

GLOBAL INDUSTRIES LTD

Form 10-Q

August 06, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q**

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

**For the quarterly period ended June 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: 0-21086  
Global Industries, Ltd.**

(Exact name of registrant as specified in its charter)

**Louisiana**

(State or other jurisdiction of incorporation or  
organization)

**72-1212563**

(I.R.S. Employer Identification No.)

**8000 Global Drive  
Carlyss, Louisiana**

(Address of principal executive offices)

**70665**

(Zip Code)

**(337) 583-5000**

(Registrant's telephone number, including area code)

**None**

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

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

The number of shares of the Registrant's Common Stock outstanding, as of August 1, 2007 was 117,747,118.

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying Condensed Consolidated Balance Sheet of Global Industries, Ltd. and subsidiaries (the Company) as of June 30, 2007, and the related Condensed Consolidated Statements of Operations for the three-month and six-month periods ended June 30, 2007 and 2006 and of Cash Flows for the six-month periods ended June 30, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

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

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

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

DELOITTE & TOUCHE LLP

August 2, 2007

Houston, Texas

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

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 465,193	\$ 352,178
Restricted cash	1,099	1,073
Marketable securities	75,837	
Accounts receivable net of allowance of \$25,439 for 2007 and \$17,203 for 2006	181,265	197,258
Unbilled work on uncompleted contracts	58,187	90,980
Contract costs incurred not yet recognized	1,753	22,721
Deferred income taxes	3,196	2,781
Prepaid expenses and other	17,523	16,147
<b>Total current assets</b>	<b>804,053</b>	<b>683,138</b>
<b>Property and Equipment, net</b>	<b>312,417</b>	<b>316,876</b>
<b>Other Assets</b>		
Accounts receivable long term	6,616	7,731
Deferred charges, net	23,502	19,862
Deferred income taxes	3,703	2,711
Goodwill, net	37,388	37,388
Other	4,967	3,291
<b>Total other assets</b>	<b>76,176</b>	<b>70,983</b>
<b>Total</b>	<b>\$ 1,192,646</b>	<b>\$ 1,070,997</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 3,960	\$ 3,960
Accounts payable	108,732	127,009
Employee-related liabilities	28,286	25,643
Income taxes payable	27,306	38,092
Accrued interest payable	2,030	2,134
Advance billings on uncompleted contracts	24,853	4,557
Other accrued liabilities	19,057	21,617
<b>Total current liabilities</b>	<b>214,224</b>	<b>223,012</b>

<b>Long-Term Debt</b>	67,320	69,300
<b>Deferred Income Taxes</b>	51,507	51,714
<b>Other Liabilities</b>	9,538	1,406

**Commitments and Contingencies****Shareholders Equity**

Common stock issued, \$0.01 par value, 150,000 authorized, and 117,734 and 116,252 shares issued and outstanding at 2007 and 2006, respectively	1,177	1,162
Additional paid-in capital	404,687	379,297
Retained earnings	450,830	353,834
Treasury stock at cost, 32 in 2007 and 25 in 2006	(812)	(644)
Accumulated other comprehensive loss	(5,825)	(8,084)
Total shareholders equity	850,057	725,565
<b>Total</b>	<b>\$ 1,192,646</b>	<b>\$ 1,070,997</b>

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenues	\$ 248,940	\$ 367,631	\$ 525,949	\$ 613,898
Cost of operations	174,807	266,494	358,342	464,631
<b>Gross profit</b>	74,133	101,137	167,607	149,267
Loss on asset impairments		4,485		4,485
Reduction in litigation provision		(13,699)		(13,699)
Net loss (gain) on asset disposal	12	(216)	(1,308)	(507)
Selling, general and administrative expenses	19,884	14,710	38,028	30,996
<b>Operating income</b>	54,237	95,857	130,887	127,992
Other expense:				
Interest expense	2,032	2,460	4,773	4,496
Other (income), net	(6,531)	(1,060)	(11,416)	(1,093)
<b>Income before taxes</b>	58,736	94,457	137,530	124,589
Income taxes	17,607	32,074	41,945	43,442
<b>Net income</b>	\$ 41,129	\$ 62,383	\$ 95,585	\$ 81,147
<b>Earnings Per Common Share</b>				
Basic	\$ 0.35	\$ 0.54	\$ 0.82	\$ 0.70
Diluted	\$ 0.35	\$ 0.53	\$ 0.81	\$ 0.69
<b>Weighted Average Common Shares Outstanding</b>				
Basic	117,305	115,650	116,946	115,181
Diluted	119,168	117,478	118,675	116,915

