Willbros Group, Inc.\NEW\
Form 10-Q
August 05, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from __________ to __________

Commission file number 1-34259

Willbros Group, Inc.

(Exact name of registrant as specified in its charter)

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

4400 Post Oak Parkway

Suite 1000

Houston, TX 77027

Telephone No.: 713-403-8000

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

NOT APPLICABLE

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

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

The number of shares of the registrant s Common Stock, $.05 par value, outstanding as of August 1, 2014 was 50,557,534.

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WILLBROS GROUP, INC.

FORM 10-Q

FOR QUARTER ENDED JUNE 30, 2014

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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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,274	$ 42,569
Accounts receivable, net	415,277	365,854
Contract cost and recognized income not yet billed	81,060	55,384
Prepaid expenses and other assets	34,050	25,008
Parts and supplies inventories	4,156	4,151
Deferred income taxes	10,203	10,323
Assets associated with discontinued operations	13,395	99,683
Total current assets	586,415	602,972
Property, plant and equipment, net	100,306	106,133
Intangible assets, net	121,339	127,485
Other assets	34,334	34,078
Total assets	$ 842,394	$ 870,668
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 263,006	$ 251,202
Contract billings in excess of cost and recognized income	25,741	25,586
Current portion of capital lease obligations	862	890
Notes payable and current portion of long-term debt	6,210	6,505
Current portion of settlement obligation of discontinued operations	36,500	36,500
Accrued income taxes	3,646	10,022
Liabilities associated with discontinued operations	8,695	18,365
Other current liabilities	6,603	5,816
Total current liabilities	351,263	354,886
Long-term debt	250,094	268,425
Capital lease obligations	937	1,388
Long-term liabilities for unrecognized tax benefits	1,514	4,544

Deferred income taxes	12,174	9,066
Other long-term liabilities	47,079	43,585
Total liabilities	663,061	681,894
Contingencies and commitments (Note 11)		
Stockholders equity:		
Preferred stock, par value $.01 per share, 1,000,000 shares authorized, none issued		
Common stock, par value $.05 per share, 70,000,000 shares authorized and 51,510,139 shares issued at June 30, 2014 (50,930,303 at December 31, 2013)	2,568	2,543
Capital in excess of par value	694,774	691,123
Accumulated deficit	(512,177)	(501,918)
Treasury stock at cost, 1,316,484 shares at June 30, 2014 (1,147,974 at December 31, 2013)	(13,311)	(12,070)
Accumulated other comprehensive income	7,190	8,807
Total Willbros Group, Inc. stockholders equity	179,044	188,485
Noncontrolling interest	289	289
Total stockholders equity	179,333	188,774
Total liabilities and stockholders equity	$ 842,394	$ 870,668

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Contract revenue	$ 543,557	$ 435,845	$ 1,036,941	$ 906,756
Operating expenses:				
Contract	482,559	385,422	922,093	818,218
Amortization of intangibles	3,119	3,128	6,238	6,237
General and administrative	39,373	41,004	77,704	77,472
	525,051	429,554	1,006,035	901,927
Operating income	18,506	6,291	30,906	4,829
Other expense:				
Interest expense, net	(7,477)	(7,419)	(15,195)	(15,109)
Loss on early extinguishment of debt	(948)		(948)	
Other, net	(151)	(308)	(111)	(77)
	(8,576)	(7,727)	(16,254)	(15,186)
Income (loss) from continuing operations before income taxes	9,930	(1,436)	14,652	(10,357)
Provision for income taxes	2,962	1,126	6,297	3,738
Income (loss) from continuing operations	6,968	(2,562)	8,355	(14,095)
Income (loss) from discontinued operations net of provision for income taxes	(10,620)	(4,339)	(18,614)	11,386
Net loss	$ (3,652)	$ (6,901)	$ (10,259)	$ (2,709)
Basic income (loss) per share attributable to Company shareholders:				
Income (loss) from continuing operations	$ 0.14	$ (0.05)	$ 0.17	$ (0.29)
Income (loss) from discontinued operations	(0.22)	(0.09)	(0.38)	0.24
Net loss	$ (0.08)	$ (0.14)	$ (0.21)	$ (0.05)
Diluted income (loss) per share attributable to Company shareholders:				

Income (loss) from continuing operations	$	0.14	$	(0.05)	$	0.17	$	(0.29)
Income (loss) from discontinued operations		(0.21)		(0.09)		(0.37)		0.24
Net loss	$	(0.07)	$	(0.14)	$	(0.20)	$	(0.05)
Weighted average number of common shares outstanding:								
Basic		49,336,581		48,586,757		49,093,356		48,447,044
Diluted		49,779,102		48,586,757		49,726,066		48,447,044

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$ (3,652)	$ (6,901)	$ (10,259)	$ (2,709)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	2,076	(1,590)	13	(2,591)
Changes in derivative financial instruments	(845)	232	(1,630)	460
Total other comprehensive income (loss), net of tax	1,231	(1,358)	(1,617)	(2,131)
Total comprehensive loss	$ (2,421)	$ (8,259)	$ (11,876)	$ (4,840)

