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, 1998

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

(504) 872-2100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value per share.

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 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. [_]

The aggregate market value of the voting stock held by non-affiliates of the Registrant at March 5, 1999 was approximately $58,003,375.

The number of shares of the Registrant's common stock, no par value per share, outstanding at March 5, 1999 was 11,638,400.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement prepared for use in connection with the registrant's 1999 Annual Meeting of Shareholders to be held April 29, 1999 have been incorporated by reference into Part III of this Form 10-K.

GULF ISLAND FABRICATION, INC.
ANNUAL REPORT ON FORM 10-K FOR
THE FISCAL YEAR ENDED DECEMBER 31, 1998

TABLE OF CONTENTS

<TABLE>
<CAPTION>

</TABLE>

PART I

Items 1 and 2. Business and Properties

Certain technical terms are defined in the "Glossary of Certain Technical Terms" appearing at the end of this Report.

General

Gulf Island Fabrication, Inc. (together with its subsidiaries, the "Company") is a leading fabricator of offshore drilling and production platforms and other specialized structures used in the development and production of offshore oil and gas reserves. Structures and equipment fabricated by the Company include jackets and deck sections of fixed production platforms; hull and deck sections of floating production platforms (such as tension leg platforms ("TLPs")); piles, wellhead protectors, subsea templates and various production, compressor and utility modules; offshore interconnect pipe hook-up; inshore marine construction; manufacture and repair of pressure vessels; steel warehousing and sales; and the fabrication of offshore living quarters.

The Company was founded in 1985 by a group of investors, including Alden J. "Doc" Laborde and Huey J. Wilson, and began operations at its fabrication yard on the Houma Navigation Canal in Southern Louisiana, approximately 30 miles from the Gulf of Mexico. The Company's primary facilities are located on 608 acres, of which 261 are currently developed for fabrication activities with 347 acres available for future expansion. These facilities allow the Company to build jackets for installation in water depth of up to 800 feet and deck sections for fixed or floating production platforms for use in unlimited water depth. In addition, the Company is able to build certain hull sections of floating production platforms, typically for use in water depth greater than 1,000 feet.

On January 2, 1997, Gulf Island Fabrication, Inc. acquired Dolphin Services, Inc. and two related companies (collectively, "Dolphin Services"), which perform offshore and inshore fabrication and construction services (the "Dolphin Acquisition"), and in April 1997, completed the initial public offering (the "Initial Public Offering") of its common stock, no par value per share (the "Common Stock"). Effective January 1, 1998, the Company acquired all of the outstanding shares of Southport, Inc. and its wholly owned subsidiary Southport International, Inc. (collectively "Southport"). Southport specializes in the fabrication of living quarters for offshore platforms. The purchase price was $6.0 million cash, plus contingent payments of up to an additional $5.0 million based on Southport's net income over a four-year period ending December 31, 2001.

In April, 1998, the Company, together with three engineering companies, formed a limited liability company called MinDOC, L.L.C., to patent, design and market a deep-water floating drilling and production concept. The Company initially owned a 40% interest in the LLC. Design and marketing of the project was pursued during the remainder of 1998. In February, 1999, an additional participant joined the group for a consideration, with the Company reducing its ownership interest to 33 1/3% leaving the other original members as well as the new entry with 16 2/3% each. Although there have been no sales to date, the group anticipates that as the design progresses, the concept can be successfully marketed to the oil industry for development of deepwater offshore oil and gas fields.

Description of Operations

The Company's primary activity is the fabrication of offshore drilling and production platforms, including jackets and deck sections of fixed production platforms, hull and deck sections of floating production platforms (such as TLPs), piles, wellhead protectors, subsea templates and various production, compressor and utility modules. The Company also has the ability to produce and repair pressure vessels used in the oil and gas industry, refurbish existing platforms and fabricate various other types of steel structures. With its acquisition of Southport, the Company has also increased its presence in the market for the fabrication of living quarters for installation on such platforms.

The Company uses the latest welding and fabrication technology available, and all of the Company's products are manufactured in accordance with industry standards and specifications, including those published by the American Petroleum Institute, the American Welding Society and the American Society of Mechanical Engineers. Gulf Island Fabrication is certified as an ISO 9002 fabricator for its quality assurance programs. See "-- Safety and Quality Assurance."

Fabrication of Offshore Platforms. The Company fabricates structural components of fixed platforms for use in the offshore development and production of oil and gas. A fixed platform is the traditional type of platform used for the offshore development and production of oil and gas, although recently there has been an increase in the use of floating production platforms and TLPs 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.

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 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 the Company's 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. The Company can, however, build decks, piping and equipment modules, living quarters, piles and other components of platforms for installation in any water depth. 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. Therefore, the Company is able, through the construction of decks, living quarters and piles, to participate in the construction of platforms requiring jackets that are larger than those the Company can transport through the Houma Navigation Canal.

Most of the steel used in the Company's operations arrives at the Company's 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 12 feet) are welded together in long straight tubes to become legs or into shorter tubes to become part of the network of bracing that supports 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. The Company's ability to fabricate and assemble the large tubular sections needed for jackets built for use in water depths over 300 feet distinguish the Company from all but two of its 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, to the extent possible, 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 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, gas and oil 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 the Company's ability to fabricate decks is the weight capacity of the barges that transport the decks from the Company's 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 Gulf of Mexico, and management believes that currently there are no decks installed in the Gulf of Mexico that could not have been constructed at the Company's 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 its share of the market for deck construction.

The Company can also fabricate sections of, and structures 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 depth 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. The Company can fabricate deck sections for use with TLPs of any size. The constraints of the Houma Navigation Canal, however, limit the Company's ability to deliver certain hulls for use with TLPs, depending on the size and weight of the hull sections. In July 1998, the Company completed the fabrication of the deck section and floating hull of a TLP designed for installation in 1,800 feet of water. The Company is currently constructing a similar hull to be installed in 3,200 feet of water. To the Company's knowledge, these are the first two TLPs of this size to be constructed entirely in the United States. With TLP's and other floating concepts as the alternative of choice for deepwater drilling and production platforms, and the Company's participation in this arena firmly established, the Company will participate in the continued expansion into the deepwater areas.

The Company has 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 deep water of the Gulf of Mexico, the Company believes that there will be increased opportunities to fabricate subsea templates, as well as decks and other structures, for use in connection with TLPs.

The Company also fabricates 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 the Company's products are installed by marine construction contractors.

Through Dolphin Services, the Company also provides 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, a quarter of a mile from the Company's 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.

Through Southport, the Company fabricates living quarters, primarily for offshore platforms, ranging in size from 4 to 250 beds.

Facilities and Equipment

Facilities. The Company's corporate headquarters and main fabrication yard are located on the east bank of the Houma Navigation Canal at Houma, Louisiana, approximately 30 miles from the Gulf of Mexico. That facility includes approximately 140 acres with approximately 100 acres developed for fabrication, one 13,200 square foot building that houses administrative staff, approximately 180,000 square feet of covered fabrication area, and 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 which permits outloading of heavy structures.

During 1998 the Company acquired an 11.3 acre facility located on the Houma Navigation Canal across Thompson Road from the main fabrication yard. This facility includes a two-story 5,000 square feet administration building with an attached 5,300 square foot warehouse. Also located on the property in an additional two-story 2,100 square foot administration building. The property has approximately 570 linear feet of water frontage, of which 380 linear feet is steel bulkhead which permits docking of large ocean going vessels and the outloading of heavy loads.

The Company's west yard is located across the Houma Navigation Canal from the main yard and includes 437 acres, with 130 acres developed for fabrication and over 300 acres of unimproved land, which could be used for expansion. The west yard, which has approximately 72,000 square feet of covered fabrication area and 3,500 square feet of warehouse storage area, spans 6,750 linear feet of the Houma Navigation Canal, of which 2,350 feet is steel bulkhead.

Dolphin Services operates from a 20-acre site located approximately a quarter of a mile from the Company's main yard on a channel adjacent to the Houma Navigation Canal. The facility includes a 7,000 square foot building that houses administrative staff, approximately 14,000 square feet of covered fabrication area, 1,500 square feet of warehouse storage area, a 10,000 square foot blasting and coating facility and 600 linear feet of steel bulkhead. Dolphin Services also operates a commercial steel sales division and a pressure vessel shop.

Steel sales recently expanded to a new three acre facility located adjacent to Gulf Island Fabrication's main facility. In addition to the standard inventory items, it expanded to include A516-70 pressure vessel plate, ABS plate and a wider selection of wide flange beams. It intends to further expand the material sales by utilizing Gulf Island Fabrication's capability to process the steel by cutting, shaping, forming and painting.

The vessel shop can manufacture pressure vessels up to eleven feet in diameter and eight inches in thickness. The shop is equipped with a Cypress Circle Cutter and auto core flux and submerged arc welding equipment. The vessel shop can also accommodate the construction of a 50 ton skid unit inside the facility.

Southport is located on a 13-acre site located in Harvey, Louisiana, a suburb of New Orleans, on the Harvey Canal, which has access to the Gulf of Mexico through the Intracoastal Canal. The facility includes 7,550 square feet of administrative offices, 22,300 square feet of covered fabrication area and 1,450 linear feet of steel bulkhead.

The Company owns all of the foregoing properties.

Equipment. The Company's main yard houses its Bertsch Model 38, Model 34 and Model 20 plate bending rolls, a Frye Wheelabrator grit blast system, a hydraulic plate shear, a hydraulic press brake and various other equipment needed to build offshore structures and fabricate steel components. The Company's west yard has a Bertsch Model 38 plate bending roll, a computerized Vernon brace coping machine used for cutting steel in complex geometric sections and various other equipment used in the Company's fabrication business. The

Company also currently uses 14 crawler cranes, which range in tonnage capacity from 150 to 300 tons and service both of the Company's yards. The Company owns these cranes which can thus avoid having to rent cranes on a monthly basis except in times of very high activity levels. The Company has a plasma-arc cutting system that cuts steel up to one inch thick at a rate of two hundred inches per minute. The Company performs routine repairs and maintenance on all of its equipment.

The Company'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, the Company is able to coordinate all aspects of platform construction, which can reduce the risk of; cost overruns; delays in project completion; and labor costs. In addition, these facilities often allow the Company to participate as subcontractors on projects awarded to other contractors. The Company's grit blast system can blast steel at a rate approximately ten times faster than conventional sandblasting. This greatly reduces labor costs and also decreases the Company's use of conventional sandblasting, which is considered to be a more hazardous and slower method of preparing steel for painting.

For use in connection with its inshore construction activities, Dolphin Services owns three spud barges. Dolphin Services also leases two barges for use with inshore construction activities. Each barge is equipped with a crane with a lifting capacity of 60 to 100 tons. Dolphin Services also owns two Manitowoc 4100 cranes with lifting capacities of 200 to 230 tons and five smaller crawler cranes ranging from 60 to 100 tons lifting capacity. Southport rents two crawler cranes with lifting capacities of 100 and 150 tons, respectively.

Materials and Supplies

The principal materials and supplies used by the Company in its fabrication business, standard steel shapes, steel plate, welding gases, fuel oil, gasoline and paint, are currently available in adequate supply from many sources. The Company does not depend upon any single supplier or source.

Safety and Quality Assurance

Management is concerned with the safety and health of the Company's employees and maintains a stringent safety assurance program to reduce the possibility of costly accidents. The Company's safety department establishes guidelines to ensure compliance with all applicable state and federal safety regulations and provides training and safety education through orientations for new employees and subcontractors, weekly crew safety meetings and first aid and CPR training. The Company also employs two in-house medical personnel. The Company has a comprehensive drug program and conducts periodic employee health screenings. A safety committee, whose members consist of management representatives and peer-elected field representatives, meet monthly to discuss safety concerns and suggestions that could prevent accidents. The Company also rewards its employees with safety awards every six months if the actual workmen's compensation recordable case rate is less than a pre-determined benchmark case rate for the six month period.

The Company fabricates to the standards of the American Petroleum Institute, the American Welding Society, the American Society of Mechanical Engineers and specific customer specifications. The Company uses 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, the Company maintains on-site facilities for the non-destructive testing of all welds, which process is performed by an independent contractor.

Gulf Island Fabrication is certified as an ISO 9002 fabricator. ISO 9002 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 the Company's programs and procedures designed to maintain and enhance quality production and is subject to annual review and recertification. Dolphin Services and Southport are evaluating procedures to begin the process of applying for ISO 9002 certification.

Customers and Contracting

The Company's customers are primarily major and independent oil and gas companies. Over the past five years, sales of structures used in the Gulf of Mexico by oil and gas companies accounted for approximately 80% of the Company's revenue. The balance of its revenue was derived from the fabrication of structures installed outside the Gulf of Mexico, including offshore West Africa and Latin America.

A large portion of the Company's revenue has historically been generated by a few customers, although not necessarily the same customers from year-to-year. For example, the Company's largest customers (those which individually accounted for more than 10% of revenue in a given year) collectively accounted for 38% (Texaco, Inc. and Atlantia Corporation), 58% (Texaco, Inc., Atlantia Corporation and British Petroleum Company), and 35% (Shell Offshore, Global Industries, Coastal Offshore) of revenue for fiscal 1998, 1997 and 1996, respectively. In addition, at December 31, 1998, 41% of the Company's backlog was attributable to one project. Because the level of fabrication that the Company may provide to any particular customer depends, among other things, on the size of that customer's capital expenditure budget devoted to platform construction plans in a particular year and the Company's ability to meet the customer's delivery schedule, customers that account for a significant portion of revenue in one fiscal year may represent an immaterial portion of revenue in subsequent years.

Most of the Company's projects are awarded on a fixed-price or alliance/partnering basis, and 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 the Company is awarded contracts. The Company's contracts generally vary in length from one month to twenty-four months depending on the size and complexity of the project. Generally, the Company's 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 the Company for work performed and materials purchased through the date of termination and, in some instances, cancellation fees.

Under fixed price contracts, the Company receives the price fixed in the contract, subject to adjustment only for change orders approved by the customer. As a result, the Company retains all cost savings but is also responsible for all cost overruns. Under typical alliance/partnering arrangements, the Company and the customer 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 those targeted in the contract, the contract price is reduced by a portion of the savings. If the cost of completion is greater than those 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, the Company has some protection from cost overruns but also shares a portion of any cost savings with the customer. Under cost-plus arrangements, the Company receives a specified fee in excess of its direct labor and material cost and so is protected against cost overruns but does not benefit directly from cost savings. Because the Company generally prices materials as pass-through items on its contracts, the cost and productivity of the Company's labor force are the primary factors affecting the Company's operating costs. Consequently, it is essential that the Company control the cost and productivity of the direct labor hours worked on the Company's projects. As an aid to achieving this control, the Company places a single project manager in charge of the production operations related to each project and gives significant discretion to the project manager, with oversight by the Company's Vice President of Operations. As an incentive to control man-hours, the Company gives bonuses to its employees based on 5% of the Company's income before taxes.

Seasonality

Although in the recent past high activity levels in the oil and gas industry and capacity limitations have somewhat diminished the seasonality of the Company's operations, the Company's operations have historically been subject to seasonal variations in weather conditions and daylight hours. Since most of the Company's 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, the Company's 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. As a result, a disproportionate portion of the Company's income has historically been earned during the second and third quarters of the year, and the Company has occasionally incurred losses during the first and fourth quarters of its fiscal year.

