UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended
June 30, 2023

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 001-34279

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 No.)**
2170 BUCKTHORNE PLACE, SUITE 420 THE WOODLANDS, TEXAS	**77380**
(Address of principal executive offices)	**(Zip Code)**

(713) 714-6100
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	GIFI	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the registrant's common stock, no par value per share, outstanding as of July 31, 2023, was 16,287,469.

GULF ISLAND FABRICATION, INC.

I N D E X

GLOSSARY OF TERMS

As used in this report filed on Form 10-Q for the quarter ended June 30, 2023 ("this Report"), the following abbreviations and terms have the meanings listed below. In addition, the terms "Gulf Island," "the Company," "we," "us" and "our" refer to Gulf Island Fabrication, Inc. and its consolidated subsidiaries, unless the context clearly indicates otherwise. Certain terms defined below may be redefined separately within this Report when we believe providing a definition upon the first use of the term will assist users of this Report. Unless and as otherwise stated, any references in this Report to any agreement means such agreement and all schedules, exhibits and attachments in each case as amended, restated, supplemented or otherwise modified to the date of filing this Report.

2022 Annual Report	Our annual report for the year ended December 31, 2022, filed with the SEC on Form 10-K on March 28, 2023.
2022 Financial Statements	Our Financial Statements for the year ended December 31, 2022 and related notes, included in our 2022 Annual Report.
Active Retained Shipyard Contracts	Contracts and related obligations for our seventy-vehicle ferry and two forty-vehicle ferry projects that were under construction as of the date of the Shipyard Transaction, which were excluded from the Shipyard Transaction. The Active Retained Shipyard Contracts do not include the contracts and related obligations for the projects that are subject to our MPSV Litigation (which were retained but are not active contracts).
ASC	Accounting Standards Codification.
ASU	Accounting Standards Update.
Balance Sheet	Our Consolidated Balance Sheets, as filed in this Report.
contract assets	Costs and estimated earnings recognized to date in excess of cumulative billings.
contract liabilities	Cumulative billings in excess of costs and estimated earnings recognized to date and accrued contract losses.
cost-reimbursable	Work is performed and billed to the customer at cost plus a profit margin or other variable fee arrangements which can include a mark-up.
COVID-19	The global coronavirus pandemic.
deck	The component of a platform on which drilling, production, separating, gathering, piping, compression, well support, crew quartering and other functions related to offshore oil and gas development are conducted.
DSS Acquisition	The acquisition of a services and industrial staffing business on December 1, 2021.
DTA(s)	Deferred Tax Asset(s).
EPC	Engineering, Procurement and Construction.
Exchange Act	Securities Exchange Act of 1934, as amended.
Fabrication Division	Our Fabrication reportable segment.
Facilities	Our Houma Facilities and other facilities that support our operations.
Financial Statements	Our Consolidated Financial Statements, including comparative consolidated Balance Sheets, Statements of Operations, Statements of Changes in Shareholders' Equity and Statements of Cash Flows, as filed in this Report.
GAAP	Generally Accepted Accounting Principles in the U.S.
GIS	Gulf Island Shipyards, LLC.
Gulf Coast	Along the coast of the Gulf of Mexico.
Hornbeck	Hornbeck Offshore Services, LLC.
Houma Facilities	Our owned facilities located in Houma, Louisiana that support our Fabrication Division and Services Division and represent our primary operating facilities.
inland	Typically, bays, lakes and marshy areas.