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net loss	$ (10,259)	$ (2,709)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
(Income) loss from discontinued operations	18,614	(11,386)
Depreciation and amortization	18,559	20,726
Loss on early extinguishment of debt	948	
Stock-based compensation	4,509	2,761
Amortization of debt issuance costs	491	3,354
Non-cash interest expense	724	1,532
Deferred income tax expense (benefit)	3,234	(25)
Gain on disposal of property and equipment	(2,721)	(1,032)
Provision for bad debts	412	1,364
Other non-cash		(111)
Changes in operating assets and liabilities:		
Accounts receivable, net	(49,941)	41,547
Contract cost and recognized income not yet billed	(25,768)	(749)
Prepaid expenses and other assets	(9,057)	9,434
Accounts payable and accrued liabilities	11,671	(33,871)
Accrued income taxes	(6,224)	(3,087)
Contract billings in excess of cost and recognized income	158	(15,639)
Other assets and liabilities, net	(3,434)	(6,597)
Cash provided by (used in) operating activities of continuing operations	(48,084)	5,512
Cash provided by operating activities of discontinued operations	10,622	4,084
Cash provided by (used in) operating activities	(37,462)	9,596
Cash flows from investing activities:		
Proceeds from sales of property, plant and equipment	3,827	441
Proceeds from sale of subsidiaries	46,152	38,900
Purchases of property, plant and equipment	(8,353)	(4,600)
Cash provided by investing activities of continuing operations	41,626	34,741
Cash provided by (used in) provided by investing activities of discontinued operations	289	(453)
Cash provided by investing activities	41,915	34,288

Cash flows from financing activities:		
Proceeds from revolver and notes payable	30,000	32,129
Payments on capital leases	(479)	(815)
Payments of revolver and notes payable	(19,336)	(70,413)
Payments on term loan facility	(28,527)	
Payments to reacquire common stock	(1,241)	(536)
Payments to noncontrolling interest owners		(3,100)
Costs of debt issuance		(1,274)
Cash used in financing activities of continuing operations	(19,583)	(44,009)
Cash used in financing activities of discontinued operations	(100)	(126)
Cash used in financing activities	(19,683)	(44,135)
Effect of exchange rate changes on cash and cash equivalents	(106)	(519)
Net decrease in cash and cash equivalents	(15,336)	(770)
Cash and cash equivalents of continuing operations at beginning of period	42,569	48,778
Cash and cash equivalents of discontinued operations at beginning of period	1,041	5,602
Cash and cash equivalents at beginning of period	43,610	54,380
Cash and cash equivalents at end of period	28,274	53,610
Less: cash and cash equivalents of discontinued operations at end of period		
Cash and cash equivalents of continuing operations at end of period	$ 28,274	$ 53,610
Supplemental disclosures of cash flow information:		
Cash paid for interest (including discontinued operations)	$ 13,823	$ 12,233
Cash paid for income taxes (including discontinued operations)	$ 13,390	$ 7,601

See accompanying notes to condensed consolidated financial statements.

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The Company and Basis of Presentation

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.

The accompanying Condensed Consolidated Balance Sheet as of December 31, 2013, which has been derived from audited consolidated financial statements, and the unaudited Condensed Consolidated Financial Statements as of June 30, 2014 and 2013, 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, 2013 audited Consolidated Financial Statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary to fairly state the financial position as of June 30, 2014, 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 six months ended June 30, 2014 are not necessarily indicative of the operating results and cash flows to be achieved for the full year.

The Condensed Consolidated Financial Statements include certain estimates and assumptions made by management. These estimates and assumptions relate to the reported amounts of assets and liabilities at the dates of the Condensed Consolidated Financial Statements and the reported amounts of revenue and expense during those periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, 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.

Out-of-Period Adjustment The Company recorded an out-of-period adjustment during the six months ended June 30, 2014 to correct an error in the state tax provision. The net impact of the adjustment was an increase to net income from continuing operations and a decrease to net loss of $0.5 million for the six months ended June 30, 2014. The Company does not believe the adjustment is material, individually or in the aggregate, to its unaudited Condensed Consolidated Financial Statements for the six months ended June 30, 2014, nor does it believe such items are material to any of its previously issued annual or quarterly financial statements, or its expected 2014 annual financial statements.

Reclassifications Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation. These reclassifications primarily relate to the sale of the union refinery maintenance turnaround business unit, a related fabrication facility and associated tools and equipment (CTS) during the second quarter of 2014. See Note 13 Discontinued Operations for additional discussion associated with these reclassifications.

2. New Accounting Pronouncements

In March 2013, the FASB amended the accounting standard related to a parent company s accounting for the foreign cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. Under this standard, a parent entity who ceases to have a controlling interest in a subsidiary that is a business within a foreign entity should only release the cumulative translation adjustment into net income if the loss of controlling interest represents complete, or substantially complete, liquidation of the foreign entity in which the subsidiary, or asset group, had resided. This standard is effective for interim and annual periods beginning on or after December 15, 2013 and would affect the Company s condensed consolidated financial statements if it disposes of a foreign entity.

WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. New Accounting Pronouncements (continued)

In July 2013, the FASB amended the accounting standard related to income taxes to eliminate a diversity in practice for the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses or tax credit carryforwards exist. The amendment requires that the unrecognized tax benefit be presented as a reduction of the deferred tax assets associated with the carryforwards except in certain circumstances when it would be reflected as a liability. The adoption of this revision is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this amendment did not have a material impact on the Company s condensed consolidated financial statements.

In April 2014, the FASB issued authoritative guidance to change the criteria for reporting discontinued operations. Under the new guidance, only disposals representing a strategic shift in a company s operations and financial results should be reported as discontinued operations, with expanded disclosures. In addition, disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify as a discontinued operation is required. This standard is effective, on a prospective basis, for interim and annual periods beginning on or after December 15, 2014 and would affect the classification of the Company s future business disposals in discontinued operations in its condensed consolidated financial statements.

