GULF ISLAND FABRICATION INC
Form 10-K
March 08, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2009

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)

Louisiana	72-1147390
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

567 Thompson Road, Houma, Louisiana	70363
(Address of principal executive offices)	(zip code)

(985) 872-2100

(Registrant telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class registered	Name of each exchange on which registered
Common Stock, no par value	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 twelve months (or for such shortest time that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant at June 30, 2009 was approximately $218,054,419.

The number of shares of the registrant s common stock, no par value per share, outstanding March 4, 2010 was 14,315,067.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement prepared for use in connection with the registrant s 2010 Annual Meeting of Shareholders to be held April 22, 2010 have been incorporated by reference into Part III of this Form 10-K.

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GULF ISLAND FABRICATION, INC.

ANNUAL REPORT ON FORM 10-K FOR

THE FISCAL YEAR ENDED DECEMBER 31, 2009

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Forward-Looking Information

Certain statements included in this report and in oral statements made from time to time by management of the Company that are not statements of historical fact are forward-looking statements. In this report, forward-looking statements are included primarily in the sections entitled Business and Properties, Legal Proceedings, and Management s Discussion and Analysis of Financial Condition and Results of Operations. The words expect, believe, anticipate, project, plan, estimate, predict and similar expressions often identify forward-looking statements. Al 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 statements 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 Statement in Item 1A. Risk Factors. Forward looking statements speak only as to the date of this report, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events or circumstances.

PART I

Items 1 and 2. Business and Properties

Certain technical terms are defined in the Glossary of Certain Technical Terms beginning on page G-1.

General

We are a leading fabricator of offshore drilling and production platforms, hull and deck sections of floating production platforms and other specialized structures used in the development and production of offshore crude oil and natural gas (oil and gas) reserves. The company was founded in 1985 by a group of investors, including Alden J. Doc Laborde and Huey J. Wilson, and began operations at our fabrication yard on the Houma Navigation Canal in southern Louisiana, approximately 30 miles from the Gulf of Mexico. Our Houma facilities are located on 630 acres, of which 283 are currently developed for fabrication activities with 347 acres available for future expansion. Effective January 31, 2006, we acquired the facilities, machinery and equipment of Gulf Marine Fabricators, L.P. (Gulf Marine) located on 372 acres in San Patricio and Nueces Counties, Texas.

Gulf Island Fabrication, Inc. serves as a holding company and conducts all of its operations through its subsidiaries, which include Gulf Island, L.L.C. (Gulf Island), Gulf Island Marine Fabricators, L.L.C. (Gulf Island Marine), Dolphin Services, L.L.C. (Dolphin Services) (performing offshore and onshore fabrication and construction services), Southport, L.L.C. (Southport) (specializing in the fabrication of living quarters for offshore platforms), and Gulf Marine.

Other Developments

In May 2007, we formed a limited liability company called Gulf Island Resources, L.L.C. (Gulf Island Resources) to hire laborers in Louisiana and Texas with similar rates and terms as contract labor service companies provide. The purpose of the company is to hire and retain labor to eliminate or reduce our need for contract labor required during the peak labor demand necessary to meet our scheduling requirements.

In late 2007, we decided to expand our operations in the marine construction area to reduce the fluctuations in work volume caused by the decrease in the fabrication of shallow water structures. The decline in the fabrication of shallow water structures is primarily related to the fact that the infrastructure for shallow water is fairly developed and as existing oil and gas production decreases it creates capacity to handle new oil and gas production without having to fabricate new structures. In 2007, we hired several manager level employees with many years of shipyard experience to manage the day to day operation of our marine construction projects. During 2008, we received contracts to fabricate nine brown water towboats, of which three of the boats have

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been delivered to our customers. In August 2008, we formed a limited liability company, Gulf Island Marine, to develop our marine construction operations. In late 2009, at a cost of $15 million we placed into service a 9,000 ton Dry Dock to supplement our marine construction operations in Houma. The Dry Dock is 240 feet long by 160 feet wide, and 140 feet wide between the wing walls. The bottom is 10 feet deep with 30 feet high walls above the bottom. The Dry Dock is used for maintenance and repairs to third party marine vessels, as well as to launch vessels being fabricated at our facilities.

In October 2008, we formed a limited liability company called Dolphin Steel Sales, L.L.C. (Dolphin Steel Sales) to increase the marketing efforts of our existing steel sales business. Our steel sales company operates a three acre facility adjacent to Gulf Island s main yard with a product line that includes plates and other products that utilize Gulf Island s capability to process the steel by cutting, shaping, forming and painting.

Website and Electronic Posting Disclosures

Our website address is www.gulfisland.com. We make available on or through our website, without charge and on the day such material is filed with the Securities and Exchange Commission (SEC), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC s website address is www.sec.gov. Our website and the information contained therein or connected thereto are not intended to be incorporated into this report on Form 10-K.

Description of Operations

Our primary activity is the fabrication of offshore drilling and production platforms, including jackets and deck sections of fixed production platforms, hull, tendon, and/or deck sections of floating production platforms (such as TLPs, SPARs, FPSOs and MinDOC s), piles, wellhead protectors, subsea templates and various production, compressor and utility modules. We also produce and repair pressure vessels used in the oil and gas industry, refurbish existing platforms, fabricate various other types of steel structures, and fabricate living quarters for installation on such platforms ranging in size from 4 to 250 beds, provide onshore and offshore scaffolding and piping insulation services, perform heavy lifts such as ship integration and TLP module integration, load and offload jack-up drilling rigs, semi-submersible drilling rigs, TLPs, SPARs or other similar cargo. We are capable of fabricating multiple processing modules to be installed in petro-chemical plants. We now provide our customers with the greatest amount of fabrication facilities on the Gulf of Mexico. Our marine division can fabricate towboats, barges, lift boats and mid-body sections for offshore supply vessels. Our Dry Dock has the capacity to lift 9,000 tons and is used for maintenance and repairs to third party marine vessels, as well as to launch vessels being fabricated at our facilities.

We use the latest welding and fabrication technology available, and all of our products are manufactured in accordance with industry standards, specifications and regulations, including those published by the American Petroleum Institute, the American Welding Society, American Society of Mechanical Engineers, American Bureau of Shipping and the United States Coast Guard. The quality management systems of our operating subsidiaries are certified as ISO 9001-2008 quality assurance programs. See Safety and Quality Assurance.

Through Gulf Island and Gulf Marine we fabricate the structural components of fixed platforms. A fixed platform is the traditional type of platform used for the offshore development and production of oil and gas, although in recent years there has been an increase in the use of floating production platforms as a result of increased drilling and production activities in deeper waters. Most fixed platforms built today can accommodate both drilling and production operations. These combination platforms are large and generally more costly than single-purpose structures. However, because directional drilling techniques permit a number of wells to be drilled from a single platform and because drilling and production can take place simultaneously, combination platforms are often more cost effective.

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The most common type of fixed platform consists of a jacket (a tubular steel, braced structure extending from the mudline on the seabed to a point above the water surface) which is supported on tubular pilings driven deep into the seabed and supports the deck structure located above the level of storm waves. The deck structure, extending above the surface of the water and attached to the tubular pilings extending out of the top end of the jacket, is designed to accommodate multiple functions, including drilling, production, separating, gathering, piping, compression, well support and crew quartering. Platforms can be joined by bridges to form complexes of platforms for very large developments or to improve safety by dividing functions among specialized platforms. Jacket-type platforms are generally the most viable solution for water depths of 1,000 feet or less. Although there is no height limit to the size of the jackets that can be fabricated at our Houma facilities, the dimensions of the Houma Navigation Canal prevent the transportation to the Gulf of Mexico of most jackets designed for water depths exceeding 800 feet. We can, however, build decks, piping and equipment modules, living quarters, piles and other components of platforms for installation in any water depth. Our Gulf Marine south yard in Texas, which is located on the Gulf Intercoastal Waterway and the 45 feet deep Corpus Christi Ship Channel, provides direct and unrestricted access to the Gulf of Mexico, which allows for unlimited fabrication or assembly of any size structure in use today. Often, customers split projects among fabricators, contracting with different companies for the fabrication of the jacket, deck sections, living quarters and piles for the same platform. Through the construction of these components, our Houma facility participates in the construction of platforms requiring jackets and/or hulls that are larger than those we could transport through the Houma Navigation Canal.

Most of the steel used in our operations arrives at our fabrication yards as steel plate. The plate is cut and rolled into tubular sections at rolling mills in the fabrication yards. The tubular sections (which vary in diameter up to 23 feet) are welded together in long straight tubes to become legs or into shorter tubes to become part of the network of bracing that support the legs. Various cuts and welds in the fabrication process are made by computer-controlled equipment that operates from data developed during the design of the structure. Our ability to fabricate and assemble the large tubular sections needed for jackets built for use in water depths over 300 feet distinguish us from all but two of our domestic competitors.

Jackets are built on skidways (which are long parallel rails along which the jacket will slide when it is transferred to a barge for towing out to sea) and are generally built in sections so that much of their fabrication is done on the ground. As each section of legs and bracing is complete, large crawler cranes pick up an entire side and roll up the section, which is then joined to another uprighted section. When a jacket is complete and ready for launch, it is pulled along the skidway onto a launch barge, which is gradually deballasted to compensate for the weight of the structure as more of it moves aboard the barge. Using ocean-going tugs, the barge and jacket are transported to the offshore installation site.

Decks are built either as single structures or in sections and are installed on location on fixed and floating platforms by marine construction contractors. The composition and quantity of petroleum in the well stream generally determine the makeup of the production deck on a processing platform. Typical deck equipment includes crude oil pumps, oil and gas separators and gas compressors. Unlike large jackets, which are transported in a horizontal position, decks are transported upright and, as a result, are not subject to the width restrictions of the Houma Navigation Canal. Therefore, the only limitation on our ability to fabricate decks in our Houma facility is the weight capacity of the barges that transport the decks from our yard to the installation site. Barges currently exist that have the weight capacity and other characteristics required to transport even the largest of the decks currently installed in the world, and management believes that currently there are no decks installed anywhere in the world that could not have been constructed at our facilities. While larger deck structures to be built in the future could exceed the capacities of currently existing barges, management does not believe that this will materially affect our share of the market for deck construction.

Gulf Island s subsidiaries have delivered the first deepwater dry tree drilling and production platform built in the United States. The MinDOC hull weighs approximately 19,000 short tons. The hull has three vertical columns arranged in a triangular shape connected to upper and lower pontoon sections. A vertical inner tube runs the full length of each leg and houses a variety of equipment used for ballast as well as instruments collecting data for stability. The

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MinDOC hull has a similar look to a Semisubmersible but has characteristics of a SPAR hull. It has superior stability and a higher load capacity over Semisubmersibles and SPARs. Its risers are tensioned by a hydraulic riser system rather than air cans or buoyancy cans used on SPARs. The platform is held in place by a 12 point mooring system, four mooring lines per column.

The deck sections that sit on top of the hull can be configured in a traditional rectangular shape or in a T-type configuration. The T-Type configuration is the method that was chosen for the MinDOC Hull Project. Two deck sections were fabricated by Gulf Island LLC with a combined weight of approximately 6,000 short tons.

The overall length and diameter of the columns is dictated by the amount of topsides payload the customer desires. The hull has a 40 year design life and meets the latest MMS requirements for extreme weather conditions including hurricane force conditions.

We can also fabricate TLPs and sections of, or structures and tendons used in connection with, TLPs. TLPs consist of a deck that sits atop one or more column-shaped hulls, which are positioned on site with vertical tendons running from the hulls to the seabed. The tendons hold the hulls partially submerged and are highly tensioned using the buoyancy of the hulls. This system develops a restoring force against wave, wind and current actions in proportion to the lateral displacement of the vessel. Wells for a TLP are often pre-drilled through a subsea template. Long, flexible production risers, which carry the petroleum to the deck of the TLP, are supported in tension by mechanical tensioner machines on the platform s deck and are directly subject to wave, wind and current forces. TLPs can be used in any water depth and are generally better suited than fixed platforms for water depths greater than 1,000 feet.

