

GULF ISLAND FABRICATION INC

Form 10-Q

July 25, 2008

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2008

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 0-22303

**GULF ISLAND FABRICATION, INC.**

*(Exact name of registrant as specified in its charter)*

Edgar Filing: GULF ISLAND FABRICATION INC - Form 10-Q

**LOUISIANA**  
*(State or other jurisdiction of  
incorporation or organization)*

**72-1147390**  
*(I.R.S. Employer  
Identification No.)*

**583 THOMPSON ROAD,**

**HOUMA, LOUISIANA**  
*(Address of principal executive offices)*

**70363**  
*(Zip Code)*

**(985) 872-2100**

*(Registrant's telephone number, including area code)*

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, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-Accelerated Filer

Accelerated filer   
Smaller reporting company

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

The number of shares of the Registrant's common stock, no par value per share, issued and outstanding at July 24, 2008 was 14,277,736.

**Table of Contents**

**GULF ISLAND FABRICATION, INC.**

**I N D E X**

	<b>Page</b>
<b>PART I <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets at June 30, 2008 (unaudited) and December 31, 2007</u>	3
<u>Consolidated Statements of Income for the Three and Six Months Ended June 30, 2008 and 2007 (unaudited)</u>	4
<u>Consolidated Statement of Changes in Shareholders' Equity for the Six Months Ended June 30, 2008 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2008 and 2007 (unaudited)</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-9
<u>Report of Independent Registered Public Accounting Firm</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11-15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
Item 4. <u>Controls and Procedures</u>	15
<b>PART II <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	16
Item 1A. <u>Risk Factors</u>	16
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	16
Item 6. <u>Exhibits</u>	17
<u>SIGNATURES</u>	18
<u>EXHIBIT INDEX</u>	E-1

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GULF ISLAND FABRICATION, INC.****CONSOLIDATED BALANCE SHEETS**

	(Unaudited) June 30, 2008	December 31, 2007
	(in thousands)	
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 19,754	\$ 24,640
Contracts receivable, net	65,700	78,748
Contract retainage	841	430
Costs and estimated earnings in excess of billings on uncompleted contracts	31,986	17,690
Prepaid expenses	1,959	2,776
Inventory	5,867	7,427
Deferred tax assets	1,918	4,036
Total current assets	128,025	135,747
Property, plant and equipment, net	197,739	188,766
Other assets	701	700
Total assets	\$ 326,465	\$ 325,213
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 18,600	\$ 18,080
Billings in excess of costs and estimated earnings on uncompleted contracts	19,885	44,301
Accrued employee costs	9,512	7,421
Accrued expenses	3,208	2,419
Income taxes payable	2,774	6,142
Total current liabilities	53,979	78,363
Deferred income taxes	19,262	17,937
Total liabilities	73,241	96,300
Shareholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized, no shares issued and outstanding		
Common stock, no par value, 20,000,000 shares authorized, 14,277,736 and 14,214,736 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	9,689	9,560
Additional paid-in capital	89,587	87,853
Retained earnings	153,948	131,500
Total shareholders' equity	253,224	228,913
Total liabilities and shareholders' equity	\$ 326,465	\$ 325,213

*The accompanying notes are an integral part of these statements.*



**Table of Contents****GULF ISLAND FABRICATION, INC.****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

( in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 117,924	\$ 137,572	\$ 241,652	\$ 246,945
Cost of revenue	97,863	123,429	198,397	224,292
Gross profit	20,061	14,143	43,255	22,653
General and administrative expenses	2,551	2,810	5,269	5,117
Operating income	17,510	11,333	37,986	17,536
Other income (expense):				
Interest expense	(7)	(8)	(13)	(19)
Interest income	36	161	145	280
Other	5	(1)	(55)	(5)
	34	152	77	256
Income before income taxes	17,544	11,485	38,063	17,792
Income taxes	5,672	3,624	12,751	5,516
Net income	\$ 11,872	\$ 7,861	\$ 25,312	\$ 12,276
Per share data:				
Basic earnings per share	\$ 0.83	\$ 0.56	\$ 1.78	\$ 0.87
Diluted earnings per share	\$ 0.83	\$ 0.55	\$ 1.77	\$ 0.86
Weighted-average shares	14,251	14,152	14,235	14,140
Effect of dilutive securities: employee stock options and restricted stock	78	121	65	126
Adjusted weighted-average shares	14,329	14,273	14,300	14,266
Cash dividend declared per common share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