Insurance Finance Arrangements	Short-term finance arrangements for insurance premiums associated with our property and equipment and general liability insurance coverages.
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 anchored with tubular steel piles driven into the seabed. The jacket supports the deck structure located above the water.
labor hours	Hours worked by employees directly involved in the fabrication of our products or delivery of our services.
LC Facility	Our $10.0 million letter of credit facility with Whitney Bank maturing June 30, 2024, as amended.
LNG	Liquefied Natural Gas.
Mortgage Agreement	Multiple indebtedness mortgage arrangement with one of our Sureties, to secure our obligations and liabilities under our general indemnity agreement with such Surety associated with outstanding surety bonds for certain contracts, which encumbers the real estate associated with our Houma Facilities and includes certain covenants and events of default.
modules	Fabricated structures that include structural steel, piping, valves, fittings, storage vessels and other equipment that are incorporated into a refining, petrochemical, LNG or industrial system.
MPSV(s)	Multi-Purpose Supply Vessel(s).
MPSV Litigation	The lawsuit filed in the Twenty-Second Judicial District Court for the Parish of St. Tammany, State of Louisiana and is styled Gulf Island Shipyards, LLC v. Hornbeck Offshore Services, LLC, bearing docket number 2018-14861.
offshore	In unprotected waters outside coastlines.
onshore	Inside the coastline on land.
Performance Bonds	The performance bonds issued by the Surety in connection with the construction of two MPSVs that are subject to our MPSV Litigation, for which the face amount of the bonds total $50.0 million.
performance obligation	A contractual obligation to construct and transfer a distinct good or service to a customer. It is the unit of account in Topic 606. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.
piles	Rigid tubular pipes that are driven into the seabed to anchor a jacket.
platform	A structure from which offshore oil and gas development drilling and production are conducted.
POC	Percentage-of-completion.
Restrictive Covenant Agreement	Restrictive covenant arrangement with one of our Sureties, to secure our obligations and liabilities under our general indemnity agreement with such Surety associated with its outstanding surety bonds for certain contracts, which precludes us from paying dividends or repurchasing shares of our common stock.
SEC	U.S. Securities and Exchange Commission.
Services Division	Our Services reportable segment.
Shipyard Division	Our Shipyard reportable segment.
Shipyard Transaction	The sale of our Shipyard Division’s operating assets and certain construction contracts on April 19, 2021.
Statement of Cash Flows	Our Consolidated Statements of Cash Flows, as filed in this Report.
Statement of Operations	Our Consolidated Statements of Operations, as filed in this Report.
Statement of Shareholders’ Equity	Our Consolidated Statements of Changes in Shareholders’ Equity, as filed in this Report.
Surety or Sureties	A financial institution that issues bonds to customers on behalf of the Company for the purpose of providing third-party financial assurance related to the performance of our contracts. Payments by a Surety pursuant to one of our bonds in the event of non-performance are subject to reimbursement to such Surety by us under a general indemnity agreement relating to such bond.

T&M	Time and materials. Work is performed and billed to the customer at contracted time and material rates.
Topic 606	The revenue recognition criteria prescribed under ASU 2014-09, *Revenue from Contracts with Customers*.
U.S.	The United States of America.
USL&H	United States Longshoreman and Harbor Workers Act.
VA(s)	Valuation Allowance(s).
Whitney Bank	Hancock Whitney Bank.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GULF ISLAND FABRICATION, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,858	$ 33,221
Restricted cash, current	1,197	1,603
Short-term investments	15,165	9,905
Contract receivables and retainage, net	36,315	29,427
Contract assets	6,662	4,839
Prepaid expenses and other assets	5,015	6,475
Inventory	2,636	1,599
Total current assets	90,848	87,069
Property, plant and equipment, net	29,477	31,154
Goodwill	2,217	2,217
Other intangibles, net	771	842
Other noncurrent assets	13,180	13,584
Total assets	$ 136,493	$ 134,866
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,850	$ 8,310
Contract liabilities	3,065	8,196
Accrued expenses and other liabilities	11,334	14,283
Total current liabilities	31,249	30,789
Other noncurrent liabilities	1,038	1,453
Total liabilities	32,287	32,242
Shareholders' equity:		
Preferred stock, no par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, no par value, 30,000 shares authorized, 16,287 shares issued and outstanding at June 30, 2023 and 15,973 at December 31, 2022	11,638	11,591
Additional paid-in capital	107,796	107,372
Accumulated deficit	(15,228)	(16,339)
Total shareholders' equity	104,206	102,624
Total liabilities and shareholders' equity	$ 136,493	$ 134,866

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenue	$ 39,326	$ 35,902	$ 101,494	$ 64,588
Cost of revenue	34,845	34,230	91,979	63,336
Gross profit	4,481	1,672	9,515	1,252
General and administrative expense	3,736	4,345	8,803	8,455
Other (income) expense, net	(4)	(3,206)	(365)	(2,754)
Operating income (loss)	749	533	1,077	(4,449)
Interest (expense) income, net	340	(18)	660	(58)
Income (loss) before income taxes	1,089	515	1,737	(4,507)
Income tax (expense) benefit	13	13	6	8
Net income (loss)	$ 1,102	$ 528	$ 1,743	$ (4,499)
Per share data:				
Basic and diluted income (loss) per share	$ 0.07	$ 0.03	$ 0.11	$ (0.29)

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

GULF ISLAND FABRICATION, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2021	15,622	$ 11,384	$ 105,511	$ (12,987)	$ 103,908
Net loss	—	—	—	(5,027)	(5,027)
Vesting of restricted stock	153	(6)	(53)	—	(59)
Stock-based compensation expense	—	57	514	—	571
Balance at March 31, 2022	15,775	11,435	105,972	(18,014)	99,393
Net income	—	—	—	528	528
Vesting of restricted stock	148	(6)	(56)	—	(62)
Stock-based compensation expense	—	49	440	—	489
Balance at June 30, 2022	15,923	11,478	106,356	(17,486)	100,348