In May 2014, the FASB and the IASB issued common guidance surrounding the recognition of revenue from contracts with customers. Under the new guidance, 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. This guidance 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. This standard is effective, on either a full retrospective or a modified retrospective basis, for interim and annual periods beginning on or after December 15, 2016 and will affect the treatment and disclosure of revenue in the Company s condensed consolidated financial statements.

3. Contracts in Progress

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

Contract cost and recognized income not yet billed and related amounts billed as of June 30, 2014 and December 31, 2013 was as follows (in thousands):

	June 30, 2014	December 31, 2013
Cost incurred on contracts in progress	$ 1,065,189	$ 705,601
Recognized income	173,974	162,604
	1,239,163	868,205
Progress billings and advance payments	(1,183,844)	(838,407)
	$ 55,319	$ 29,798
Contract cost and recognized income not yet billed	$ 81,060	$ 55,384
Contract billings in excess of cost and recognized income	(25,741)	(25,586)
	$ 55,319	$ 29,798

Contract cost and recognized income not yet billed includes $6.3 million and $5.0 million at June 30, 2014 and December 31, 2013, respectively, on completed contracts.

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Contracts in Progress (continued)

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 twelve months. Current retainage balances at June 30, 2014 and December 31, 2013, were approximately $60.6 million and $39.1 million, respectively, and are included in Accounts receivable in the Condensed Consolidated Balance Sheets. Retainage balances with settlement dates beyond the next twelve months at June 30, 2014 and December 31, 2013, were approximately $2.5 million and $0.0 million, respectively, and are included in Other assets in the Condensed Consolidated Balance Sheets.

4. Intangible Assets

The changes in the carrying amounts of intangible assets for the six months ended June 30, 2014 are detailed below (in thousands):

	Customer Relationships	Trademark / Tradename	Non-compete Agreements	Technology	Total
Balance as of December 31, 2013	$ 115,218	$ 8,586	$ 108	$ 3,573	$ 127,485
Amortization	(5,215)	(640)	(108)	(275)	(6,238)
Other		92			92
Balance as of June 30, 2014	$ 110,003	$ 8,038	$	$ 3,298	$ 121,339
Weighted Average Remaining Amortization Period	10.8 yrs	5.7 yrs	0 yrs	6.0 yrs	

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

Estimated amortization expense for the remainder of 2014 and each of the subsequent five years and thereafter is as follows (in thousands):

Fiscal year:	

Remainder of 2014	$ 6,128
2015	12,256
2016	12,256
2017	12,256
2018	12,256
2019	12,138
Thereafter	54,049
Total amortization	$ 121,339

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2014 and December 31, 2013 were as follows (in thousands):

	June 30, 2014	December 31, 2013
Trade accounts payable	$ 117,875	$ 107,227
Payroll and payroll liabilities	63,603	55,153
Accrued contract costs	35,876	40,376
Self-insurance accrual	16,356	14,785
Other accrued liabilities	29,296	33,661
Total accounts payable and accrued liabilities	$ 263,006	$ 251,202

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Long-term Debt

Long-term debt as of June 30, 2014 and December 31, 2013 was as follows (in thousands):

	June 30, 2014	December 31, 2013
2013 Term Loan Facility, net of unamortized discount of $6,771 and $8,306	$ 214,077	$ 241,069
Revolver borrowings under the 2013 ABL Credit Facility	30,000	18,953
Capital lease obligations	1,799	2,278
Other obligations	12,227	14,908
Total debt	258,103	277,208
Less: current portion	(7,072)	(7,395)
Long-term debt, net	$ 251,031	$ 269,813

2013 Credit Facilities

On August 7, 2013, the Company entered into a five-year $150.0 million asset based senior revolving credit facility maturing on August 7, 2018 with Bank of America, N.A. serving as sole administrative agent for the lenders thereunder, collateral agent, issuing bank and swingline lender (the ABL Credit Facility), and a six-year $250.0 million term loan facility maturing on August 7, 2019 with JP Morgan Chase Bank, N.A. serving as a sole administrative agent for the lenders thereunder (the 2013 Term Loan Facility and, together with the ABL Credit Facility, the 2013 Credit Facilities).

ABL Credit Facility

The initial aggregate amount of commitments for the ABL Credit Facility is comprised of $125.0 million for the U.S. facility (the U.S. Facility) and $25.0 million for the Canadian facility (the Canadian Facility). The ABL Credit Facility includes a sublimit of $100.0 million for letters of credit and an accordion feature permitting the borrowers, under certain conditions, to increase the aggregate amount by an incremental $75.0 million, with additional commitments from existing lenders or new commitments from lenders reasonably acceptable to the administrative agent. The borrowers under the U.S. Facility consist of all of the Company s U.S. operating subsidiaries with assets included in the borrowing base and the U.S. Facility is guaranteed by Willbros Group, Inc. and its material U.S. subsidiaries, other than excluded subsidiaries. The borrower under the Canadian Facility is Willbros Construction Services (Canada) LP and the Canadian Facility is guaranteed by Willbros Group, Inc. and all of its material U.S. and Canadian subsidiaries, other than excluded subsidiaries.

Advances under the U.S. and Canadian Facility are limited to a borrowing base consisting of the sum of 85 percent of the value of eligible accounts and 60 percent of the value of eligible unbilled accounts less applicable reserves, which the administrative agent may establish from time to time in its permitted discretion. Eligible unbilled accounts may not exceed $50.0 million in the aggregate. Advances in U.S. dollars bear interest at a rate equal to LIBOR or the U.S. or Canadian base rate plus an additional margin. Advances in Canadian dollars bear interest at the Bankers Acceptance (BA) Equivalent Rate or the Canadian prime rate plus an additional margin.