*The accompanying notes are an integral part of these statements.*

**Table of Contents****GULF ISLAND FABRICATION, INC.****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)**

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In	Earnings	Shareholders
	(in thousands, except share data)				
Balance at January 1, 2008	14,214,736	\$ 9,560	\$ 87,853	\$ 131,500	\$ 228,913
Exercise of stock options	63,000	96	857		953
Income tax benefit from exercise of stock options			579		579
Net income				25,312	25,312
Compensation expense restricted stock		25	222		247
Compensation expense non-qualified stock options		8	76		84
Dividends on common stock				(2,864)	(2,864)
Balance at June 30, 2008	14,277,736	\$ 9,689	\$ 89,587	\$ 153,948	\$ 253,224

*The accompanying notes are an integral part of these statements.*

**Table of Contents****GULF ISLAND FABRICATION, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 25,312	\$ 12,276
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	8,430	6,452
Amortization on intangible assets		466
Deferred income taxes	3,443	(1,992)
Compensation expense-stock compensation plans	331	397
Excess tax benefit from share-based payment arrangements	(579)	(175)
<b>Changes in operating assets and liabilities:</b>		
Contracts receivable	13,048	(28,885)
Contract retainage	(411)	1,638
Costs and estimated earnings in excess of billings on uncompleted contracts	(14,296)	(13,645)
Prepaid expenses and other assets	817	31
Inventory	1,560	(1,096)
Accounts payable	520	24,088
Billings in excess of costs and estimated earnings on uncompleted contracts	(24,416)	9,202
Accrued employee costs	2,091	121
Accrued expenses	789	59
Income taxes payable	(2,789)	6,877
<b>Net cash provided by operating activities</b>	<b>13,850</b>	<b>15,814</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures, net	(17,404)	(17,039)
<b>Net cash used in investing activities</b>	<b>(17,404)</b>	<b>(17,039)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	953	617
Excess tax benefit from share-based payment arrangements	579	175
Payments of dividends on common stock	(2,864)	(2,842)
<b>Net cash used in financing activities</b>	<b>(1,332)</b>	<b>(2,050)</b>
<b>Net change in cash and cash equivalents</b>	<b>(4,886)</b>	<b>(3,275)</b>
Cash and cash equivalents at beginning of period	24,640	10,302
<b>Cash and cash equivalents at end of period</b>	<b>\$ 19,754</b>	<b>\$ 7,027</b>

*The accompanying notes are an integral part of these statements.*



**Table of Contents**

**GULF ISLAND FABRICATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE MONTH AND SIX MONTH**

**PERIODS ENDED JUNE 30, 2008 AND 2007**

**NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING PRINCIPLES**

Gulf Island Fabrication, Inc., together with its subsidiaries (the Company), is a leading fabricator of offshore drilling and production platforms and other specialized structures used in the development and production of offshore oil and gas reserves. The Company's corporate offices and two major subsidiaries are located in Houma, Louisiana, and another major subsidiary is located in San Patricio County, Texas. The Company's principal markets are concentrated in the offshore regions and along the coast of the Gulf of Mexico. The consolidated financial statements include the accounts of Gulf Island Fabrication, Inc. and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Structures and equipment fabricated by the Company include jackets and deck sections of fixed production platforms; hull, tendon, and/or deck sections of floating production platforms (such as TLPs, SPARs, FPSOs and MinDOCs); piles; wellhead protectors; subsea templates; various production, processing, compressor and utility modules; offshore living quarters; brown water towboats; tanks and barges. The Company also provides services such as offshore interconnect pipe hook-up; inshore marine construction; manufacture and repair of pressure vessels; heavy lifts such as ship integration and TLP module integration, loading and offloading jack-up drilling rigs, semi-submersible drilling rigs, TLPs, SPARs or other similar cargo; steel warehousing and sales; onshore and offshore scaffolding and piping insulation services.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain items in 2007 have been reclassified to conform to the 2008 financial statement presentation.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**NOTE 2 CONTINGENCIES**