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2022	15,973	$ 11,591	$ 107,372	$ (16,339)	$ 102,624
Adoption of ASU 2016-13	—	—	—	(632)	(632)
Balance at January 1, 2023	15,973	11,591	107,372	(16,971)	101,992
Net income	—	—	—	641	641
Vesting of restricted stock	82	(18)	(163)	—	(181)
Stock-based compensation expense	—	51	458	—	509
Balance at March 31, 2023	16,055	11,624	107,667	(16,330)	102,961
Net income	—	—	—	1,102	1,102
Vesting of restricted stock	232	(30)	(271)	—	(301)
Stock-based compensation expense	—	44	400	—	444
Balance at June 30, 2023	16,287	$ 11,638	$ 107,796	$ (15,228)	$ 104,206

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

GULF ISLAND FABRICATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net income (loss)	$ 1,743	$ (4,499)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,725	2,524
Allowance for doubtful accounts and credit losses	(200)	—
Gain on sale or disposal of fixed assets, net	(33)	(42)
Gain on insurance recoveries	(245)	—
Stock-based compensation expense	953	1,060
Changes in operating assets and liabilities:		
Contract receivables and retainage, net	(7,110)	(10,830)
Contract assets	(1,823)	(426)
Prepaid expenses, inventory and other current assets	955	(430)
Accounts payable	8,742	2,525
Contract liabilities	(5,131)	(3,339)
Accrued expenses and other current liabilities	(2,393)	(72)
Noncurrent assets and liabilities, net	(376)	(346)
Net cash used in operating activities	(2,193)	(13,875)
Cash flows from investing activities:		
Capital expenditures	(1,056)	(474)
Proceeds from Shipyard Transaction	—	886
Proceeds from sale of property and equipment	106	63
Recoveries from insurance claims	245	—
Purchases of short-term investments	(15,260)	—
Maturities of short-term investments	10,000	—
Net cash provided by (used in) investing activities	(5,965)	475
Cash flows from financing activities:		
Payments on Insurance Finance Arrangements	(1,129)	(248)
Tax payments for vested stock withholdings	(482)	(121)
Net cash used in financing activities	(1,611)	(369)
Net decrease in cash, cash equivalents and restricted cash	(9,769)	(13,769)
Cash, cash equivalents and restricted cash, beginning of period	34,824	54,589
Cash, cash equivalents and restricted cash, end of period	$ 25,055	$ 40,820

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Gulf Island Fabrication, Inc. (together with its subsidiaries, "Gulf Island," "the Company," "we," "us" and "our") is a leading fabricator of complex steel structures and modules and a provider of specialty services, including project management, hookup, commissioning, repair, maintenance, scaffolding, coatings, welding enclosures, civil construction and staffing services to the industrial and energy sectors. Our customers include U.S. and, to a lesser extent, international energy producers; refining, petrochemical, LNG, industrial and power operators; and EPC companies. We currently operate and manage our business through three operating divisions ("Services", "Fabrication" and "Shipyard") and one non-operating division ("Corporate"), which represent our reportable segments. Our corporate headquarters is located in The Woodlands, Texas and our primary operating facilities are located in Houma, Louisiana ("Houma Facilities").

On April 19, 2021, we sold our Shipyard Division operating assets and certain construction contracts ("Shipyard Transaction") and intend to wind down our remaining Shipyard Division operations (which exclude the contracts that are subject to our MPSV Litigation) by the third quarter 2023 (previously the second quarter 2023, but was delayed and is subject to the potential schedule impacts discussed in Note 2). See Note 4 for further discussion of our MPSV Litigation.

On December 1, 2021, we acquired a services and industrial staffing business ("DSS Acquisition"), which increased our skilled workforce, further diversified our customer base and expanded our service offerings for our Services Division.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements ("Financial Statements") reflect all wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") for interim financial statements, the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (the "SEC"). Accordingly, the Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. Our Consolidated Balance Sheet ("Balance Sheet") at December 31, 2022, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to our 2022 Financial Statements.

Operating Cycle

The duration of our contracts vary, but may extend beyond twelve months from the date of contract award. Consistent with industry practice, assets and liabilities have been classified as current under the operating cycle concept whereby all contract-related items are classified as current regardless of whether cash will be received or paid within a twelve-month period. Assets and liabilities classified as current, which may not be received or paid within the next twelve months, include contract retainage, contract assets and contract liabilities. Variations from normal contract terms may result in the classification of assets and liabilities as long-term.

Use of Estimates

General – The preparation of our Financial Statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We believe our most significant estimates and judgments are associated with:

- revenue recognition for our long-term contracts, including application of the percentage-of-completion method (“POC"), estimating costs to complete each contract and the recognition of incentives, unapproved change orders, claims (including amounts arising from disputes with customers) and liquidated damages;
- fair value and recoverability assessments that must be periodically performed with respect to long-lived tangible assets, goodwill and other intangible assets;
- determination of deferred income tax assets, liabilities and related valuation allowances;
- reserves for bad debts and credit losses;
- liabilities related to self-insurance programs;
- costs and insurance recoveries associated with damage to our Houma Facilities resulting from Hurricane Ida discussed further in Note 2;
- the impacts of volatile oil and gas prices and macroeconomic conditions on our business, estimates and judgments as discussed further below; and
- assessing the probability of losses related to litigation matters.