The size of a TLP depends on a number of factors, including the intended scope of production of the platform, the length of the production risers connected to the platform, the size of the deck to be installed on the platform and the water depth for which the platform is designed. We can fabricate deck sections and hulls for use with TLPs of any size. TLPs and other floating concepts are the alternatives of choice for deepwater drilling and production platforms, and we are well positioned to participate in the continued expansion into the deepwater areas since our acquisition of Gulf Marine.

We have fabricated subsea templates for use in connection with TLPs, which are structures that are installed on the seabed before development drilling begins. As exploration and drilling move into the deepwater of the Gulf of Mexico, we believe that there will be increased opportunities to fabricate subsea templates, as well as decks and other structures, for use in connection with TLPs.

In addition, we fabricate piles and other rolled goods, templates, bridges for connecting offshore platforms, wellhead protectors, various production, compressor and utility modules and other structures used in offshore oil and gas production and development activities. All of our products are installed by marine construction contractors.

Through Dolphin Services, we also provide interconnect piping services on offshore platforms, inshore steel and wood structure construction, fabrication of pressure vessels and large and small packaged skid units, and steel warehousing and sales. Interconnect piping services involve sending employee crews to offshore platforms that have been installed in the Gulf of Mexico in order to perform welding and other activities required to connect production equipment, service modules and other equipment to a platform prior to its becoming operational. Dolphin Services also contracts with oil and gas companies that have platforms and other structures located in the inland lakes and bays throughout the Southeast for various on-site construction and maintenance activities. At its existing facility located a quarter of a mile from the Gulf Island main yard, Dolphin Services can fabricate jackets up to 100 feet tall, along with decks and other steel structures. Dolphin Services has also been active in the refurbishment of existing platforms. Platform operators occasionally remove platforms previously installed in the Gulf of Mexico and return the platforms to a fabricator for refurbishment, which usually consists of general repairs, maintenance work and modification. Dolphin Services also serves state and local governments with various municipal and drainage projects such as pump stations, levee reinforcement, bulkheads and other levee and drainage projects.

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Facilities and Equipment

Facilities. Our corporate headquarters and Gulf Island s main fabrication yard are located on the east bank of the Houma Navigation Canal in Houma, Louisiana, approximately 30 miles from the Gulf of Mexico. This facility is situated on approximately 140 acres, of which 100 acres are developed for fabrication, and includes several buildings totaling 36,000 square feet that house administrative staff, 267,000 square feet of covered fabrication area, over 17,000 square feet of warehouse storage area and 8,000 square feet of training and medical facilities. The main yard also has approximately 2,800 linear feet of water frontage, of which 1,500 feet is steel bulkhead that permits load out of heavy structures.

Gulf Island s west yard is located across the Houma Navigation Canal from the main yard on 437 acres, 130 acres of which are developed for fabrication and over 300 acres of which are unimproved land that could be used for expansion. The west yard, which has approximately 72,000 square feet of covered fabrication area and 4,600 square feet of warehouse storage area, spans 6,750 linear feet of the Houma Navigation Canal, of which 2,350 feet is steel bulkhead. Our newly formed marine company when fully operational will be located in the west yard and the Dry Dock will primarily operate in the west yard slip**.** The marine company also utilizes a covered lean to area, connected to the panel line building, that is approximately 24,600 square feet.

Gulf Island s north yard, formerly the Southport facility, operates on the east bank of the Houma Navigation Canal adjacent to Gulf Island s main fabrication yard. The facility covers 23 acres and includes a two-story, 5,000 square foot administration building with an attached 5,300 square foot warehouse. The property has approximately 1,850 linear feet of water frontage, of which 380 linear feet is steel bulkhead that permits docking of large ocean going vessels and the loadout of heavy structures.

Dolphin Services operates from a 30-acre site located approximately a quarter of a mile from Gulf Island s main yard on a channel adjacent to the Houma Navigation Canal. The facility includes a 9,900 square foot building that houses administrative staff, approximately 32,000 square feet of covered fabrication area, 1,500 square feet of warehouse storage area, a 10,000 square foot blasting and coating facility and approximately 990 linear feet of water frontage, of which 660 feet is steel bulkhead.

Gulf Marine s south yard in Ingleside, Texas is located on the northwest corner of the intersection between the Gulf Intracoastal Waterway and the Corpus Christi Ship Channel. The 45 feet deep Corpus Christi Ship Channel provides direct and unrestricted access to the Gulf of Mexico, which makes this site ideal for the fabrication or assembly of many types of large structures. This facility is situated on approximately 212 acres developed for fabrication and assembly, and includes a fabrication shop with 5,000 square feet of covered fabrication area, 10,000 square feet of warehouse storage area and 2,700 square feet of training facilities. The yard also has approximately 2,650 linear feet of water frontage, of which all is steel bulkhead. Gulf Marine s Specialized Lifting Device (SLD) is located in the south yard and is used to perform heavy lifts of up to 4,000 tons such as ship integration and TLP module integration, load and offload jack-up drilling rigs or production hulls, semi-submersible drilling rigs, TLPs, SPARs or other similar cargo. In addition, Gulf Marine has dredged an area 86 feet deep within 500 feet of the bulkhead to be used in conjunction with the heavy lifts. This area measures 800 feet by 200 feet at the base and can accommodate the largest existing semi submersible transport vessels. In addition, the graving dock measures 600 feet long by 250 feet wide and 40 feet deep. It has a reinforced concrete slab floor, sheet pile walls and pile supported relieving platforms around the perimeter to take the surcharge load applied by cranes. The south end of the graving dock, which opens to the Corpus Christi Ship Channel, has a removable sheet piled wall supported by steel struts. When flooded, the graving dock has a minimum of 30 feet of water over the concrete floor. The graving dock was constructed to facilitate the fabrication and assembly of certain components of the MinDOC hull. Although the graving dock was constructed to facilitate the MinDOC hull, it can used for fabricating any floating structure that will fit within its perimeters and can also be used for ship and floating rig repair.

During 2009, Gulf Marine began construction of a gate for the graving dock to be completed in June 2010. The graving dock gate is a steel barge like structure consisting of a steel reinforced wall and a buoyancy

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tank. The floating structure is 240 long x 35 wide x 40 deep and weighs approximately 950 tons. The gate structure has rubber seals that engage the walls and the graving dock floor. Although the de-ballasting of the dock will require pumps, the gate will be equipped with piping to allow the gate to be flooded without the use pumps. The removal and installation of the gate will be a much shorter duration than the previous process involving sheet pile removal and installation. Removal of the gate will be accomplished within a day and installation and de-ballasting is estimated to take 3-4 days, whereas installation and removal of sheet piles would take well over a month and require replacing sheet piles quite often. This process improvement will enable the dry-docking of vessels for repairs on a relatively quick turnaround and open up new markets for the Gulf Marine Fabrication facility.

Gulf Marine s north yard in Aransas Pass, Texas is located along the U.S. Intracoastal Waterway and is approximately three miles north of the Corpus Christi Ship Channel. This facility is situated on approximately 160 acres, of which 85 acres are dedicated to fabrication activities, and 55 acres are used for the storage of steel, prefabricated elements, equipment, and spare parts and includes several buildings with approximately 328,000 square feet of covered fabrication area, 22,000 square feet that house the administrative staff, 61,750 square feet of warehouse storage area and 16,000 square feet of training and medical facilities. The yard also has approximately 3,000 linear feet of water frontage, of which approximately 1,000 is steel bulkhead. The north yard can fabricate decks, skids and modules, jackets, piles, MinDOC, SPAR and TLP components, process piping, tanks, barges and drill rig structure components.

We own all of the foregoing properties.

Equipment. Gulf Island s main yard houses its Model 34 and Model 25 plate bending rolls, a computerized Vernon brace coping machine used for cutting steel in complex geometric sections, a Frye Wheelabrator and a U.S. Filter grit blast system, a hydraulic plate shear, a hydraulic press brake, and various other equipment needed to build offshore structures and fabricate steel components. Gulf Island s west yard has a Bertsch Model 38 plate bending roll, a computerized Vernon brace coping machine, and various other equipment used in our fabrication business. The brace coping machine installed in Gulf Island s west yard can handle pipe up to 1,500 pounds per foot and 54 inch outer diameter compared to the capacity of the current machine in the main yard, which is 1,000 pounds per foot and 48 inch outer diameter. The brace coping machine in the west yard provides additional efficiencies because it can cut 360 degrees without repositioning itself. Also, by having two machines, Gulf Island can double its capacity to cut braces thereby reducing idle production time in the yard. Gulf Island has a computerized numeric controlled plasma-arc cutting system that cuts and bevels steel up to one inch thick at a rate of two hundred inches per minute. The system can also etch into steel for piece markings and layout markings at a rate of three hundred inches per minute. Gulf Island also owns 16 crawler cranes, which range in tonnage capacity from 150 to 500 tons each and service both of Gulf Island s yards. Gulf Island may rent additional cranes on a monthly basis in times of very high activity levels. Gulf Island owns six rubber-tired, hydraulic modular transporters (KAMAG Type 2406) that allow fabricated deck sections that weigh as much as 1,200 tons to be transported around the facility. The transporters allow easier load-out of smaller decks and they provide more agility for the movement of deck sections throughout the yard than cranes. Gulf Island owns a deck barge which gives it the ability to move material and equipment to and from the various facilities more conveniently and reduce the cost of barge rentals and certain other transportation costs. Gulf Island performs routine repairs and maintenance on all of its equipment.

Gulf Island s plate bending rolls allow it to roll and weld into tubular pipe sections approximately 50,000 tons of plate per year. By having such capacity at its fabrication facility, Gulf Island is able to coordinate all aspects of platform construction, thereby reducing the risk of cost overruns, delays in project completion, and labor costs. In addition, these facilities allow Gulf Island to participate as subcontractor on projects awarded to other contractors. Gulf Island has a state of the art, fully enclosed, and environmentally friendly blast and coating facility that can operate 24 hours a day. The facility is automated and provides blasting and coating activities in support of our Houma fabrication projects. The design output of the facility also allows us to provide blast and paint services to the local shipbuilding industry. The use of this equipment provides Gulf Island a competitive advantage by reducing labor costs.

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Gulf Island s panel line system, located in its west yard, consists of six individual in-line fully automated systems utilized to cut, weld, and assemble panels to be used in marine vessel construction. The first station consists of an ESAB Avenger 3 Plasma cutting table for high speed cutting and beveling of steel plates and shapes. The second station incorporates an Ogden Model OSWS-5600 single sided welder complete with an electro magnetic plate holding system whereby two steel plates are automatically welded together in a single pass utilizing a multiple sub arc welding process. This process can be repeated up to four times with a result of a single panel having an overall dimension of 40 by 50 feet. An ESAB Avenger 3-13 plate marking and cutting machine is positioned at the third station which lays out the welded panels, marks the applicable locations for stiffeners installation, and cuts the plate to required configurations. The fourth station utilizes an Ogden Model SF-5600 stiffener fitting system to properly align and tack in place the plate stiffeners. The fifth station consists of an Ogden Model SW-5600-3 multiple stiffener welding system whereby three each longitudinal plate stiffeners can be automatically welded (both sides) in a single operation performing continuous or intermittent welding of the stiffeners. There is also an automated conveyor system that operates along the panel line which transfers the panels from station to station. The sixth station is a vertical lifting system that elevates the fabricated panels to the required height for transportation to the field.

Dolphin Services owns three spud barges for use in connection with its inshore construction activities. Each barge is equipped with a crane with a lifting capacity of 60 to 100 tons each. Dolphin Services also owns three Manitowoc 4100 cranes with lifting capacities of 200 to 230 tons each and two smaller crawler cranes with lifting capacities of 60 tons each.