In December 2004, we received notice from Louisiana Department of Environmental Quality (LDEQ) that the Corrective Action Plan submitted in October 2004 was not acceptable. The Corrective Action Plan was developed to provide remediation to several isolated areas located on property we sold in 2001. In mid 2005, the LDEQ approved a sampling plan with the proposed

---

**Table of Contents**

sampling to begin in September of 2005. Due to the hurricanes that struck the Louisiana coast in 2005, the scheduled sampling was cancelled. In mid October 2006, the sampling was completed. This sampling plan was rejected by the LDEQ in April 2008. We submitted a revised sampling plan to LDEQ on June 25, 2008 and await their review. At June 30, 2008, we have included in Accrued Expenses \$450,000 compared to \$230,000 at December 31, 2007, which is the current estimated cost to remediate the site and includes professional fees such as engineering and consulting costs.

We are subject to various routine legal proceedings in the normal conduct of our business primarily involving commercial claims, workers compensation claims, and claims for personal injury under general maritime laws of the United States and the Jones Act. While the outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty, management believes that the outcome of any such proceedings, even if determined adversely, would not have a material adverse effect on our financial position, results of operations or cash flows.

**NOTE 3 LINE OF CREDIT AND NOTES PAYABLE**

Effective February 19, 2007, we entered into the Sixth Amendment to the Ninth Amended and Restated Credit Agreement among the Company, JP Morgan Chase Bank, N.A. and Whitney National Bank (the Revolver ) to extend the term of the \$50 million Revolver from December 31, 2008 to December 31, 2009. The Revolver is secured by our real estate, machinery and equipment, and fixtures, and amounts borrowed under the Revolver bear interest, at our option, at the prime lending rate established by JPMorgan Chase Bank, N.A. or LIBOR plus 1.5%. We pay a fee on a quarterly basis of three-sixteenths of one percent per annum on the weighted-average unused portion of the Revolver. At June 30, 2008, no amounts were borrowed under the Revolver, but we had letters of credit outstanding totaling \$33.0 million, which reduced the unused portion of the Revolver. More of our customers, especially in larger fabrication projects, are requiring us to issue letters of credit in lieu of retainage. Thus, the Company is issuing letters of credit for larger amounts and for longer periods of time than it did in past years. We are required to maintain certain covenants, including balance sheet and cash flow ratios. As of June 30, 2008, we were in compliance with these covenants. We are currently evaluating a potential increase to our revolving line of credit which would increase our borrowing capacity and increase our ability to issue letters of credit on future job awards, if necessary.

**NOTE 4 RELATED PARTY TRANSACTIONS**

On January 31, 2006, we, through an indirect subsidiary, purchased the facilities, machinery and equipment of Gulf Marine Fabricators, an indirect subsidiary of Technip-Coflexip USA Holdings, Inc. ( Technip ). As consideration for the Acquisition, we paid a combination of cash and common stock. Technip currently owns 789,067 shares, which is approximately 5.5% of our outstanding common stock.

Since 2006, Technip has awarded us contracts to fabricate various oil and gas industry items totaling \$39.8 million, and through December 31, 2007 we have recognized revenue of \$33.0 million on these contracts. During the three-month and six-month periods ended June 30, 2008, the Company recognized revenue of \$2.5 million and \$6.4 million, respectively, on these contracts. During the three-month and six-month periods ended June 30, 2007, the Company recognized revenue of \$2.8 million and \$12.9 million, respectively, on these contracts.