The table below indicates for each quarter of the Company's last three fiscal years the percentage of the annual revenue, gross profit and net income, and the number of direct labor hours worked.

<TABLE>
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	1998				1997				1996			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue.................	24%	26%	28%	22%	21%	26%	27%	26%	25%	27%	24%	24%
Gross profit............	23%	27%	27%	23%	20%	26%	29%	25%	13%	26%	30%	31%
Net income..............	22%	27%	29%	22%	19%	27%	30%	24%	11%	27%	34%	28%
Direct labor hours (in 000's)................	642	697	670	606	497	542	588	523	249	304	264	256

</TABLE>

Because of this seasonality, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters. Recent reductions in industry activity, levels may tend to increase the seasonality of the Company's operations.

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. The Company's marketing staff contacts oil and gas companies believed to have fabrication projects scheduled to allow the Company 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.

The Company currently has two primary competitors, Aker Gulf Marine and J. Ray McDermott, S.A., for the fabrication of platform jackets to be installed in the Gulf of Mexico in water depths greater than 300 feet. In addition to these two companies, the Company primarily competes with five 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 as well as for the projects typically performed by Southport. Certain of the Company's competitors have greater financial and other resources than the Company.

Management believes that, while new competitors can enter the market for smaller structures relatively easily, it is more difficult for several reasons to enter the market for jackets designed for use in water depths greater than 300 feet, including 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.

Management believes that the Company's competitive pricing, expertise in fabricating offshore structures and its certification as an ISO 9002 fabricator will enable it to continue to compete effectively for projects destined for international waters. The Company recognizes, however, that foreign governments often use subsidies and incentives to create jobs where oil and gas production is being developed. In addition, the additional transportation costs that are incurred when exporting structures from the U.S. to foreign locations may hinder the Company's ability to successfully bid for projects against foreign competitors. Because of subsidies, import duties and fees, taxes on foreign operators and lower wage rates in foreign countries along with

fluctuations in the value of the U.S. dollar and other factors, the Company 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

As of December 31, 1998 the Company's backlog was $67.3 million, $63.3 million of which management expects to be performed during 1999. Of the $67.3 million backlog at December 31, 1998, approximately 41% was attributable to one project.

The Company's 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 the Company to begin work or purchase materials pursuant to written contracts, letters of intent or other forms of authorization received by our company. 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 the Company's backlog are subject to termination at the option of the customer, although the customer in that case is generally required to pay the Company for work performed and materials purchased through the date of termination and, in some instances, pay the Company cancellation fees.

Government and Environmental Regulation

Many aspects of the Company's operations and properties are materially affected by federal, state and local regulation, 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 Minerals Management Service (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. The Company believes that its 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, the Company depends on the demand for its 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, the business and prospects of the Company could be adversely affected, although such restrictions in the areas of the Gulf of Mexico where the Company's products are used have not been substantial. The Company cannot determine to what extent future operations and earnings of the Company may be affected by new legislation, new regulations or changes in existing regulations.

The Houma Navigation Canal provides the only means of access for the Company's products from the Company's 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 annual dredging to maintain its water depth and, while federal funding for this dredging has been provided for over 30 years, 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 required to transport many of the Company's products, with the result that the Company's operations and financial position could be materially and adversely affected.

The Company's 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, the Company 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 the Company to liability for the conduct of or conditions caused by others, or for acts of the Company that were in compliance with all applicable laws at the time such acts were performed.

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. The Company believes that its facilities are in substantial compliance with current regulatory standards.

The Company's 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 the Company to obtain certain permits, licenses and certificates with respect to its operations. The kind of permits, licenses and certificates required in the Company's operations depend upon a number of factors. The Company believes that it has all material permits, licenses and certificates necessary to the conduct of its existing business.

The Company's compliance with these laws and regulations has entailed certain additional expenses and changes in operating procedures, which historically have resulted in approximately $150,000 in expenditures per year. The Company believes that compliance with these laws and regulations will not have a material adverse effect on the Company's 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 the Company, which expenditures may be material.

Certain activities engaged in by employees of the Company, including interconnect piping and other service activities conducted on offshore platforms and activities performed on the spud barges owned by the Company, are covered by the 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 under state workers' compensation laws inapplicable to these employees and, instead, permit them or their representatives to pursue actions against the Company for damages or job related injuries, with generally no limitations on the Company's potential liability. The Company's 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 both the Company and third parties for, among other things, personal injury, death, property damage, pollution and loss of business.

In addition to government regulation, various private industry organizations, such as the American Petroleum Institute, the American Society of Mechanical Engineers and the American Welding Society, promulgate technical standards that must be adhered to in the fabrication process.

Insurance

The Company maintains insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction to the Company's facilities. All policies are subject to deductibles and other coverage limitations. The Company also maintains a builder's risk policy for its construction projects and general liability insurance. Gulf Island Fabrication, Inc. is self-insured for workers' compensation liability except for losses in excess of $300,000 per occurrence for Louisiana workers' compensation and for U.S. longshoreman and harbor workers' coverage. Dolphin Services and Southport are conventionally insured for workers' compensation liability with deductibles of $100,000 and $25,000 respectively. The Company also maintains maritime employer's liability insurance. Although management believes that the Company's insurance is adequate, there can be no assurance that the Company 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

The Company's workforce varies based on the level of ongoing fabrication activity at any particular time. During 1998, the number of Company employees ranged from approximately 1,100 to 1,275, approximately 200 of which were added through the acquisition of Southport. As of March 1, 1999, the Company had approximately 1,000 employees. Although the seasonality of the Company's operations may cause a decline in Company output during the winter months, the Company generally does not lay off employees during those months but reduces the number of hours worked per day by many employees to coincide with the reduction in daylight hours during that period. None of the Company's employees is employed pursuant to a collective bargaining agreement, and the Company believes that its relationship with its employees is good.

The Company's ability to remain productive and profitable depends substantially on its ability to attract and retain skilled construction workers, primarily welders, fitters and equipment operators. In addition, the Company's ability to expand its operations depends not only upon customer demand but also the Company's ability to increase its labor force. The demand for such workers is high and the supply is extremely limited. While the Company believes its relationship with its skilled labor force is good, a significant increase in the wages paid by competing employers could result in a reduction in the Company's skilled labor force, increases in the wage rates paid by the Company, or both. If either of these occurred, in the near-term, the profits expected by the Company 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 the Company's customers, the production capacity of the Company could be diminished and the growth potential of the Company could be impaired.

As part of an effort to maintain its workforce, the Company has instituted and enhanced several incentive programs for its current employees and expanded its training facility. The Company has facilities to train its employees on productivity and safety matters. The Company is committed to training its employees and offers advancement through in-house training programs.

Cautionary Statement Concerning 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. All such statements are subject to factors 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.

Item 3. Legal Proceedings

The Company is one of four defendants in a lawsuit in which the plaintiff claims that the Company improperly installed certain attachments to a jacket that it had fabricated for the plaintiff. The plaintiff, which has recovered most of its out-of-pocket losses from its own insurer, seeks to recover the remainder of its claimed out-of-pocket losses (approximately $1 million) and approximately $65 million from the four defendants for economic losses which it alleges resulted from the delay in oil and gas production that was caused by these events. The trial court has issued rulings, the effect of which is to limit the damages recoverable from all four defendants to a maximum of $15 million. The trial court has issued this and other rulings that have been favorable to the defendants, all of which are subject to appeal by the plaintiff at the conclusion of the trial. Management is vigorously defending this case and, after consultation with legal counsel, does not expect that the ultimate resolution of this matter will have a material adverse effect on the financial position or results of operations of the Company.

The Company is subject to other claims arising primarily in the normal conduct of its business. While the outcome of such claims cannot be determined, management does not expect that resolution of these matters will have a material adverse effect on the financial position or results of operations of the Company.

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

Not applicable.

Item 4A. Executive Officers of the Registrant

Listed below are the names, ages and offices held by each of the executive officers of the Company as of March 1, 1999. All officers of the Company serve at the pleasure of the Company's Board of Directors.

<TABLE>
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Name	Age	Position
<S>	<C>	<C>
Kerry J. Chauvin...........	51	President, Chief Executive Officer and Director
William A. Downey..........	52	Vice President--Operations
Murphy A. Bourke...........	54	Vice President--Marketing
Joseph P. Gallagher, III...	48	Vice President--Finance, Chief Financial Officer, Treasurer and Secretary

</TABLE>

Kerry J. Chauvin has served as the Company's President and as a director since the Company's inception and has served as Chief Executive Officer since January 1990. Mr. Chauvin also served as the Company's Chief Operating Officer from January 1989 to January 1990. He has over 20 years of experience in the fabrication industry including serving from 1979 to 1984 as President of Delta Fabrication, the assets of which were purchased by the Company in 1985, and as Executive Vice President, General Manager and Manager of Engineering with Delta Fabrication from 1977 to 1979. From 1973 to 1977, he was employed by Delta Shipyard as Manager of New Construction and as a Project Manager. Mr. Chauvin holds both a M.B.A. degree and a B.S. degree in Mechanical Engineering from Louisiana State University.

William A. Downey has been Vice President--Operations of the Company since 1985. From 1980 to 1984, Mr. Downey served as the Vice President of Engineering of Delta Fabrication. With over 20 years of experience in the fabrication industry, he has served in various capacities with Avondale Industries, Inc., including Senior Project Manager and Senior Cost & Design Analyst, and has also been employed by Sanderson Enterprises, Inc. and Mission Drilling & Exploration Corp. Mr. Downey received his B.S. degree in Industrial Technology from Southeastern Louisiana University in 1971.

Murphy A. Bourke has been Vice President--Marketing since the Company began operations in 1985. Mr. Bourke also served as Vice President Marketing for Delta Fabrication from 1979 to 1984 and as the General Sales Manager of Louisiana State Liquor Distributors, Inc., a beverage distributor, from 1972 to 1979. He holds a B.A. degree in marketing from Southeastern Louisiana University.

Joseph P. "Duke" Gallagher, III was elected Vice President--Finance and Chief Financial Officer of the Company in January 1997 and in that capacity he also serves as chief accounting officer of the Company. Mr. Gallagher served as the Company's Controller from 1985 until 1997. He has been the Company's Treasurer since 1986 and Secretary since January 1993. Mr. Gallagher also served as Secretary from 1986 to 1990. From 1981 to 1985, he was employed as the Controller of TBW Industries, Incorporated, a manufacturer of machinery and pressure vessels, and from 1979 to 1981 as the Assistant Controller of Brock Exploration Corporation, a publicly traded oil and gas exploration company. Mr. Gallagher, a Certified Public Accountant, also worked as a Senior Auditor for the accounting firm A.A. Harmon & Co., CPA's Inc. He received a B.S. degree in Production Management in 1973 from the University of Southwestern Louisiana.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock, no par value per share (the "Common Stock"), is traded on the Nasdaq Stock Market under the symbol "GIFI." At March 12, 1999, the Company had approximately 5,200 holders of record of Common Stock.

The following table sets forth the high and low bid prices per share of the Common Stock, as reported by the Nasdaq Stock Market, for each fiscal quarter since trading in the Common Stock began on April 4, 1997 (adjusted to give retroactive effect for a two-for-one stock split of the Common Stock effected in the form of a stock dividend paid on October 28, 1997).

<TABLE>
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<S>	High <C>	Low <C>
Fiscal Year 1998		
First Quarter	$23.81	$15.50
Second Quarter	27.50	17.25
Third Quarter	20.50	10.00
Fourth Quarter	18.00	7.19
Fiscal Year 1997		
Second Quarter (commencing April 4, 1997)	$13.31	$ 7.88
Third Quarter	25.50	12.50
Fourth Quarter	39.50	15.00

</TABLE>

The Company currently intends to retain earnings, if any, to meet its working capital requirements and to finance the future operation and growth of its business and, therefore, does not plan to pay cash dividends to holders of its Common Stock in the foreseeable future. Prior to the Initial Public Offering, the Company made cash distributions to its shareholders in order to provide a cash return to them as well as to fund their federal and state income tax liability that resulted from the Company's prior status as an S Corporation. These distributions totaled $2.7 million in the year ended December 31, 1996, and $16.6 million through the termination of the Company's S Corporation Status on April 4, 1997.

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, 1998 are derived from the audited financial statements of the Company. The table also sets forth unaudited pro forma financial information as of and for the years ended December 31, 1998, 1997, and 1996 that gives effect to the termination of the Company's S Corporation status, as further explained in the notes to the Company's audited financial statements included elsewhere in this report. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's financial statements and notes thereto included elsewhere in this report.

<TABLE>
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	Year Ended December 31,				
	1998(1)	1997(2)	1996	1995	1994
	(in thousands, except per share data)				

<S> <C> <C> <C> <C> <C>

Income Statement Data:					
Revenue	$192,372	$136,355	$79,004	$63,779	$60,984
Cost of revenue	156,326	112,033	68,673	60,034	57,519
Gross profit	36,046	24,322	10,331	3,745	3,465
General and administrative expenses	6,023	4,670	2,161	1,730	1,567
Non-recurring compensation charge(3)	--	--	500	--	--
Operating income	30,023	19,652	7,670	2,015	1,898
Net interest expense (income)	(168)	109	384	430	328
Income before income taxes	30,191	19,543	7,286	1,585	1,570
Income taxes	11,359	5,973	--	--	--
Cumulative deferred tax provision	--	1,144	--	--	--
Net income	$ 18,832	$ 12,426	$ 7,286	$ 1,585	$ 1,570
Pro Forma Data (unaudited):					
Income before provision for income taxes	$ 30,191	$ 19,543	$ 7,286		
Provision for income taxes	11,359	5,973	--		
Pro forma provision for income taxes(4)	--	1,379	2,934		
Pro forma net income	$ 18,832	$ 12,191	$ 4,352		
Pro forma basic earnings per share	$ 1.62	$ 1.15	$ 0.55		
Pro forma diluted earnings per share	$ 1.61	$ 1.14	$ 0.55		
Pro forma weighted-average common shares	11,630	10,633	7,854		
Pro forma adjusted weighted-average common shares	11,703	10,700	7,854		

<CAPTION>

	As of December 31,				
	1998	1997	1996	1995	1994
	(in thousands)				
Balance Sheet Data:					
Working capital, excluding current maturities of long-term debt	$ 25,239	$ 17,555	$11,001	$10,048	$ 7,437
Property, plant and equipment, net	45,418	34,505	17,735	13,483	13,873
Total assets	97,740	67,678	35,909	30,414	25,665
Debt, including current maturities(5)	3,000	--	6,187	5,545	4,477

<CAPTION>

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(in thousands)				
Operating Data:					
Direct labor hours worked(6)	2,615	2,150	1,073	920	1,037
Backlog(7)					
Direct labor hours	1,079	1,341	1,038	427	400
Dollars	$ 67,300	$ 86,300	$87,000	$22,000	$20,700

</TABLE>

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(1) Includes results of operations of Southport, Inc. from January 1, 1998.
(2) Includes results of operations of Dolphin Services from January 2, 1997.
(3) In December 1996, the Company's principal shareholders sold an aggregate of 98,000 shares of Common Stock to the Company's executive officers at a total purchase price of $350,000. As a result, the Company was required to recognize a non-cash expense equal to the difference between the aggregate purchase price for such shares (adjusted for certain distributions with respect to such shares that were paid in 1997 before completion of the Initial Public Offering) and the estimated value of such shares at the time of the Initial Public Offering.