Gulf Marine s SLD is a twin boom device with a below hook rating of 4,000 tons at a radius of 207 feet from the bulkhead. The 410-foot booms are 100 feet apart and provide a lifting height of 317 feet from the water. The unit is powered electro-hydraulically with each drum winch driven independently by two hydraulic motors. The lifting rate utilizing the double drum winch is 1.25 feet per minute and utilizing a single drum winch is 2.5 feet per minute. Gulf Marine also owns 12 crawler cranes, which range in tonnage capacity from 230 to 600 tons each. Gulf Marine s pipe mill is equipped with a Haeusler Quad Roll, and Bertsch Model 30, Model 34 and Model 36 plate bending roll machines for diameters ranging from 1 foot 6 inches to 10 feet and one large diameter plate bending roll machine, the Haeusler Quad Roll, for diameters ranging from 3 feet to 23 feet. The two Romar CNC-controlled flame planers, each with four torch stations (two torches per station), are used to cut steel plate up to 12 feet wide and 65 feet long. The Gulf Marine paint facility is equipped with a Pangborn shot blast machine, 20,000 square feet of climate controlled staging area and 16 feet by 14 feet by 125 feet paint booth that can operate 24 hours a day. Gulf Marine owns six rubber-tired, hydraulic modular transporters (KAMAG Type 2406) similar to those in our Houma facility.

Materials and Supplies

The principal materials and supplies we use in the fabrication business are standard steel shapes, steel plate, welding gases, fuel oil, gasoline and paint, all of which are currently available from many sources, and we do not depend upon any single supplier or source. The global credit crisis of late 2008 and 2009 that weakened demand and pricing began to reverse itself in late 2009. During the last several months demand for minerals and metals, including steel, has increased in China and in the slowly recovering economies in the United States and Europe. What was a standard delivery of 4-6 weeks for steel in 2009 is now 10-14 weeks for heat treated material. Steel prices have increased 10% to 30% from the 4th quarter of 2009 to now, with prices expected to continue to rise during 2010. We often negotiate escalation clauses in our contract terms to increase the contract price proportionally with the increase of cost of materials purchased during the life of the contract.

Safety and Quality Assurance

Management is concerned with the safety and health of our employees and maintains a stringent safety assurance program to reduce the possibility of accidents. Our safety department establishes guidelines to ensure compliance with all applicable state and federal safety regulations and provides training and safety education

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through orientations for new employees and subcontractors, daily crew safety meetings and first aid and CPR training. We also employ in-house medical personnel. We have a comprehensive drug program and conduct periodic employee health screenings. A safety committee, whose members consist of management representatives and peer-elected field representatives, meets once a month to discuss safety concerns and suggestions that could prevent accidents. We also reward our employees with safety awards distributed throughout the year. These awards are the result of observations and audits performed by the safety department and front line supervision.

We fabricate to the standards and regulations of the American Petroleum Institute, the American Welding Society, the American Society of Mechanical Engineers, American Bureau of Shipping, United States Coast Guard and specific customer specifications. We use welding and fabrication procedures in accordance with the latest technology and industry requirements. Training programs have been instituted to upgrade skilled personnel and maintain high quality standards. In addition, we maintain on-site facilities for the non-destructive testing of all welds, which process is performed by an independent contractor.

The quality management systems of Gulf Island, Dolphin Services, Southport and Gulf Marine are certified as ISO 9001-2008 programs. ISO 9001-2008 is an internationally recognized verification system for quality management overseen by the International Standard Organization based in Geneva, Switzerland. The certification is based on a review of our programs and procedures designed to maintain and enhance quality production and are subject to annual review and recertification.

Customers and Contracting

Our customers are primarily major and independent oil and gas exploration and production companies. We also may perform sub-contract work for one or more of our competitors. Over the past five years, sales of structures and related services used in the Gulf of Mexico by oil and gas exploration and production companies accounted for approximately 74% of our revenue. Our international sales fluctuate from year-to-year depending on whether and to what extent our customers require installation of fabricated structures outside of the United States. Sales of fabricated structures installed outside the United States comprised between 1% and 25% of revenue during each of the last five years, and accounted for 1%, 20% and 24% of revenue for the years ended December 31, 2009, 2008 and 2007, respectively.

A large portion of our revenue has historically been generated by several customers, although not necessarily the same customers from year-to-year. For example, our largest customers (those which individually accounted for more than 10% of revenue in a given year) accounted for 48% of revenue in 2009 (36% for Bluewater Industries, Inc. and 12% for Eni US Operating Co. Inc.), 54% of revenue in 2008 (37% for Bluewater Industries, Inc. and 17% for Daewoo Shipbuilding and Marine Engineering, Ltd.), and 70% of revenue in 2007 (28% for Bluewater Industries, Inc., 23% for Daewoo Shipbuilding and Marine Engineering, Ltd., and 19% for Chevron Corporation). In addition, at December 31, 2009, 95% of our backlog, which consists of work remaining at December 31, 2009 and commitments received through February 25, 2010, was attributable to 20 projects involving 13 customers. The level of fabrication that we may provide to any particular customer depends, among other things, on the size of that customer s capital expenditure budget devoted to project construction plans in a particular year and our ability to meet the customer s delivery schedule. Thus, customers that account for a significant portion of revenue in one fiscal year may represent an immaterial portion of revenue in subsequent years.

While customers may consider other factors, including the availability, capability, reputation and safety record of a contractor, price and the ability to meet a customer s delivery schedule are the principal factors on which we are awarded contracts. Our contracts generally vary in length from one month to 24 months depending on the size and complexity of the project. Generally, our contracts and projects are subject to termination at any time prior to completion, at the option of the customer. Upon termination, however, the customer is generally required to pay us for work performed and materials purchased through the date of termination and, in some instances, cancellation fees.

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Most of our projects are awarded on a fixed-price, unit rate, alliance/partnering or cost-plus basis. Under fixed-price contracts, we receive the price fixed in the contract, subject to adjustment only for change orders approved by the customer. As a result, we retain all cost savings but are also responsible for all cost overruns. Under a unit rate contract, material items or labor tasks are assigned unit rates of measure. The unit rates of measure will generally be amount of dollars per ton, per foot, per square foot, per item installed, etc. A typical unit rate contract can contain hundreds to thousands of unit rates of measure that all accumulate to determine the total contract value. Profit margins are built in to the unit rates and, similar to a fixed price contract, we retain all cost savings but are also responsible for all cost overruns. Under typical alliance/partnering arrangements, the parties agree in advance to a target price that includes specified levels of labor and material costs and profit margins. If the project is completed at less cost than that targeted in the contract, the contract price is reduced by a portion of the savings. If the cost of completion is greater than that targeted in the contract, the contract price is increased, but generally to the target price plus the actual incremental cost of materials and direct labor costs. Accordingly, under alliance/partnering arrangements, we have some protection from cost overruns but also share a portion of any cost savings with the customer. Under cost-plus arrangements, pursuant to which we receive a specified fee in excess of our direct labor and material costs, we are protected against cost overruns but do not benefit directly from cost savings. Because we generally price materials as pass-through items on our contracts, the cost and productivity of our labor force are the primary factors affecting our operating costs. Consequently, it is essential that we control the cost and productivity of the direct labor hours worked on our projects. As an aid to achieving this control, we place a single project manager in charge of the production operations related to each project and give significant discretion to the project manager, with oversight by the applicable subsidiary s President and our President. As an incentive to control costs, each of Gulf Island, Gulf Island Marine, Dolphin Services and Gulf Marine give bonuses to its employees totaling 5% to 6% of their separate company income before taxes depending on job position.

Seasonality

Although high activity levels in the oil and gas industry and capacity limitations can somewhat diminish the seasonal effects on our operation, our operations have historically been subject to seasonal variations in weather conditions and daylight hours. Since most of our construction activities take place outdoors, the number of direct labor hours worked generally declines during the winter months due to an increase in rainy and cold conditions and a decrease in daylight hours. In addition, our customers often schedule the completion of their projects during the summer months in order to take advantage of the milder weather during such months for the installation of their platforms. In recent years, seasonality has had less of an impact on income, mainly due to our ongoing investment in machinery and equipment and covered fabrication areas.

The table below indicates for each quarter of the last three fiscal years the percentage of the annual revenue, gross profit and net income, and the number of direct labor hours worked. Because of seasonal effects, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters. Reductions in industry activity levels may tend to increase the seasonal effects on our operations.

	2009				2008				2007			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Revenue	27%	25%	25%	23%	29%	28%	22% a	21%	23%	29%	26%	21%
Gross profit	30%	21%	28%	21%	44%	39%	12% a	5%	15%	25%	31%	29%
Net income	30%	19%	29%	22%	46%	41%	10% a	3%	14%	25%	32%	28%
Direct labor hours (in 000 s)	857	791	811	697	967	1,019	931 a	903	878	901	887	916

a. We experienced approximately 3 weeks of downtime at our Houma facilities and 5 days of downtime at our Texas facilities as a result of the hurricanes that struck the Gulf Coast during the third quarter of 2008.

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Competition

The offshore platform fabrication industry is highly competitive and influenced by events largely outside of the control of offshore platform fabrication companies. Platform fabrication companies compete intensely for available projects, which are generally awarded on a competitive bid basis with customers usually requesting bids on projects one to three months prior to commencement. Our marketing staff contacts engineering companies and oil and gas companies believed to have fabrication projects scheduled to allow us an opportunity to bid for the projects. Although price and the contractor s ability to meet a customer s delivery schedule are the principal factors in determining which qualified fabricator is awarded a contract for a project, customers also consider, among other things, the availability of technically capable personnel and facility space, a fabricator s efficiency, condition of equipment, reputation, safety record and customer relations.

We currently have several domestic competitors, including J. Ray McDermott, S.A. and Kiewit Offshore Services, for the fabrication of platform jackets to be installed in water depths greater than 300 feet. In addition to these companies, we compete with other fabricators for platform jackets for intermediate water depths from 150 feet to 300 feet. A number of other companies compete for projects designed for shallower waters. Certain of our competitors have greater financial and other resources than we do.

We believe that while new competitors can enter the market for smaller structures relatively easily, it is more difficult to enter the market for jackets designed for use in water depths greater than 300 feet. This difficulty results from the substantial investment required to establish an adequate facility, the difficulty of locating a facility adjacent to an adequate waterway due to environmental and wetland regulations, and the limited availability of experienced supervisory and management personnel.

We believe that our competitive pricing, expertise in fabricating offshore structures and the certification of our facilities as ISO 9001-2008 fabricators will enable us to continue to compete effectively for projects destined for international waters. We recognize, however, that foreign governments often use subsidies and incentives to create jobs where oil and gas production is being developed. In addition, the increased transportation costs that are incurred when exporting structures from the U.S. to foreign locations may hinder our ability to successfully bid for projects against foreign competitors. Because of subsidies, import duties and fees, taxes on foreign operators, lower wage rates in foreign countries, fluctuations in the value of the U.S. dollar, the possible imposition of tariffs on raw materials imported into the United States and other factors, we may not be able to remain competitive with foreign contractors for projects designed for use in international waters, as well as those designed for use in the Gulf of Mexico.

Backlog

Our backlog is based on management s estimate of the direct labor hours required to complete, and the remaining revenue to be recognized with respect to, those projects as to which a customer has authorized us to begin work or purchase materials pursuant to written contracts, letters of intent or other forms of authorization. Often, however, management s estimates are based on incomplete engineering and design specifications. As engineering and design plans are finalized or changes to existing plans are made, management s estimate of the direct labor hours required to complete and price at completion for such projects is likely to change. In addition, all projects currently included in our backlog are subject to termination at the option of the customer, although the customer in that case is generally required to pay us for work performed and materials purchased through the date of termination and, in some instances, cancellation fees. However, due to the large dollar amounts of backlog estimated for certain projects, a termination of any one of these projects could substantially decrease our backlog, and could have a material adverse effect on our revenue, net income and cash flow.