We expect the remaining \$400,000 of revenue on these contracts to be recognized during 2008. As of June 30, 2008, Technip owed us a total of \$1.1 million of contracts receivable or 1.8% of the total contracts receivable outstanding. As of December 31, 2007, Technip owed us a total of \$7.5 million of contracts receivable or 9.5% of the total contracts receivable outstanding.

**Table of Contents**

**NOTE 5 PASS THROUGH COSTS**

Pass-through costs are material and sub-contract costs associated with projects that are included as revenue of a project, but add little or no margin to the project. Pass-through cost, as a percentage of revenue, for the three and six month periods ended June 30, 2008 was 39.0% and 39.5%, compared to 60.9% and 58.4%, respectively, for the three and six month periods ended June 30, 2007.

**NOTE 6 INCOME TAXES**

Our effective income tax rate for the three-month and six-month periods ended June 30, 2008 was 32.3% and 33.5%, respectively, compared to an effective tax rate of 31.6% and 31.0% for the comparable periods of 2007. The increase relates primarily to the employment hiring credits that were available to us in 2007 for both state and federal taxes that began to phase-out in the third and fourth quarters of 2007.

**Table of Contents**

Report of Independent Registered

Public Accounting Firm

The Board of Directors and Shareholders

Gulf Island Fabrication, Inc.

We have reviewed the condensed consolidated balance sheet of Gulf Island Fabrication, Inc. as of June 30, 2008, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2008 and 2007, and the condensed consolidated statement of cash flows for the six-month periods ended June 30, 2008 and 2007, and the condensed consolidated statement of changes in shareholders' equity for the six-month period ended June 30, 2008. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the 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 the standards of the Public Company Accounting Oversight Board, 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 the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Gulf Island Fabrication, Inc. as of December 31, 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (not presented herein) and in our report dated February 28, 2008, 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, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

New Orleans, Louisiana

July 24, 2008

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-Looking Statements**

Statements under Backlog, Results of Operations and Liquidity and Capital Resources and other statements in this report and the exhibits hereto that are not statements of historical fact are forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results and outcomes to differ materially from the results and outcomes predicted in the statement and investors are cautioned not to place undue reliance upon them. Important factors that may cause our actual results to differ materially from expectations or projections include those described under the heading Cautionary Statements in Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2007. Such factors include, among others, the timing and extent of changes in the prices of crude oil and natural gas; the timing of new projects and our ability to obtain them; competitive factors in the heavy marine fabrication industry; and our ability to attract and retain qualified production employees at acceptable compensation rates.

### **Critical Accounting Policies and Estimates**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions (see Note 1 to the consolidated financial statements included in the annual report on Form 10-K for the year ended December 31, 2007). We believe that of our significant accounting policy, revenue recognition involves a higher degree of judgment and complexity. Critical accounting policies are discussed more fully in our Annual Report on Form 10-K for the year ended December 31, 2007. There have been no changes in our evaluation of our critical accounting policies since that date.

### **Backlog**

We had a revenue backlog of \$437.7 million and a labor backlog of approximately 4.6 million man-hours remaining to work, which consists of work remaining at June 30, 2008 and commitments received through the second quarter earnings release issued July 24, 2008, compared to the revenue backlog of \$330.4 million and a man-hour backlog of 3.7 million hours reported in our Form 10-K at December 31, 2007.

Of the backlog at June 30, 2008, \$255.2 million, or 58.3%, represented projects destined for deepwater locations compared to \$185.4 million, or 56.1%, of projects destined for deepwater locations in the December 31, 2007 backlog. Included in the backlog are \$19.5 million or 4.5% and \$62.6 million or 18.9% at June 30, 2008 and December 31, 2007, respectively, related to projects destined for foreign locations.

Of the backlog at June 30, 2008, we expect to recognize revenues of approximately \$144.9 million in the remainder of 2008, and approximately \$292.8 million in 2009 and thereafter.

## **Table of Contents**

### **Workforce**

As of June 30, 2008, we had approximately 2,005 employees and approximately 350 contract employees, compared to approximately 1,820 employees and approximately 550 contract employees as of December 31, 2007.

