

GLOBAL INDUSTRIES LTD  
Form 10-Q  
August 09, 2004

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, 2004

Commission File Number: 2-56600

Global Industries, Ltd.

(Exact name of registrant as specified in its charter)

Louisiana

72-1212563

(State or other jurisdiction of incorporation or organization)

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

8000 Global Drive

Carlyss, Louisiana

70665

(Address of principal executive offices)

(Zip Code)

(337) 583-5000

(Registrant's telephone number, including area code)

None

(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

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Indicate by check mark whether the registrant is an accelerated filer (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 2, 2004 was 110,995,057.

Global Industries, Ltd.

Index - Form 10-Q

Part I - Financial Information

Item 1.	Financial Statements - Unaudited	
	Report of Independent Registered Public Accounting Firm	3
	Consolidated Statements of Operations	4
	Consolidated Balance Sheets	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition	
	and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 4.	Controls and Procedures	26

Part II - Other Information

Item 1.	Legal Proceedings	27
Item 4.	Submission of Matters to a Vote of Security Holders	27

Item 6.	Exhibits and Reports on Form 8-K	28
	Signature	29

## 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, as listed in the accompanying index, as of June 30, 2004, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2004 and 2003, and of cash flows for the six-month periods ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews 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 reviews, 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, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE &amp; TOUCHE LLP

August 6, 2004

New Orleans, Louisiana

## Global Industries, Ltd.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues	\$ 89,009	\$ 154,153	\$ 173,779	\$ 303,093
Cost of Operations	87,707	140,533	170,163	278,685
Gross Profit	1,302	13,620	3,616	24,408
Selling, General and Administrative Expenses	10,534	10,525	20,648	20,004
Operating (Loss) Income	(9,232)	3,095	(17,032)	4,404
Other Expense:				
Interest expense	2,870	2,850	6,267	5,595
Other	1,273	(873)	1,661	(700)
	4,143	1,977	7,928	4,895
(Loss) Income Before Income Taxes	(13,375)	1,118	(24,960)	(491)
Provision (Benefit) for Income Tax	(3,743)	429	(6,990)	(182)
Net (Loss) Income	\$ (9,632)	\$ 689	\$ (17,970)	\$ (309)

Weighted Average Common  
Shares Outstanding:

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Basic	110,996,000	100,719,000	106,338,000	100,645,000
Diluted	110,996,000	101,026,000	106,338,000	100,645,000
Net Income (Loss) Per Share:				
Basic	\$ (0.09)	\$ 0.01	\$ (0.17)	\$ (0.00)
Diluted	\$ (0.09)	\$ 0.01	\$ (0.17)	\$ (0.00)

See Notes to Consolidated Financial Statements.

Global Industries, Ltd.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 30, 2004	December 31, 2003
<b>ASSETS</b>		
Current		
<b>Assets:</b>		
Cash	\$ 19,964	\$ 15,628
Receivables - net of allowance of \$22,575 for 2004 and \$11,043 for 2003, respectively	112,149	107,907
Unbilled work on uncompleted contracts	27,204	10,706
Prepaid expenses and other	37,889	18,393
Assets held for sale	345	695
Total current assets	197,551	153,329
Property and Equipment, net	391,016	401,753
Other Assets:		
Deferred charges, net	33,394	23,449
Goodwill, net	37,655	37,655
Deferred income taxes	198	--
Other	4,433	4,645
Total other assets	75,680	65,749
<b>Total</b>	\$ 664,247	\$ 620,831
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 60,598	\$ 53,648
Current maturities of long-term debt	5,643	5,643
Employee-related liabilities	7,350	7,748
Income taxes payable	6,826	6,824

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Accrued interest	3,351	3,494
Advance billings on uncompleted contracts	1,257	1,120
Vinci (Groupe GTM) litigation liability	33,500	33,500
Other accrued liabilities	10,244	4,031
Total current liabilities	128,769	116,008
Long-Term Debt	127,263	118,085
Deferred Income Taxes	--	9,277
Other Liabilities	856	390
Shareholders' Equity:		
Common stock issued, 111,064,350 and 101,282,097 shares	1,111	1,013
, respectively		
Additional paid-in capital	336,297	288,137
Accumulated other comprehensive loss	(8,978)	(8,978)
Retained earnings	78,929	96,899
Total shareholders' equity	407,359	377,071
<b>Total</b>	\$ 664,247	\$ 620,831

See Notes to Consolidated Financial Statements.