As of December 31, 2009, we had a revenue backlog of $136.8 million and a labor backlog of approximately 1.5 million man-hours remaining to work, which consists of work remaining at December 31, 2009 and commitments received through February 25, 2010, compared to the revenue backlog of $209.8 million and a labor backlog of 2.3 million man-hours reported in our Form 10-K at December 31, 2008.

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Our backlog at December 31, 2008, was adjusted to reflect the removal of $150.4 million and 1.6 million man-hours associated with the MinDOC II project in which the customer had announced has been postponed indefinitely.

Of the backlog at December 31, 2009, $19.9 million, or 14.5%, represented projects destined for deepwater locations compared to $50.4 million, or 24.0%, of projects destined for deepwater locations included in the December 31, 2008 backlog.

Of the backlog at December 31, 2009, we expect to recognize revenues of approximately $109.0 million (79.7%) during calendar year 2010 and $27.8 million during calendar year 2011.

Government and Environmental Regulation

Many aspects of our operations and properties are materially affected by federal, state and local regulations, as well as certain international conventions and private industry organizations. The exploration and development of oil and gas properties located on the outer continental shelf of the United States is regulated primarily by the Bureau of Minerals Management Service of the United States Department of the Interior (MMS). The MMS has promulgated federal regulations under the Outer Continental Shelf Lands Act requiring the construction of offshore platforms located on the outer continental shelf to meet stringent engineering and construction specifications. Violations of these regulations and related laws can result in substantial civil and criminal penalties as well as injunctions curtailing operations. We believe that our operations are in compliance with these and all other regulations affecting the fabrication of platforms for delivery to the outer continental shelf of the United States. In addition, we depend on the demand for our services from the oil and gas industry and, therefore, can be affected by changes in taxes, price controls and other laws and regulations relating to the oil and gas industry. Offshore construction and drilling in certain areas has also been opposed by environmental groups and, in certain areas, has been restricted. To the extent laws are enacted or other governmental actions are taken that prohibit or restrict offshore construction and drilling or impose environmental protection requirements that result in increased costs to the oil and gas industry in general and the offshore construction industry in particular, our business and prospects could be adversely affected. We cannot determine to what extent future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

Until our acquisition of the Gulf Marine facilities, the Houma Navigation Canal provided the only means of access from our facilities to open waters. The Houma Navigation Canal is considered to be a navigable waterway of the United States and, as such, is protected by federal law from unauthorized obstructions that would hinder water-borne traffic. Federal law also authorizes federal maintenance of the canal by the U.S. Corps of Engineers. The canal requires dredging to maintain its water depth and, while federal funding for this dredging has been provided for over 40 years, there is no assurance that Congressional appropriations sufficient for adequate dredging and other maintenance of the canal will be continued indefinitely. If sufficient funding were not appropriated for that purpose, the Houma Navigation Canal could become impassable by barges or other vessels required to transport many of our products and could have a material and adverse effect on our operations and financial position.

Our operations and properties are subject to a wide variety of increasingly complex and stringent foreign, federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. These laws may provide for strict liability for damages to natural resources and threats to public health and safety, rendering a party liable for the environmental damage without regard to negligence or fault on the part of such party. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Certain environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Such laws and regulations may also expose us to liability for the conduct of or conditions caused by others, or for acts that were in compliance with all applicable laws at the time we performed them.

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The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, and similar laws provide for responses to and liability for releases of hazardous substances into the environment. Additionally, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Safe Drinking Water Act, the Emergency Planning and Community Right to Know Act, each as amended, and similar foreign, state or local counterparts to these federal laws, regulate air emissions, water discharges, hazardous substances and wastes, and require public disclosure related to the use of various hazardous substances. Compliance with such environmental laws and regulations may require the acquisition of permits or other authorizations for certain activities and compliance with various standards or procedural requirements. We believe that our facilities are in substantial compliance with current regulatory standards.

Our operations are also governed by laws and regulations relating to workplace safety and worker health, primarily the Occupational Safety and Health Act and regulations promulgated thereunder. In addition, various other governmental and quasi-governmental agencies require us to obtain certain permits, licenses and certificates with respect to our operations. The kinds of permits, licenses and certificates required by our operations depend upon a number of factors. We believe that we have all material permits, licenses and certificates necessary for the conduct of our existing business.

Our compliance with these laws and regulations has entailed certain additional expenses and changes in operating procedures, which during the last three years have resulted in annual expenditures between $450,000 to $750,000. We believe that compliance with these laws and regulations will not have a material adverse effect on our business or financial condition for the foreseeable future. However, future events, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies, or stricter or different interpretations of existing laws and regulations, may require additional expenditures by us, which expenditures may be material.

Our employees may engage in certain activities, including interconnect piping and other service activities conducted on offshore platforms and activities performed on the spud barges owned by us, which are covered by the provisions of the Jones Act, the Death on the High Seas Act and general maritime law. These laws operate to make the liability limits established under state workers compensation laws inapplicable to these employees and, instead, permit them or their representatives to pursue actions against us for damages or job related injuries, with generally no limitations on our potential liability. Our ownership and operation of vessels can give rise to large and varied liability risks, such as risks of collisions with other vessels or structures, sinkings, fires and other marine casualties, which can result in significant claims for damages against us for, among other things, personal injury, death, property damage, pollution and loss of business.

In addition, our operations are subject to extensive government regulation by the United States Coast Guard, as well as various private industry organizations such as the American Petroleum Institute, American Society of Mechanical Engineers, American Welding Society and the American Bureau of Shipping.

Insurance

We maintain insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction to our facilities. All policies are subject to deductibles and other coverage limitations. We also maintain a builder s risk policy for construction projects, general liability insurance and maritime employer s liability insurance which are also subject to deductibles and coverage limitations. The Company and our subsidiaries, Gulf Island, Dolphin Services and Gulf Island Marine are self-insured for workers compensation and U.S. longshoreman and harbor workers except for losses in excess of $300,000 per occurrence. Gulf Marine and Gulf Island Resources workers compensation and U.S. longshoreman and harbor workers coverage is similar to that of Gulf Island, Dolphin Services and Gulf Island Marine, except that the coverage is subject to a $300,000 per occurrence deductible. Dolphin Steel Sales workers compensation and U.S. longshoreman and harbor workers coverage is similar to Gulf Marine and Gulf Island Resources except that the coverage is subject to no retention per occurrence. Although management

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believes that our insurance is adequate, there can be no assurance that we will be able to maintain adequate insurance at rates which management considers commercially reasonable, nor can there be any assurance that such coverage will be adequate to cover all claims that may arise.

Employees

Our workforce varies based on the level of ongoing fabrication activity at any particular time. As of December 31, 2009 and 2008, we had approximately 1,400 and 1,825 employees. Additionally, we will use contract labor when required to meet customer demand. During 2009, we began to reduce our headcount. These efforts have continued through early 2010, and, as of March 4, 2010, we had approximately 1,375 employees. None of our employees are employed pursuant to a collective bargaining agreement, and we believe our relationship with our employees is good.

Our ability to remain productive and profitable depends substantially on our ability to attract and retain skilled construction workers, primarily welders, fitters and equipment operators. In addition, our ability to expand our operations depends not only upon customer demand but also on our ability to increase our labor force. The demand for such workers is high and the supply is extremely limited, especially during periods of high activity in the oil and gas industry. While we believe our relationship with our skilled labor force is good, a significant increase in the wages paid by competing employers could result in a reduction in our skilled labor force, increases in the wage rates we may pay, or both. If either of these occurred in the near-term the profits expected from work in progress could be reduced or eliminated and in the long-term, to the extent such wage increases could not be passed on to our customers, our production capacity could be diminished and the growth potential could be impaired. In an effort to maintain our current workforce, we have enhanced several incentive programs and expanded our training facility to train our employees on productivity and safety matters.

Current global economic conditions and the steep decline in oil and gas prices have caused companies to remove projects from the bidding process or reduce the dollar value of projects. The current reduction in available work in the market and declines in profit from work that is available could cause us to undertake additional cost reduction measures, including further reduction in our workforce.

Item 1A. Risk Factors

Cautionary Statement

Our business is subject to significant risks. We caution readers that the following important factors could affect our actual consolidated results and could cause our actual consolidated results in the future to differ materially from the goals and expectations expressed in the forward-looking statements contained in this report and in any other forward-looking statements made by us or on our behalf.

We are subject to the cyclical nature of the oil and gas industry.

Our business depends primarily on the level of activity by oil and gas companies in the Gulf of Mexico and along the Gulf Coast. This level of activity has traditionally been volatile as a result of fluctuations in oil and gas prices and their uncertainty in the future. The purchases of the products and services we provide are, to a substantial extent, deferrable in the event oil and gas companies reduce capital expenditures. Therefore, the willingness of our customers to make expenditures is critical to our operations. The levels of such capital expenditures are influenced by, among other things:

- oil and gas prices and industry perceptions of future prices;
- the cost of exploring for, producing and delivering oil and gas;
- the ability of oil and gas companies to generate capital;

the sale and expiration dates of offshore leases in the United States and overseas;

the discovery rate of new oil and gas reserves in offshore areas;

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local, federal and international political and economic conditions; and

uncertainty regarding the United States energy policy, particularly any revision, reinterpretation or creation of environmental and tax laws and regulations that would negatively impact the industry.

Although activity levels in production and development sectors of the oil and gas industry are less immediately affected by changing prices and as a result, less volatile than the exploration sector, producers generally react to declining oil and gas prices by reducing expenditures. This has in the past and may in the future adversely affect our business. We are unable to predict future oil and gas prices or the level of oil and gas industry activity. A prolonged low level of activity in the oil and gas industry will adversely affect the demand for our products and services and our financial condition and results of operations.

We might be unable to employ a sufficient number of skilled workers.

Our ability to remain productive and profitable depends substantially on our ability to attract and retain skilled construction workers, primarily welders, fitters and equipment operators. In addition, our ability to expand our operations depends not only upon customer demand, but also on our ability to increase our labor force. The demand for such workers is high and the supply is extremely limited, especially during periods of high activity in the oil and gas industry. While we believe our relationship with our skilled labor force is good, a significant increase in the wages paid by competing employers could result in a reduction in our skilled labor force, increases in the wage rates we may pay, increase in our use of contract labor, or all of these. If any of these occurred in the near-term, the profits expected from work in progress could be reduced or eliminated and, in the long-term, to the extent such wage increases could not be passed on to our customers, our production capacity could be diminished and growth potential could be impaired.

Our backlog is subject to change.

Our backlog is based on management s estimate of the direct labor hours required to complete, and the remaining revenue to be recognized with respect to, those projects as to which a customer has authorized us to begin work or purchase materials pursuant to written contracts, letters of intent or other forms of authorization. Often, however, management s estimates are based on incomplete engineering and design specifications. As engineering and design plans are finalized or changes to existing plans are made, management s estimate of the direct labor hours required to complete and price at completion for such projects is likely to change. In addition, all projects currently included in our backlog are subject to termination at the option of the customer, although the customer, in that case, is generally required to pay us for work performed and materials purchased through the date of termination and, in some instances, cancellation fees. In addition, a customer can potentially delay the execution of their project. Due to the large dollar amount of backlog estimated for a few projects, a termination or postponement of any one of these projects could materially affect the timing of our revenue, net income and cash flow if the project is large.

The dangers inherent in our operations and the limits on insurance coverage could expose us to potentially significant liability costs and materially interfere with the performance of our operations.