### **Results of Operations**

The Company's revenue for the three-month and six-month periods ended June 30, 2008 was \$117.9 million and \$241.7 million, a decrease of 14.3% and 2.1% respectively, compared to \$137.6 million and \$246.9 million in revenue for the three-month and six-month periods ended June 30, 2007.

The reduction in revenue is directly related to the amount of pass-through cost associated with the revenue for the three-month and six-month periods ended June 30, 2008. As a percentage of revenue, pass-through costs for the three-month and six-month periods ended June 30, 2008 were 39.0% and 39.5%, compared to 60.9% and 58.4%, respectively, for the three-month and six-month periods ended June 30, 2007.

At June 30, 2008, the Company recorded revenue totaling \$754,000 related to certain unapproved change orders, which have been approved as to scope but not price. The Company is in the process of negotiating resolution of these change orders with the customers and recovery of the revenue is dependent upon these negotiations. If the Company collects amounts less than the \$754,000 of revenue that has been recorded, that difference will be recognized as a reduction in revenue when it is determined probable amounts collected will be less. The Company expects to resolve this matter in the third quarter of 2008.

The Company's cost in excess of billings and estimated earnings on uncompleted contracts balance at June 30, 2008 includes \$14.8 million related to one project. This amount has not been invoiced to the customer pending approval of the final remeasurements related to the electrical and instrumentation scope of work on this unit rate project. Although the outcome cannot be predicted with certainty, we believe the measurements are accurate and the unbilled balance has been calculated in accordance with the terms of the contract. We expect to resolve this matter in the third quarter of 2008.

For the three-month and six-month periods ended June 30, 2008, gross profit was \$20.1 million (17.0% of revenue) and \$43.3 million (17.9% of revenue), compared to gross profit of \$14.1 million (10.3% of revenue) and \$22.7 million (9.2% of revenue) for the three-month and six-month periods ended June 30, 2007. When revenues are generated by a larger amount of labor sales than pass-through costs, as mentioned above, the result is a positive impact to gross margins. The increase in man-hours worked also contributed to the increase in gross margins. For the three-month and six-month periods ended June 30, 2008, man-hours worked were 1.0 million and 2.0 million, compared to 0.9 million and 1.8 million for the three-month and six-month periods ended June 30, 2007. Finally, gross margin increased as a result of the partial reimbursement to us of costs associated with specific capital improvements required by the fabrication process or our contractual arrangements. The reimbursement we receive from our customers is recorded as revenue while the costs we incur are capitalized and included in property, plant and equipment because the improvement will provide future benefits to us.

## **Table of Contents**

After the capital improvement is completed and placed in service, we record depreciation expense over its estimated useful life. For the three-month and six-month periods ended June 30, 2008, we recorded revenue of \$2.6 million and \$5.9 million, respectively, related to the reimbursement of certain capital related expenditures compared to \$2.3 million and \$2.9 million, for the three-month and six-month periods ended June 30, 2007. Depreciation expense related to these capital expenditures was \$0.7 million and \$1.3 million for the three and six months ended June 30, 2008 compared to no related depreciation expense for the three and six months ended June 30, 2007.

The Company's general and administrative expenses, which remained relatively stable, were \$2.6 million for the three-month period ended June 30, 2008 and \$5.3 million for the six-month period ended June 30, 2008. This compares to \$2.8 million for the three-month period ended June 30, 2007 and \$5.1 million for the six-month period ended June 30, 2007. As a percentage of revenue, general and administrative expenses were 2.2% compared to 2.0% and 2.2% compared to 2.1% of revenue for the three-month and six-month periods ended June 30, 2008 and 2007, respectively.

The Company had net interest income of \$29,000 and \$132,000 for the three-month and six-month periods ended June 30, 2008, respectively, compared to net interest income of \$153,000 and \$261,000 for the three-month and six-month periods ended June 30, 2007. Net interest income has decreased during 2008 due to declining interest rates earned on the Company's cash accounts.