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 95,585	\$ 81,147
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,592	26,946
Stock-based compensation expense	9,167	4,708
Provision for doubtful accounts	415	7,601
Gain on sale or disposal of property and equipment	(1,308)	(507)
Derivative gain	(325)	
Loss on asset impairments		4,485
Reduction in litigation provision		(13,699)
Deferred income taxes	(2,224)	17,250
Excess tax benefits from stock-based compensation	(2,541)	
Changes in operating assets and liabilities		
Receivables, unbilled work, and contract costs	70,452	(134,767)
Prepaid expenses and other	752	1,046
Accounts payable, employee-related liabilities and other accrued liabilities	2,480	65,802
Deferred dry-dock costs incurred	(9,362)	(11,967)
Net cash provided by operating activities	186,683	48,045
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of assets	3,651	509
Additions to property and equipment	(15,541)	(28,373)
Purchase of short-term investments	(75,837)	
Additions to restricted cash	(26)	(8,685)
Net cash (used in) investing activities	(87,753)	(36,549)
<b>Cash Flows From Financing Activities</b>		
Proceeds from sale of common stock, net	13,696	7,161
Additions to deferred charges	(4)	(517)
Repayment of long-term debt	(1,980)	(1,980)
Repurchase of common stock	(168)	
Excess tax benefits from stock-based compensation	2,541	
Net cash provided by financing activities	14,085	4,664

**Cash and cash equivalents**



Increase	113,015	16,160
Beginning of period	352,178	127,138
End of period	\$ 465,193	\$ 143,298

**Supplemental Disclosures**

Interest Paid	\$ 2,971	\$ 9,487
Income Taxes Paid	\$ 49,028	\$ 8,072

See Notes to Condensed Consolidated Financial Statements.

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**Global Industries, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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

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

2. ***Accounting Change Recognizing Uncertain Income Tax Positions*** In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for tax positions taken, or expected to be taken, on a tax return. The Company adopted the provisions of FIN 48 on January 1, 2007, which requires a cumulative effect of accounting change to the opening balance of retained earnings upon adoption. Accordingly, the Company recognized a \$1.4 million cumulative adjustment for such tax positions as an increase to the opening balance of retained earnings on January 1, 2007, as reflected in the accompanying financial position for the period ended June 30, 2007. Please see Note 9 for additional information regarding the adoption of FIN 48.

3. ***Marketable Securities*** The Company has invested in auction rate securities which are debt and preferred stock instruments having longer-dated legal maturities (in most cases, many years), but with interest rates that are generally reset every 28-49 days under an auction system. Because the Company regularly liquidates its investments in these securities for reasons including, among others, changes in the availability of and the yield on alternative investments, the Company has classified these securities as available-for-sale. The coupon interest rate for these securities ranged from 3.6% to 4.0%, on a tax exempt basis, for the quarter ended June 30, 2007. Short-term marketable securities are carried at cost, which approximates fair value. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. Investments classified as available-for-sale are carried at an estimated fair value with any unrealized gain or loss recorded in accumulated other comprehensive income. There was no unrealized gain or loss associated with the auction rate securities that were outstanding at June 30, 2007.