(4) Includes pro forma effect for the application of federal and state income taxes to the Company as if it were a C Corporation for tax purposes. Prior to the Initial Public Offering, the Company elected to terminate its S Corporation status. As a result, the Company became subject to corporate level income taxation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Tax Adjustments," and Notes 1 and 3 to the Company's financial statements included elsewhere in this Report.

(5) Information for 1996, 1995 and 1994 includes $530,000, $434,000, and $477,000, respectively, of current maturities of debt.

(6) Direct labor hours are hours worked by employees directly involved in the production of the Company's products.

(7) The Company's 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 on which a customer has authorized the Company to begin work or purchase materials. Backlog at December 31, 1998 included approximately 32,000 direct labor hours and $4.0 million attributable to portions of orders expected to be completed after December 31, 1999.

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

Introduction and Outlook

The Company's results of operations are affected primarily by (i) the level of oil and gas exploration and development activity maintained by oil and gas companies in the Gulf of Mexico, and to a lesser extent, North Africa, West Africa, Latin America, and the Middle East; (ii) the Company's ability to win contracts through competitive bidding or alliance/partnering arrangements and (iii) the Company's 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 which reduce costs and improve expected returns on investment. Over the first four of the past five years, generally favorable trends in these factors led to increased activity levels in the Gulf of Mexico; however, declining commodity prices in the past year have caused a corresponding reduction in activity levels in the Gulf of Mexico.

Improvements in three-dimensional seismic, directional drilling, production techniques, and other advances in technology have increased drilling success rates and reduced costs. Technological improvements have also led to larger discoveries of oil and gas in subsalt geological formations (which generally are located in 300 to 800 feet of water) and in deep water (800 to 6,000 feet) areas of the Gulf of Mexico. Activity in water depths greater than 300 feet, where larger structures requiring more steel tonnage are needed, has helped maintain demand on the available capacity of the major platform fabricators serving the Gulf of Mexico, with a resulting stability in pricing levels for their services through the end of 1998.

Demand for the Company's products and services remained high the first four of the past five years. The resultant backlog of projects that were built up during 1997 resulted in a strong performance for 1998. Revenue in 1998 was $192.4 million, a 41.1% increase over 1997 revenue, and pro forma net income was $18.8 million, a 54.5% increase over 1997 pro forma net income. Declining oil and natural gas prices have caused a reduction in industry levels, however, and this is reflected in the Company's backlog at December 31, 1998 which was $67.3 million as compared to $86.3 million at the end of 1997.

Despite the Company's performance for the twelve months ended December 31, 1998, the Company expects that the downturn in the industry brought on by continued low oil prices and a downturn in natural gas prices will impact the Company's ability to maintain these high levels of performance beyond 1998. The dollar value of projects available in the market is significantly below last year's levels and the Company's backlog is being similarly eroded. Competition for available projects has become more intense and future margins will likely be diminished. Cost reduction measures will be undertaken as appropriate to meet these conditions. In the longer term, demand for the Company's services will continue to depend largely upon prices for oil and gas, which are difficult to predict. At some point however, it is expected that these prices should recover as supplies are reduced and the Company's customers are forced to replace them.

The Company has from time to time increased the average hourly wages of its employees, has subcontracted work to others on a fixed-price basis and, in some years, has found it necessary to engage contract labor. During 1998, the Company's work force ranged from approximately 1,100 to 1,275 employees, including approximately 200 employees added through the acquisition of Southport. Because the Company has succeeded in increasing its production workforce through the acquisitions of Southport and Dolphin Services and its own recruiting efforts and due to recent reduced demand for the Company's products and services, the Company does not anticipate the need to increase average hourly wages or engage a material amount of contract labor in the foreseeable future.

Most of the Company's 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. If these adjustments were to result in a reduction of previously reported profits, the Company would have to recognize a charge against current earnings, which may be significant depending on the size of the project or the adjustment.

Year 2000 Issues

The Problem. Year 2000 issues result from the past practice in the computer industry of using two digits rather than four when coding the year portion of a date. This practice can create breakdowns or erroneous results when computers and processors embedded in other equipment perform operations involving dates later than December 31, 1999.

The Company's State of Readiness. The Company has assessed the Year 2000 compliance of its information technology systems and has purchased software and hardware that it believes will be adequate to upgrade all of these systems to Year 2000 compliance. The Company has also surveyed its significant non-information technology equipment for Year 2000 issued. While the Company uses several such items of equipment that are significant to its operations (such as automated welding and cutting equipment) none of the automated functions of this equipment are date sensitive and the Company believes that none of the equipment will require replacement or modification for Year 2000 compliance.

The Company does not have any significant suppliers or customers whose information technology systems directly interface with that of the Company. Nevertheless, as part of its assessment of its state of readiness, the Company has surveyed a representative number of its suppliers and customers for Year 2000 compliance. To date, the Company has received replies from approximately 73% of the suppliers that it has contacted, all of which (with insignificant exceptions) have indicated that they have taken appropriate steps to achieve Year 2000 compliance or have plans to do so. The Company has received replies from approximately 75% of its customers contacted all of which have indicated that they have taken appropriate steps to achieve Year 2000 compliance or have plans to do so.

Costs. Because the Company's information technology systems have been regularly upgraded and replaced as part of the Company's ongoing efforts to maintain high-grade technology and because the Company is not heavily dependent on non-information technology equipment that is date sensitive, the Company's Year 2000

compliance costs are expected to be relatively low. Recently the Company has incurred $77,000 to purchase software and hardware to upgrade its information technology systems and management does not believe that significant additional costs will be required for Year 2000 compliance. There can be no guarantee, however, that actual costs will not exceed that amount.

Risks. While the Company believes that it has taken reasonable steps to access its internal systems and prepare them for Year 2000 issues, if those steps prove inadequate the Company's ability to estimate and bid on new jobs and its financial and other daily business procedures could be interrupted or delayed, any of which could have a material adverse effect on the Company's operations. Because the Company's survey of its suppliers and customers is not complete, the Company is not in a position to evaluate the risk of their non-compliance. It is possible that the operations of the Company could be adversely affected to a material extent by the non-compliance of significant suppliers or customers.

Contingency Plan. While the Company intends to continue to monitor Year 2000 issues, it does not currently have a contingency plan for dealing with the possibility that its current systems may prove inadequate, nor does the Company currently intend to develop such a plan.

Results of Operations

Comparison of the Years Ended December 31, 1998 and 1997

The Company's revenue for the year ended December 31, 1998 was $192.4 million, an increase of 41.1%, compared to $136.4 million in revenue for the year ended December 31, 1997. Revenue increased as a result of the Southport acquisition, the on-going labor recruiting and retention efforts by the Company which generated an increase in the volume of direct labor hours applied to contracts and the implementation of productivity enhancing equipment for the year ended December 31, 1998 compared to the year ended December 31, 1997.

The increased employment levels and the utilization of labor saving equipment enabled the Company to increase volume and profit margins. The volume of direct labor hours applied to contracts increased to 2.6 million for the year ended December 31, 1998 compared to 2.2 million for 1997. Gross profit increased by 48.2% to $36.0 million (18.7% of revenue) for 1998 compared to $24.3 million (17.8% of revenue) of gross profit for the year ended December 31, 1997.

Cost of revenue was $156.3 million and $112.0 million for the years ended December 31, 1998 and 1997, respectively. Cost of revenue consists of cost associated with the fabrication process, including direct cost (such as direct labor hours, subcontractor cost and raw materials) allocated to specific jobs and indirect cost (such as supervisory labor, utilities, welding supplies and equipment costs) that are associated with production but are not directly related to a specific project. As a percentage of revenue, these costs decreased to 81.3% for 1998 compared to 82.2% for 1997.

The Company's general and administrative expenses were $6.0 million for the year ended December 31, 1998 compared to $4.7 million for the year ended December 31, 1997. Although general and administrative expenses increased by $1.3 million, as a percentage of revenue, these expenses decreased to 3.1% from 3.4% of revenue for the years ended December 31, 1998 and 1997, respectively. This increase of $1.3 million for the year was caused by the additional general and administrative costs associated with Southport and the additional costs associated with increased production levels.

The Company had net interest income of $168,000 for the year ended December 31, 1998 compared to net interest expense of $109,000 for the year ended December 31, 1997. The Company completed its Initial Public Offering in April, 1997 and used the proceeds to eliminate all of its outstanding bank debt and provide working capital to the Company. Since that time, the Company's cash provided by operations has increased to a level that has allowed the Company to make capital expenditures and acquisitions with little or no debt.

The Company converted to C Corporation status on April 4, 1997. The pro forma provision for income taxes and pro forma net income give effect to federal and state income taxes as if all entities presented had been taxed as C Corporations during all of 1997. Pro forma net income for 1997 excludes a non-recurring charge of $1.1 million to record the cumulative deferred income tax provision upon the election on April 4, 1997 to convert from S Corporation status to C Corporation status.

Comparison of the Years Ended December 31, 1997 and 1996

The Company's revenue for the year ended December 31, 1997 was $136.4 million, an increase of 72.7%, compared to $79.0 million in revenue for the year ended December 31, 1996. Revenue increased as a result of the acquisition of Dolphin Services and high activity levels in the oil and gas industry during 1997 which created increased demand and, thus, upward pressure on the pricing of the Company's goods and services. In addition, the on-going labor recruiting and retention efforts at the Company generated an increase in the volume of direct labor hours applied to contracts for the year ended December 31, 1997, compared to 1996 (2.2 million in 1997 versus 1.1 million in 1996). The combination of increased volume and strong pricing enabled the Company to increase gross profit by 135% to $24.3 million (17.8% of revenue) for the year ended December 31, 1997, compared to the $10.3 million (13.1% of revenue) of gross profit for the year ended December 31, 1996.

Cost of revenue was $112.0 million in 1997 compared to $68.7 million in 1996. Cost of revenue consists of costs associated with the fabrication process, including direct costs (such as direct labor hours and raw materials) allocated to specific projects and indirect costs (such as supervisory labor, utilities, welding supplies and equipment costs) that are associated with production but are not directly related to a specific project. As a percentage of revenue, these costs decreased to 82.2% compared to 86.9% in 1996.

The Company's general and administrative expenses were $4.7 million for the year ended December 31, 1997, compared to $2.7 million for the year ended December 31, 1996. Although the absolute dollar cost of the Company's general and administrative expenses increased by $2.0 million for 1997, as a percentage of revenue, it remained constant at 3.4%. The increase of $2.0 million for the year was caused by (i) additional general and administrative costs associated with Dolphin Services, (ii) greater accrual of performance-based employee incentives which resulted from increased profits for the year ended December 31, 1997, and (iii) additional costs associated with increased production levels and the reporting requirements of a public company for 1997.

The Company's net interest expense decreased to $100,000 for 1997 compared to $400,000 for 1996. As a result of the use of the net proceeds from the Company's Initial Public Offering to repay all of the Company's outstanding debt and net cash provided by operations of $18.3 million in 1997, as compared to $7.2 million in 1996, the weighted average borrowings for 1997 were lower in comparison to 1996.

The Company converted to C Corporation status on April 4, 1997. Pro forma provision for income taxes and pro forma net income give effect to federal and state income taxes as if all entities presented had been taxed as C Corporations during all the periods presented of both 1996 and 1997. Pro forma net income excludes a non-recurring charge of $1.1 million to record the cumulative deferred income tax provision upon the election on April 4, 1997 to convert from S Corporation status to C Corporation status.

Pro Forma Tax Adjustments

From April 1989 until April 4, 1997, the Company operated as an S Corporation for federal and state income tax purposes. As a result, the Company paid no federal or state income tax, and the entire earnings of the Company were subject to tax directly at the shareholder level. Immediately prior to the Initial Public Offering, the Company's shareholders elected to terminate the Company's S Corporation status. As a result, the Company recorded a one-time deferred tax liability in the amount of approximately $1.1 million in the second quarter of 1997. Pro forma income taxes related to operations as an S Corporation for 1997 and 1996 would have been $1.4 million and $2.9 million, respectively.

Liquidity and Capital Resources

Historically the Company has funded its business activities through funds generated from operations and borrowings under its Bank Credit Facility. Net cash provided by operations decreased by 25% to $14.5 million for the year ended December 31, 1998, primarily attributable to the increased balances of accounts receivable and retainage related to increased sales. Net cash used in investing activities for the year ended December 31, 1998 was $19.2 million, related to the $5.9 million purchase of Southport, $13.2 million of capital expenditures and $100,000 of other miscellaneous items. The Company's capital expenditures were for improvements to its production facilities and for equipment designed to increase the capacity of its facilities and the productivity of its labor force. During 1998 the Company purchased four new Manitowoc crawler cranes and a used American crawler crane, upgraded the shot blast facility, constructed a pressure vessel shop, installed construction skidways, and acquired various other fabrication equipment and facilities.

Net cash provided by financing activities of $688,000 during 1998 represented the net proceeds of $288,000 from the issuance of stock related to option exercises and $400,000 net borrowings under the revolving line of credit (the "Revolver").

The Company's bank credit facility provides for a Revolver of up to $20.0 million which bears interest equal to, at the Company's option, the prime lending rate established by Citibank, N.A. or LIBOR plus 1.5% (7.75% at December 31, 1998). The Revolver matures December 31, 2000 and is secured by a mortgage on the Company's real estate, equipment and fixtures. The Company pays a fee quarterly of three-eighths of one percent per annum on the average unused portion of the line of credit. The Company is required to maintain certain covenants, including balance sheet and cash flow ratios. At December 31, 1998, the Company was in compliance with these covenants. At December 31, 1998, the Company had $3.0 million borrowed under the Revolver.

Effective January 1, 1998, the Company acquired all the outstanding stock of Southport. The purchase price was $6.0 million in cash, plus contingent payments of up to $5.0 million based on Southport's net income over a four year period ending December 31, 2001. The initial payment of $6.0 million was funded through working capital generated from operations. No contingent payments were payable for 1998.

The Company's Board of Directors has approved a capital budget of $4.4 million for 1999, including additional bulkheading, skidway systems, and automated painting, welding and steel cutting systems. Management believes that its available funds, cash generated by operating activities and funds available under the Bank Credit Facility will be sufficient to fund these capital expenditures and its working capital needs. However, the Company may expand its operations through acquisitions in the future, which may require additional equity or debt financing.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

In this report the consolidated financial statements and supplementary data of the Company appear on pages F-1 through F-15 and are incorporated herein by reference. See Index to Consolidated Financial Statements on Page 21.

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

Financial Disclosure

A change in the Company's independent accountants during 1997 and the information required by this item have been previously reported by the Company in a Current Report on Form 8-K dated August 25, 1997 and such information is incorporated herein by reference.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning the Company's directors and officers called for by this item will be included in the Company's definitive Proxy Statement prepared in connection with the 1999 Annual Meeting of Shareholders and is incorporated herein by reference.