If the underlying estimates and assumptions upon which our Financial Statements are based change in the future, actual amounts may differ materially from those included in the Financial Statements.

Oil and Gas Price Volatility and Macroeconomic Conditions – Since 2008, the prices of oil and gas have experienced significant volatility, including depressed prices over extended periods, resulting in reductions in capital spending and drilling activities from our traditional offshore oil and gas customer base. Consequently, our operating results and cash flows were negatively impacted as we experienced reductions in revenue, lower margins due to competitive pricing and under-utilization of our operating facilities and resources. Beginning in 2020, the global coronavirus pandemic (“COVID-19”) added another layer of pressure and uncertainty on oil and gas prices (with oil prices reaching a twenty-year low and gas prices reaching a four-year low), which further negatively impacted certain of our end markets during the first quarter 2022. This volatility in oil and gas prices was compounded by Russia’s invasion of Ukraine in February 2022 (and the related European energy crisis), and the U.S. and other countries actions in response (with oil prices reaching an eight-year high and gas prices reaching a fourteen-year high), which positively impacted certain of our end markets. While oil and gas prices have somewhat stabilized, the duration of such stability is uncertain and difficult to predict.

In addition, global economic factors that are beyond our control, have and could continue to impact our operations, including, but are not limited to, supply chain disruptions (including global shipping and logistics challenges that began in 2020), inflationary pressures, economic slowdowns and recessions, bank failures, natural disasters, public health crises (such as COVID-19), and geopolitical conflicts (such as the conflict in Ukraine).

The ultimate business and financial impacts of oil and gas price volatility and macroeconomic conditions on our business and results of operations continues to be uncertain, but the impacts have included, or may continue to include, among other things, reduced bidding activity; suspension or termination of backlog; deterioration of customer financial condition; and unanticipated project costs and schedule delays due to supply chain disruptions, labor and material price increases, lower labor productivity, increased employee and contractor absenteeism and turnover, craft labor hiring challenges, increased safety incidents, lack of performance by subcontractors and suppliers, and contract disputes. We continue to monitor the impacts of oil and gas price volatility and macroeconomic conditions on our operations, and our estimates in future periods will be revised for any events and changes in circumstances arising after the date of this Report.

Income (Loss) Per Share

Basic income (loss) per share is calculated by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share reflects the assumed conversion of dilutive securities in periods in which income is reported. See Note 5 for calculations of our basic and diluted income (loss) per share.

Cash Equivalents, Restricted Cash and Short-Term Investments

Cash Equivalents – We consider investments with original maturities of three months or less when purchased to be cash equivalents. We hold substantially all of our cash deposits with Hancock Whitney Bank ("Whitney Bank").

Restricted Cash – At June 30, 2023 and December 31, 2022, we had $1.2 million and $1.6 million of restricted cash, respectively as security for letters of credit issued under our letter of credit facility ("LC Facility") with Whitney Bank. Our restricted cash is held in an interest-bearing money market account with Whitney Bank. The classification of the restricted cash as current and noncurrent is determined by the contractual maturity dates of the letters of credit being secured, with letters of credit having maturity dates of twelve months or less from the balance sheet date classified as current, and letters of credit having maturity dates of longer than twelve months from the balance sheet date classified as noncurrent. See Note 3 for further discussion of our cash security requirements under our LC Facility.

Short-term Investments – We consider investments with original maturities of more than three months but less than twelve months to be short-term investments. At June 30, 2023 and December 31, 2022, our short-term investments included U.S. Treasuries with original maturities of four and six months, respectively. We intend to hold these investments until maturity and it is not more likely than not that we will be required to sell the investments prior to their maturity. The investments are stated at amortized costs, which approximates fair value due to their near-term maturities. All short-term investments are traded on active markets with quoted prices and represent Level 1 fair value measurements.

Inventory

Inventory is recorded at the lower of cost or net realizable value determined using the first-in-first-out basis. The cost of inventory includes acquisition costs, production or conversion costs, and other costs incurred to bring the inventory to a current location and condition. Net realizable value is our estimated selling price in the normal course of business, less reasonably predictable costs of completion, disposal and transportation. An allowance for excess or inactive inventory is recorded based on an analysis that considers current inventory levels, historical usage patterns, estimates of future sales and salvage value.