Global Industries, Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2004	2003
Cash Flows From Operating Activities:		
Net loss	\$ (17,970)	\$ (309)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	22,735	27,764
Loss (gain) on sale, disposal of property and equipment	53	(1,399)
Provision for (recovery of) doubtful accounts	1,472	(664)
Deferred income taxes	(9,475)	(7,230)
Other	605	(7)
Changes in operating assets and liabilities		
Receivables	(22,212)	(21,676)
Prepaid expenses and other	(19,184)	4,772
Accounts payable and accrued liabilities	13,227	4,921

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Net cash (used in) provided by operating activities	(30,749)	6,172
Cash Flows From Investing Activities:		
Proceeds from sale of assets	86	2,639
Additions to property and equipment	(2,519)	(12,244)
Additions to deferred charges	(20,036)	(12,882)
Net cash used in investing activities	(22,469)	(22,487)
Cash Flows From Financing Activities:		
Proceeds from sale of common stock, net	48,376	1,539
Proceeds from long-term debt	112,000	55,000
Repayment of long-term debt	(102,822)	(53,915)
Net cash provided by financing activities	57,554	2,624
Cash:		
Increase (Decrease)	4,336	(13,691)
Beginning of period	15,628	28,204
End of period	\$ 19,964	\$ 14,513

See Notes to Consolidated Financial Statements.

Global Industries, Ltd.

Notes to 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 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 period ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

Independent public accountants as stated in their report included herein, have reviewed the financial statements required by Rule 10-01 of Regulation S-X.

Certain reclassifications have been made to the prior period financial statements in order to conform to the classifications adopted for reporting in 2004.

## 2. Contracts in Progress and Revenue Recognition

- Revenues from construction contracts, which are typically of short duration, are recognized on the percentage-of-completion method, measured by relating the actual cost of work performed to date to the current estimated total cost (the cost to cost method) of the respective contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect vessel costs, labor, supplies, and repairs. During the early stages of a contract, certain costs may be excluded from the cost to cost method of measuring progress, such as significant costs for materials and major third party subcontractors, if it appears that such an exclusion would result in a more meaningful measurement of actual contract progress and resulting periodic allocation of income. Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are determined. Selling, general, and administrative costs are charged to expense as incurred.

## 3. Accounts Receivable

- Trade and other receivables are stated at net realizable value and the allowance for uncollectible accounts was \$22.6 million and \$11.0 million at June 30, 2004 and December 31, 2003, respectively. Certain receivables represent amounts that have not yet been billed to the customer pursuant to contractually specified milestone billing requirements. At June 30, 2004 and December 31, 2003, our accounts receivable included unbilled receivables on completed contracts of \$22.4 million and \$22.8 million, respectively. We include claims and unapproved change orders to the extent of costs incurred in contract revenues when (1) the contract or other evidence provides a legal basis for the claim, (2) additional costs are not the result of deficiencies in our performance, (3) costs are identifiable, and (4) evidence supporting the claim is objective and verifiable. The claims and unapproved change orders, included in accounts receivable and unbilled receivables, amounted to \$18.0 million at June 30, 2004 and \$36.3 million at December 31, 2003. Unbilled retainage at June 30, 2004 was \$7.7 million and is expected to be billed in 2004. Unbilled retainage at December 31, 2003 was \$7.8 million.

Contracts in progress are as follows:

		June 30, 2004	December 31, 2003
		(In thousands)	
Costs incurred on uncompleted contracts	\$	58,272	\$ 18,929
Estimated earnings (losses)		4,297	(1,933)
Total revenues to date		62,569	16,996
Less: Billings to date		36,622	7,410
Unbilled revenues	\$	25,947	\$ 9,586
Included in accompanying balance sheets under the following captions:			

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Unbilled work on uncompleted contracts		27,204		10,706
Advance billings on uncompleted contracts		(1,257)		(1,120)
Unbilled revenues	\$	25,947	\$	9,586

4. Goodwill

- Goodwill represents the excess cost over the fair value of net assets acquired. The carrying amount of goodwill as of June 30, 2004 and December 31, 2003 remained at approximately \$38.0 million and was primarily attributable to our Latin America segment. We completed the required annual impairment test, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "*Goodwill and Other Intangible Assets*," at the beginning of 2004 and determined that our goodwill was not impaired.