The fabrication of large steel structures involves operating hazards that can cause personal injury or loss of life, severe damage to and destruction of property and equipment and suspension of operations. The failure of such structures during and after installation can result in similar injuries and damages. In addition, certain activities engaged in by employees of Dolphin Services that are not engaged in by our other employees, including piping interconnect and other service activities conducted on offshore platforms and activities performed on the spud barges owned by Dolphin Services, are covered by provisions of the Jones Act, the Death on the High Seas Act and general maritime law, which laws operate to make the liability limits established by state workers compensation laws inapplicable to these employees and, instead, permit them or their representatives to pursue actions against us for damages or job-related injuries, with generally no limitations on our potential liability.

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Our ownership and operation of vessels can also give rise to large and varied liability risks, such as risks of collisions with other vessels or structures, sinking, fires and other marine casualties, which can result in significant claims for damages against both us and third parties for, among other things, personal injury, death, property damage, pollution and loss of business. Litigation arising from any such occurrences may result in our being named as a defendant in lawsuits asserting large claims. In addition, due to their proximity to the Gulf of Mexico, our facilities are subject to the possibility of physical damage caused by hurricanes or flooding, as occurred in 2008.

Although we believe that our insurance coverage is adequate, there can be no assurance that we will be able to maintain adequate insurance in the future at rates we consider reasonable or that our insurance coverage will be adequate to cover future claims that may arise. Successful claims for which we are not fully insured may adversely affect our working capital and profitability. In addition, changes in the insurance industry have generally led to higher insurance costs and decreased availability of coverage. The availability of insurance covering risks we and our competitors typically insure against may decrease, and the insurance that we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms.

Our industry is highly competitive.

The offshore platform industry is highly competitive and influenced by events largely outside of our control. Contracts for our services are generally awarded on a competitive bid basis, and our customers consider many factors when awarding a job. These factors include price, the contractor s ability to meet the customer s delivery schedule, and to a lesser extent, the availability and capability of equipment, and the reputation, experience and safety record of the contractor. Although we believe that our reputation for safety and quality service is good, we cannot guarantee that we will be able to maintain our competitive position. We compete with both large and small companies for available jobs, and certain of our competitors have greater financial and other resources than we do.

In addition, because of subsidies, import duties and fees, taxes imposed on foreign operators and lower wage rates in foreign countries, along with fluctuations in the value of the U.S. dollar and other factors, we may not be able to remain competitive with foreign contractors for projects designed for use in international locations as well as those designed for use in the Gulf of Mexico. See Business and Properties Competition for more information regarding the competitive nature of our industry.

Competitive pricing common in the marine construction industry may not provide sufficient protection from cost overruns.

As is common in the offshore platform fabrication industry, a substantial number of our projects are performed on a fixed-price basis, although some projects are performed on an alliance/partnering or cost-plus basis. Under fixed-price or unit-rate contracts, we receive the price fixed in the contract, subject to adjustment only for change orders placed by the customer. Under a unit rate contract, material items or labor tasks are assigned unit rates of measure. The unit rates of measure will generally be an amount of dollars per ton, per foot, per square foot, per item installed, etc. A typical unit rate contract can contain hundreds to thousands of unit rates of measure that all accumulate to determine the total contract value. Profit margins are built in to the unit rates and, similar to a fixed price contract, we retain all cost savings but are also responsible for all cost overruns. Under typical alliance/partnering arrangements, the parties agree in advance to a target price that includes specified levels of labor and material costs and profit margins. If the project is completed at less cost than that targeted in the contract, the contract price is reduced by a portion of the savings. If the cost to completion is greater than target costs, the contract price is increased, but generally to the target price plus the actual incremental cost of materials and direct labor. Accordingly, under alliance/partnering arrangements, we have some protection against cost overruns but must share a portion of any cost savings with the customer. Under cost-plus arrangements, we receive a specified fee in excess of our direct labor and material cost and thus are

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protected against cost overruns but do not benefit directly from cost savings. Some contracts include a total or partial reimbursement to us of any costs associated with specific capital projects required by the fabrication process. If this capital project provides future benefits to us, the cost to build the capital project will be capitalized, and the revenue for the capital project will increase the estimated profit in the contract.

The revenue, costs and gross profit realized on a contract will often vary from the estimated amounts on which such contracts were originally based due to, among other things:

- changes in the availability and cost of labor and material;
- variations in productivity from the original estimates; and
- changes in estimates or bidding.

These variations and the risks inherent in our industry may result in revenue and gross profits different from those originally estimated and reduced profitability or losses on projects. Depending on the size of a project, variations from estimated contract performance can have a significant impact on our operating results for any particular fiscal quarter or year. See Business and Properties Customer and Contracting.

Our method of accounting for revenue could result in an earnings charge.

Most of our revenue is recognized on a percentage-of-completion basis based on the ratio of direct labor hours worked to the total estimated direct labor hours required for completion. Accordingly, contract price and cost estimates are reviewed monthly as the work progresses, and adjustments proportionate to the percentage of completion are reflected in revenue for the period when such estimates are revised. To the extent that these adjustments result in a reduction or elimination of previously reported profits, we are required to recognize a charge against current earnings, which may be significant depending on the size of the project or the adjustment.

We are susceptible to adverse weather conditions in our market areas.

Our operations are directly affected by the seasonal differences in weather patterns in the Gulf of Mexico, as well as daylight hours. Since most of our construction activities take place outdoors, the number of direct labor hours worked generally declines in the winter months due to an increase in rainy and cold conditions and a decrease in daylight hours. The seasonality of oil and gas industry activity as a whole in the Gulf Coast region also affects our operations. Our customers often schedule the completion of their projects during the summer months in order to take advantage of the milder weather during such months for the installation of their platforms. The rainy weather, tropical storms, hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast throughout the year, such as Hurricanes Gustav and Ike in 2008, may also affect our operations. Accordingly, our operating results may vary from quarter to quarter, depending on factors outside of our control. As a result, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

We depend on key personnel.

Our success depends to a great degree on the abilities of our key management personnel, particularly our Chief Executive Officer and other high-ranking executives. The loss of the services of one or more of these key employees could adversely affect us.

We depend on significant customers.

We derive a significant amount of our revenue from a small number of major and independent oil and gas companies, although not necessarily the same customers from year to year. Because the level of fabrication that we may provide to any particular customer depends, among other things, on the size of that customer s capital

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expenditure budget devoted to platform construction plans in a particular year and our ability to meet the customer s delivery schedule, customers that account for a significant portion of our revenue in one fiscal year may represent an immaterial portion of revenue in subsequent years. For example, our largest customers (those which individually accounted for more than 10% of revenue in a given year) accounted for 48% of revenue in 2009 (36% for Bluewater Industries, Inc. and 12% for Eni US Operating Co. Inc.), 54% of revenue in 2008 (37% for Bluewater Industries, Inc. and 17% for Daewoo Shipbuilding and Marine Engineering, Ltd.), and 70% of revenue in 2007 (28% for Bluewater Industries, Inc., 23% for Daewoo Shipbuilding and Marine Engineering, Ltd., and 19% for Chevron Corporation). The loss of a significant customer for any reason, including a sustained decline in that customer s capital expenditure budget or competitive factors, can result in a substantial loss of revenue and could have a material adverse effect on our operating performance.

The nature of our industry subjects us to compliance with regulatory and environmental laws.

Our operations and properties are materially affected by state and federal laws and other regulations relating to the oil and gas industry in general, and are also subject to a wide variety of foreign, federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. Further, compliance with many of these laws is becoming increasingly complex, stringent and expensive. Many impose strict liability for damages to natural resources or threats to public health and safety, rendering a party liable for the environmental damage without regard to its negligence or fault. Certain environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, we could be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Such laws and regulations may also expose us to liability for the conduct of or conditions caused by others, or for acts that were in compliance with all applicable laws at the time such acts were performed. We believe that our present operations substantially comply with applicable federal and state pollution control and environmental protection laws and regulations. We also believe that compliance with such laws has had no material adverse effect on our operations. However, such environmental laws are changed frequently. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. We are unable to predict whether environmental laws will materially adversely affect our future operations and financial results. See Business and Properties Government and Environmental Regulations.

The demand for our services is also affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry generally. Offshore construction and drilling in certain areas has also been opposed by environmental groups and, in certain areas, has been restricted. To the extent laws are enacted or other governmental actions are taken that prohibit or restrict offshore construction and drilling or impose environmental protection requirements that result in increased costs to the oil and gas industry in general and the offshore construction industry in particular, our business and prospects could be adversely affected. We cannot determine to what extent future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

The Houma Navigation Canal provides the only means of access from our Louisiana facilities to open waters. The Houma Navigation Canal is considered to be a navigable waterway of the United States and, as such, is protected by federal law from unauthorized obstructions that would hinder water-borne traffic. Federal law also authorizes federal maintenance of the canal by the United States Corps of Engineers. The canal requires bi-annual dredging to maintain its water depth and, while federal funding for this dredging has been provided for over 40 years, there is no assurance that Congressional appropriations sufficient for adequate dredging and other maintenance of the canal will be continued indefinitely. If sufficient funding were not appropriated for that purpose, the Houma Navigation Canal could become impassable by barges or other vessels required to transport many of our products and could result in material and adverse affects on our operations and financial position.

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We have no guarantee that our limited overriding royalty interest will be sufficient to fund the remaining balance owed to us on the MinDOC project.

On July 15, 2009, we reached an agreement with Bluewater Industries, Inc. (Bluewater) to restructure the payment terms for the remainder of the amounts owed on the MinDOC project. In connection with this restructure, Bluewater agreed to pay us $48 million of the $90 million agreed upon contract amount owed to us pursuant to the assignment of all of its right, title and interest in the Conveyance of Overriding Royalty Interest between Bluewater and ATP. The interest we received from Bluewater is a limited overriding royalty interest because the amount to be received by us is set not to exceed $48 million. Upon cumulative receipt of the $48 million, the limited overriding royalty will revert back to Bluewater. Originally, we projected that we will start receiving royalty payments from this limited overriding royalty interest in February 2010, and we anticipated the entire $48 million to be paid over a thirteen-month period based on our review of petroleum engineering reserve reports applying strip prices in effect in mid-June 2009. Based on a delay in the project s first production, we now project that we will start receiving royalty payments in mid-year 2010 over a fourteen-month period. This latest projected payment schedule may be subject to adjustment as a result of changes in the price of oil and gas, the amount of oil and gas produced, increases in expenses associated with producing the oil and gas and changes in the anticipated production schedule.

While we believe the available oil and gas reserves for the properties subject to our limited overriding royalty interest significantly exceed $48 million, we have no guarantees from Bluewater or ATP Oil and Gas Corporation (ATP) if the limited overriding royalty interest does not fund the $48 million balance. To the extent the limited overriding royalty interest does not fund all or a part of the $48 million, we will be required to recognize a charge against earnings, which may be significant depending on the shortfall.

We may not collect all or part of $5.9 million currently receivable from our insurance provider in connection with a crane accident.

At December 31, 2009, we have recorded $5.9 million receivable on an insurance claim that we have determined is recoverable costs under our various insurance policies. This claim relates to costs incurred in connection with an accident that occurred in April 2008 at our Texas facility involving four cranes. The $5.9 million represents costs incurred by us to rent replacement cranes while our damaged cranes were repaired.

Our insurance provider has alleged that the amount recoverable for rental costs is limited to $450,000 in the aggregate, and has requested declatory judgement to deny that it has any further obligation to pay us for rental costs related to the crane accident. However, we have filed a counterclaim asserting breach of contract and are pursuing full reimbursement of those costs.

We, in consultation with outside legal counsel, believe it is probable that all of our claim is fully recoverable under our insurance policies. However, we may collect less than the $5.9 million receivable based on the ultimate judgement in the case, which would result in a charge against earnings.

Item 1B. Unresolved Staff Comments

None.

Item 3. Legal Proceedings

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. See footnote 7 to the consolidated financial statements for additional information concerning our outstanding proceedings. 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.

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Executive Officers of the Registrant

Listed below are the names, ages and offices held by each of our executive officers as of March 4, 2010. All officers serve at the pleasure of our Board of Directors.