Allowance for Doubtful Accounts and Credit Losses

As further discussed under "*New Accounting Standards"* below, we adopted the new accounting standard for measuring credit losses effective January 1, 2023. In the normal course of business, we extend credit to our customers on a short-term basis and contract receivables are generally not collateralized; however, we typically have the right to place liens on our projects in the event of nonpayment by our customers. We provide an allowance for credit losses and routinely review individual contract receivable balances and other financial assets for collectability and make provisions for probable uncollectible amounts as necessary. Among the factors considered in our review are the financial condition of our customer and its access to financing, underlying disputes with the customer, the age and value of the receivable balance, company-specific credit ratings, historical company-specific uncollectable amounts and economic conditions in general. See Note 2 for further discussion of our allowance for doubtful accounts and credit losses.

Stock-Based Compensation

Awards under our stock-based compensation plans are calculated using a fair value-based measurement method. Depending on the terms of the award, we use the straight-line or graded vesting methods to recognize share-based compensation expense over the requisite service period of the award. We recognize the excess tax benefit or tax deficiency resulting from the difference between the deduction we receive for tax purposes and the stock-based compensation expense we recognize for financial reporting purposes created when common stock vests, as an income tax benefit or expense on our Consolidated Statements of Operations ("Statement of Operations"). Tax payments made on behalf of employees to taxing authorities in order to satisfy employee income tax withholding obligations from the vesting of shares under our stock-based compensation plans are classified as a financing activity on our Consolidated Statements of Cash Flows ("Statement of Cash Flows").

Depreciation and Amortization Expense

Property, plant and equipment are depreciated on a straight-line basis over estimated useful lives ranging from three 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. Intangible assets are amortized on a straight-line basis over seven years and amortization expense is reflected within general and administrative expense on our Statement of Operations.

Long-Lived Assets

Goodwill – Goodwill is not amortized, but instead is reviewed for impairment at least annually at a reporting unit level, absent any indicators of impairment or when other actions require an impairment assessment (such as a change in reporting units). Our Services Division represents our only reporting unit with goodwill. We perform our annual impairment assessment during the fourth quarter of each year based upon balances as of October 1. In evaluating goodwill for impairment, we have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of our reporting unit is greater than its carrying value. If we determine that it is more likely than not that the carrying value of the reporting unit is greater than its fair value, we perform a quantitative impairment test by calculating the fair value of the reporting unit and comparing it to the carrying value of the reporting unit, and we recognize an impairment charge to the extent its carrying value exceeds its fair value. To determine the fair value of our reporting unit and test for impairment, we utilize an income approach (discounted cash flow method) as we believe this is the most direct approach to incorporate the specific economic attributes and risk profile of our reporting unit into our valuation model. We had no indicators of impairment during the six months ended June 30, 2023. If, based on future assessments, our goodwill is deemed to be impaired, the impairment would result in a charge to our operating results in the period of impairment.

Other Long-Lived Assets – Our property, plant and equipment, lease assets (included within other noncurrent assets), and finite-lived intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If a recoverability assessment is required, we compare the estimated future undiscounted cash flow associated with the asset or asset group to its carrying amount to determine if an impairment exists. An asset group constitutes the minimum level for which identifiable cash flows are principally independent of the cash flows of other assets or asset groups. An impairment loss is measured by comparing the fair value of the asset or asset group to its carrying amount and the excess of the carrying amount of the asset or asset group over its fair value is recorded as an impairment charge. Fair value is determined based on discounted cash flows, appraised values or third-party indications of value, as appropriate. We had no indicators of impairment during the six months ended June 30, 2023.

Leases

We record a right-of-use asset and an offsetting lease liability on our Balance Sheet equal to the present value of our lease payments for leases with an original term of longer than twelve months. We do not record an asset or liability for leases with an original term of twelve months or less and we do not separate lease and non-lease components for our leases. Our lease assets are reflected within other noncurrent assets, and the current and noncurrent portions of our lease liabilities are reflected within accrued expenses and other liabilities, and other noncurrent liabilities, respectively, on our Balance Sheet. For leases with escalations over the life of the lease, we recognize expense on a straight-line basis.

Fair Value Measurements

Fair value determinations for financial assets and liabilities are based on the particular facts and circumstances. Financial instruments are required to be categorized within a valuation hierarchy based upon the lowest level of input that is significant to the fair value measurement. The three levels of the valuation hierarchy are as follows:

- Level 1 – inputs are based upon quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – inputs are based upon model-based valuation techniques for which significant assumptions are generally not observable in the market and typically reflect estimates and assumptions that we believe market participants would use in pricing the asset or liability. These include discounted cash flow models and similar valuation techniques.

The carrying amounts of our financial instruments, including cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximate their fair values. Our fair value assessments for determining the impairments of inventory, goodwill and long-lived assets are non-recurring fair value measurements that fall within Level 3 of the fair value hierarchy.