5. Stock-Based Compensation

- The Company continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its restricted stock awards and shares subject to options, as allowed under SFAS No. 123, "*Accounting for Stock-Based Compensation*." Additionally, under APB 25, our employee stock purchase plan is considered noncompensatory and, accordingly, no compensation cost has been recognized in the financial statements. Therefore, the Company elects to make pro forma disclosures versus recognizing the related compensation expense in the accompanying consolidated financial statements. Had the Company elected to apply the accounting standards of SFAS No. 123, the Company's net income and earnings per share would have approximated the pro forma amounts indicated below (in thousands, except per share data):

Quarter Ended June 30, 2004					
	Reported	Recognized Stock Compensation Expense	FAS 123 Proforma Stock Compensation Expense	Proforma	
Net loss	\$ (9,632)	\$ 115	\$ (1,203)	\$ (10,720)	
Net loss per share					
Basic	\$ (0.09)	\$ 0.00	\$ (0.01)	\$ (0.10)	
Diluted	\$ (0.09)	\$ 0.00	\$ (0.01)	\$ (0.10)	

Six Months Ended June 30, 2004					
	Reported	Recognized Stock Compensation Expense	FAS 123 Proforma Stock Compensation Expense	Proforma	
Net loss	\$ (17,970)	\$ 231	\$ (2,407)	\$ (20,146)	
Net loss per share					
Basic	\$ (0.17)	\$ 0.00	\$ (0.02)	\$ (0.19)	
Diluted	\$ (0.17)	\$ 0.00	\$ (0.02)	\$ (0.19)	

Quarter Ended June 30, 2003					
	Reported	Recognized Stock Compensation Expense	FAS 123 Proforma Stock Compensation Expense	Proforma	
Net income (loss)	\$ 689	\$ 162	\$ (1,123)	\$ (272)	
Net income (loss) per share					
Basic	\$ 0.01	\$ 0.00	\$ (0.01)	\$ (0.00)	
Diluted	\$ 0.01	\$ 0.00	\$ (0.01)	\$ (0.00)	

Six Months Ended June 30, 2003					
	Reported	Recognized Stock Compensation Expense	FAS 123 Proforma Stock Compensation Expense	Proforma	
Net income (loss)	\$ (309)	\$ 323	\$ (2,233)	\$ (2,219)	
Net income (loss) per share					
Basic	\$ (0.00)	\$ 0.00	\$ (0.02)	\$ (0.02)	
Diluted	\$ (0.00)	\$ 0.00	\$ (0.02)	\$ (0.02)	

## 6. Financing Arrangements

- On March 9, 2004, we entered into a new \$125.0 million revolving credit facility replacing the previous \$100.0 million loan facility that would have matured in December 2004. On March 29, 2004, we exercised our option to increase our new facility to \$150.0 million. Under the terms of the facility the entire \$150.0 million was available for the issuance of letters of credit and \$110.0 million was available for direct cash advances. The new facility matures on March 9, 2007. This revolving credit facility permits borrowings based on prime rate and London Interbank Offered Rate ("LIBOR"), in each case, plus a floating spread. The spreads can range from 1.50% to 3.00% and 2.50% to 4.00% for prime rate and LIBOR based borrowings, respectively, based upon certain of our financial ratios. In addition, the new credit facility allows for certain fixed rate interest options on amounts outstanding. Stock of our subsidiaries, certain real estate, and the majority of our vessels collateralize the loans under the new credit facility. This facility is subject to certain financial covenants. We must maintain minimum levels of net worth and earnings before interest, taxes, and depreciation/amortization, not exceed levels of debt and capital expenditures specified in the agreement, and comply with, among other things, an interest coverage ratio and a leverage ratio. These covenants may limit our capacity and financial flexibility. Unamortized credit facility fees of \$0.5 million related to the termination of our previous credit facility were expensed in the first quarter of 2004. In consideration for this new facility, we paid a \$3.8 million fee.

The following covenants under the new facility were not met at the end of the second quarter of 2004: the minimum earnings before interest, taxes, and depreciation/amortization covenant, the leverage ratio covenant, the capital expenditures limitation covenant, and the interest coverage ratio covenant. As a result, effective June 30, 2004, we obtained a waiver for the quarter ended June 30, 2004 on any default due to our noncompliance with the financial covenants of our credit facility. No fee was paid in connection with this waiver.

On August 6, 2004, we amended and restated our new credit facility due to: (1) anticipated non-compliance with: (A) the minimum earnings before interest, taxes, and depreciation/amortization covenant, and (B) the interest coverage ratio covenant at the end of the third quarter of 2004 and (2) the addition of three new members to our bank group. The amendment reduced the requirements for both covenants, modified certain event of default requirements, and added additional reporting requirements. In addition, the facility was reduced to \$100.0 million. Under the terms of the amended facility the entire \$100.0 million is available for the issuance of letters of credit and direct cash advances. A fee of \$0.6 million was paid for this amendment. As of August 6, 2004, we had \$35.0 million of borrowings, \$18.8 million of letters of credit outstanding and \$46.2 million of credit availability under our revolving credit facility.