Name	Age	Position
Kerry J. Chauvin	62	Chairman of the Board and Chief Executive Officer
Kirk J. Meche	47	President and Chief Operating Officer
Robin A. Seibert	53	Vice President Finance, Chief Financial Officer, Chief Accounting Officer and Treasurer
William G. Blanchard	51	President and Chief Executive Officer of Gulf Island, L.L.C. (fabrication subsidiary)
Francis A. Smith, Jr	60	President and Chief Executive Officer of Gulf Marine Fabricators (fabrication subsidiary)

Kerry J. Chauvin has served as Chairman of the Board since April 2001. Mr. Chauvin has served as the Chief Executive Officer since January 1990 and as President from January 1990 until January 2009. Mr. Chauvin also served as Chief Operating Officer from January 1989 to January 1990.

Kirk J. Meche became President and Chief Operating Officer in January 2009. Mr. Meche served as the Executive Vice President Operations since 2001. Mr. Meche was President and Chief Executive Officer of Gulf Marine Fabricators from February 2006 to October 2006. Mr. Meche served as President and Chief Executive Officer of Gulf Island from February 2001 until January 2006.

Robin A. Seibert became Vice President Finance and Chief Financial Officer and Treasurer in October 2007. Mr. Seibert served as Controller from 1997 until 2007 and Chief Accounting Officer since 1998.

William G. Bill Blanchard became President and Chief Executive Officer of Gulf Island in February 2006. Mr. Blanchard was Estimating Department Manager of Gulf Island from January 2000 until January 2006.

Francis A. Smith, Jr. became President and Chief Executive Officer of Gulf Marine Fabricators in March 2009. From July 2004 to March 2009, Mr. Smith was an Independent Consultant. From 1973 to 2004, Mr. Smith held positions in various capacities with J. Ray McDermott and McDermott, Inc. including Vice-President and General Manager, Fabrication Division, except from 1991 to 1994 when he held the position of Vice President, Fabrication for OPI.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Select Market, under the symbol GIFI. As of March 4, 2010, we had approximately 3,500 holders of record of our common stock.

The following table sets forth the high and low sale prices per share of the common stock, as reported by The Nasdaq Stock Market LLC and the amount of cash dividends per share declared our common stock, for each fiscal quarter of the two most recent fiscal years.

	High	Low	Dividend
Fiscal Year 2009			
First Quarter	$ 16.90	$ 4.92	$ .10
Second Quarter	17.45	7.61	.01
Third Quarter	20.65	13.00	.01
Fourth Quarter	22.90	17.31	.01
Fiscal Year 2008			
First Quarter	$ 33.09	$ 24.88	$ .10
Second Quarter	52.59	28.74	.10
Third Quarter	49.85	30.51	.10
Fourth Quarter	34.55	10.03	.10

In each quarter of 2008, our Board of Directors declared a dividend of $0.10 per share on the shares of our common stock outstanding, totaling $5.7 million. Our Board of Directors declared a dividend of $0.10 per share on the shares of our common stock outstanding for the first quarter of 2009. For the remaining quarters of 2009, our Board of Directors reduced the quarterly dividend to $0.01 per share in order to preserve cash, further strengthen our balance sheet and enhance our financial flexibility. Our dividends for 2009 totalled $1.9 million. On February 26, 2010, our Board of Directors declared a dividend of $0.01 per share on the shares of our common stock outstanding, payable March 29, 2010 to shareholders of record on March 15, 2010. Any future declaration and payment of dividends, if any, is at the discretion of our 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.

Issuer Purchases of Equity Securities

The following table sets forth shares of our common stock we repurchased during the three-month period ended December 31, 2009.

			Current Program	
Period	Total Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased Under Publicly Announced Plans And Programs	Maximum Number of Shares That May Yet Be Purchased Under Plans and Programs
October 1 to 31, 2009				
November 1 to 30, 2009				
December 1 to 31, 2009	2,795[a]	$ 21.82		
Total	2,795[a]	$ 21.82		

a. Represents shares repurchased under our applicable stock incentive plan to satisfy tax obligations on restricted stock awards. We do not have a publicly announced share repurchase program.

Information as to the securities authorized for issuance under our equity compensation plans is incorporated herein by reference to Item 12 of this report on Form 10-K.

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Stock Performance Graph

The following graph compares the cumulative total shareholder return on our common stock from December 31, 2005 to December 31, 2009, with the cumulative total return of the Standard & Poor 500 Index and the Standard & Poor 500 Oil & Gas Equipment & Services Index for the same period. The returns are based on an assumed investment of $100 on January 1, 2005 at closing prices on December 31, 2004 in our common stock and in each of the indexes and on the assumption that dividends were reinvested.

Total Return To Shareholders

(Includes reinvestment of dividends)

	ANNUAL RETURN PERCENTAGE Years Ending				
Company / Index	**Dec05**	**Dec06**	**Dec07**	**Dec08**	**Dec09**
Gulf Island Fabrication, Inc.	12.78	53.52	-12.97	-53.86	48.02
S&P 500 Index	4.91	15.79	5.49	-37.00	26.46
S&P 500 Oil & Gas Equipment & Services	48.57	15.54	47.90	-59.18	59.79

	Base Period	INDEXED RETURNS Years Ending				
Company / Index	**Jan. 1, 05**	**Dec05**	**Dec06**	**Dec07**	**Dec08**	**Dec09**
Gulf Island Fabrication, Inc.	**100**	112.78	173.13	150.68	69.82	102.90
S&P 500 Index	**100**	104.91	121.48	128.16	80.74	102.11
S&P 500 Oil & Gas Equipment & Services	**100**	148.57	171.65	253.86	103.64	165.61

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Item 6. Selected Financial Data

The following table sets forth selected historical financial data as of the dates and for the periods indicated. The historical financial data for each year in the five-year period ended December 31, 2009 are derived from our audited financial statements. The following information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operation and our financial statements and notes thereto included elsewhere in this report.

	Years Ended December 31,				
	2009	2008	2007	2006 (1)	2005
	(in thousands, except per share data)				
Income Statement Data:					
Revenue	$ 311,529	$ 420,507	$ 472,739	$ 312,181	$ 188,545
Cost of revenue	272,064	368,211	415,901	273,768	164,548
Gross profit	39,465	52,296	56,838	38,413	23,997
General and administrative expenses	8,257	9,451	10,359	9,137	5,681
Operating income	31,208	42,845	46,479	29,276	18,316
Net interest income	986	172	384	(114)	1,340
Other, net income (expense)	(55)	(97)	(10)	1,261	(460)
Income before income taxes	32,139	42,920	46,853	30,423	19,196
Income taxes	11,335	13,898	15,686	9,098	6,209
Net income	$ 20,804	$ 29,022	$ 31,167	$ 21,325	$ 12,987
Income Summary Data:					
Basic earnings per share common shareholders	$ 1.44	$ 2.03	$ 2.19	$ 1.54	$ 1.06
Diluted earnings per share common shareholders	$ 1.44	$ 2.02	$ 2.17	$ 1.53	$ 1.05
Basic weighted-average common shares	14,294	14,258	14,161	13,812	12,242
Adjusted weighted-average common shares	14,295	14,292	14,260	13,876	12,343

	As of December 31,				
	2009	2008	2007	2006	2005
	(in thousands)				
Balance Sheet Data:					
Working capital	$ 80,501	$ 63,060	$ 57,384	$ 54,551	$ 87,141
Property, plant and equipment, net	200,459	204,695	188,766	155,440	59,744
Total assets	333,430	349,270	325,213	251,448	163,806
Debt					
Operating Data:					
Direct labor hours worked for the year ended December 31, (2)	3,156	3,820	3,582	3,315	2,257
Backlog as of December 31, (3)					
Direct labor hours	1,495	2,321	3,682	4,028	1,436
Dollars	$ 136,766	$ 209,823	$ 330,445	$ 429,080	$ 114,610

(1) Effective January 31, 2006, we acquired the facilities, machinery and equipment of Gulf Marine Fabricators located in San Patricio and Nueces Counties, Texas.

(2) Direct labor hours are hours worked by employees directly involved in the production of our products.

(3) Our backlog is based on management s estimate of the number of direct labor hours required to complete, and the remaining revenues to be recognized with respect to, those projects for which a customer has authorized us to begin work or purchase materials. The backlog as of each year end includes commitments received following December 31st, as described in Item 1.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Introduction and Outlook

Our results of operations are affected primarily by (i) the level of exploration and development activity maintained by oil and gas exploration and production companies in the Gulf of Mexico, and to a lesser extent, foreign locations throughout the world, (ii) our ability to win contracts through competitive bidding or alliance/partnering arrangements, and (iii) our ability to manage those contracts to successful completion. The level of exploration and development activity is related to several factors, including trends of oil and gas prices, exploration and production companies expectations of future oil and gas prices, and changes in technology that reduce costs and improve expected returns on investment.

We believe the downturn in the oil and gas industry that began in late 2008 brought on by the rapid decline in oil and gas prices has adversely impacted and may continue to adversely impact our business. In July of 2008, the price of oil exceeded $140 a barrel, but fell below $40 a barrel in early 2009. As a result, oil and gas producers have had substantial reductions in their cash flows, thus causing most to slash their capital budgets for 2009 and 2010. The dollar value of projects, if available in the market, is significantly below pre-2009 levels and our backlog is similarly eroded. Other projects have been removed from the bidding process as these companies wait for potential increases in commodity prices. Competition for available projects has become intense and future short-term margins have and will likely diminish. Cost reduction measures have been and continue to be undertaken as appropriate to meet these conditions. In the longer term, demand for our products and services will continue to depend largely upon prices for oil and gas, which at this time is difficult to predict. At some point however, we expect that oil and gas prices will recover as commodity supplies are reduced and our customers are forced to replace them.

Backlog

Our backlog is based on management s estimate of the direct labor hours required to complete, and the remaining revenue to be recognized with respect to, those projects as to which a customer has authorized us to begin work or purchased materials pursuant to written contracts, letters of intent or other forms of authorization. Often, however, management s estimates are based on incomplete engineering and design specifications. As engineering and design plans are finalized or changes to existing plans are made, management s estimate of the direct labor hours required to complete and price at completion for such projects is likely to change. In addition, all projects currently included in our backlog are subject to termination at the option of the customer, although the customer in that case is generally required to pay us for work performed and materials purchased through the date of termination and, in some instances, cancellation fees. However, due to the large dollar amounts of backlog estimated for certain projects, a termination of any one of these projects could substantially decrease our backlog, and could have a material adverse effect on our revenue, net income and cash flow.

As of December 31, 2009, we had a revenue backlog of $136.8 million and a labor backlog of approximately 1.5 million man-hours remaining to work, which consists of work remaining at December 31, 2009 and commitments received through February 25, 2010, compared to the revenue backlog of $209.8 million and a labor backlog of 2.3 million man-hours reported in our Form 10-K at December 31, 2008.

Our backlog at December 31, 2008, was adjusted to reflect the removal of $150.4 million and 1.6 million man-hours associated with the MinDOC II project in which the customer had announced has been postponed indefinitely.

Of the backlog at December 31, 2009, $19.9 million, or 14.5 %, represented projects destined for deepwater locations compared to $50.4 million, or 24.0%, of projects destined for deepwater locations included in the December 31, 2008 backlog.

Of the backlog at December 31, 2009, we expect to recognize revenues of approximately $109.0 million (79.7%) during calendar year 2010 and $27.8 million during calendar year 2011.

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Workforce

During 2009, our workforce ranged from approximately 1,400 to 1,825. Demand for our products and services dictates our workforce needs. Although we generally try to minimize the use of contract labor, we will use contract labor when required to meet customer demand. For 2009, our use of contract labor ranged from approximately 20 to 150 contract laborers.