Revenue Recognition

General – Our revenue is derived from customer contracts and agreements that are awarded on a competitively bid and negotiated basis using a range of contracting options, including fixed-price, unit-rate, time and materials (“T&M”) and cost-reimbursable, or a combination thereof. Our contracts primarily relate to the fabrication of steel structures and modules, and certain service arrangements. We recognize revenue from our contracts in accordance with Accounting Standards Update (“ASU”) 2014-09, Topic 606 *“Revenue from Contracts with Customers”* (“Topic 606”).

Topic 606 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, provisions of Topic 606 specify which goods and services are distinct and represent separate performance obligations (representing the unit of account in Topic 606) within a contract and which goods and services (which could include multiple contracts or agreements) should be aggregated. In general, a performance obligation is a contractual obligation to construct and/or transfer a distinct good or service to a customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Revenue for performance obligations satisfied over time are recognized as the work progresses. Revenue for performance obligations that do not meet the criteria for over time recognition are recognized at a point-in-time when a performance obligation is complete and the customer has obtained control of a promised asset.

Long-term Contracts Satisfied Over Time – Revenue for our long-term contracts is recognized using the POC method based on contract costs incurred to date compared to total estimated contract costs (an input method). Fixed-price contracts, or contracts with a more significant fixed-price component, generally provide us with greater control over project schedule and the timing of when work is performed and costs are incurred, and accordingly, when revenue is recognized. Unit-rate, T&M and cost-reimbursable contracts generally have more variability in the scope of work and provide our customers with greater influence over the timing of when we perform our work, and accordingly, such contracts often result in less predictability with respect to the timing of when revenue is recognized. Contract costs include direct costs, such as materials and labor, and indirect costs attributable to contract activity. Material costs that are significant to a contract and do not reflect an accurate measure of project completion are excluded from the determination of our contract progress. Revenue for such materials is only recognized to the extent of costs incurred. Revenue and gross profit or loss for contracts accounted for using the POC method can be significantly affected by changes in estimated cost to complete such contracts. Significant estimates impacting the cost to complete a contract include: forecast costs of engineering, materials, equipment and subcontracts; forecast costs of labor and labor productivity; schedule durations, including subcontractor and supplier progress; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. Although our customers retain the right and ability to change, modify or discontinue further work at any stage of a contract, in the event our customers discontinue work, they are required to compensate us for the work performed to date. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which could result in material changes to our Financial Statements and related disclosures. See Note 2 for further discussion of projects with significant changes in estimated margins during the three and six months ended June 30, 2023 and 2022.

Short-term Contracts and Contracts Satisfied at a Point In Time – Revenue for our short-term contracts (which includes revenue associated with our master services arrangements) and contracts that do not satisfy the criteria for revenue recognition over time is recognized when the work is performed or when control of the asset is transferred, the related costs are incurred and collection is reasonably assured. The consideration from the customer directly corresponds to the value of our performance completed at the time of invoicing.

Variable Consideration – Revenue and gross profit or loss for contracts can be significantly affected by variable consideration, which can be in the form of unapproved change orders, claims (including amounts arising from disputes with customers), incentives and liquidated damages that may not be resolved until the later stages of the contract or after the contract has been completed. Variable consideration can also include revenue associated with work performed on a unit-rate, T&M or cost-reimbursable basis that is recognized using the POC method. We estimate variable consideration based on the amount we expect to be entitled and include estimated amounts in transaction price to the extent it is probable that a significant future reversal of cumulative revenue recognized will not occur or when we conclude that any significant uncertainty associated with the variable consideration is resolved. See Note 2 for further discussion of our unapproved change orders, claims, incentives and liquidated damages.

Additional Disclosures – Topic 606 also requires disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. See Note 2 for required disclosures under Topic 606.

Pre-Contract Costs

Pre-contract costs are generally charged to cost of revenue as incurred, but in certain cases their recognition may be deferred if specific probability criteria are met. At June 30, 2023 and December 31, 2022, we had no deferred pre-contract costs.

Other (Income) Expense, Net

Other (income) expense, net, generally represents recoveries or provisions for bad debts and credit losses, gains or losses associated with the sale or disposition of property and equipment, and income or expense associated with certain nonrecurring items.

Income Taxes

Income taxes have been provided for using the liability method. 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 using enacted rates expected to be in effect during the year in which the differences are expected to reverse. Due to state income tax laws related to the apportionment of revenue for our projects, judgment is required to estimate the effective tax rate expected to apply to tax differences that are anticipated to reverse in the future.

A valuation allowance is provided to reserve for deferred tax assets ("DTA(s)") if, based upon the available evidence, it is more likely than not that some or all of the DTAs will not be realized. The realization of our DTAs depends on our ability to generate sufficient taxable income of the appropriate character and in the appropriate jurisdictions. Our effective tax rate differs from our statutory rate for the three and six months ended June 30, 2023, and three months ended June 30, 2022, as no federal income tax expense was recorded for our income as it was fully offset by the reversal of valuation allowance on our net deferred tax assets, and for the six months ended June 30, 2022, as no federal income tax benefit was recorded for our loss as a full valuation allowance was recorded against our net deferred tax assets generated during the period. Income taxes recorded for the three and six months ended June 30, 2023 and 2022 relate to state income taxes.