Other Income (Expense) net for the three-month and six-month periods ended June 30, 2008 was a gain of \$5,000 and loss of \$55,000, respectively, compared to a loss of \$1,000 and a loss of \$5,000 for the three-month and six-month periods ended June 30, 2007. The gain and losses for the periods ended June 30, 2008 and 2007 were related to the sale of miscellaneous equipment.

The effective income tax rate for the three-month and six-month periods ended June 30, 2008 was 32.3% and 33.5%, respectively, compared to an effective tax rate of 31.6% and 31.0% for the comparable periods of 2007. The increase relates primarily to the employment hiring credits that were available to us in 2007 for both state and federal taxes that began to phase-out in the third and fourth quarters of 2007.

## **Liquidity and Capital Resources**

Historically we have funded our business activities primarily through available cash and cash generated from operations. We also maintain a revolving line of credit with our commercial banks.

Effective February 19, 2007, we entered into the Sixth Amendment to the Ninth Amended and Restated Credit Agreement among the Company, JP Morgan Chase Bank, N.A. and Whitney National Bank (the Revolver) to extend the term of the \$50 million Revolver from December 31, 2008 to December 31, 2009. The Revolver is secured by our real estate, machinery and equipment, and fixtures, and amounts borrowed under the Revolver bear interest, at our option, at the prime lending rate established by JPMorgan Chase Bank, N.A. or LIBOR plus 1.5%. We pay a fee on a quarterly basis of three-sixteenths of one percent per annum on the weighted-average

## **Table of Contents**

unused portion of the Revolver. At June 30, 2008, no amounts were borrowed under the Revolver, but we had letters of credit outstanding totaling \$33.0 million, which reduced the unused portion of the Revolver. More of the Company's customers, especially in larger fabrication projects, are requiring the Company to issue letters of credit in lieu of retainage. Thus, the Company is issuing letters of credit for larger amounts and for longer periods of time than it did in past years. We are required to maintain certain covenants, including balance sheet and cash flow ratios. At June 30, 2008, we were in compliance with these covenants. We are currently evaluating a potential increase to our revolving line of credit which would increase our borrowing capacity and increase our ability to issue letters of credit on future job awards, if necessary.

At June 30, 2008, our cash balance was \$19.8 million and working capital was \$74.0 million, resulting in a current ratio of 2.37 to 1. Net cash provided by operating activities was \$13.9 million for the six-months ended June 30, 2008. Net cash used in investing activities for the six-months ended June 30, 2008, was \$17.4 million, which related to capital expenditures for equipment and improvements to our production facilities. Net cash used in financing activities for the six-month period ended June 30, 2008, was \$1.3 million, consisting of \$953,000 provided by the exercise of stock options, \$579,000 provided by the tax benefit of stock options exercised and \$2.9 million used to pay dividends on common stock.

Capital expenditures for the remaining six months of 2008 are estimated to be approximately \$36.3 million, which includes approximately \$3.0 million to complete phase II of the graving dock, \$15.0 million for the construction of a dry dock, \$3.0 million remaining for the purchase and installation of a panel line and the remainder for the purchase of machinery and equipment and additional yard and facility expansion improvements. The expenditures for the dry dock and the panel line are to facilitate expanding our marine operation activities. Management believes that our available funds, cash generated by operating activities and funds available under the Revolver will be sufficient to fund our capital expenditures and working capital needs through the end of 2008. However, the Company may expand its operations through acquisitions in the future, which may require additional equity or debt financing. Also, job awards may require us to issue additional letters of credit, further reducing the unused portion of the Revolver. We are currently evaluating a potential increase to our revolving line of credit which would increase our borrowing capacity and increase our ability to issue letters of credit on future job awards, if necessary.

On April 24, 2008, our Board of Directors declared a dividend of \$0.10 per share on the shares of our common stock outstanding, payable May 20, 2008 to shareholders of record on May 8, 2008. The future declaration and payment of dividends, if any, is at the discretion of the Board of Directors and will depend on our retained earnings, working capital requirements and the future operation and growth of our business and other factors deemed relevant by the Board of Directors.

## **Contractual Obligations**

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2007.