The interest rate margins are adjusted each quarter based on the Company s fixed charge coverage ratio as of the end of the previous quarter as follows:

Fixed Charge Coverage Ratio	U.S. Base Rate, Canadian Base Rate and Canadian Prime Rate Loans	LIBOR Loans, BA Rate Loans and Letter of Credit Fees
>1.25 to 1	1.25%	2.25%
≤1.25 to 1 and 1.15 to 1	1.50%	2.50%
≤1.15 to 1	1.75%	2.75%

The borrowers will also pay an unused line fee on each of the U.S. and Canadian Facilities equal to 50 basis points when usage under the applicable facility during the preceding calendar month is less than 50 percent of the commitments or 37.5 basis points when usage under the applicable facility equals or exceeds 50 percent of the commitments for such period. With respect to the letters of credit, the borrowers will pay a letter of credit fee equal to the applicable LIBOR margin, shown in the table above, on all letters of credit and a 0.125 percent fronting fee to the issuing bank, in each case, payable monthly in arrears.

WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Long-term Debt (continued)

Obligations under the ABL Credit Facility are secured by a first priority security interest in the borrowers and guarantors accounts receivable, deposit accounts and similar assets (the ABL Priority Collateral) and a second priority security interest in the borrowers and guarantors equipment, inventory, subsidiary capital stock and intellectual property, which is subject to the first priority security interest of the collateral agent for the 2013 Term Loan Facility (the Term Loan Priority Collateral).

2013 Term Loan Facility

The 2013 Term Loan Facility provides for a $250.0 million term loan, which the Company drew in full on the effective date of the credit agreement for the 2013 Term Loan Facility. Term loans were issued at a discount such that the funded portion was equal to 96.5 percent of the principal amount of the term loans. The borrower under the Term Loan Facility is Willbros Group, Inc. with all of its obligations guaranteed by its material U.S. subsidiaries, other than excluded subsidiaries. The 2013 Credit Facilities permit the Company, under certain conditions, to add one or more incremental term loans to the 2013 Term Loan Facility in an aggregate principal amount up to $50.0 million.

The term loans are repayable in equal quarterly installments in an aggregate amount equal to 0.25 percent of the original amount of the 2013 Term Loan Facility. The balance of the terms loan are repayable on August 7, 2019. The Company is permitted to make optional prepayments at any time, subject to a variable prepayment premium if the prepayment is made prior to August 6, 2016. Mandatory prepayments of term loans are required from (i) 100 percent of the proceeds of the sale of assets constituting Term Loan Priority Collateral, subject to reinvestment provisions and certain exceptions and thresholds, (ii) 100 percent of the net cash proceeds from issuances of debt by the Company and its subsidiaries, other than permitted indebtedness and (iii) 75 percent (with step-downs to 50 percent and 0 percent based on a leverage ratio) of annual excess cash flow provided that any voluntary prepayments of term loans will be credited against excess cash flow obligations. Mandatory prepayments of excess cash flow are payable within five business days after annual financial statements are delivered to the administrative agent beginning with the fiscal year ending December 31, 2014.

The term loans will bear interest at the Adjusted Base Rate (ABR) plus an applicable margin, or the Eurodollar Rate plus an applicable margin. The ABR is the highest of (i) the rate announced by JPMorgan Chase Bank, N.A. as its prime rate, (ii) the federal funds rate plus 0.5 percent, (iii) the Eurodollar Rate applicable for a period of one month plus 1.0 percent and (iv) 2.25 percent. The Eurodollar Rate is the rate for Eurodollar deposits for a period equal to one, two, three or six months, as selected by the Company. The applicable margin for ABR loans is 8.75 percent, and the applicable margin for Eurodollar loans is 9.75 percent.

Obligations under the 2013 Term Loan Facility are secured by a first priority security interest in the Term Loan Priority Collateral and a second priority security interest in the ABL Priority Collateral.

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WILLBROS GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Long-term Debt (continued)

The table below sets forth the primary financial covenants included in the 2013 Credit Facilities and the calculation with respect to these covenants at June 30, 2014:

	Covenants Requirements	Actual Ratios at June 30, 2014
Maximum Total Leverage Ratio[1] under the 2013 Term Loan Facility (the ratio of Consolidated Debt to Consolidated EBITDA as defined in the credit agreement for the 2013 Term Loan Facility) should be equal to or less than:	3.00 to 1	2.27
Minimum Interest Coverage Ratio under the 2013 Term Loan Facility (the ratio of Consolidated EBITDA to Consolidated Interest Expense as defined in the credit agreement for the 2013 Term Loan Facility) should be equal to or greater than:	3.50 to 1	4.17
Minimum Fixed Charge Coverage Ratio[2] under the ABL Credit Facility (the ratio of Consolidated EBITDA less Capital Expenditures and cash income taxes to Consolidated Interest Expense, Restricted Payments made in cash and scheduled cash principal payments made on borrowed money as defined in the credit agreement for the ABL Credit Facility) should be equal to or greater than:	1.15 to 1	N/A

(1) The Maximum Total Leverage Ratio decreases to 2.75 as of March 31, 2015.