Reserves for uncertain tax positions are recognized when we consider it more likely than not that additional tax will be due in excess of amounts reflected in our income tax returns, irrespective of whether or not we have received tax assessments. Interest and penalties on uncertain tax positions are recorded within income tax expense.

New Accounting Standards

Financial Instruments – In the first quarter 2023, we adopted ASU 2016-13, *"Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments,"* which changes the way we evaluate credit losses for most financial assets and certain other instruments. For trade and other receivables, short-term investments, loans and other instruments, we are required to use a new forward-looking "expected loss" model to evaluate impairment, which includes considering a broader range of information to estimate expected credit losses and may potentially result in earlier recognition of allowances for losses. The new accounting standard was adopted using the cumulative-effect transition method with any cumulative-effect adjustment being recorded to accumulated deficit on January 1, 2023. Upon adoption, we recorded a $0.6 million increase to beginning accumulated deficit, a $0.4 million decrease to contract receivables and retainage, net and contract assets, and a $0.2 million decrease to other noncurrent assets, on our Balance Sheet. Adoption of the new standard did not have a material effect on our results of operations or related disclosures.

Business Combinations – In the first quarter 2023, we adopted ASU 2021-08, *"Business Combinations - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers,"* which changes the way companies measure contract assets and contract liabilities from contracts with customers acquired in a business combination and creates an exception to the general recognition and measurement principle of ASC 805. Adoption of the new standard did not have a material effect on our financial position, results of operations or related disclosures.

2. REVENUE, CONTRACT ASSETS AND LIABILITIES AND OTHER CONTRACT MATTERS

As discussed in Note 1, we recognize revenue from our contracts in accordance with Topic 606. Summarized below are required disclosures under Topic 606 and other relevant guidance.

Disaggregation of Revenue

The following tables summarize revenue for each of our operating segments, disaggregated by contract type and duration, for the three and six months ended June 30, 2023 and 2022 (in thousands):

	Three Months Ended June 30, 2023				
	Services	Fabrication	Shipyard	Eliminations	Total
Fixed-price and unit-rate	$ 627	$ 13,399	$ 382	$ (2)	$ 14,406
T&M and cost-reimbursable	22,828	1,342	—	—	24,170
Other	1,015	—	—	(265)	750
Total	$ 24,470	$ 14,741	$ 382	$ (267)	$ 39,326
Long-term	$ 627	$ 13,508	$ 382	$ (2)	$ 14,515
Short-term	23,843	1,233	—	(265)	24,811
Total	$ 24,470	$ 14,741	$ 382	$ (267)	$ 39,326

	Three Months Ended June 30, 2022				
	Services	Fabrication	Shipyard	Eliminations	Total
Fixed-price and unit-rate	$ 962	$ 9,197	$ 2,968	$ (5)	$ 13,122
T&M and cost-reimbursable	20,503	642	—	—	21,145
Other	715	1,000	—	(80)	1,635
Total	$ 22,180	$ 10,839	$ 2,968	$ (85)	$ 35,902
Long-term	$ 962	$ 10,197	$ 2,968	$ (5)	$ 14,122
Short-term	21,218	642	—	(80)	21,780
Total	$ 22,180	$ 10,839	$ 2,968	$ (85)	$ 35,902

	Six Months Ended June 30, 2023				
	Services	Fabrication	Shipyard	Eliminations	Total
Fixed-price and unit-rate	$ 799	$ 25,588	$ 1,729	$ (10)	$ 28,106
T&M and cost-reimbursable	43,370	28,815	—	—	72,185
Other	1,888	—	—	(685)	1,203
Total	$ 46,057	$ 54,403	$ 1,729	$ (695)	$ 101,494
Long-term	$ 799	$ 52,216	$ 1,729	$ (10)	$ 54,734
Short-term	45,258	2,187	—	(685)	46,760
Total	$ 46,057	$ 54,403	$ 1,729	$ (695)	$ 101,494

	Six Months Ended June 30, 2022				
	Services	Fabrication	Shipyard	Eliminations	Total
Fixed-price and unit-rate	$ 2,571	$ 14,241	$ 5,465	$ (6)	$ 22,271
T&M and cost-reimbursable	38,966	1,215	—	—	40,181
Other	1,307	1,000	—	(171)	2,136
Total	$ 42,844	$ 16,456	$ 5,465	$ (177)	$ 64,588
Long-term	$ 2,571	$ 15,241	$ 5,465	$ (6)	$ 23,271
Short-term	40,273	1,215	—	(171)	41,317
Total	$ 42,844	$ 16,456	$ 5,465	$ (177)	$ 64,588