The following table sets forth, as of March 1, 1999, certain information with respect to the Company's directors and executive officers.

Name	Age	Position
Alden J. Laborde	83	Chairman of the Board of Directors
Kerry J. Chauvin	51	President, Chief Executive Officer and Director
William A. Downey	52	Vice President--Operations
Murphy A. Bourke	54	Vice President--Marketing
Joseph P. Gallagher, III	48	Vice President--Finance, Chief Financial Officer, Treasurer and Secretary
Gregory J. Cotter	50	Director
Thomas E. Fairley	50	Director
Hugh J. Kelly	73	Director
John P. "Jack" Laborde	49	Director
Huey J. Wilson	70	Director

Alden J. "Doc" Laborde has served as Chairman of the Board of the Company since 1986 and as a director since 1985. He also served as the Company's Chief Executive Officer from 1986 to January 1990. Mr. Laborde founded ODECO, Inc., an offshore drilling contractor ("ODECO"), and served as its Chairman of the Board and Chief Executive Officer from 1953 to 1977. In 1954, Mr. Laborde founded Tidewater, Inc. ("Tidewater"), a supplier of offshore marine transportation and other services, and served as a director of Tidewater from 1978 to 1986 and as director emeritus from 1986 to September 1993. Mr. Laborde graduated from the United States Naval Academy with a degree in engineering and served in World War II as a combat officer. Mr. Laborde is the father of John P. "Jack" Laborde.

Kerry J. Chauvin has served as the Company's President and as a director since the Company's inception and has served as Chief Executive Officer since January 1990. Mr. Chauvin also served as the Company's chief Operating Officer from 1979 to 1984 as President of Delta Fabrication, the assets of which were purchased by the Company in 1985, and as Executive Vice President, General Manager and Manager of Engineering with Delta Fabrication from 1977 to 1979. From 1973 to 1977, he was employed by Delta Shipyard as Manager of New Construction and as a Project Manager. Mr. Chauvin holds both an M.B.A. degree and a B.S. degree in Mechanical Engineering from Louisiana State University.

William A. Downey has been Vice President--Operations of the Company since 1985. From 1980 to 1984, Mr. Downey served as the Vice President of Engineering of Delta Fabrication. With over 20 years of experience in the fabrication industry, he has served in various capacities with Avondale Industries, Inc., including Senior Project Manager and Senior Cost & Design Analyst, and has also been employed by Sanderson Enterprises, Inc. and Mission Drilling & Exploration Corp. Mr. Downey received his B.S. degree in Industrial Technology from Southeastern Louisiana University in 1971.

Murphy A. Bourke has been Vice President--Marketing since the Company began operations in 1985. Mr. Bourke also served as Vice President Marketing for Delta Fabrication from 1979 to 1984 and as General Sales Manager of Louisiana State Liquor Distributors, Inc., a beverage distributor, from 1972 to 1979. He holds a B.A. degree in marketing from Southeastern Louisiana University.

Joseph P. "Duke" Gallagher, III was elected Vice President--Finance and Chief Financial Officer of the Company in January 1997 and in that capacity he also serves as chief accounting officer of the Company.

Mr. Gallagher served as the Company's Controller from 1985 until 1997. He has been the Company's Treasurer since 1986 and Secretary since January 1993. Mr. Gallagher also served as Secretary from 1986 to 1990. From 1981 to 1985, he was employed as the Controller of TBW Industries, Incorporated, a manufacturer of machinery and pressure vessels, and from 1979 to 1981 as the Assistant Controller of Brock Exploration Corporation, a publicly traded oil and gas exploration company. Mr. Gallagher, a Certified Public Accountant, also worked as a Senior Auditor for the accounting firm A.A. Harmon & Co., CPA's Inc. He received a B.S. degree in Production Management in 1973 from the University of Southwestern Louisiana.

Gregory J. Cotter has been a director of the Company since 1985 and has served as a non-compensated financial advisor to the Company since its formation. Mr. Cotter has also been President, Chief Operating and Financial Officer and a director of Huey Wilson Interests, Inc. since January 1989. Mr. Cotter also served in that capacity from 1985 through 1986. During 1987 and 1988, Mr. Cotter was President, Chief Operating Officer and a director of Great American Corporation, then a publicly traded multibank holding company. Since October 1989, Mr. Cotter has served as President, Chief Financial Officer and a director of Wilson Jewelers, Inc. From 1977 to 1985, Mr. Cotter was Senior Vice President and Chief Financial Officer of H.J. Wilson, Co., Inc., then a publicly traded jewelry and retail merchandising chain. Mr. Cotter received his B.S. degree in Chemical Engineering in 1970 and his M.B.A. in 1972, both from Tulane University.

Thomas E. Fairley has served as a director of the Company since January 1997 and is the Chief Executive Officer and President of Trico Marine Services, Inc. ("Trico"), a publicly traded marine vessel operator. He has served in that capacity since October 1993 and as President of Trico Marine Operators, the predecessor of Trico, since 1980. From 1978 to 1980, Mr. Fairly served as Vice President of Trans Marine International, an offshore marine service company and a wholly owned subsidiary of GATX Leasing Corporation. From 1975 to 1978, Mr. Fairley served as Genera Manager of International Logistics, Inc., a company engaged in the offshore marine industry. Prior to 1975, Mr. Fairley held various positions with Petrol Marine Company, an offshore marine service company.

Hugh J. Kelly has served as a director of the Company since January 1997, and has been an oil and gas consultant since 1989. From 1977 to 1989, Mr. Kelly served as the Chief Executive Officer of ODECO. Mr. Kelly is a director of Tidewater and Chieftain International, Inc. (oil and gas exploration and development concern). Mr. Kelly previously held positions as director of Central Louisiana Electric Co. (electric utility company), and Hibernia Corporation (regional bank holding company), with terms that expired in 1998 and 1997, respectively.

John P. "Jack" Laborde has served as a director of the Company since January 1997. Mr. Laborde is the Chief Executive Officer of All Aboard Development Corporation, an independent oil and gas exploration and production company since 1996, Vice President of All Aboard from November 1993 to March 1996, and President of All Aboard since 1998, Mr. Laborde served as a consultant to the Company from April 1996 to December 1996. From April 1992 to March 1996, Mr. Laborde served as the International Marketing Manager of the Company. From 1978 to 1992, Mr. Laborde served in various capacities, including Vice President--International Operations and Marketing Manager, for ODECO. Mr. Laborde received his B.S. in Civil Engineering in 1971 and his M.B.A. in 1973, both from Tulane University. Jack is the son of Alden J. Laborde.

Huey J. Wilson, one of the Company's founding shareholders, was elected director in January 1997. Mr. Wilson founded H.J. Wilson Co., Inc. ("Wilson's"); a jewelry and retail merchandising chain that grew to become the largest publicly traded company headquartered in Baton Rouge, Louisiana. He was Chairman of the Board and Chief Executive Officer of Wilson's from 1957 to 1985, when it was sold to Service Merchandise Company. Until June 1993, Mr. Wilson served as Chairman of the Board since 1982, Chief Executive Officer since 1983, and a director since 1973 of Great American Corporation; a then publicly traded multibank holding company. Currently, Mr. Wilson is Chairman of the Board and Chief Executive Officer of Huey Wilson Interests, Inc., a financial and business management company he founded in 1985, and Chairman of the Board and Chief Executive Officer of Wilson Jewelers, Inc., a jewelry store chain he established in 1989.

Item 11. Executive Compensation

Information concerning the compensation of the Company's executives called for by this item will be included in the Company's definitive Proxy Statement prepared in connection with the 1999 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management called for by this item will be included in the Company's definitive Proxy Statement prepared in connection with the 1999 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions called for by this item will be included in the Company's definitive Proxy Statement prepared in connection with the 1999 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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

(i) Financial Statements Page

<TABLE>
<CAPTION>

</TABLE>

(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 stockholder, 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 Ms. Valarae Bates, Investor Relations,Gulf Island Fabrication, Inc., P.O. Box 310, Houma, LA 70361-0310.

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:	Direct labor hours are 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.
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 water surface.
floating production platform:	Floating structure that supports offshore oil and gas production equipment (TLP, semi-submersible, SPAR).
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 9002:	International Standards of Operations 9002--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.
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.

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.

REPORT OF INDEPENDENT AUDITORS

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, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. 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. The consolidated statements of income, shareholders' equity and cash flows of Gulf Island Fabrication, Inc. for the year ended December 31, 1996, were audited by other auditors whose report dated January 23, 1997, except for the third paragraph of Note 1 which is as of February 13, 1997, the second paragraph of Note 4 which is as of February 14, 1997, and the third paragraph of Note 4 which is as of October 28, 1997, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. 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 1998 and 1997 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gulf Island Fabrication, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

New Orleans, Louisiana
January 26, 1999

GULF ISLAND FABRICATION, INC.

CONSOLIDATED BALANCE SHEETS

<TABLE>
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	December 31, 1998	December 31, 1997
	(in thousands)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash	$ 2,808	$ 6,879
Contracts receivable	34,682	21,204
Contract retainage	5,837	1,556
Costs and estimated earnings in excess of billings on uncompleted contracts	2,061	903
Prepaid expenses	878	914
Inventory	1,137	968
Recoverable income taxes	531	321
Total current assets	47,934	32,745
Property, plant and equipment, net	45,418	34,505
Excess of cost over fair value of net assets acquired less accumulated amortization of $278,825 at December 31, 1998	3,839	--
Other assets	549	428
Total assets	$ 97,740	$67,678
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,151	$ 3,368
Billings in excess of costs and estimated earnings on uncompleted contracts	9,476	5,925
Accrued employee costs	4,085	3,068
Accrued expenses	1,983	2,829
Total current liabilities	22,695	15,190
Deferred income taxes	2,315	1,878
Notes payable	3,000	--
Total liabilities	28,010	17,068
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, 11,638,400 and 11,600,000 shares issued and outstanding at December 31, 1998 and 1997, respectively	4,162	4,133
Additional paid-in capital	35,124	34,865
Retained earnings	30,444	11,612
Total shareholders' equity	69,730	50,610
	$ 97,740	$67,678

</TABLE>

See accompanying notes.

GULF ISLAND FABRICATION, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

<TABLE>
<CAPTION>

	Year ended December 31, 1998	1997	1996

<S> <C> <C> <C>

Revenue	$192,372	$136,355	$79,004
Cost of revenue	156,326	112,033	68,673
Gross profit	36,046	24,322	10,331
General and administrative expenses	6,023	4,670	2,661
Operating income	30,023	19,652	7,670
Other expense (income):			
Interest expense	93	348	415
Interest income	(261)	(239)	(31)
	(168)	109	384
Income before income taxes	30,191	19,543	7,286
Income taxes	11,359	5,973	--
Cumulative deferred tax provision	--	1,144	--
Net income	$ 18,832	$ 12,426	$ 7,286
Pro forma data:			
Income before income taxes	$ 30,191	$ 19,543	$ 7,286
Income taxes	11,359	5,973	--
Pro forma income taxes related to operations as S Corporation	--	1,379	2,934
Pro forma net income	$ 18,832	$ 12,191	$ 4,352
Pro forma per share data:			
Pro forma basic earnings per share	$ 1.62	$ 1.15	$ 0.55
Pro forma diluted earnings per share	$ 1.61	$ 1.14	$ 0.55

</TABLE>

See accompanying notes.

GULF ISLAND FABRICATION, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

<TABLE>
<CAPTION>

	Common Stock		Additional		
	Shares	Amount	Paid-In Capital	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1996	7,000,000	$1,000	$ 6,170	$11,232	$18,402
Dividends	--	--	--	(2,691)	(2,691)
Nonrecurring compensation charge	--	--	500	--	500
Net income	--	--	--	7,286	7,286
Balance at December 31, 1996	7,000,000	1,000	6,670	15,827	23,497
Issuance of common stock	4,600,000	3,133	28,195	--	31,328
Dividends	--	--	--	(16,641)	(16,641)
Net income	--	--	--	12,426	12,426
Balance at December 31, 1997	11,600,000	4,133	34,865	11,612	50,610
Issuance of common stock	38,400	29	259	--	288
Net income	--	--	--	18,832	18,832
Balance at December 31, 1998	11,638,400	$4,162	$35,124	$30,444	$69,730

</TABLE>

See accompanying notes.

GULF ISLAND FABRICATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

<TABLE>

<CAPTION>

	Year ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Operating activities:			
Net income	$18,832	$12,426	$ 7,286
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,893	2,932	1,586
Amortization	279	--	--
Nonrecurring noncash compensation charge	--	--	500
Deferred income taxes	437	1,878	--
Changes in operating assets and liabilities:			
Contracts receivable	(5,604)	(4,734)	(796)
Contract retainage	(3,036)	443	258
Costs and estimated earnings in excess of billings on uncompleted contracts	2	458	(801)
Recoverable income taxes	(478)	(774)	--
Prepaid expenses and other assets	21	883	(630)
Accounts payable	(690)	832	(1,082)
Accrued employee costs	655	1,550	636
Accrued expenses	(965)	(804)	510
Billings in excess of costs and estimated earnings on uncompleted contracts	1,106	3,233	(306)
Net cash provided by operating activities	14,452	18,323	7,161
Investing activities:			
Capital expenditures, net	(13,192)	(15,179)	(5,838)
Payment for purchase of businesses, net of cash acquired	(5,915)	(5,803)	--
Other	(104)	253	--
Net cash used in investing activities	(19,211)	(20,729)	(5,838)
Financing activities:			
Proceeds from initial public offering	--	31,328	--
Proceeds from issuance of notes payable	11,000	41,900	24,353
Principal payments on notes payable	(10,600)	(48,659)	(23,712)
Proceeds from issuance of stock	288	--	--
Dividends	--	(16,641)	(2,691)
Net cash provided by (used in) financing activities	688	7,928	(2,050)
Net increase (decrease) in cash	(4,071)	5,522	(727)
Cash at beginning of year	6,879	1,357	2,084
Cash at end of year	$ 2,808	$ 6,879	$ 1,357
Supplemental cash flow information:			
Interest paid	$ 100	$ 408	$ 415
Income taxes paid	$11,388	$ 5,861	$ --
Property, plant and equipment acquired through accrued expenses	$ --	$ 1,408	$ --

</TABLE>

See accompanying notes.

GULF ISLAND FABRICATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Gulf Island Fabrication, Inc. ("Gulf Island"), located in Houma, Louisiana, is engaged in the fabrication and refurbishment of offshore oil and gas platforms for oil and gas industry companies. Gulf Island's principal markets are concentrated in the offshore regions of the coast of the Gulf of Mexico. The consolidated financial statements include the accounts of Gulf Island and its wholly owned subsidiaries (collectively, "the Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

On January 2, 1997, Gulf Island acquired all outstanding shares of Dolphin Services, Inc., Dolphin Steel Sales, Inc., and Dolphin Sales and Rentals, Inc. for $5.9 million (the "Dolphin Acquisition"). The acquired corporations perform fabrication, sandblasting, painting and construction services for offshore oil and gas platforms in inland and offshore regions of the coast of the Gulf of Mexico. On April 30, 1997, Dolphin Steel Sales, Inc. and Dolphin Sales and Rentals, Inc. merged into Dolphin Services, Inc. The three corporations are referred to hereinafter collectively as "Dolphin Services." The Dolphin Acquisition was financed by borrowings under Gulf Island's line of credit. Gulf Island acquired assets with a fair value of $9.7 million and assumed liabilities of $3.8 million. The acquisition was accounted for under the purchase method of accounting. Accordingly, the operations of Dolphin Services are included in the Company's consolidated financial statements from January 2, 1997.