(2) The Minimum Fixed Charge Coverage Ratio is applicable only if excess availability under the ABL Credit Facility is less than the greater of 15 percent of the commitments or $22.5 million. In addition, prepayments of indebtedness under the 2013 Term Loan Facility are permitted if excess availability under the ABL Credit

Facility exceeds the greater of 20 percent of the commitments and $30.0 million and the borrowers and guarantors are in compliance with the Minimum Fixed Charge Coverage Ratio on a pro forma basis immediately prior to and giving effect to the prepayment. Prepayments of indebtedness under the 2013 Term Loan Facility are permitted without restriction to the extent such prepayments are from the proceeds of dispositions of the Term Loan Priority Collateral.

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

The 2013 Credit Facilities also include customary representations and warranties and affirmative and negative covenants, including:

- limitations on liens and indebtedness;
- limitations on dividends and other payments in respect of capital stock;
- limitations on capital expenditures; and
- limitations on modifications of the documentation of the 2013 Credit Facilities.

A default under the 2013 Credit Facilities may be triggered by events such as a failure to comply with financial covenants or other covenants under the 2013 Credit Facilities, a failure to make payments when due under the 2013 Credit Facilities, a failure to make payments when due in respect of, or a failure to perform obligations relating to, debt obligations in excess of $15.0 million, a change of control of the Company and certain insolvency proceedings. A default under the ABL Credit Facility would permit the lenders to terminate their commitment to make cash advances or issue letters of credit, require the immediate repayment of any outstanding cash advances with interest and require the cash collateralization of outstanding letter of credit obligations. A default under the 2013 Term Loan Facility would permit the lenders to require immediate repayment of all principal, interest, fees and other amounts payable thereunder.

As of June 30, 2014, the Company was in compliance with all covenants under the 2013 Credit Facilities.

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6. Long-term Debt (continued)

The Company s primary sources of capital are its cash on hand, operating cash flows and borrowings under the ABL Credit Facility. As of June 30, 2014, the Company had $30.0 million in outstanding revolver borrowings. The Company s unused availability under its June 30, 2014 borrowing base certificate was $47.1 million on a borrowing base of $142.9 million and outstanding letters of credit of $65.8 million. If the Company s unused availability under the ABL Credit Facility is less than the greater of (i) 15 percent of the revolving commitments or $22.5 million for five consecutive days, or (ii) 12.5 percent of the revolving commitments or $18.8 million at any time, or upon the occurrence of certain events of default under the ABL Credit Facility, the Company is subject to increased reporting requirements, the administrative agent shall have exclusive control over any deposit account, the Company will not have any right of access to, or withdrawal from, any deposit account, or any right to direct the disposition of funds in any deposit account, and amounts in any deposit account will be applied to reduce the outstanding amounts under the ABL Credit Facility.

Fair Value of Debt

The estimated fair value of the Company s debt instruments as of June 30, 2014 and December 31, 2013 was as follows (in thousands):

	June 30, 2014	December 31, 2013
2013 Term Loan Facility	$ 223,766	$ 252,372
Revolver borrowings under the 2013 ABL Credit Facility	30,000	18,953
Capital lease obligations	1,799	2,278
Other obligations	12,227	14,908
Total fair value of debt instruments	$ 267,792	$ 288,511

The 2013 Term Loan Facility, revolver borrowings under the 2013 ABL Credit Facility, capital lease obligations and other obligations are classified within Level 2 of the fair value hierarchy. The fair value of the 2013 Term Loan Facility has been estimated using discounted cash flow analyses based on the Company s incremental borrowing rate for similar borrowing arrangements. A significant increase or decrease in the inputs could result in a directionally opposite change in the fair value of the 2013 Term Loan Facility.

7. Income Taxes

The effective tax rate on continuing operations was 42.98 percent and a negative 36.09 percent for the six months ended June 30, 2014 and 2013, respectively. Tax benefit for discrete items for the six months ended June 30, 2014 was $0.5 million. This amount is composed of a tax refund, uncertain tax positions and Texas Margins Tax. Tax expense for the six months ended June 30, 2014 is $6.3 million, mainly due to Canadian Tax and Texas Margins Tax offset by the tax benefit from a tax refund. The Company has not recorded the benefit of current year losses in the United States. As of June 30, 2014, U.S. federal and state deferred tax assets continue to be covered by valuation allowances. The ultimate realization of deferred tax assets is dependent upon the generation of future U.S taxable income. The Company considers the impacts of reversing taxable temporary differences, future forecasted income and available tax planning strategies, when forecasting future taxable income and in evaluating whether deferred tax assets are more likely than not to be realized.

The effective tax rate on continuing operations was 29.83 percent and a negative 78.41 percent for the three months ended June 30, 2014 and June 30, 2013, respectively. Tax expense for the three months ended June 30, 2014 was $3.0 million, which primarily relates to Canadian Tax and Texas Margins Tax partially offset by a tax refund.

In April 2011, the Company discontinued its strategy of reinvesting foreign earnings in foreign operations. This change in strategy continues through the second quarter of 2014. The Company does not anticipate recording tax expense related to future repatriations of foreign earnings to the U.S.

The Company expects that the statute of limitations will expire on an uncertain tax position within the next twelve months. Assuming that the statute of limitations expires, the Company would release reserves in the amount of $1.6 million.

