed consolidated financial statements. | | | |

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Company and Organization

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

Business Segments

The Company has four operating segments: Oil & Gas, Professional Services, Utility T&D and Canada. The Company's segments are comprised of strategic businesses that are defined by the industries or geographic regions they serve. Each is managed as an operation with well established strategic directions and performance requirements. Management evaluates the performance of each operating segment based on operating income. To support the segments, the Company has a focused corporate operation led by the executive management team, which, in addition to oversight and leadership, provides general, administrative and financing functions for the organization. The costs to provide these services are allocated, as are certain other corporate costs, to the four operating segments.

Agreement to Sell the Professional Services Segment

On October 3, 2015, the Company entered into a Securities Purchase Agreement to sell its Professional Services segment to TRC Companies (“TRC”) for approximately \$130.0 million in cash. The agreement is binding, and the Company expects to close the sale in the fourth quarter of 2015. However, the transaction is subject to various regulatory approvals and other customary closing conditions. The agreement to sell the Professional Services segment did not qualify as discontinued operations at September 30, 2015 in accordance with Accounting Standards Update (“ASU”) 2014-08, which the Company adopted on January 1, 2015.

2. Basis of Presentation

Condensed Consolidated Financial Information

The accompanying Condensed Consolidated Balance Sheet as of December 31, 2014, which has been derived from audited consolidated financial statements, and the unaudited Condensed Consolidated Financial Statements as of September 30, 2015 and 2014, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations. However, the Company believes the presentations and disclosures herein are adequate to make the information not misleading. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company’s December 31, 2014 audited Consolidated Financial Statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary to fairly state the financial position as of September 30, 2015, and the results of operations and cash flows of the Company for all interim periods presented. The results of operations and cash flows for the nine months ended September 30, 2015 are not necessarily indicative of the operating results and cash flows to be achieved for the full year.

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. Basis of Presentation (continued)

Use of Estimates and Assumptions

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

3. New Accounting Pronouncements

In April 2015, the FASB issued a standard that simplifies the presentation of debt issuance costs with the requirement that debt issuance costs related to a debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Company does not believe the standard will have a material effect on its condensed consolidated financial statements. In May 2014, the FASB and the IASB issued a standard surrounding the recognition of revenue from contracts with customers. Under the new standard, a company will recognize revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. Revenue will be recognized at an amount that reflects the consideration it expects to receive in exchange for those goods and services. The standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Originally, the standard was to be effective, on either a full retrospective or a modified retrospective basis, for interim and annual periods beginning on or after December 15, 2017; however, in August 2015, the FASB deferred the effective date of the standard to December 15, 2018. The Company is still assessing the impact of the standard on its consolidated financial statements.

4. Business Disposals

Downstream Professional Services

On June 12, 2015, the Company sold all of its issued and outstanding equity of Willbros Engineers, LLC and Willbros Heater Services, LLC (collectively "Downstream Professional Services") to BR Engineers, LLC for approximately \$10.0 million in cash. The closing consideration is subject to working capital and other typical post-closing adjustments. The Company recorded a loss of \$2.2 million in connection with this sale during the second quarter of 2015.

Premier

On March 31, 2015, the Company sold all of its membership units in Premier Utility Services, LLC ("Premier") to USIC Locating Services, LLC for approximately \$51.0 million in cash, of which \$4.0 million was deposited into an escrow account for a period of up to eighteen months to cover post-closing adjustments and any indemnification obligations of the Company. The closing consideration is subject to typical post-closing adjustments. The Company recorded a gain of \$37.1 million in connection with this sale during the first quarter of 2015.

UtilX

On March 17, 2015, the Company sold all of its equity interests of UtilX Corporation ("UtilX") to Novinium, Inc. for approximately \$40.0 million in cash, of which \$0.5 million was deposited into an escrow account for a period of six months to cover post-closing adjustments and any indemnification obligations of the Company. The closing consideration is subject to working capital and other typical post-closing adjustments. The Company recorded a gain of \$21.4 million in connection with

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. Business Disposals (continued)

this sale during the first quarter of 2015. In the third quarter of 2015, the Company cleared the \$0.5 million amount recorded in the escrow account and recorded an additional \$0.1 million against the gain as a post-closing adjustment. The three business disposals discussed above do not qualify as discontinued operations at September 30, 2015 in accordance with ASU 2014-08, which the Company adopted on January 1, 2015.

5. Other Charges

The following table reflects the Company's other charges for the three and nine months ended September 30, 2015 and 2014 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------------|--------------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Equipment and facility lease abandonment | \$5,268 | \$— | \$9,644 | \$— |
| Loss on sale of long-lived asset | — | — | 2,226 | — |
| Employee severance charges | 384 | — | 1,556 | — |
| Restatement costs (1) | 205 | — | 651 | — |
| Accelerated stock vesting | 63 | — | 528 | — |
| Total | \$5,920 | \$— | \$14,605 | \$— |

(1) Restatement costs include legal and accounting costs associated with the investigation of the root cause behind the deterioration of certain construction projects within the Oil & Gas segment, which led to the restatements of the Company's Condensed Consolidated Financial Statements for the quarterly periods ended March 31, 2014 and June 30, 2014.

6. Contracts in Progress

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

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Contracts in Progress (continued)

Contract cost and recognized income not yet billed and related amounts billed as of September 30, 2015 and December 31, 2014 was as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|-----------------------------------------------------------|-----------------------|----------------------|
| Cost incurred on contracts in progress | \$804,665 | \$981,518 |
| Recognized income | 66,839 | 90,994 |
| | 871,504 | 1,072,512 |
| Progress billings and advance payments | (853,601 |) (1,049,102 |
| | \$17,903 | \$23,410 |
| Contract cost and recognized income not yet billed | \$30,998 | \$39,781 |
| Contract billings in excess of cost and recognized income | (13,095 |) (16,371 |
| | \$17,903 | \$23,410 |

Contract cost and recognized income not yet billed includes \$1.6 million and \$2.8 million at September 30, 2015 and December 31, 2014, respectively, on completed contracts.

The balances billed but not paid by customers pursuant to retainage provisions in certain contracts are generally due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the majority of the retainage balances at each balance sheet date are expected to be collected within the next 12 months. Current retainage balances at September 30, 2015 and December 31, 2014, were approximately \$31.7 million and \$43.4 million, respectively, and are included in "Accounts receivable" in the Condensed Consolidated Balance Sheets. There were no retainage balances with settlement dates beyond the next 12 months at September 30, 2015 and December 31, 2014.

7. Intangible Assets

The Company's intangible assets with finite lives include customer relationships, trade names and developed technology and are predominantly within the Utility T&D segment. The changes in the carrying amounts of intangible assets for the nine months ended September 30, 2015 are detailed below (in thousands):

| | Customer Relationships | Trademark / Tradename | Technology | Total |
|---------------------------------|---------------------------|--------------------------|------------|-----------|
| Balance as of December 31, 2014 | \$105,604 | \$7,505 | \$3,021 | \$116,130 |
| Amortization | (7,154 |) | | |