Current global economic conditions and a steep decline in oil prices have caused companies to remove projects from the bidding process or reduce the dollar value of projects. As a result, we began to reduce our headcount in 2009. These efforts have continued through early 2010, and, as of March 4, 2010, we had approximately 1,375 employees.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions. We believe that of our significant accounting policies (see Note 1 in the Notes to Consolidated Financial Statements), the following involves a higher degree of judgment and complexity:

Revenue Recognition

The majority of our revenue is recognized on a percentage-of-completion basis based on the ratio of direct labor hours actually performed to date compared to the total estimated direct labor hours required for completion. Accordingly, contract price and cost estimates are reviewed monthly as the work progresses, and adjustments proportionate to the percentage of completion are reflected in revenue for the period when such estimates are revised. If these adjustments were to result in a reduction of previously reported profits, we would have to recognize a charge against current earnings, which may be significant depending on the size of the project or the adjustment.

Some contracts include a total or partial reimbursement to us of any costs associated with specific capital projects required by the fabrication process. If a particular capital project provides future benefits to us, the cost to build the capital project will be capitalized, and the revenue for the capital project will increase the estimated profit in the contract.

Contract costs include all direct material, labor and subcontract costs and those indirect costs related to contract performance, such as indirect labor, supplies and tools. Also included in contract costs are a portion of those indirect contract costs related to plant capacity, such as depreciation, insurance and repairs and maintenance. These indirect costs are allocated to jobs based on actual direct labor hours incurred. Profit incentives are included in revenue when their realization is reasonably assured. Claims for extra work or changes in scope of work are included in revenue when the amount can be reliably estimated and collection is probable. At December 31, 2009, we recorded revenue totaling $468,000 related to certain change orders, which have been approved as to scope but not price.

Results of Operations

Comparison of the Years Ended December 31, 2009 and 2008

For the twelve month period ended December 31, 2009, our revenue was $311.5 million, a decrease of 25.9%, compared to $420.5 million in revenue for the twelve month period ended December 31, 2008**.** The following factors contributed to the decrease in revenues for the year ended December 31, 2009 compared to the year ended December 31, 2008:

Significant jobs have not been added to the backlog for several quarters.

Pass through cost decreased 4.6% from 41.2% of revenue for the twelve month period ended December 31, 2009 to 36.6% for the twelve month period ended December 31, 2009, see footnote 13 to the consolidated financial statements.

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The amount of man-hours worked decreased from 3.8 million for the twelve-month period ended December 31, 2008 to 3.2 million during the twelve-month period ended December 31, 2009, representing a decrease of 15.8%.

At December 31, 2009, we recorded revenue totaling $468,000 related to certain change orders on one project which have been approved as to scope but not price. Although we believe the collection of this change order is probable based on past experience, we are in the process of negotiating resolution of these change orders with the customer, and recovery of the revenue is dependent upon these negotiations. If we collect an amount different than the $468,000 of revenue that has been recorded, that difference will be recognized as income or loss as applicable. We expect to resolve these matters in the first quarter of 2010.

For the twelve month periods ended December 31, 2009 and 2008, gross profit was $39.5 million (12.7% of revenue) for 2009 and $52.3 million (12.4% of revenue) for 2008.

Factors contributing to the increase in gross margin percentage for the twelve months ended December 31, 2009:

Activity levels in 2009 allowed us to decrease our reliance on contract labor used to supplement our labor force necessary to complete the major projects in progress. Generally, contract labor employees perform less efficiently than company employees, which is normally due to the amount of training, work experience and turnover. During 2009, our weighted-average number of contract employees was 70 employees compared to 294 contract employees for 2008, a reduction of 76.2%. During the twelve months ended December 31, 2009, contract labor represented 7.6% of billable man-hours, compared to 19.0% for the twelve months ended December 31, 2008. Currently, the total number of contract employees in all facilities is 53.

Cost reduction measures, including a reduction in overhead labor costs, were undertaken since the fourth quarter of 2008 to meet the decline in economic conditions we experienced during 2009.

Our general and administrative expenses were $8.3 million for the twelve month period ended December 31, 2009. This compares to $9.5 million for the twelve-month period ended December 31, 2008. As a percentage of revenue, general and administrative expenses were 2.7% of revenue compared to 2.2% of revenue for the twelve month periods ended December 31, 2009 and 2008.

The reduction in general and administrative expenses for the twelve-month period ended December 31, 2009 compared to December 31, 2008 was primarily due to a reduction in the number of personnel and related cost (salaries, wages and benefit related costs). Also contributing to the reduction of general and administrative costs was a reduction in professional service fees.

We had net interest income of $986,000 for the twelve month period ended December 31, 2009, compared to net interest income of $172,000 for the twelve month period ended December 31, 2008. The increase in interest income is primarily related to the amortization of the discount associated with the financing arrangement with Bluewater and ATP on the fabrication of the MinDOC I hull, see footnote 3 to the consolidated financial statements.

Our effective income tax rate was 35.3% for the twelve month period ended December 31, 2009, compared to 32.4% for the twelve month period ended December 31, 2008. The increase from the previous twelve-month period is the result of the limitations on certain federal manufacturing tax credits based on our estimated tax provision for 2009, a reduction in the Federal Work Opportunity Tax Credit (WOTC) available to us in 2009 and a slight increase in state taxes related to an increase in the state taxable income apportionment.

Comparison of the Years Ended December 31, 2008 and 2007

For the twelve month period ended December 31, 2008, our revenue was $420.5 million, a decrease of 11.0%, compared to $472.7 million in revenue for the twelve month period ended December 31, 2007. The

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primary factor contributing to this reduction of revenue was the fact that actual material and sub-contract costs incurred (pass through cost) represented 41.2% of sales for the twelve months ended December 31, 2008, compared to 52.3% of sales for the twelve months ended December 31, 2007. Thus, the majority of the decrease in revenue is associated with the reduction of material and subcontract cost incurred on projects for the twelve months ended December 31, 2008, compared to the twelve months ended December 31, 2007. We consider material and sub-contract costs associated with projects as pass-through costs because they become a component of revenue, but add little or no margin to a project. Partially offsetting this reduction in revenue was an increase in the billable labor man-hours on projects during the year. For the twelve month period ended December 31, 2008, direct labor man-hours were 3.8 million compared to 3.6 million for the twelve month period ended December 31, 2007.

For the twelve month periods ended December 31, 2008 and 2007, gross profit was $52.3 million (12.4% of revenue) for 2008 and $56.8 million (12.0% of revenue) for 2007. Two factors contributed to the increase in gross margin for the twelve months ended December 31, 2008:

- Most of our revenue is recognized by using the percentage-of completion method, computed by the efforts-expended method, which measures the percentage of labor hours incurred compared to the total estimated labors hours to complete a contract. Consequently, the increase in direct labor man-hours (3.8 million compared to 3.6 million as mentioned above) resulted in an increase in gross margin.

- Activity levels in 2007 required us to increase our reliance on contract labor to maintain sufficient labor levels to complete the major projects in progress. Generally, contract labor employees perform less efficiently than company employees, which is normally due to the amount of training, work experience and turnover. During 2008, our weighted-average number of contract employees was 264 employees compared to 423 contract employees for 2007, a reduction of 37.6%. Currently, the total number of contract employees in all facilities has been reduced to 145.

Our general and administrative expenses were $9.5 million for the twelve month period ended December 31, 2008. This compares to $10.3 million for the twelve-month period ended December 31, 2007. As a percentage of revenue, general and administrative expenses were 2.2% of revenue for each of the twelve month periods ended December 31, 2008 and 2007.

The majority of the reduction in general and administrative expenses for the twelve-month period ended December 31, 2008 compared to December 31, 2007 was related to amortization expense. We incurred amortization expense ($545,000) through August 2007, which was related to the Gulf Marine acquisition. Also contributing to the decrease in general and administrative expenses was a reduction in the number of personnel and related cost (salaries, wages and benefit related costs).

We had net interest income of $172,000 for the twelve month period ended December 31, 2008, compared to net interest income of $384,000 for the twelve month period ended December 31, 2007. The reduction in interest income is related to having less cash available for investing combined with lower interest rates earned on investments in 2008 compared to 2007.

Our effective income tax rate was 32.4% for the twelve month period ended December 31, 2008, compared to 33.5% for the twelve month period ended December 31, 2007. The decrease in the tax rate is primarily related to the extension and retroactive application of the Federal Work Opportunity Tax Credit (WOTC).

Liquidity and Capital Resources

Historically we have funded our business activities through funds generated from operations. Effective June 2, 2009, we entered into the Eighth Amendment to the Ninth Amended and Restated Credit Agreement (the Revolver) which, among other things, extended the term of the $60 million Revolver from December 31, 2010 to December 31, 2011. The Revolver is secured by our real estate, machinery and equipment, and fixtures.

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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 one-fourth of one percent per annum on the weighted-average unused portion of the Revolver.

At December 31, 2009, no amounts were borrowed under the Revolver, but we had letters of credit outstanding totaling $21.0 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. We are required to maintain certain covenants, including balance sheet and cash flow ratios, and as of December 31, 2009, we were in compliance with these covenants.

On July 15, 2009, we reached an agreement with Bluewater Industries, Inc. (Bluewater) to restructure the payment terms for the remainder of the amounts owed on the MinDOC I project. Bluewater, an engineering consulting firm, is contracted with ATP to oversee the fabrication of the MinDOC I hull and topsides. The amount owed to us on the project at the time of the arrangement was $64.5 million. An additional $25.5 million was billed on the project under this arrangement through completion, which occurred in stages during the 4th quarter of 2009. Additional changes in the scope of the project in excess of the agreed upon $90 million were approved by Bluewater and ATP through change orders. Such change orders will be paid in cash and will not be part of this payment agreement.

Bluewater agreed to pay $42 million of the amount owed in seven equal installments of $6 million each, with the first payment due September 5, 2009 and each subsequent payment due on the 5th day of each calendar month through March 5, 2010. Any such installment that is not paid when due shall bear interest as provided in the Master Services Agreement between Bluewater and us. We have received $36 million in payments from Bluewater through March 4, 2010, representing 100% of the amounts owed to us as of such date.

Bluewater agreed to pay the remaining $48 million owed to us pursuant to the assignment of all of its right, title and interest in the Conveyance of Overriding Royalty Interest between Bluewater and ATP. The interest we received from Bluewater is a limited overriding royalty interest because the amount to be received by us is set not to exceed $48 million. Upon cumulative receipt of the $48 million, the limited overriding royalty will revert back to Bluewater. Originally, we projected that we will start receiving royalty payments from this limited overriding royalty interest in February 2010, and we anticipated the entire $48 million to be paid over a thirteen-month period based on our review of petroleum engineering reserve reports applying strip prices in effect in mid-June 2009. Based on a delay in the project s first production, we now project that we will start receiving royalty payments in mid-year 2010 over a fourteen-month period. Strip prices for oil and gas as of March 4, 2010 are in excess of the mid-June 2009 prices used to previously estimate the repayment period.

While we believe the available oil and gas reserves for the properties subject to our limited overriding royalty interest significantly exceed $48 million, we have no guarantees from Bluewater or ATP if the limited overriding royalty interest does not fund the $48 million balance. To the extent the limited overriding royalty interest does not fund all or a part of the $48 million, we will be required to recognize a charge against earnings, which may be significant depending on the shortfall.

The cash flows we expect to receive from the limited overriding royalty interest are sensitive to the normal risks associated with oil and gas production such as changes in the price of oil and gas, the amount of oil and gas produced, increases in the expenses associated with producing the oil and gas and changes in the anticipated production schedule. These cash flows can be adversely affected by a decline in the price of oil and gas or production level of the oil and gas wells being serviced by the MinDOC I hull and topsides. Also, the estimates of crude oil and gas reserves depend on many factors and assumptions, including various assumptions that are based on conditions in existence as of the dates of the estimates. Any material change in those conditions, or other factors affecting those assumptions, could impair the quantity and value of oil and gas reserves. As a result of these risks, the payments we expect to receive from this agreement have been discounted using interest rates ranging from 10% to 18% with a discounted amount of $11.0 million included in our final estimated contract price on this project.