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(Unaudited)

8. Stockholders Equity

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

Changes in Accumulated Other Comprehensive Income by Component

	Three Months Ended June 30, 2014 (in thousands)		
	Foreign currency translation adjustments	Changes in derivative financial instruments	Total accumulated comprehensive income
Balance March 31, 2014	$ 9,217	$ (3,258)	$ 5,959
Other comprehensive income (loss) before reclassifications	2,076	(1,098)	978
Amounts reclassified from accumulated other comprehensive income		253	253
Net current-period other comprehensive income (loss)	2,076	(845)	1,231
Balance June 30, 2014	$ 11,293	$ (4,103)	$ 7,190

	Six Months Ended June 30, 2014 (in thousands)		
	Foreign currency translation adjustments	Changes in derivative financial instruments	Total accumulated comprehensive income
Balance December 31, 2013	$ 11,280	$ (2,473)	$ 8,807
Other comprehensive income (loss) before reclassifications	13	(2,133)	(2,120)
Amounts reclassified from accumulated other comprehensive income		503	503
Net current-period other comprehensive income (loss)	13	(1,630)	(1,617)

Balance June 30, 2014	$ 11,293	$ (4,103)	$ 7,190

	Three Months Ended June 30, 2013 (in thousands)		
	Foreign currency translation adjustments	**Changes in derivative financial instruments**	**Total accumulated comprehensive income**
Balance March 31, 2013	$ 13,944	$ (1,213)	$ 12,731
Other comprehensive loss before reclassifications	(1,590)	(25)	(1,615)
Amounts reclassified from accumulated other comprehensive income		257	257
Net current-period other comprehensive income (loss)	(1,590)	232	(1,358)
Balance June 30, 2013	$ 12,354	$ (981)	$ 11,373

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WILLBROS GROUP, INC.

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(Unaudited)

8. Stockholders Equity (continued)

	Six Months Ended June 30, 2013 (in thousands)		
	Foreign currency translation adjustments	Changes in derivative financial instruments	Total accumulated comprehensive income
Balance December 31, 2012	$ 14,945	$ (1,441)	$ 13,504
Other comprehensive loss before reclassifications	(2,723)	(52)	(2,775)
Amounts reclassified from accumulated other comprehensive income	132	512	644
Net current-period other comprehensive income (loss)	(2,591)	460	(2,131)
Balance June 30, 2013	$ 12,354	$ (981)	$ 11,373

Reclassifications out of Accumulated Other Comprehensive Income

Three Months Ended June 30, 2014 (in thousands)		
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Details about Accumulated Other Comprehensive Income Components
Interest rate contracts	$ 253	Interest expense, net
Total	$ 253	

Six Months Ended June 30, 2014 (in thousands)		
Details about Accumulated Other	Amount Reclassified	Details about Accumulated Other

Comprehensive Income Components	from Accumulated Other Comprehensive Income		Comprehensive Income Components
Interest rate contracts	$	503	Interest expense, net
Total	$	503	

Three Months Ended June 30, 2013 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Details about Accumulated Other Comprehensive Income Components
Interest rate contracts	$	257	Interest expense, net
Total	$	257	

Six Months Ended June 30, 2013 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Details about Accumulated Other Comprehensive Income Components
Interest rate contracts	$	512	Interest expense, net
Total	$	512	

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WILLBROS GROUP, INC.

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8. Stockholders Equity (continued)

Stock Ownership Plans

In May 1996, the Company established the Willbros Group, Inc. 1996 Stock Plan (the 1996 Plan) with 1,125,000 shares of common stock authorized for issuance to provide for awards to key employees of the Company, and the Willbros Group, Inc. Director Stock Plan (the Director Plan) with 125,000 shares of common stock authorized for issuance to provide for the grant of stock options to non-employee directors. The number of shares authorized for issuance under the 1996 Plan, and the Director Plan, was increased to 4,825,000 and 225,000, respectively, by stockholder approval. The Director Plan expired August 16, 2006.

In 2006, the Company established the 2006 Director Restricted Stock Plan (the 2006 Director Plan) with 50,000 shares authorized for issuance to grant shares of restricted stock and restricted stock rights to non-employee directors. The number of shares authorized for issuance under the 2006 Director Plan was increased in 2008 to 250,000, in 2012 to 550,000 and in 2014 to 750,000 by stockholder approval.

On May 26, 2010, the Company established the Willbros Group, Inc. 2010 Stock and Incentive Compensation Plan (the 2010 Plan) with 2,100,000 shares of common stock authorized for issuance (increased in 2012 to 3,450,000 shares and in 2014 to 6,050,000 by stockholder approval) to provide for awards to key employees of the Company. All future grants of stock awards to key employees will be made through the 2010 Plan. As a result, the 1996 Plan was frozen, with the exception of normal vesting, forfeiture and other activity associated with awards previously granted under the 1996 Plan. At June 30, 2014, the 2010 Plan had 3,490,764 shares available for grant.

9. Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share is based on the weighted average number of shares outstanding during each period and the assumed exercise of potentially dilutive stock options and vesting of RSUs less the number of treasury shares assumed to be purchased from the proceeds using the average market price of the Company s stock for each of the periods presented.

Basic and diluted income (loss) per common share from continuing operations is computed as follows (in thousands, except share and per share amounts):

	Three Months Ended June 30,	Six Months Ended June 30,

	2014	2013	2014	2013
Net income (loss) from continuing operations applicable to common shares (numerator for basic and diluted calculation)	$ 6,968	$ (2,562)	$ 8,355	$ (14,095)
Weighted average number of common shares outstanding for basic income (loss) per share	49,336,581	48,586,757	49,093,356	48,447,044
Weighted average number of potentially dilutive common shares outstanding	442,521		632,710	
Weighted average number of common shares outstanding for diluted income (loss) per share	49,779,102	48,586,757	49,726,066	48,447,044
Income (loss) per common share from continuing operations:				
Basic	$ 0.14	$ (0.05)	$ 0.17	$ (0.29)
Diluted	$ 0.14	$ (0.05)	$ 0.17	$ (0.29)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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9. Income (Loss) Per Share (continued)

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Stock options	177,750	182,431
Restricted stock and restricted stock rights		643,859
	177,750	826,290

10. Segment Information

The Company s segments are comprised of strategic businesses that are defined by the industries or geographic regions they serve. Each is managed as an operation with well-established strategic directions and performance requirements.