On February 13, 1997, the board of directors approved the filing of an initial registration statement on Form S-1 with the Securities and Exchange Commission to register and sell 4.6 million shares of common stock. Shortly before closing of the offering on April 9, 1997, the Company's shareholders elected to terminate its status as an S Corporation, and the Company became subject to federal and state income taxes. (See Note 3.)

On April 3, 1997, the Securities and Exchange Commission declared the Company's Registration Statement on Form S-1 (Registration No. 333-21863) effective. On April 9, 1997, the Company sold 4.6 million common shares pursuant to the registration statement, increasing the total shares outstanding to 11.6 million (the "Initial Public Offering"). The Company received $34.5 million from the sale of the shares and paid $3.2 million for underwriting and other fees related to the Initial Public Offering resulting in net proceeds from the sale of $31.3 million.

Effective January 1, 1998, the Company acquired all of the outstanding shares of Southport, Inc. and its wholly owned subsidiary, Southport International, Inc. (collectively, "Southport"). Southport specializes in the fabrication of living quarters for offshore platforms. The purchase price was $6.0 million cash, plus contingent payments of up to an additional $5.0 million based on Southport's net income over a four-year period ending December 31, 2001. The purchase price plus $130,000 of direct expenses exceeded the fair value of the assets acquired of $12.3 million and liabilities assumed of $10.3 million by $4.1 million. The acquisition was accounted for under the purchase method of accounting. Accordingly, the operations of Southport are included in the Company's consolidated financial statements from January 1, 1998.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The principal customers of the Company are the major and large independent oil and gas companies. These concentrations of customers may impact the Company's overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic or other conditions. However, the Company's management believes that the portfolio of receivables is diversified and that such diversification minimizes any potential credit risk. Receivables are generally not collateralized.

The Company believes that its allowance for doubtful accounts is adequate for its credit loss exposure.

Inventory

Inventory consists of materials and production supplies and is stated at the lower of cost or market determined on the first-in, first-out basis.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 25 years. Ordinary maintenance and repairs, which do not extend the physical or economic lives of the plant or equipment, are charged to expense as incurred.

Revenue Recognition

Revenue from fixed-price and cost-plus construction contracts is recognized on the percentage-of-completion method, computed by the efforts-expended method which measures the percentage of labor hours incurred to date as compared to estimated total labor hours for each 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 collection is probable. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The asset caption entitled "costs and estimated earnings in excess of billings on uncompleted contracts," represents revenue recognized in excess of the amounts billed. The liability caption entitled "billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenue recognized.

Income Taxes

Income taxes have been provided using the liability method in accordance with the Financial Accounting Standards Board's Statement No. 109, Accounting for Income Taxes. Prior to April 4, 1997, the Company's shareholders had elected to have the Company taxed as an S Corporation for federal and state income tax purposes whereby shareholders were liable for individual federal and state income taxes on their allocated portions of the Company's taxable income. Accordingly, the historical financial statements do not include any provision for income taxes during the period the Company was an S Corporation (see Note 3).

Excess of Cost Over Fair Value of Net Assets Acquired

Excess of cost over the fair value of the net assets acquired ("goodwill") is being amortized on the straight-line method over 15 years.

Reclassifications

Certain items included in the consolidated financial statements for the years ended December 31, 1997 and 1996 have been reclassified to conform to the December 31, 1998 consolidated financial statement presentation.

2. ACQUISITIONS

The Company completed the following business combinations during fiscal years 1998 and 1997:

Acquisition of Southport, Inc. in 1998

The following unaudited pro forma information presents a summary of consolidated results of operations of Gulf Island and Southport as if the acquisition had occurred on January 1, 1997. Pro forma adjustments include (1) adjustments for the increase in interest expense as a result of the acquisition, (2) additional depreciation on property, plant and equipment, (3) adjustments to record the amortization of cost in excess of fair value of net assets acquired, (4) the elimination of certain general and administrative expenses, and (5) the related tax effects. The pro forma income tax presentation (Note 3) is included.

	Year ended December 31, 1997 (in thousands, except per share data)
Revenue	$158,239
Pro forma net income	13,218
Pro forma basic earnings per share	1.24
Pro forma diluted earnings per share	1.24

Acquisition of Dolphin Services in 1997

The following unaudited pro forma information presents a summary of consolidated results of operations of Gulf Island and Dolphin Services as if the acquisition had occurred on January 1, 1996. Pro forma adjustments include (1) elimination of intercompany sales between Gulf Island and Dolphin Services, (2) adjustments for the increase in interest expense on acquisition debt, (3) additional depreciation on property, plant and equipment, and (4) related tax effects. The effects of termination of the S corporation status (Note 3) are excluded.

<TABLE>
<CAPTION>

<S>	Year ended December 31, 1996 (in thousands, except per share data) <C>
Revenue	$103,007
Pro forma net income	8,333
Pro forma basic and diluted earnings per share	1.19

</TABLE>

3. TERMINATION OF S CORPORATION STATUS

On April 4, 1997, the Company's shareholders elected to terminate the Company's status as an S Corporation, and the Company became subject to federal and state income taxes. In conjunction with the termination of S Corporation status, the Company paid a distribution of $14 million to its shareholders representing substantially all of the Company's remaining undistributed S Corporation earnings through April 4, 1997. The S Corporation earnings for the period April 1, 1997 to April 4, 1997 were an immaterial part of the total distribution. The balance sheet of the Company as of December 31, 1997 reflects a deferred income tax liability of $1.9 million, which includes $1.1 million of deferred income tax liability resulting from the termination of the S Corporation status.

The pro forma income statement presentation reflects an additional provision for income taxes as if the Company had been subject to federal and state income taxes since January 1, 1996 using an assumed effective tax rate of approximately 38%.

4. SHAREHOLDERS' EQUITY

On December 1, 1996, Gulf Island's principal shareholders sold 98,000 (1.4%) of their existing shares to officers and management employees at $3.57 per share (number of shares and per share prices adjusted for effect of stock splits described in following paragraphs). The per share price on that date was based on an independent appraisal that valued Gulf Island as a privately held business. As a result of the Initial Public Offering, the Company determined that it should record a nonrecurring, noncash compensation charge of $500,000 for the year ended December 31, 1996 related to the 98,000 shares. This charge was based on the difference between the net offering price the Company expected to receive in the public offering and the net cash price recipients of the 98,000 shares expected to pay. The net cash price to recipients of $1.78 per share represented the $3.57 per share price charged by the shareholders, less $1.88 per share of tax-free dividends that the recipients expected to receive as a result of the shareholder distributions described in Note 3, increased by the recipient's share of taxable income for the year of $.09 per share (in each case adjusted for the effect of the stock splits described in the following paragraphs). The compensation charge resulted in a corresponding increase to additional paid-in capital.

On February 14, 1997, the shareholders enacted the following:

(a) Authorized the issuance of 2.5 shares of no par value common stock for each of the then outstanding 2,000,000 shares, which resulted in 7,000,000 total outstanding shares. This recapitalization is reflected retroactively in the accompanying financial statements and per share calculations.

(b) Authorized 5,000,000 shares of no par value preferred stock. There are no preferred shares issued or outstanding.

(c) Increased the authorized common shares from 10,000,000 shares to 20,000,000 shares.

On October 6, 1997, the Company's board of directors authorized a two-for-one stock split effected in the form of a stock dividend that became effective on October 28, 1997 to shareholders of record on October 21, 1997. All share and per share data included in the financial statements have been restated to reflect the stock split.

5. PRO FORMA PER SHARE DATA

Pro forma per share data as shown in the statements of income consist of the Company's historical income, adjusted to reflect income taxes as if the Company had operated as a C Corporation during all periods presented. This calculation for the year ended December 31, 1997 excludes the charge of $1.1 million related to cumulative

deferred income taxes resulting from conversion to a C Corporation on April 4, 1997. Further, the weighted-average share calculations for 1997 include the assumed issuance of additional shares sufficient to pay the distributions made to shareholders in connection with the Company's Initial Public Offering, to the extent such distributions exceeded net income for the year ended December 31, 1996.

6. EARNINGS PER SHARE

In 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share. Statement No. 128 replaced APB Opinion No. 15 for the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement No. 128 requirements.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	1998	1997	1996
Numerator for basic and diluted earnings per share	$18,832	$12,191	$4,352
Denominator:			
Denominator for basic earnings per share--weighted-average shares	11,630	10,633	7,854
Effect of dilutive securities:			
Employee stock options	73	67	--
Dilutive potential common shares:			
Denominator for diluted earnings per share--adjusted weighted-average shares	11,703	10,700	7,854
Pro forma basic earnings per share	$ 1.62	$ 1.15	$ 0.55
Pro forma diluted earnings per share	$ 1.61	$ 1.14	$ 0.55

7. CONTRACTS RECEIVABLE

Amounts due on contracts as of December 31 were as follows (in thousands):

	1998	1997
Completed contracts	$ 2,605	$ 725
Contracts in progress:		
Current	32,155	20,549
Retainage due within one year	5,837	1,556
Less allowance for doubtful accounts	78	70
	$ 40,519	$22,760

8. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Information with respect to uncompleted contracts as of December 31 is as follows (in thousands):

	1998	1997
Costs incurred on uncompleted contracts	$177,698	$77,613
Estimated profit earned to date	34,409	13,382
	212,107	90,995
Less billings to date	219,522	96,017
	$ (7,415)	$(5,022)

The above amounts are included in the accompanying consolidated balance sheets under the following captions (in thousands):

	1998	1997
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,061	$ 903
Billings in excess of costs and estimated earnings on uncompleted contracts	(9,476)	(5,925)
	$ (7,415)	$(5,022)

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31 (in thousands):

	1998	1997
Land	$ 4,369	$ 2,457
Buildings	9,764	8,723
Machinery and equipment	34,491	25,765
Furniture and fixtures	1,136	673
Transportation equipment	1,185	1,053
Improvements	15,209	11,450
Construction in progress	697	1,594
	66,851	51,715
Less accumulated depreciation	21,433	17,210
	$ 45,418	$34,505

The Company leases certain equipment used in the normal course of its operations under month-to-month lease agreements cancelable only by the Company. During 1998, 1997, and 1996, the Company expensed $3,084,000, $3,203,000, and $2,801,000, respectively, related to these leases.

10. INCOME TAXES

On April 4, 1997, the Company's shareholders elected to terminate the Company's status as an S Corporation, and the Company became subject to federal and state income taxes (see Note 3). In conjunction with the Company's change in tax status, the Company recorded a $1.1 million deferred tax liability.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1998 and 1997 are as follows (in thousands):

	1998	1997
Deferred tax liabilities:		
Depreciation	$3,464	$2,314
Deferred tax assets:		
Employee benefits	827	419
Uncompleted contracts	306	--
Other benefits	16	17
Total deferred assets	1,149	436
Net deferred tax liabilities	$2,315	$1,878

Significant components of income taxes for the years ended December 31, 1998 and 1997 were as follows (in thousands):

	1998	1997
Current:		
Federal	$ 9,939	$4,451
State	983	788
Total current	10,922	5,239
Deferred:		
Federal	398	1,731
State	39	147
Total deferred	437	1,878
Income taxes	$11,359	$7,117

In 1998, the primary difference between income taxes computed at the U.S. federal statutory rate of 35% and the Company's effective tax rate of 37.6% is state income taxes. In 1997, the primary difference between income taxes computed at the U.S. federal statutory rate of 35% and the Company's effective pro forma tax rate of 37.6% is state income taxes.

11. LINE OF CREDIT AND NOTES PAYABLE

The Company's bank credit facility provides for a revolving line of credit (the "Revolver") of up to $20.0 million which bears interest equal to, at the Company's option, the prime lending rate established by Citibank, N.A. or LIBOR plus 1.5% (7.75% at December 31, 1998). The Revolver matures December 31, 2000 and is secured by a mortgage on the Company's real estate, equipment and fixtures. The Company pays a fee quarterly of three-eighths of one percent per annum on the average unused portion of the line of credit. The Company is required to maintain certain covenants, including balance sheet and cash flow ratios. At December 31, 1998, the Company was in compliance with these convenants.

12. Long-Term Incentive Plan

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations in accounting for its employee stock options because,

as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, Accounting For Stock-Based Compensation, (Statement 123) requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

On February 13, 1997, the board of directors adopted the Long-Term Incentive Plan (the "Plan"). The Plan has authorized the grant of options to purchase an aggregate of 1,000,000 shares of the Company's common stock to certain officers and key employees of the Company chosen by a committee appointed by the board of directors (the "Compensation Committee") to administer such plan. Under the Plan, all options granted have 10-year terms, and conditions relating to the vesting and exercise of options are determined by the Compensation Committee for each option. Options granted under the Plan are "nonstatutory options" (options which do not afford income tax benefits to recipients, but the exercise of which may provide tax deductions for the Company). Each option will have an exercise price per share not less than the fair market value of a share of common stock on the date of grant and no individual employee may be granted options to purchase more than an aggregate of 400,000 shares of common stock.

Pro forma information regarding net income and earnings per share is required by Statement 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions. For 1998, a risk-free interest rate of 5.50% on the January options and a risk-free interest rate of 5.63% on the July options; dividend yield of zero; volatility factor of the expected market price of the Company's common stock of .652; and a weighted-average expected life of the options of eight years. For 1997, a risk-free interest rate of 6.36%; dividend yield of zero; volatility factor of the expected market price of the Company's common stock of .745; and a weighted-average expected life of the options of eight years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of trade options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimated, in management's option, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options (net of expected tax benefits) is amortized to expense over the options' vested period. Since the Company's options generally vest over a five-year period, the pro forma disclosures are not indicative of future amounts until Statement 123 is applied to all outstanding non-vested options. The Company's pro forma information for 1998 and 1997 is as follows (in thousands, except per share data):

	1998	1997
Net income:		
Pro forma as reported	$18,832	$12,191
Pro forma including the effect of options	$18,295	$11,927
Basic earnings per share:		
Pro forma as reported	$ 1.62	$ 1.15
Pro forma including the effect of options	$ 1.57	$ 1.12
Diluted earnings per share:		
Pro forma as reported	$ 1.61	$ 1.14
Pro forma including the effect of options	$ 1.56	$ 1.11

A summary of the Company's stock options activity and related information for the years ended December 31, 1997 and 1998 is as follows (in thousands, except per share data):

	1997		1998	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding--beginning of year	--	--	393	$11.790
Granted	413	$12.040	105	18.263
Exercised	--	--	(38)	7.500
Expired	--	--	--	--
Forfeited	(20)	16.875	(14)	16.875

Outstanding--end of year	393	$11.790	446	$13.529
Exercisable at end of year	--	$ --	37	$15.822
Weighted-average fair value of options granted during the year	$9.130		$13.083	

</TABLE>

Exercise prices for options outstanding as of December 31, 1998 ranged from $7.50 to $19.625. The weighted-average remaining contractual life of those options is nine years.