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At December 31, 2009, our cash and cash equivalents totaled $8.8 million. Working capital was $80.5 million at December 31, 2009. The ratio of current assets to current liabilities was 3.39 to 1 at December 31, 2009. Net cash provided by operating activities was $11.0 million for the year ended December 31, 2009, compared to $26.9 million for the year ended December 31, 2008. The overall decrease in cash provided by operations for the period ended December 31, 2009, compared to the period ended December 31, 2008 is mainly due to the decreased operating activity in 2009 which generated less revenue. An increase in net costs and estimated earnings in excess of billings of $9.6 million relating to one customer s contract also contributed to the decrease in cash provided by operating activities. We have billed and collected $4.3 million of this amount through March 4, 2010. We expect to bill and collect the remainder of this balance in the second quarter of 2010.

Net cash used in investing activities for the year ended December 31, 2009, was $14.3 million, which related to capital expenditures of $15.3 million for equipment and improvements to our production facilities and $1.0 million of proceeds on the sale of equipment. Included in capital expenditures for 2009 was $1.3 million related to the remaining phase II cost to complete the graving dock at our Gulf Marine facilities and $1.2 million representing approximately one-fifth of the cost of constructing a gate for the graving dock. The graving dock gate will be completed in June 2010. Also included in capital expenditures for 2009 were $1.3 million to complete the panel line system and $7.8 million on the Dry Dock (as described in Items 1 and 2. Business and Property).

Our Board of Directors approved a capital budget of approximately $18.9 million for 2010, which includes the purchase of equipment and additional yard and facility infrastructure improvements. The capital expenditure budget has been reduced in 2010 compared to the 2008 because of current global economic conditions in the industry. Capital projects could further be reduced if available work in the market declines further. Included in the 2010 capital expenditure budget is $4.5 million for the completion of the graving dock gate located in our Gulf Marine facilities. The gate will allow us to open and close the entrance of the graving dock within a few days opposed to a few weeks which it currently takes to pull and drive sheet piles each time the graving dock is used. We believe the new gate will improve our efficiency and enhance services to our customers through a shorter dock turn-around. Also included is $7.0 million for a fab shop and warehouse in the west yard of our Gulf Island facilities to further expand our marine construction and repair activities. We believe these facilities will allow Gulf Island Marine to become fully operational and improve its operations by becoming more centralized and efficient.

Net cash used in financing activities for the year ended December 31, 2009, was $1.8 million, relating to cash used to pay dividends on shares of our common stock.

The agreed restructure of payments on the MinDOC I project discussed above, which extended the payment term on this project, has caused a significant reduction in cash available to us. An adverse change in the anticipated payment stream from Bluewater could cause an additional strain on our liquidity and other resources. Also, job awards may require us to issue additional letters of credit further reducing the capacity available on our Revolver. However, we believe that during the next 12 months our cash generated by operating activities and funds available under the bank credit facility will be sufficient to fund our capital expenditures and meet our working capital needs.

We may expand our operations through acquisitions in the future, which may require additional equity or debt financing which we believe would be available to us.

Contractual Obligations and Commitments

The following table sets forth an aggregation of our contractual obligations and commitments as of December 31, 2009, (in thousands).

	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Thereafter
Purchase commitment material and services (1)	$ 1,650	$ 1,650			
	$ 1,650	$ 1,650	$	$	$

(1) Purchase commitment material and services is a commitment related to purchase order agreements.

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Off Balance Sheet Arrangements

We are not a party to any contract or other obligation not included in our balance sheet that has, or is reasonably likely to have, a current or future effect on our financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not have operations subject to material risk of foreign currency fluctuations, nor do we use derivative financial instruments in our operations or investment portfolio. We have a $60.0 million line of credit with our primary commercial banks. Under the terms of the Revolver, we may elect to pay interest at either a fluctuating base rate established by the bank from time to time or at a rate based on the rate established in the London inter-bank market. We do not believe that we have any material exposure to market risk associated with interest rates.

Item 8. Financial Statements and Supplementary Data

In this report our consolidated financial statements of and the accompanying notes appear on pages F-1 through F-19 and are incorporated herein by reference. See Index to Consolidated Financial Statements on Page 33.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Our 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 us in the reports that we file or submit 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.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Gulf Island Fabrication, Inc.

We have audited Gulf Island Fabrication, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Gulf Island Fabrication, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Gulf Island Fabrication, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Gulf Island Fabrication, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009, and our report dated March 4, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana

March 4, 2010

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Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information regarding executive officers called for by this item may be found preceding Item 4 of this report on Form 10-K under the caption Executive Officers of the Registrant and is incorporated herein by reference.

We have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers (the Code of Ethics) and a Code of Business Conduct and Ethics, which applies to all employees and directors, including the Chief Executive Officers and Senior Financial Officers. These codes are available to the public on our website at www.gulfisland.com. Any substantive amendments to the Code of Ethics or any waivers granted under the Code of Ethics will be disclosed within five days of such event on our website.

The remaining information called for by this item may be found in our definitive Proxy Statement prepared in connection with the 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 11. Executive Compensation

Information called for by this item may be found in our definitive Proxy Statement prepared in connection with the 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

Information regarding security ownership of certain beneficial owners and management called for by this item may be found in our definitive Proxy Statement prepared in connection with the 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information about our shares of Common Stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	106,800	$ 18.77	106,239
Equity compensation plans not approved by security holders	0		0
Total	106,800(1)		106,239(2)

(1) If the exercise of these outstanding options and issuance of additional common shares had occurred as of December 31, 2009, these shares would represent .74% of our then total outstanding shares.

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(2) As of December 31, 2009, there were 101,560 shares remaining available for issuance under the 2002 Long-Term Incentive Plan, and 4,679 shares remaining available under the Long-Term Incentive Plan, all of which could be issued under the terms of the plans upon the exercise of stock options or stock appreciation rights, or in the form of restricted stock or other stock awards.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information called for by this item may be found in our definitive Proxy Statement prepared in connection with the 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information called for by this item may be found in the our definitive Proxy Statement prepared in connection with the 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

The following financial statements, schedules and exhibits are filed as part of this Report:

(i) Financial Statements

(ii) Schedules

Other schedules have not been included because they are not required, not applicable, immaterial or the information required has been included elsewhere herein.

(iii) Exhibits

See Exhibit Index on page E-1. The Company will furnish to any eligible shareholder, upon written request, a copy of any exhibit listed upon payment of a reasonable fee equal to the Company s expenses in furnishing such exhibit. Such requests should be addressed to Investor Relations, Gulf Island Fabrication, Inc., P.O. Box 310, Houma, LA 70361-0310.

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GLOSSARY OF CERTAIN TECHNICAL TERMS

blasting and coating facility:	Building and equipment used to clean steel products and prepare them for coating with marine paints and other coatings.
coping machine:	A computerized machine that cuts ends of tubular pipe sections to allow for changes in weld bevel angles and fits onto other tubular pipe sections.
deck:	The component of a platform on which development drilling, production, separating, gathering, piping, compression, well support, crew quartering and other functions related to offshore oil and gas development are conducted.
direct labor hours:	Hours worked by employees directly involved in the production of the Company s products. These hours do not include contractor labor hours and support personnel hours such as maintenance, warehousing and drafting.
dry tree system:	A system in which a platform s well control valves and apparatus (christmas trees) and risers are installed and operated above water.
fixed platform:	A platform consisting of a rigid jacket which rests on tubular steel pilings driven into the seabed and which supports a deck structure above the water surface.
floating production platform:	Floating structure that supports offshore oil and gas production equipment (MinDOC, TLP, FPSO, SPAR).
FPSO:	Floating Production Storage and Offloading vessel.
graving dock:	A box shaped basin made of steel sheet pile walls and concrete floor into which a vessel may be floated into or out of by pumping out or in water. The end will be closed by earthen berms and a sheet pile wall that will be removed to float out vessels.
grit blast system:	System of preparing steel for coating by using steel grit rather than sand as a blasting medium.
hydraulic plate shear:	Machine that cuts steel by a mechanical system similar to scissors.
inshore:	Inside coastlines, typically in bays, lakes and marshy areas.
ISO 9001-2008:	International Standards of Operations 9001-2008 Defines quality management system of procedures and goals for certified companies.
jacket:	A component of a fixed platform consisting of a tubular steel, braced structure extending from the mudline of the seabed to a point above the water surface. The jacket is supported on tubular steel pilings driven into the seabed and supports the deck structure located above the level of storm waves.

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MinDOC:	Minimum Deepwater Operating Concept. Floating production platform designed for stability and dynamic response to waves consisting of three vertical columns arranged in a trangular shape connected to upper and lower pontoon sections.
modules:	Packaged equipment usually consisting of major production, utility or compression equipment with associated piping and control system.
offshore:	In unprotected waters outside coastlines.
piles:	Rigid tubular pipes that are driven into the seabed to support platforms.
plasma-arc cutting system:	Steel cutting system that uses an ionized gas cutting rather than oxy-fuel system.
platform:	A structure from which offshore oil and gas development drilling and production are conducted.
pressure vessel:	A metal container generally cylindrical or spheroid, capable of withstanding various internal pressure loadings.
skid unit:	Packaged equipment usually consisting of major production, utility or compression equipment with associated piping and control system.
SPAR:	A vessel with a circular cross-section that sits vertically in the water and is supported by buoyancy chambers (hard tanks) at the top and stabilized by a structure (midsection) hanging from the hard tanks.
specialized lifting device (SLD):	The specialized lifting device is a twin boom device with a below hook rating of 4,000 tons at a radius of 207 feet from the bulkhead. The 410 foot booms are 100 feet apart and provide a lifting height of 317 feet from the water.
spud barge:	Construction barge rigged with vertical tubular or square lengths of steel pipes that are lowered to anchor the vessel.
subsea templates:	Tubular frames which are placed on the seabed and anchored with piles. Usually a series of oil and gas wells are drilled through these underwater structures.
tension leg platform (TLP):	A platform consisting of a floating hull and deck anchored by vertical tensioned cables or pipes connected to pilings driven into the seabed. A tension leg platform is typically used in water depths exceeding 1,000 feet.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Gulf Island Fabrication, Inc.

We have audited the accompanying consolidated balance sheets of Gulf Island Fabrication, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gulf Island Fabrication, Inc. at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Gulf Island Fabrication, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana

March 4, 2010

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GULF ISLAND FABRICATION, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	2008
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,751	$ 13,839
Contract receivables, net	76,555	97,014
Contract retainage	875	612
Costs and estimated earnings in excess of billings on uncompleted contracts	19,228	14,174
Prepaid expenses and other	2,983	2,661
Inventory	4,224	5,688
Deferred tax assets	1,513	2,392
Total current assets	114,129	136,380
Property, plant and equipment, net	200,459	204,695
Long-term contracts receivable, net	12,313	
Other receivables	5,854	7,494
Other assets	675	701
Total assets	$ 333,430	$ 349,270
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 16,518	$ 17,065
Billings in excess of costs and estimated earnings on uncompleted contracts	10,190	43,966
Accrued employee costs	4,737	5,960
Accrued expenses	2,059	4,429
Income taxes payable	124	1,900
Total current liabilities	33,628	73,320
Deferred tax liabilities	26,001	21,743
Total liabilities	59,629	95,063
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, 14,307,878 and 14,293,033 shares issued and outstanding at December 31, 2009 and December 31, 2008	9,770	9,707
Additional paid-in capital	90,311	89,713
Retained earnings	173,720	154,787
Total shareholders equity	273,801	254,207
Total liabilities and shareholders equity	$ 333,430	$ 349,270

The accompanying notes are an integral part of these statements

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GULF ISLAND FABRICATION, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Years Ended D