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.

The following tables reflect the Company s operations by reportable segment for the three months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30, 2014					
	Oil & Gas	*Utility T&D*	*Professional Services*	*Canada*	Eliminations	Consolidated
Contract revenue	$ 237,777	$ 111,936	$ 100,395	$ 95,277	$ (1,828)	$ 543,557
Operating expenses	245,626	102,968	93,489	84,796	(1,828)	525,051
Operating income (loss)	$ (7,849)	$ 8,968	$ 6,906	$ 10,481	$	18,506

Other expense	(8,576)
Provision for income taxes	2,962
Income from continuing operations	6,968
Loss from discontinued operations net of provision for income taxes	(10,620)
Net loss	$ (3,652)

	Three Months Ended June 30, 2013					
	Oil & Gas	*Utility T&D*	*Professional Services*	*Canada*	Eliminations	Consolidated
Contract revenue	$ 134,368	$ 128,321	$ 87,423	$ 87,425	$ (1,692)	$ 435,845
Operating expenses	156,198	112,693	79,238	83,117	(1,692)	429,554
Operating income (loss)	$ (21,830)	$ 15,628	$ 8,185	$ 4,308	$	6,291
Other expense						(7,727)
Provision for income taxes						1,126
Loss from continuing operations						(2,562)
Loss from discontinued operations net of provision for income taxes						(4,339)
Net loss						$ (6,901)

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WILLBROS GROUP, INC.

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(Unaudited)

10. Segment Information (continued)

The following tables reflect the Company s operations by reportable segment for the six months ended June 30, 2014 and 2013 (in thousands):

	Six Months Ended June 30, 2014					
	Oil & Gas	*Utility T&D*	*Professional Services*	*Canada*	Eliminations	Consolidated
Contract revenue	$ 431,831	$ 208,269	$ 187,820	$ 212,356	$ (3,335)	$ 1,036,941
Operating expenses	441,860	199,532	178,676	189,302	(3,335)	1,006,035
Operating income (loss)	$ (10,029)	$ 8,737	$ 9,144	$ 23,054	$	30,906
Other expense						(16,254)
Provision for income taxes						6,297
Income from continuing operations						8,355
Loss from discontinued operations net of provision for income taxes						(18,614)
Net loss						$ (10,259)

	Six Months Ended June 30, 2013					
	Oil & Gas	*Utility T&D*	*Professional Services*	*Canada*	Eliminations	Consolidated
Contract revenue	$ 302,904	$ 241,525	$ 165,888	$ 199,420	$ (2,981)	$ 906,756
Operating expenses	339,209	224,004	157,090	184,605	(2,981)	901,927
Operating income (loss)	$ (36,305)	$ 17,521	$ 8,798	$ 14,815	$	4,829
Other expense						(15,186)
Provision for income taxes						3,738
Loss from continuing operations						(14,095)
Income from discontinued operations net of provision for income taxes						11,386

Net loss	$	(2,709)

Total assets by segment as of June 30, 2014 and December 31, 2013 are presented below (in thousands):

	June 30, 2014	December 31, 2013
Oil & Gas	$ 283,570	$ 234,004
Utility T&D	274,179	260,867
Professional Services	104,395	94,828
Canada	112,613	123,838
Corporate	54,242	57,448
Total assets, continuing operations	$ 828,999	$ 770,985

11. Contingencies, Commitments and Other Circumstances

Contingencies

Central Maine Power

On January 20, 2014, the Company settled a lawsuit against Central Maine Power Company (CMP) in connection with an existing project to install transmission lines and perform construction services for CMP, for the project generally known as the Transmission Line Construction of the Southern Loop and Southern Connector portion of the Maine Power Reliability Program (the MPRP Project). Under terms of the settlement, CMP made a payment to the Company in the first quarter of 2014 of $20.1 million, which consisted of $17.0 million in settlement proceeds and $3.1 million as an early payment of retention. In addition, CMP extended the schedule and provided other relief on the remainder of the MPRP Project. The impact of the settlement on operating results was recognized in the fourth quarter of 2013. The Company continues to perform the MPRP Project, which has an expected completion date in the third quarter of 2014.

WILLBROS GROUP, INC.

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11. Contingencies, Commitments and Other Circumstances (continued)

Other

In addition to the matters discussed above and in Note 13 Discontinued Operations, the Company is party to a number of other legal proceedings. Management believes that the nature and number of these proceedings are typical for a firm of similar size engaged in a similar type of business and that none of these proceedings is material to the Company s condensed consolidated results of operations, financial position or cash flows.