13. RETIREMENT PLAN

The Company has a defined contribution plan (the "Plan") for all employees that are qualified under Section 401(k) of the Internal Revenue Code. Contributions to the Plan by the Company are based on the participants' contributions, with an additional year-end discretionary contribution determined by the board of directors. For the years ended December 31, 1998, 1997, and 1996, the Company contributed $1,428,000, $844,000, and $542,000, respectively.

14. CONTINGENT LIABILITIES

The Company is one of four defendants in a lawsuit in which the plaintiff claims that the Company improperly installed certain attachments to a jacket that it had fabricated for the plaintiff. The plaintiff, which has recovered most of its out-of-pocket losses from its own insurer, seeks to recover the remainder of its claimed out-of-pocket losses (approximately $1 million) and approximately $65 million from the four defendants for economic losses which it alleges resulted from the delay in oil and gas production that was caused by these events. The trial court has issued rulings, the effect of which is to limit the damages recoverable from all four defendants to a maximum of $15 million. The trial court has issued this and other rulings that have been favorable to the defendants, all of which are subject to appeal by the plaintiff at the conclusion of the trial. Management is vigorously defending this case and, after consultation with legal counsel, does not expect that the ultimate resolution of this matter will have a material adverse effect on the financial position or results of operations of the Company.

The Company is subject to other claims arising primarily in the normal conduct of its business. While the outcome of such claims cannot be determined, management does not expect that resolution of these matters will have a material adverse effect on the financial position or results of operations of the Company.

15. SALES TO MAJOR CUSTOMERS

The Company's customer base is primarily concentrated in the oil and gas industry. The Company is not dependent on any one customer, and the revenue earned from each customer varies from year to year based on the contracts awarded. Sales to customers comprising 10% or more of the Company's total revenue are summarized as follows (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Customer A	$42,638	$44,467	$ --
Customer B	30,088	21,603	--
Customer C	--	--	8,196
Customer D	--	13,383	--
Customer E	--	--	9,379
Customer F	--	--	10,119

</TABLE>

16. INTERNATIONAL SALES

The Company's structures are used worldwide by U. S. customers operating abroad and by foreign customers. Sales outside the United States accounted for 17%, 15%, and 16% of the Company's revenues during 1998, 1997, and 1996, respectively.

<TABLE>
<CAPTION>

	1998	1997	1996
	(in millions)		
Location:			
United States	$160.6	$116.4	$66.1
International	31.8	20.0	12.9
Total	$192.4	$136.4	$79.0

</TABLE>

17. QUARTERLY OPERATING RESULTS (UNAUDITED)

A summary of quarterly results of operations for the years ended December 31, 1998 and 1997 were as follows (in thousands, except per share data):

<TABLE>
<CAPTION>

	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1998
Revenue	$46,914	$50,641	$51,866	$42,951
Gross profit	8,311	9,767	9,830	8,138
Pro forma net income	4,233	5,151	5,312	4,136
Pro forma basic earnings per share	0.36	0.44	0.46	0.36
Pro forma diluted earnings per share	0.36	0.44	0.45	0.35

</TABLE>

<TABLE>
<CAPTION>

	March 31, 1997	June 30, 1997	September 30, 1997	December 31, 1997
Revenue	$30,224	$35,023	$36,311	$34,797
Gross profit	4,865	6,424	6,986	6,047
Pro forma net income	2,248	3,265	3,698	2,980
Pro forma basic earnings per share	0.29	0.28	0.32	0.26
Pro forma diluted earnings per share	0.29	0.28	0.32	0.25

</TABLE>

Quarterly data may not sum to the full year data reported in the Company's consolidated financial statements due to rounding. The first three quarters of 1997 earnings per share amounts have been restated to comply with Statement No. 128.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized onMarch 23, 1999.

GULF ISLAND FABRICATION, INC.
(Registrant)

By: /s/ Kerry J. Chauvin

Kerry J. Chauvin
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<S> <C>
</TABLE>

Signature	Title
/s/ Alden J. Laborde Alden J. Laborde	Chairman of the Board
/s/ Kerry J. Chauvin	President, Chief Executive Officer and

- ----------------------------------- Kerry J. Chauvin	Director (Principal Executive Officer)
/s/ Joseph P. Gallagher, III - ----------------------------------- Joseph P. Gallagher, III	Vice President--Finance, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)
/s/ Gregory J. Cotter - ----------------------------------- Gregory J. Cotter	Director
/s/ Thomas E. Fairley - ----------------------------------- Thomas E. Fairley	Director
/s/ Hugh J. Kelly - ----------------------------------- Hugh J. Kelly	Director
/s/ John P. Laborde - ----------------------------------- John P. Laborde	Director
/s/ Huey J. Wilson - ----------------------------------- Huey J. Wilson	Director

GULF ISLAND FABRICATION, INC.

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit Number	
<S>	<C> <C>
2.1	Stock Purchase Agreement with respect to Dolphin Services, Inc. dated November 27, 1996.*
2.2	Stock Purchase Agreement with respect to Dolphin Steel Sales, Inc. dated as of November 27, 1996.*
2.3	Stock Purchase Agreement with respect to Dolphin Sales & Rentals, Inc. dated as of November 27, 1996.*
2.4	Stock Purchase Agreement, dated as of November 12, 1997, between the Company and the shareholders of Southport, Inc.**
3.1	Amended and Restated Articles of Incorporation of the Company.*
3.2	Bylaws of the Company. Restated and Amended through March 10, 1999.
4.1	Specimen Common Stock Certificate.*
10.1	Form of Indemnity Agreement by and between the Company and each of its directors and executive officers.*
10.2	Registration Rights Agreement between the Company and Alden J. Laborde.*
10.3	Registration Rights Agreement between the Company and Huey J. Wilson.*
10.4	The Company's Long-Term Incentive Plan.*+
10.5	Form of Stock Option Agreement under the Company's Long-Term Incentive Plan, as amended; incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.+
10.6	Form of Reimbursement Agreement.*+
10.7	Employment Agreement dated as of January 1, 1998 between Southport, Inc. and Stephen G. Benton, Jr.**+
10.8	Seventh Amended and Restated Revolving Credit and Term Loan Agreement among the Company and First National Bank of Commerce and Whitney National Bank, dated as of August 21, 1998 (the "Bank Credit Facility"), incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1998.
16.1	Letter from Price Waterhouse LLP regarding change in certifying accountant, incorporated by reference to the Company's Current Report on Form 8-K dated August 25, 1997.
21.1	Subsidiaries of the Company--The Company's significant subsidiaries, Dolphin Services, Inc. and Southport, Inc., are wholly owned subsidiaries and included in the Company's consolidated financial statements.
23.1	Consent of Ernst & Young LLP
23.2	Consent of PricewaterhouseCoopers LLP
23.3	Report of PricewaterhouseCoopers LLP
27.1	Financial Data Schedule
99.1	Press release issued by the Company on February 4, 1999 announcing its 1998 fourth quarter and year earnings.

</TABLE>

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+ Management Contract or Compensatory Plan.

* Incorporated by reference to the Company's Registration Statement on Form S-1 filed with the Commission on February 14, 1997 (Registration Number 333-21863).

** Incorporated by reference to the Company's Current Report on Form 8-K dated January 1, 1998.

EXHIBIT 3.2

BY-LAWS
OF
GULF ISLAND FABRICATION, INC.
(AS AMENDED AND RESTATED THROUGH MARCH 10, 1999)

SECTION 1

OFFICES

1.1 PRINCIPAL OFFICE. The principal office of the Corporation shall be located at 583 Thompson Road, Houma, Louisiana 70363.

1.2 ADDITIONAL OFFICES. The Corporation may have such offices at such other places as the Board of Directors may from time to time determine or the business of the Corporation may require.

SECTION 2

SHAREHOLDER MEETINGS

2.1 PLACE OF MEETINGS. Unless otherwise required by law or these By-laws, all meetings of the shareholders shall be held at the principal office of the Corporation or at such other place, within or without the State of Louisiana, as may be designated by the board of Directors.

2.2 ANNUAL MEETINGS; NOTICE THEREOF. An annual meeting of the shareholders shall be held each year on the date and at the time as the Board of Directors shall designate, for the purpose of electing directors and of the transaction of such other business as may be properly brought before the meeting. If no annual shareholders' meeting is held for a period of eighteen months, any shareholder may call such meeting to be held at the registered office of the Corporation as shown on the records of the Secretary of State of the State of Louisiana.

2.3 SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes, may be called by or at the direction of the Board of Directors. Shareholders may call a special meeting of shareholders in accordance with the applicable provisions of the Articles of Incorporation.

2.4 NOTICE OF MEETINGS. Except as otherwise provided by law or the Articles of Incorporation, the authorized person or persons calling a shareholders' meeting shall cause written notice of the time, place and purpose of the meeting to be given to all shareholders entitled to vote at such meeting, at least 10 days and not more than 75 days prior to the day fixed for the meeting. Notice of the annual meeting need not state the purpose or purposes thereof, unless action is to be

taken at the meeting as to which notice is required by law or the By-laws. Notice of a special meeting shall state the purpose or purposes thereof, and the business conducted at any special meeting shall be limited to the purpose or purposes stated in the notice.

2.5 LIST OF SHAREHOLDERS. At every meeting of shareholders, a list of shareholders entitled to vote, arranged alphabetically and certified by the Secretary or by the agent of the Corporation having charge of transfers of shares, showing the number and class of shares held by each such shareholder on the record date for the meeting and confirming the number of votes per share as to which each such shareholder is entitled, shall be produced on the request of any shareholder.

2.6 QUORUM. At all meetings of shareholders, the holders of a majority of the total voting power shall constitute a quorum; provided, however, that this subsection shall not have the effect of reducing the vote required to approve any matter that may be established by law, the Articles of Incorporation or these By-laws.

2.7 VOTING. When a quorum is present at any shareholders' meeting, the vote of the holders of a majority of the votes actually cast shall decide each question brought before such meeting, unless the resolution of the question requires, by express provision of law, the Articles of Incorporation or these By-laws, a different vote or one or more separate votes by the holders of a class or series of capital stock, in which case such express provision shall apply and control the decision of such question. Directors shall be elected by plurality vote.

2.8 PROXIES. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing executed by such shareholder and bearing a date not more than eleven months prior to the meeting, unless the instrument provides for a longer period, but in no case will an outstanding proxy be valid for longer than three years from the date of its execution. The person appointed as proxy need not be a shareholder of the Corporation.

2.9 ADJOURNMENTS. Adjournments of any annual or special meeting of shareholders may be taken without new notice being given unless a new record date is fixed for the adjourned meeting, but any meeting at which directors are to be elected shall be adjourned only from day to day until such directors shall have been elected.

2.10 WITHDRAWAL. If a quorum is present or represented at a duly organized shareholders' meeting, such meeting may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum as fixed in Section 2.6 of these By-laws, or the refusal of any shareholders to vote.

2.11 LACK OF QUORUM. If a meeting cannot be organized because a quorum has not attended, those present may adjourn the meeting to such time and place as they may determine, subject, however, to the provisions of Section 2.9 hereof. In the case of any meeting called for the

election of directors, those who attend the second of such adjourned meetings, although less than a quorum as fixed in Section 2.6 hereof, shall nevertheless be deemed to constitute a quorum for the purpose of electing directors.

2.12 PRESIDING OFFICER. The Chairman of the Board or a person designated by the Chairman of the Board, or in their absence a person designated by the Board of Directors, shall preside at all shareholders' meetings.

2.13 DEFINITION OF SHAREHOLDER. As used in these By-laws, and unless the context otherwise requires, the term shareholder shall mean a person who is (i) the record holder of shares of the Corporation's common stock or any other capital stock of the Corporation granted voting rights, or (ii) a registered holder of any bonds, debentures or similar obligations granted voting rights by the Corporation pursuant to La.R.S. 12:75H.

SECTION 3

DIRECTORS

3.1 NUMBER. All of the corporate powers shall be vested in, and the business and affairs of the Corporation shall be managed by, a Board of Directors. Except as otherwise fixed by or pursuant to Article III(B) of the Articles of Incorporation (as it may be duly amended from time to time) relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors by class vote, the Board of Directors shall consist of seven natural persons; provided that, if after the last action of the Board of Directors with respect to nomination of directors prior to the mailing to shareholder of proxy materials for any meeting of shareholders at which directors are to be elected, any person or persons named therein to be nominated at the direction of the Board of Directors becomes unable or unwilling to serve, the foregoing number of authorized directors shall be automatically reduced by a number equal to the number of such persons unless the Board of Directors selects a replacement nominee or nominees. No director need be a shareholder. The Secretary shall have the power to certify at any time as to the number of directors authorized and as to the class to which each director has been elected or assigned.

3.2 POWERS. The Board may exercise all such powers of the Corporation and do all such lawful acts and things which are not by law, the Articles of Incorporation or these By-laws directed or required to be done by the shareholders.

3.3 CLASSES. The Board of Directors, other than those directors who may be elected by the holders of any class or series of stock having preference over the Common Stock as to dividends or upon liquidation (whose term of office may be determined by the Board of Directors pursuant to Section 3.3), shall be divided, with respect to the time during which they shall hold office, into three classes as nearly equal in number as possible, with the initial term of office of Class I directors expiring at the annual meeting of shareholders to be held in 1998, of Class II Directors expiring at

the next succeeding annual meeting of shareholders and of Class III directors expiring at the second succeeding annual meeting of shareholders, with all such directors to hold office until their successors are elected and qualified. At each annual meeting of shareholders, directors chosen to succeed those whose terms then expire shall be elected to hold office for a term expiring at the annual meeting of shareholder held in the third year following the year of their election and until their successors are duly elected and qualified. If the Board of Directors shall appoint any director to fill a vacancy on the Board, whether resulting from an increase in the number of directors or otherwise, such Director shall be assigned to a class by the Board of Directors so that all classes of directors shall be as nearly equal in number as possible. In the event of a decrease in the number of directors, the Board of Directors may reassign the remaining directors to classes so that all classes of directors shall be as nearly equal in number as possible.

3.4 GENERAL ELECTION. At each annual meeting of shareholders, directors shall be elected to succeed those directors whose terms then expire. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

3.5 VACANCIES. Except as otherwise provided in the Articles of Incorporation or these By-laws, the office of a director shall become vacant if he dies, resigns or is duly removed from office.

3.6 FILLING VACANCIES. Except as otherwise provided in the Articles of Incorporation or Section 3.8 of these By-laws, any vacancy on the board (including any vacancy resulting from an increase in the authorized number of directors or from failure of the shareholders to elect the full number of authorized directors) may, notwithstanding any resulting absence of a quorum of directors, be filled by a majority vote of the Board of Directors remaining in office, provided that the shareholder shall have the right, at any special meeting called for such purpose prior to such action by the Board, to fill the vacancy. A director elected pursuant to this section shall serve until the next shareholders' meeting held for the election of directors of the class to which he shall have been appointed and until his successor is elected and qualified.