On March 29, 2004, we completed a secondary offering of 9.5 million shares of common stock, which raised \$47.9 million in aggregate net proceeds. These proceeds were used to repay \$47.9 million in outstanding indebtedness under our revolving credit facility.

We also have a \$9.5 million short-term credit facility at one of our foreign locations that is secured by a letter of credit.

Our Title XI bonds mature in 2020, 2022, and 2025. The bonds carry interest rates of 8.30%, 7.25%, and 7.71% per annum, respectively, and require aggregate semi-annual payments of \$2.8 million, plus interest. The agreements pursuant to which the Title XI bonds were issued contain certain covenants, including the maintenance of minimum working capital and net worth requirements. If not met, additional covenants result that restrict our operations and our ability to pay cash dividends. At June 30, 2004, we were in compliance with these covenants.

## 7. Commitments and Contingencies

- We are a party to legal proceedings and potential claims arising in the ordinary course of business. Management does not believe these matters will materially affect our consolidated financial statements.

In November 1999, we notified Groupe GTM (now Vinci), that as a result of material adverse changes and other breaches by Vinci, we were no longer bound by and were terminating the Share Purchase Agreement to purchase the shares of ETPM S.A. Vinci responded stating that they believed we were in breach. The Share Purchase Agreement provided for liquidated damages of \$25.0 million to be paid by a party that failed to consummate the transaction under certain circumstances. We have notified Vinci that we do not believe that the liquidated damages provision is applicable to our termination of the Share Purchase Agreement. On December 23, 1999, we filed suit against Vinci in Tribunal de Commerce de Paris to recover damages. On June 21, 2000, Vinci filed an answer and counterclaim against us seeking the liquidated damages of \$25.0 million and other damages, costs and expenses of approximately \$3.2 million based on then current exchange rates. In November 2003, the Paris Commercial Court ruled in favor of Vinci in the matter and awarded Vinci \$25.0 million plus approximately \$8.5 million in interest, exchange rate differential, and legal fees. As a result, although we have not yet paid the judgment we recorded a \$33.5 million (pre-tax) provision in the fourth quarter of 2003. We are currently appealing this verdict in the Cour d'appel de Paris. Although the provision for the judgment had a significant impact on our reported results for 2003, we do not believe that the ultimate outcome of this matter will have a material adverse effect on our future results of operations or business.

In the normal course of our business activities, we provide letters of credit to secure the performance and/or payment of obligations, including the payment of worker's compensation obligations. At June 30, 2004, outstanding letters of credit approximated \$19.0 million.

In the normal course of our business activities, we provide guarantee and performance, bid, and payment bonds under the terms of agreements with customers, or in connection with bidding to obtain such agreements. In June 2004, the company we used for our surety bonding was acquired by another company. This new company requires that all future bonds be secured by a letter of credit. These letters of credit will be drawn against our available credit capacity under our revolving credit facility. All existing bonds and amendments to these bonds are secured by parent company guarantees only. The aggregate of these guarantees and bonds at June 30, 2004 was \$31.7 million. The surety bonds and bank guarantees/letters of credit expire between July 2004 and February 2005 and between July 2004 and May 2005, respectively.

We estimate that the cost to complete capital expenditure projects in progress at June 30, 2004 approximates \$1.5 million.

## 8. Industry Segment Information

- We have conformed our segment reporting this quarter to changes in our operating management structure that became effective June 2004. We still conduct our operations through two divisions, Offshore Construction Division (OCD) and Global Divers and Marine Contractors (GDMC). However, GDMC's Asia Pacific segment has been combined into OCD's Asia Pacific segment and our Gulf of Mexico shallow water pipelay has been removed from GDMC's Gulf of Mexico segment and added to OCD's Gulf of Mexico segment. OCD now includes all pipelay and derrick lifts worldwide as well as diving and marine support services in our Asia Pacific region. GDMC includes all remaining diving and marine support services worldwide. The following tables present information about the profit or loss of each of the Company's nine reportable segments for the quarters and six months ended June 30, 2004 and 2003. The information contains certain allocations of corporate expenses that we deem reasonable and appropriate for the evaluation of results of operations.