Commitments

From time to time, the Company enters into commercial commitments, usually in the form of commercial and standby letters of credit, surety bonds and financial guarantees. Contracts with the Company s customers may require the Company to secure letters of credit or surety bonds with regard to the Company s performance of contracted services. In such cases, the commitments can be called upon in the event of failure to perform contracted services. Likewise, contracts may allow the Company to issue letters of credit or surety bonds in lieu of contract retention provisions, where the client withholds a percentage of the contract value until project completion or expiration of a warranty period. Retention commitments can be called upon in the event of warranty or project completion issues, as prescribed in the contracts. At June 30, 2014, the Company had approximately $65.8 million of outstanding letters of credit. This amount represents the maximum amount of payments the Company could be required to make if these letters of credit are drawn upon. Additionally, the Company issues surety bonds customarily required by commercial terms on construction projects. At June 30, 2014, the Company had bonds outstanding, primarily performance bonds, with a face value at $235.1 million. This amount represents the bond penalty amount of future payments the Company could be required to make if the Company fails to perform its obligations under such contracts. The performance bonds do not have a stated expiration date; rather, each is released when the contract is accepted by the owner. The Company s maximum exposure as it relates to the value of the bonds outstanding is lowered on each bonded project as the cost to complete is reduced. As of June 30, 2014, no liability has been recognized for letters of credit or surety bonds.

Other Circumstances

The Company has the usual liability of contractors for the completion of contracts and the warranty of its work. In addition, the Company acts as prime contractor on a majority of the projects it undertakes and is normally responsible for the performance of the entire project, including subcontract work. Management is not aware of any material exposure related thereto which has not been provided for in the accompanying consolidated financial statements.

12. Fair Value Measurements

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

Fair Value Hierarchy

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

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

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities.

Level 3 Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

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

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12. Fair Value Measurements (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis

The Company measures certain financial instruments at fair value on a recurring basis. The fair value of these financial instruments (in thousands) was determined using the following inputs as of June 30, 2014 and December 31, 2013:

		June 30, 2014		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Liabilities:				
Interest rate swaps	$ 4,103	$	$ 4,103	$

		December 31, 2013		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Liabilities:				
Interest rate swaps	$ 2,473	$	$ 2,473	$

Hedging Arrangements

The Company attempts to negotiate contracts that provide for payment in U.S. dollars, but it may be required to take all or a portion of payment under a contract in another currency. To mitigate non-U.S. currency exchange risk, the Company seeks to match anticipated non-U.S. currency revenue with expenses in the same currency whenever possible. To the extent it is unable to match non-U.S. currency revenue with expenses in the same currency, the Company may use forward contracts, options or other common hedging techniques in the same non-U.S. currencies. The Company had no derivative financial instruments to hedge currency risk at June 30, 2014 or December 31, 2013.

Interest Rate Swaps

The Company is subject to hedging arrangements to fix or otherwise limit the interest cost of its variable interest rate borrowings. The Company is subject to interest rate risk on its debt and investment of cash and cash equivalents arising in the normal course of business. The Company does not engage in speculative trading strategies.

In August 2013, the Company entered into an interest rate swap agreement for a notional amount of $124.1 million to hedge changes in the variable rate interest expense on $124.1 million of its existing or replacement LIBOR indexed debt. Under the swap agreement, which is effective June 30, 2014 through August 7, 2019, the Company receives interest at either one-month LIBOR or 1.25 percent (whichever is greater) and pays interest at a fixed rate of 2.84 percent. The swap is designated and qualifies as a cash flow hedging instrument with the effective portion of the swap s change in fair value recorded in Other Comprehensive Income (OCI). The swap is highly effective in offsetting changes in interest expense and no hedge ineffectiveness has been recorded in the Condensed Consolidated Statements of Operations. Amounts in OCI will be reclassified to interest expense when the hedged interest payments on the underlying debt are recognized.

In September 2010, the Company entered into two interest rate swap agreements for a total notional amount of $150.0 million to hedge changes in the variable rate interest expense on $150.0 million of its then existing or replacement LIBOR indexed debt. Under each swap agreement, the Company received interest at either three-month LIBOR or 2 percent (whichever was greater) and paid interest at a fixed rate of 2.68 percent through June 30, 2014. Through August 7, 2013, the swap agreements were designated and qualified as cash flow hedging instruments, with the effective portion of the swaps change in fair value recorded in OCI. Amounts in OCI were reclassified to interest expense when the hedged interest payments on the underlying debt are recognized during the period when the swaps were designated as cash flow hedges. Through August 7, 2013, the swaps were highly effective hedges, and only an immaterial amount of hedge ineffectiveness was recorded in the Consolidated Statements of Operations. On August 7, 2013, the swaps were de-designated due to the refinancing of the underlying debt, which decreased the interest rate floor from 2 percent to 1.25 percent. In addition, on August 7, 2013, each swap agreement was transferred to another party through a novation transaction, which increased the Company s interest rate to 2.70 percent through June 30, 2014. Changes in the value of the swaps that remain open are reported in earnings and were immaterial for the six months ended June 30, 2014.

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12. Fair Value Measurements (continued)

The carrying amount and fair value of these swap agreements are equivalent since the Company accounts for these instruments at fair value. The values, as identified below (in thousands), are derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The inputs to the valuation pricing models are observable in the market, and as such are generally classified as Level 2 in the fair value hierarchy. For validation purposes, the swap valuations are periodically compared to those produced by swap counterparties. Amounts of OCI relating to the interest rate swaps expected to be recognized in interest expense in the coming twelve months totaled $1.9 million.

	Liability Derivatives			
	June 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts- swaps	Other current liabilities	$ 1,881	Other current liabilities	$ 1,505
Interest rate contracts- swaps	Other long-term liabilities	2,222	Other long-term liabilities	968
Total derivatives		$ 4,103		$ 2,473

For the Three Months Ended June 30,

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	
	2014	2013		2014	2013
Interest rate contracts	$ (1,098)	$ (25)	Interest expense, net	$ 253	$ 257
Total	$ (1,098)	$ (25)		$ 253	$ 257