4. ***Receivables*** Receivables are presented in the following balance sheet accounts: (1) accounts receivable, (2) accounts receivable – long-term, (3) unbilled work on uncompleted contracts, and (4) contract costs incurred not yet recognized. *Accounts receivable* at June 30, 2007 included \$13.3 million which was not immediately collectible due to contractually specified retainage requirements. This amount is expected to be collected within the next twelve months. *Accounts receivable* at December 31, 2006 included \$4.4 million which was related to retainage.

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

The balance of *unbilled work on uncompleted contracts* includes (a) amounts receivable from customers for work that has not yet been billed pursuant to contractually specified milestone billing requirements and (b) revenue accruals.

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The claims and unapproved change orders included in our receivables amounted to \$42.7 million at June 30, 2007 and \$21.4 million at December 31, 2006.

**Costs and Estimated Earnings on Uncompleted Contracts**

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
	<i>(In thousands)</i>	
Costs incurred on uncompleted contracts	\$ 819,788	\$ 663,381
Estimated earnings	280,972	197,693
Costs and estimated earnings on uncompleted contracts	1,100,760	861,074
Less: Billings to date	(1,082,193)	(796,353)
	18,567	64,721
Plus: Accrued revenue	14,767	21,702
	\$ 33,334	\$ 86,423
Included in accompanying balance sheets under the following captions:		
Unbilled work on uncompleted contracts	\$ 58,187	\$ 90,980
Advance billings on uncompleted contracts	(24,853)	(4,557)
	\$ 33,334	\$ 86,423

5. **Property and Equipment** Property and equipment are stated at cost less accumulated depreciation. Expenditures for property and equipment and items that substantially increase the useful lives of existing assets are capitalized at cost and depreciated. Routine expenditures for repairs and maintenance are expensed as incurred. Except for major construction vessels that are depreciated on the units-of-production (UOP) method over estimated vessel operating days, depreciation is provided utilizing the straight-line method over the estimated useful lives of the assets. The UOP method is based on vessel utilization days and more closely correlates depreciation expense to vessel revenue. In addition, the UOP method provides for a minimum depreciation floor in periods with nominal vessel use. In general, less depreciation expense would be recorded in periods of high utilization and revenues, and more depreciation expense would be recorded in periods of low vessel utilization and revenues if we applied only a straight-line depreciation method. Property and equipment at June 30, 2007 and December 31, 2006 is presented net of \$301.3 million and \$286.0 million of accumulated depreciation, respectively.

6. **Commitments and Contingencies**

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

On February 21, 2007, we received a \$29.7 million tax assessment from Algeria for income tax, business tax and value added tax for 2005 and 2004. We are indemnified by our clients for the value added tax portion, or approximately \$10.4 million, of the assessment. We accrued income taxes for the Algerian tax liability in conjunction with the project in 2005 and 2004. We believe the ultimate amount due will not be

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materially different from the amount accrued. We have engaged outside tax counsel to assist us in resolving the tax assessment, and they are presently in discussions with the Algerian tax authorities.

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

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

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

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

**Commitments** In the normal course of our business, we provide guarantees and bonds for performance, bids, and payments pursuant to agreements to perform construction services, or in connection with bidding to obtain such agreements. At June 30 2007, the aggregate amount of guarantees (including letters of credit) was \$111.1 million, which are due to expire between July 2007 and September 2009. The aggregate amount of the bonds, in particular surety bonds, was \$73.5 million as of June 30, 2007. These bonds are due to expire between July 2007 and September 2008.

We estimate that the cost to complete capital expenditure projects in progress at June 30, 2007, excluding the recently announced Global 1200, will be approximately \$36.7 million.

7. **Derivative Financial Instruments** Due to the international nature of our business operations and the variable interest rate provisions of our revolving credit facility, we are exposed to certain risks associated with changes in foreign currency exchange rates and interest rates. From time to time, we enter into derivative agreements (hedging instruments) to hedge our exposure to specific foreign currency or interest rate risks (hedged items). We do not use derivative financial instruments for trading purposes.