3.7 NOTICE OF SHAREHOLDER NOMINEES. Except as otherwise provided in Section 3.8 of these By-laws, only persons who are nominated in accordance with the procedures set forth in Article IV(E) of the Articles of Incorporation shall be eligible for election as directors.

3.8 DIRECTORS ELECTED BY PREFERRED SHAREHOLDERS. Notwithstanding anything in these By-laws to the contrary, whenever the holders of any one or more classes or series of stock having a preference over the Common Stock as to dividends or upon liquidation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the provisions of the Articles of Incorporation (as they may be duly amended from time to time) fixing the rights and preferences of such preferred stock shall govern with respect to the nomination, election, term, removal, vacancies or other related matters with respect to such directors.

3.9 COMPENSATION OF DIRECTORS. Directors shall receive such compensation for their services, in their capacity as directors, as may be fixed by resolution of the Board of Directors; provided, however, that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 4

MEETINGS OF THE BOARD

4.1 PLACE OF MEETINGS. The meetings of the Board of Directors may be held at such place within or without the State of Louisiana as a majority of the directors may from time to time appoint.

4.2 INITIAL MEETINGS. Except as otherwise determined by the Board of Directors, the first meeting of each newly-elected Board shall be held immediately following the shareholders' meeting at which the Board, or any class thereof, is elected and at the same place as such meeting, and no notice of such first meeting shall be necessary for the newly-elected directors in order legally to constitute the meeting.

4.3 REGULAR MEETINGS; NOTICE. Regular meetings of the Board may be held at such times as the Board may form time to time determine. Notice of regular meetings of the Board of Directors shall be given, but no special form of notice or time of notice shall be necessary.

4.4 SPECIAL MEETINGS; NOTICE. Special meetings of the Board may be called by or at the direction of the Chairman of the Board or the President on reasonable notice given to each director, either personally or by telephone, mail, telex, telecopy or any other comparable form of facsimile communication. Special meetings shall be called by the Secretary in like manner and on like notice on the written request of a majority of the directors and if such officer fails or refuses, or is unable within 24 hours to call a meeting when requested, then the directors making the request may call the meeting on two days' written notice given to each director. The notice of a special meeting of directors need not state it purpose or purposes, but if the notice states a purpose or purposes and does not state a further purpose to consider such other business as may properly come before the meeting, the business to be conducted at the special meeting shall be limited to the purpose or purposes stated in the notice.

4.5 WAIVER OF NOTICE. Directors present at any regular or special meeting shall be deemed to have received, or to have waived, due notice thereof, provided that a director who participates in a meeting by telephone (as permitted by Section 4.9 hereof) shall not be deemed to have received or waived due notice if, at the beginning of the meeting, he objects to the transaction of any business because the meeting is not lawfully called.

4.6 QUORUM. A majority of the Board shall be necessary to constitute a quorum for the transaction of business, and except as otherwise provided by law, the Articles of Incorporation or these By-laws, the acts of a majority of the directors present at a duly-called meeting at which a

quorum is present shall be the acts of the board. If a quorum is not present at any meeting of the Board of Directors, the directors present may adjourn the meeting from time to time without notice other than announcement at the meeting, until a quorum is present.

4.7 WITHDRAWAL. If a quorum was present when the meeting convened, the directors present may continue to do business, taking action by vote of a majority of a quorum as fixed in Section 4.6 hereof, until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum as fixed in Section 4.6 hereof or the refusal of any director present to vote.

4.8 ACTION BY CONSENT. Any action that may be taken at a meeting of the Board, or any committee thereof, may be taken by a consent in writing signed by all of the directors or by all members of the committee, as the case may be, and filed with the records of proceedings of the Board or committee.

4.9 MEETINGS BY TELEPHONE OR SIMILAR COMMUNICATION. Members of the Board may participate at and be present at any meeting of the Board or any committee thereof by means of conference telephone or similar communications equipment if all persons participating in such meeting can hear and communicate with each other.

SECTION 5

COMMITTEES OF THE BOARD

5.1 GENERAL. The Board may designate one or more committees, each committee to consist of two or more of the directors of the Corporation (and one or more directors may be named as alternate members to replace any absent or disqualified regular members), which, to the extent provided by resolution of the Board or these By-laws, shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, and may have power to authorize the seal of the Corporation to be affixed to documents, but no such committee shall have power or authority to amend the Articles of Incorporation, adopt an agreement of merger, consolidation or share exchange, adopt or recommend to the shareholders the sale, lease or exchange of all or substantially all of the Corporation's assets, recommend to the shareholders a dissolution of the Corporation or a revocation of dissolution, remove directors, or amend these By-laws; and unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or authorize the issuance of stock. Such committee or committees shall have such name or names as may be stated in these By-laws, or as may be determined, from time to time, by the Board. Any vacancy occurring in any such committee shall be filled by the Board, but the President may designate another director to serve on the committee pending action by the Board. Each such member of a committee shall hold office during the term designated by the Board.

5.2 COMPENSATION COMMITTEE. The Board shall establish and maintain a Compensation Committee consisting of two or more directors, each of whom (i) shall be qualified to the extent appropriate as a "non-employee director" under Rule 16b-3 of the Securities Exchange Commission

and as an "outside director" under Section 162(m) of the Internal Revenue Code and (ii) shall meet any further qualifications designated by the Board. The Compensation Committee shall review and analyze the compensation of the Corporation's executive officers; review and provide general guidance as to compensation of the Corporation's other managers; evaluate the performance of the Corporation's executive officers; administer the Corporation's Long-Term Incentive Compensation Plan, including grants thereunder; and perform such other services as may be designated by the Board.

5.3 AUDIT COMMITTEE. The Board shall establish an Audit Committee consisting of at least two directors, a majority of whom are not officers or employees of the Corporation or any of its affiliates. The Audit Committee shall (i) facilitate communication among the Corporation's directors, management, independent accountants and internal auditing personnel regarding matters relating to financial accounting, reporting and controls, (ii) assist the Board of Directors in fulfilling its fiduciary responsibilities as to accounting policies and reporting practices of the Corporation and all subsidiaries and the sufficiency of auditing practices with respect thereto by, among other things, reviewing the scope of audit coverage, including consideration of the Corporation's accounting practices and procedures and system of internal accounting controls and reporting to the Board with respect thereto, (iii) operate as the Board's principal agent in ensuring the independence of the Corporation's independent accountants, the integrity of management and the adequacy of disclosure to shareholders, and (iv) perform such other services as may be designated by the Board.

SECTION 6

REMOVAL OF BOARD MEMBERS

Directors may be removed in accordance with the applicable provisions of the Articles of Incorporation.

SECTION 7

NOTICES

7.1 FORM OF DELIVERY. Whenever under the provisions of law, the Articles of Incorporation or these By-laws notice is required to be given to any shareholder or director, it shall not be construed to mean personal notice unless otherwise specifically provided in the Articles of Incorporation or these By-laws, but such notice may be given by mail, addressed to such shareholder or director at his address as it appears on the records of the Corporation, with postage thereon prepaid, or in such other manner as may be specified in these By-laws. Notices given by mail shall be deemed to have been given at the time they are deposited in the United States mail, and all other notices shall be deemed to have been give upon receipt.

7.2 WAIVER. Whenever any notice is required to be given by law, the Articles of Incorporation or these By-laws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent thereto. In addition, notice shall be deemed to have been given to, or waived by, any shareholder or director who attends a meeting of shareholders or directors in person, or is represented at such meeting by proxy, without protesting at the commencement of the meeting the transaction of any business because the meeting is not lawfully called or convened.

SECTION 8

OFFICERS

8.1 DESIGNATIONS. The officers of the Corporation shall be elected by the directors and shall be the President, Secretary and Treasurer. The Board of Directors may appoint a Chief Executive Officer, a Chief Operating Officer, a Chief Accounting Officer, one or more Vice Presidents and such other officers as it shall deem necessary. Officers shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board. To the extent permitted by law, more than one office may be held by a single person.

8.2 TERM OF OFFICE. The officers of the Corporation shall hold office at the pleasure of the Board of Directors. Except as otherwise provided in the resolution of the Board of Directors electing any officer, each officer shall hold office until the first meeting of the Board of Directors after the annual meeting of shareholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board, Chairman of the Board, President or Secretary of the Corporation. Such resignation shall take effect at the time specified therein and acceptance of such resignation shall not be necessary to make it effective. The Board may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officers, if any, with the Corporation, but the election of an officer shall not in and of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled for the unexpired position of the term by the Board at any regular or special meeting.

8.3 THE CHAIRMAN OF THE BOARD. The Board may appoint a Chairman of the Board who shall preside at meetings of the Board of Directors and the shareholders and perform such other duties as may be designated by the Board of Directors or these By-laws. The Chairman of the Board shall not, solely by virtue of such position, be an officer of the Corporation but may be designated an officer by the Board of Directors.

8.4 THE PRESIDENT. The President shall, unless otherwise provided by the Board, have general and active responsibility for the management of the business of the Corporation, shall be the chief executive and chief operating officer of the Corporation, shall supervise the daily operations

of the business of the Corporation and shall ensure that all orders, policies and resolutions of the Board are carried out.

8.5 THE VICE PRESIDENTS. The Vice Presidents (if any) shall have such designations and perform such duties as the President or the Board of Directors shall prescribe.

8.6 THE SECRETARY. The Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose. He shall give, or cause to be given, notice of all meetings of the shareholders and regular and special meetings of the Board, and shall perform such other duties as may be prescribed by the Board or President. He shall keep in safe custody the seal of the Corporation, if any, and affix such seal to any instrument requiring it.

8.7 THE ASSISTANT SECRETARY. The Assistant Secretary shall have the same powers and duties as the Secretary and shall perform such other duties as may be prescribed by the Board or President.

8.8 THE TREASURER. The Treasurer shall have the custody of the corporate funds and shall keep or cause to be kept full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall keep a proper accounting of all receipts and disbursements and shall disburse the funds of the Corporation only for proper corporate purposes or as may be ordered by the Board and shall render to the President and the Board at the regular meetings of the Board, or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition and results of operations of the Corporation.

SECTION 9

STOCK

9.1 CERTIFICATES. Every holder of stock in the Corporation shall be entitled to have a certificate signed by the President or a Vice President and the Secretary or an Assistant Secretary evidencing the number and class (and series, if any) of shares owned by him, containing such information as required by law and bearing the seal of the Corporation. As provided in the Articles of Incorporation, the Board of Directors may approve the use of dual forms of stock certificates, one for issuance to U.S. citizen stockholders, and one for issuance to non-U.S. citizen stockholders. If any stock certificate is manually signed by a transfer agent or registrar other than the Corporation itself or an employee of the Corporation, the signature of any such officer may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be an officer, transfer agent or registrar of the Corporation before such certificate is issued, it may be issued by the Corporation with the same

effect as if such person or entity were an officer, transfer agent or registrar of the Corporation on the date of issue.

9.2 MISSING CERTIFICATES. The President or any Vice President may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the Corporation's receipt of an affidavit of that fact from the person claiming the certificate of stock to be lost, stolen or destroyed. As a condition precedent to the issuance of a new certificate or certificates, the officers of the Corporation shall, unless dispensed with by the President, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to (i) give the Corporation a bond or (ii) enter into a written indemnity agreement, in each case in an amount appropriate to indemnify the Corporation against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

9.3 TRANSFERS. The shares of stock of the Corporation shall be transferable only on the books of the Corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives upon surrender and cancellation of certificates for a like number of shares. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books, provided that as a condition precedent to the transfer of shares on the records of the Corporation, the Corporation may require representations or other proof of the identity and citizenship of any prospective stockholder and may restrict transfers to non-U.S. citizens as provided in the Articles of Incorporation.

SECTION 10

DETERMINATION OF SHAREHOLDERS

For the purpose of determining shareholders entitled to notice of and to vote at a meeting, or to receive a dividend, or to receive or exercise subscription or other rights, or to participate in a reclassification of stock, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a record date for determination of shareholders for such purpose, such date to be not more than 60 days and, if fixed for the purpose of determining shareholders entitled to notice of and to vote at a meeting, not less than 10 days, prior to the date on which the action requiring the determination of shareholders is to be taken.

SECTION 11

INDEMNIFICATION

11.1 DEFINITIONS. As used in this section the following terms shall have the meanings set forth below:

(a) "Board" - the Board of Directors of the Corporation.

(b) "Claim" - any threatened, pending or completed claim, action, suit, or proceeding, whether civil, criminal, administrative or investigative and whether made judicially or extra-judicially, or any separate issue or matter therein, as the context requires.

(c) "Determining Body" - (i) those members of the Board who are not named as parties to the Claim for which indemnification is being sought ("Impartial Directors"), if there are at least three Impartial Directors, (ii) a committee of at least three Impartial Directors appointed by the Board (regardless whether the members of the Board of Directors voting on such appointment are Impartial Directors) or (iii) if there are fewer than three Impartial Directors or if the Board of Directors or the committee appointed pursuant to clause (ii) of this paragraph so directs (regardless whether the members thereof are Impartial Directors), independent legal counsel, which may be the regular outside counsel of the Corporation.

(4) "Disbursing Officer" - the President of the Corporation or, if the President is a party to the Claim for which indemnification is being sought, any officer not a party to such Claim who is designated by the President to be the Disbursing Officer with respect to indemnification requests related to the Claim, which designation shall be made promptly after receipt of the initial request for indemnification with respect to such Claim.

(5) "Expenses" - any expenses or costs, including, without limitation, attorney's fees, judgments, punitive or exemplary damages, fines and amounts paid in settlement.

(6) "Indemnitee" - each person who is or was a director or officer of the Corporation.

11.2 INDEMNITY.

(1) To the extent such Expenses exceed the amounts reimbursed or paid pursuant to policies of liability insurance maintained by the Corporation, the Corporation shall indemnify each Indemnitee against any Expenses actually and reasonably incurred by him (as they are incurred) in connection with any Claim either against him or as to which he is involved solely as a witness or person required to give evidence, by reason of his position (i) as a director or officer of the Corporation, (ii) as a director or officer of any subsidiary of the Corporation, (iii) as a fiduciary with respect to any employee benefit plan of the Corporation, or (iv) as a director, officer, partner, employee or agent of another corporation, partnership, joint venture, trust or other for-profit or not-for-profit entity or enterprise, if such position is or was held at the request of the Corporation, whether relating to service in such position before or after the effective date of this Section, if he (i) is successful in his defense of the claim on the merits or otherwise or (ii) has been found by the Determining Body (acting in good faith) to have met the Standard of Conduct (defined below); provided that (A) the amount otherwise payable by the Corporation may be reduced by the Determining Body to such amount as it deems proper if it determines that the Claim involved the

receipt of a personal benefit by Indemnitee, and (B) no indemnification shall be made in respect of any Claim as to which Indemnitee shall have been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable for willful or intentional misconduct in the performance of his duty to the Corporation or to have obtained an improper personal benefit, unless, and only to the extent that, a court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such Expenses as the court deems proper.

(b) For purposes of this Section 11, the Standard of Conduct is met when the con uct by an Indemnitee with respect to which a Claim is asserted was conduct that was in good faith and that he reasonably believed to be in, or not opposed to, the best interest of the Corporation, and, in the case of a criminal action or proceeding, that he had no reasonable cause to believe was unlawful. The termination of any Claim by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not meet the Standard of Conduct.