**Table of Contents**

**Off-Balance Sheet Arrangements**

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes in the Company's market risks during the six months ended June 30, 2008. For more information on market risk, refer to Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 4. Controls and Procedures.**

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures were effective as of such date to provide assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

There have been no changes during the fiscal quarter ended June 30, 2008 in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company is subject to various routine legal proceedings in the normal conduct of its business primarily involving commercial claims, workers' compensation claims, and claims for personal injury under general maritime laws of the United States and the Jones Act. While the outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty, management believes that the outcome of any such proceedings, even if determined adversely, would not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

**Item 1A. Risk Factors**

There have been no material changes to the Company's risk factors during the six months ended June 30, 2008. For additional information on risk factors, refer to Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 4. Submission of Matters to a Vote of Security Holders.**

- (a) An annual meeting of the Company's shareholders was held on April 24, 2008.
- (b) At the annual meeting, the shareholders elected Gregory J. Cotter, John P. Jack Laborde and Christopher M. Harding to serve as directors of the Company until the 2011 annual meeting of shareholders. The terms of office of directors Kerry J. Chauvin, Alden J. Laborde, Ken C. Tamblyn, John A. Wishart, and Michael A. Flick continued after the annual meeting.

- (c) The following matters were voted upon at such meeting with the results indicated below:

(1) Election of the following nominees for directors.

Gregory J. Cotter

Number of Votes Cast For 13,160,280

Number of Votes Cast Against or Withheld 582,344

Number of Abstentions None

Number of Broker Non-Votes None

John P. Jack Laborde

Number of Votes Cast For 12,883,603

Number of Votes Cast Against or Withheld 859,021

Number of Abstentions None

Number of Broker Non-Votes None



**Table of Contents**

Christopher M. Harding

Number of Votes Cast For 13,433,984

Number of Votes Cast Against or Withheld 308,640

Number of Abstentions None

Number of Broker Non-Votes None

**Item 6. Exhibits**

- 3.1 Amended and Restated Articles of Incorporation of the Company, incorporated by reference to the Company's Registration Statement on Form S-1 filed on February 14, 1997 (Registration No. 333-21863).
- 3.2 Bylaws of the Company, as amended and Restated through February 28, 2008, incorporated by reference to the Company's Form 8-K filed on March 4, 2008.
- 4.1 Specimen Common Stock Certificate, incorporated by reference to the Company's Form S-1 filed February 14, 1997 (Registration No. 333-21863).
- 15.1 Letter from Ernst & Young LLP regarding unaudited interim financial information.
- 31.1 CEO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
- 31.2 CFO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
- 32 Section 906 Certification furnished pursuant to 18 U.S.C. Section 1350.
- 99.1 Press release issued by the Company on July 11, 2008, announcing the scheduled time for the release of its 2008 second quarter earnings and its quarterly conference call.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GULF ISLAND FABRICATION, INC.

By: /s/ Robin A. Seibert  
Robin A. Seibert  
Vice President Finance, Chief Financial Officer and  
Treasurer  
(Principal Financial Officer and Duly Authorized  
Officer)

Date: July 24, 2008

**Table of Contents**

**GULF ISLAND FABRICATION, INC.**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	Amended and Restated Articles of Incorporation of the Company, incorporated by reference to the Company's Registration Statement on Form S-1 filed on February 14, 1997 (Registration No. 333-21863).
3.2	Bylaws of the Company, as amended and Restated through February 28, 2008, incorporated by reference to the Company's Form 8-K filed on March 4, 2008.
4.1	Specimen Common Stock Certificate, incorporated by reference to the Company's Form S-1 filed February 14, 1997 (Registration No. 333-21863).
15.1	Letter from Ernst & Young LLP regarding unaudited interim financial information.
31.1	CEO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
31.2	CFO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
32	Section 906 Certification furnished pursuant to 18 U.S.C. Section 1350.
99.1	Press release issued by the Company on July 11, 2008, announcing the scheduled time for the release of its 2008 second quarter earnings and its quarterly conference call.