We did not enter into any new derivative positions during the three and six months ended June 30, 2007. As discussed in Note 13 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, we record in earnings the changes in fair market value and cash settlements with respect to our Euro forward exchange agreements as they were previously determined to be ineffective hedges, and we account for our Norwegian Kroner forward exchange agreements as cash flow hedges, as defined by Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

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The Norwegian Kroner hedges were effective for the three and six months ended June 30, 2007 and 2006. As of June 30, 2007, the Company had \$3.2 million in unrealized gains, net of tax, in accumulated other comprehensive income related to forward exchange hedges. Included in this total is approximately \$1.1 million in net unrealized gains which are expected to be realized in earnings during the twelve months following June 30, 2007.

8. **Restructuring Costs** - On May 9, 2007, a decision was made to relocate the Asia Pacific regional headquarters from Bangkok to Singapore to better align the Company's strategies with its target markets. The expected completion date for this relocation is December 31, 2007. The estimated total cost to be incurred related to this plan is approximately \$2.0 million, of which \$ 1.3 million will be costs for severance and benefits, and other costs related to closing the Bangkok headquarters, as well as capital improvements of approximately \$0.7 million for the new Singapore headquarters. At June 30, 2007, \$0.4 million was accrued for severance expense and is reflected in the cost of operations.

9. **Income Taxes** As a result of implementing FIN 48 on January 1, 2007, the Company recognized a \$1.4 million reduction of taxes due to foreign tax benefits which was accounted for as an increase to the January 1, 2007 balance of retained earnings. Also on January 1, 2007, the Company had:

unrecognized tax benefits of \$11.7 million, all of which would impact the Company's effective tax rate, if recognized;

\$5.7 million of accrued income tax for uncertain tax positions; and

\$4.6 million of interest expense and penalties related to income taxes. The Company recognized interest accrued for income taxes, as interest expense and penalties are reflected in Other income, net .

During the next twelve months it is reasonably possible that the FIN 48 reserve could decrease by \$3.6 million if certain foreign filing requirements are resolved. There was no material change to the FIN 48 reserve for the three and six months ended June 30, 2007.

The tax years of 1998 through 2006 remain open to examination by the major taxing authorities to which the Company is subject.

The Company has not provided deferred taxes on foreign earnings because such earnings are intended to be reinvested indefinitely outside of the United States. Remittance of foreign earnings are planned based on projected cash flow needs as well as working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. In 2007, we expect to be in an overall cumulative indefinitely reinvested, undistributed foreign earnings positive position. We are currently evaluating the United States federal income and foreign withholding tax liability in the event foreign earnings are remitted to the United States. If these earnings were to be distributed, foreign tax credits will become available under current law to reduce or eliminate the resulting United States income tax liability.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	<i>(In thousands)</i>			
Net Income	\$ 41,129	\$ 62,383	\$ 95,585	\$ 81,147
Unrealized net gain on derivative instruments	2,220	2,419	3,477	2,865
Less: deferred taxes	(778)	(841)	(1,218)	(997)
Comprehensive Income	\$ 42,571	\$ 63,961	\$ 97,844	\$ 83,015

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

	Accumulated	Foreign	Accumulated
	Translation	Exchange	Other
	Adjustment	Agreements	Comprehensive
	<i>(In thousands)</i>		
Balance at December 31, 2006	\$ (8,978)	\$ 894	\$ (8,084)
Change in value		2,327	2,327
Reclassifications to earnings		(68)	(68)
Balance at June 30, 2007	\$ (8,978)	\$ 3,153	\$ (5,825)

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



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11. **Earnings Per Share** The following table presents the reconciliation between basic shares and diluted shares (in thousands, except per share data).

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>(In thousands)</i>			
Net Income	\$ 41,129	\$ 62,383	\$ 95,585	\$ 81,147
Common shares dilution				
Basic shares	117,305	115,650	116,946	115,181
Effect of dilutive securities	1,863	1,828	1,729	1,734
Diluted shares	119,168	117,478		