(c) Promptly upon becoming aware of the existence of any Claim as to which he may be indemnified hereunder, Indemnitee shall notify the President of the Corporation of the Claim and whether he intends to seek indemnification hereunder. If such notice indicates that Indemnitee does so intend, the President shall promptly advise the Board thereof and notify the Board that the establishment of the Determining Body with respect to the Claim will be a matter presented at the next regularly scheduled meeting of the Board. Such a meeting is to be held within 90 calendar days of the date of Indemnitee's request. If a meeting of the Board of Directors is not regularly scheduled within 120 calendar days of such request, the President shall cause a special meeting of the Board of Directors to be called within such period in accordance with these By-laws. After the Determining Body has been established the President shall inform the Indemnitee thereof and Indemnitee shall immediately provide the Determining Body with all facts relevant to the Claim known to him. No later than the 45th day (the "Determination Date") after its receipt of such information, together with such additional information as the Determining Body may request of Indemnitee, the Determining Body shall determine, and shall advise Indemnitee of its determination, whether Indemnitee has met the Standard of Conduct.

(d) During such 45-day period, Indemnitee shall promptly inform the Determining Body upon his becoming aware of any relevant facts not theretofore provided by him to the Determining Body, unless the Determining Body has obtained such facts by other means. The providing of such facts to the Determining Body shall not begin a new 45-day period.

(e) The Determining Body shall have no authority to revoke a determination that Indemnitee met the Standard of Conduct unless Indemnitee (i) submits fraudulent information to the Determining Body at any time during the 45 days prior to the Determination Date or (ii) fails to comply with the provisions of subsections (c) or (d) hereof, including without limitation Indemnitee's obligation to submit information or documents relevant to the Claim reasonably requested by the Determining Body prior to the Determination Date.

(f) In the case of any Claim not involving a proposed, threatened or pending criminal proceeding,

(i) if Indemnitee has, in the good faith judgment of the Determining Body, met the Standard of Conduct, the Corporation may, in its sole discretion after notice to Indemnitee, assume all responsibility for the defense of the Claim, and, in any event, the Corporation and the Indemnitee each shall keep the other informed as to the progress of the defense, including prompt disclosure of any proposals for settlement; provided that if the Corporation is a party to the Claim and Indemnitee reasonably determines that there is a conflict between the positions of the Corporation and Indemnitee with respect to the Claim, then Indemnitee shall be entitled to conduct his defense, with counsel of his choice; and provided further that Indemnitee shall in any event be entitled at his expense to employ counsel chosen by him to participate in the defense of the Claim; and

(ii) the Corporation shall fairly consider any proposals by Indemnitee for settlement of the Claim. If the Corporation (A) proposes a settlement acceptable to the person asserting the Claim, or (B) believes a settlement proposed by the person asserting the Claim should be accepted, it shall inform Indemnitee of the terms thereof and shall fix a reasonable date by which Indemnitee shall respond. If Indemnitee agrees to such terms, he shall execute such documents as shall be necessary to effect the settlement. If he does not agree he may proceed with the defense of the Claim in any manner he chooses, but if he is not successful on the merits or otherwise, the Corporation's obligation to indemnify him for any Expenses incurred following his disagreement shall be limited to the lesser of (A) the total Expenses incurred by him following his decision not to agree to such proposed settlement or (B) the amount the Corporation would have paid pursuant to the terms of the proposed settlement. If, however, the proposed settlement would impose upon Indemnitee any requirement to act or refrain from acting that would materially interfere with the conduct of his affairs, Indemnitee may refuse such settlement and proceed with the defense of the Claim, if he so desires, at the Corporation's expense without regard to the limitations imposed by the preceding sentence. In no event, however, shall the Corporation be obligated to indemnify Indemnitee for any amount paid in a settlement that the Corporation has not approved.

(g) In the case of a Claim involving a proposed, threatened or pending criminal proceeding, Indemnitee shall be entitled to conduct the defense of the claim, and to make all decisions with respect thereto, with counsel of his choice; provided, however, that the Corporation shall not be obligated to indemnify Indemnitee for an amount paid in settlement that the Corporation has not approved.

(h) After notifying the Corporation of the existence of a Claim, Indemnitee may from time to time request the Corporation to pay the Expenses (other than judgments, fines, penalties or amounts paid in settlement) that he incurs in pursuing a defense of the Claim prior to the time that the Determining Body determines whether the Standard of Conduct has been met. If the Disbursing Officer believes the amount requested to be reasonable, he shall pay to Indemnitee the amount requested (regardless of Indemnitee's apparent ability to repay such amount) upon receipt of an

undertaking by or on behalf of Indemnitee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation under the circumstances. If the disbursing Officer does not believe such amount to be reasonable, the Corporation shall pay the amount deemed by him to be reasonable and Indemnitee may apply directly to the Determining Body for the remainder of the amount requested.

(i) After the Determining Body has determined that the Standard of Conduct was met, for so long as and to the extent that the Corporation is required to indemnify Indemnitee under this Agreement, the provisions of paragraph (h) shall continue to apply with respect to Expenses incurred after such time except that (i) no undertaking shall be required of Indemnitee and (ii) the Disbursing Officer shall pay to Indemnitee such amount of any fines, penalties or judgments against him which have become final as the Corporation is obligated to indemnify him.

(j) Any determination by the Corporation with respect to settlements of a Claim shall be made by the Determining Body.

(k) The Corporation and Indemnitee shall keep confidential, to the extent permitted by law and their fiduciary obligations, all facts and determinations provided or made pursuant to or arising out of the operation of this Section, and the Corporation and Indemnitee shall instruct its or his agents and employees to do likewise.

11.3 ENFORCEMENT.

(a) The rights provided by this Section shall be enforceable by Indemnitee in any court of competent jurisdiction.

(b) If Indemnitee seeks a judicial adjudication of his rights under this Section, Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any and all Expenses actually and reasonably incurred by him in connection with such proceeding but only if he prevails therein. If it shall be determined that Indemnitee is entitled to receive part but not all of the relief sought, then the Indemnitee shall be entitled to be reimbursed for all Expenses incurred by him in connection with such judicial adjudication if the amount to which he is determined to be entitled exceeds 50% of the amount of his claim. Otherwise, the Expenses incurred by Indemnitee in connection with such judicial adjudication shall be appropriately prorated.

(c) In any judicial proceeding described in this subsection, the Corporation shall bear the burden of proving that Indemnitee is not entitled to any Expenses sought with respect to any Claim.

11.4 SAVING CLAUSE. If any provision of this Section is determined by a court having jurisdiction over the matter to require the Corporation to do or refrain from doing any act that is in violation of applicable law, the court shall be empowered to modify or reform such provision so that,

as modified or reformed, such provision provides the maximum indemnification permitted by law, and such provision, as so modified or reformed, and the balance of this Section, shall be applied in accordance with their terms. Without limiting the generality of the foregoing, if any portion of this Section shall be invalidated on any ground, the Corporation shall nevertheless indemnify an Indemnitee to the full extent permitted by any applicable portion of this Section that shall not have been invalidated and to the full extent permitted by law with respect to that portion that has been invalidated.

11.5 NON-EXCLUSIVITY.

(a) The indemnification and advancement of Expenses provided by or granted pursuant to this Section shall not be deemed exclusive of any other rights to which Indemnitee is or may become entitled under any statute, article of incorporation, by-law, authorization of shareholders or directors, agreement, or otherwise.

(b) It is the intent of the Corporation by this Section to indemnify and hold harmless Indemnitee to the fullest extent permitted by law, so that if applicable law would permit the Corporation to provide broader indemnification rights than are currently permitted, the Corporation shall indemnify and hold harmless Indemnitee to the fullest extent permitted by applicable law notwithstanding that the other terms of this Section would provide for lesser indemnification.

11.6 SUCCESSORS AND ASSIGNS. This Section shall be binding upon the Corporation, its successors and assigns, and shall inure to the benefit of the Indemnitee's heirs, personal representatives, and assigns and to the benefit of the Corporation, its successors and assigns.

11.7 INDEMNIFICATION OF OTHER PERSONS. The Corporation may indemnify any person not covered by Sections 11.1 through 11.6 to the extent provided in a resolution of the Board or a separate section of these By-laws.

SECTION 12

ADOPTION AND AMENDMENT OF BY-LAWS

By-laws of the Corporation may be adopted and amended as provided in the Articles of Incorporation.

SECTION 13

MISCELLANEOUS

13.1 DIVIDENDS. Except as otherwise provided by law, the Articles of Incorporation or these By-laws, dividends upon the stock of the Corporation may be declared by the Board of Directors at any regular or special meeting. Dividends may be paid in cash, property, or shares of stock, subject to the limitations specified in the Articles of Incorporation.

13.2 VOTING OF SHARES OWNED BY CORPORATION. Unless otherwise directed by the Board, any shares of capital stock issued by a wholly-owned subsidiary of the Corporation may be voted by the President of the Corporation, or by any person authorized to do so by the President, at any shareholders' meeting of the subsidiary (or in connection with any written consent in lieu thereof).

13.3 FISCAL YEAR. The Board of Directors may adopt for and on behalf of the Corporation a fiscal or a calendar year.

13.4 SEAL. The Board of Directors may adopt a corporate seal, which shall have inscribed thereon the name of the Corporation. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. Failure to affix the seal shall not, however, affect the validity of any instrument.

13.5 GENDER. All pronouns and variations thereof used in these By-laws shall be deemed to refer to the masculine, feminine or neuter gender, singular or plural, as the identity of the person, persons, entity or entities referred to may require.

13.6 CONTROL SHARE ACQUISITIONS. The provisions of Sections 135 through 140.2 of the Louisiana Business Corporation Law (La.R.S. 12:135 through 140.2) do not apply to control share acquisitions of shares of the Corporation.

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by the Registration Statement (Form S-8 No. 33-46155) pertaining to the Long-Term Incentive Plan of our report dated January 26, 1999, with respect to the consolidated financial statements of Gulf Island Fabrication, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

ERNST & YOUNG LLP

New Orleans, Louisiana
March 19, 1999

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-46155) of Gulf Island Fabrication, Inc. of our report dated January 23, 1997, except for the third paragraph of Note 1 which is as of February 13, 1997, the second paragraph of Note 4 which is as of February 14, 1997 and the third paragraph of Note 4 which is as of October 28, 1997, appearing in Exhibit 23.3 in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
New Orleans, Louisiana
March 22, 1999

Exhibit 23.3

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Gulf Island Fabrication, Inc.

In our opinion, the accompanying statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the results of operations and cash flows of Gulf Island Fabrication, Inc. (the "Company") for the year ended December 31, 1996, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Gulf Island Fabrication, Inc. and its subsidiaries for any period subsequent to December 31, 1996.

PRICE WATERHOUSE LLP
New Orleans, Louisiana
January 23, 1997, except for the third paragraph
of Note 1, which is as of February 13, 1997,
the second paragraph of Note 4 which is as of
February 14, 1997 and the third paragraph of
Note 4 which is as of October 28, 1997.

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Exhibit 99.1

NEWS RELEASE

For further information contact:

Kerry J. Chauvin
Chief Executive Officer
(504) 872-2100

Joseph "Duke" Gallagher
Chief Financial Officer
(504) 872-2100

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 4, 1999

GULF ISLAND FABRICATION, INC.
REPORTS FOURTH QUARTER EARNINGS

Houma, LA - Gulf Island Fabrication, Inc. (NASDAQ: GIFI) today reported pro forma net income of $4.1 million ($.35 diluted EPS) on revenue of $43.0 million for its fourth quarter ended December 31, 1998, compared to pro forma net income of $3.0 million ($.25 diluted EPS) on revenue of $34.8 million for the fourth quarter ended December 31, 1997. Pro forma net income for the twelve months ended December 31, 1998 was $18.8 million ($1.61 diluted EPS) on revenue of $192.4 million, compared to pro forma net income of $12.2 million ($1.14 diluted EPS) on revenue of $136.4 million for the twelve months ended December 31, 1997.

Pro forma net income gives effect to federal and state income taxes as if the company had been a C Corporation for tax purposes during all the periods presented. Pro forma net income excludes the non-recurring charge of $1.1 million to record the cumulative deferred income tax provision upon the election on April 4, 1997 to convert from S Corporation status to C Corporation status. On October 6, 1997 the Company's Board of Directors authorized a two-for-one stock split effected in the form of a stock dividend that was distributed on October 28, 1997 to shareholders of record on October 21, 1997. All share and per share data presented reflects the stock split. At December 31, 1998, the company had a revenue backlog of $67.3 million and a labor backlog of approximately 1.1 million man-hours remaining to work.

Gulf Island Fabrication, Inc., based in Houma, Louisiana, is a leading fabricator of offshore drilling and production platforms and other specialized structures used in the development and production of offshore oil and gas reserves. The Company also offers offshore interconnect pipe hook-up, inshore marine construction, and steel warehousing and sales. With the acquisition of Southport, Inc., effective January 1, 1998, the Company also provides the fabrication of living quarters for offshore platforms for the oil and gas industry.

Exhibit 99.1.a

GULF ISLAND FABRICATION, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except per share data)

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Revenue	$42,951	$34,799	$192,372	$136,355
Cost of revenue	34,813	28,751	156,326	112,033
Gross profit	8,138	6,048	36,046	24,322
General and administrative expenses	1,491	1,408	6,023	4,670
Operating income	6,647	4,640	30,023	19,652
Other expense (income):				
Interest expense	21	24	93	348
Interest income	(82)	(127)	(261)	(239)
	(61)	(103)	(168)	109
Income before income taxes	6,708	4,743	30,191	19,543
Income taxes	2,572	1,763	11,359	5,973
Cumulative deferred tax provision(1)	-	-	-	1,144

Net income	$ 4,136	$ 2,980	$ 18,832	$ 12,426
Pro forma data: (2)				
Income before income taxes	$ 6,708	$ 4,743	$ 30,191	$ 19,543
Income taxes	2,572	1,763	11,359	5,973
Pro forma income taxes related to operations as S Corporation	-	-	-	1,379
Pro forma net income	$ 4,136	$ 2,980	$ 18,832	$ 12,191
Pro forma per share data:				
Pro forma basic earnings per share (3)	$0.36	$0.26	$1.62	$1.15
Pro forma diluted earnings per share (3) (4)	$0.35	$0.25	$1.61	$1.14
Weighted-average shares (3)	11,638	11,600	11,630	10,633
Adjusted weighted-average shares (3) (4)	11,677	11,739	11,703	10,700
Depreciation and amortization included in expense above	$ 1,082	$ 828	$ 4,172	$ 2,932

</TABLE>

(1) Cumulative deferred tax provision charged upon election on April 4, 1997 to convert from an S Corporation status to a C Corporation Status.

(2) Pro forma information gives effect to federal and state income taxes as if the Company had been a C Corporation for tax purposes during all periods presented.

(3) Includes the initial public offering completed on April 9, 1997 and retroactively restates the two-for-one stock split effective October 28, 1997.

(4) The calculation of diluted earnings per share assumes that all stock options are exercised and that the assumed proceeds are used to purchase shares at the average market price for the period.