Future Performance Obligations

The following table summarizes our remaining performance obligations, disaggregated by operating segment and contract type, at June 30, 2023 (in thousands):

	June 30, 2023			
	Services	Fabrication	Shipyard	Total
Fixed-price and unit-rate	$ 1,067	$ 7,167	$ 1,194	$ 9,428
T&M and cost-reimbursable[(1)]	—	2,730	—	2,730
Total[(2)]	$ 1,067	$ 9,897	$ 1,194	$ 12,158

(1) In February 2023, we received direction from our customer to suspend all activities on our offshore jackets project for our Fabrication Division, and in July 2023, the customer cancelled the contract. Accordingly, our performance obligations were reduced by $76.1 million to reflect the estimated revenue amount that will not be recognized due to the cancellation. See *"Other Operating and Project Matters"* below for further discussion of the project cancellation.

(2) Based on our current estimates we expect to recognize revenue of approximately $11.8 million and $0.4 million for the remainder of 2023 and 2024, respectively, associated with our performance obligations at June 30, 2023. Certain factors and circumstances could result in changes in the timing of recognition of our performance obligations as revenue and the amounts ultimately recognized.

Contracts Assets and Liabilities

The timing of customer invoicing and recognition of revenue using the POC method may occur at different times. Customer invoicing is generally dependent upon contractual billing terms, which could provide for customer payments in advance of performing the work, milestone billings based on the completion of certain phases of the work, or billings when services are provided. Revenue recognized in excess of amounts billed is reflected as contract assets on our Balance Sheet, or to the extent we have an unconditional right to the consideration, is reflected as contract receivables on our Balance Sheet. Amounts billed in excess of revenue recognized, and accrued contract losses, are reflected as contract liabilities on our Balance Sheet. Information with respect to contracts that were incomplete at June 30, 2023 and December 31, 2022, is as follows (in thousands):

	June 30, 2023	December 31, 2022
Contract assets[(1), (2)]	$ 6,662	$ 4,839
Contract liabilities[(3), (4), (5)]	(3,065)	(8,196)
Contracts in progress, net	$ 3,597	$ (3,357)

(1) The increase in contract assets compared to December 31, 2022, was primarily due to increased unbilled positions on various projects for our Fabrication Division, offset partially by decreased unbilled positions on our forty-vehicle ferry projects for our Shipyard Division.

(2) Contract assets at June 30, 2023 and December 31, 2022, excluded $3.0 million and $3.6 million, respectively, associated with revenue recognized in excess of amounts billed for which we have an unconditional right to the consideration. Such amounts are reflected within contract receivables.

(3) The decrease in contract liabilities compared to December 31, 2022, was primarily due to a decrease in advance billings on our cancelled offshore jackets project for our Fabrication Division and accrued contract losses on our forty-vehicle ferry projects for our Shipyard Division. See *"Future Performance Obligations"* above for further discussion of the project cancellation.

(4) Revenue recognized during the three months ended June 30, 2023 and 2022, related to amounts included in our contract liabilities balance at March 31, 2023 and 2022 was $2.3 million and $0.7 million, respectively. Revenue recognized during the six months ended June 30, 2023 and 2022, related to amounts included in our contract liabilities balance at December 31, 2022 and 2021, was $6.1 million and $2.5 million, respectively.

(5) Contract liabilities at June 30, 2023 and December 31, 2022, includes accrued contract losses of $0.6 million and $1.6 million, respectively. See "*Changes in Project Estimates"* below for further discussion of our accrued contract losses.

Allowance for Doubtful Accounts and Credit Losses

Our provision for bad debts and credit losses is included in other (income) expense, net on our Statement of Operations. For the three and six months ended June 30, 2023, we recognized income of $0.2 million associated with revisions to our allowance for doubtful accounts and credit losses, and for the three and six months ended June 30, 2022, changes were not significant. Our allowance for doubtful accounts and credit losses at June 30, 2023 was $0.4 million, and it was not significant at December 31, 2022. We recorded a $0.6 million increase to beginning accumulated deficit as of January 1, 2023, in connection with our adoption of ASU 2016-13. We had no significant write-offs or recoveries of previously recorded bad debts during the three or six months ended June 30, 2023 or 2022. See *"New Accounting Standards"* in Note 1 for further discussion of our adoption of ASU 2016-13.

Variable Consideration

For the three and six months ended June 30, 2023 and 2022, we had no material amounts in revenue related to unapproved change orders, claims or incentives. However, at June 30, 2023 and December 31, 2022, certain active projects within our Shipyard Division reflected a reduction to our estimated contract price for liquidated damages of $1.7 million and $1.4 million, respectively.

Changes in Project Estimates

We determine the impact of changes in estimated margins on projects for a given period by calculating the amount of revenue recognized in the period that would have been recognized in a prior period had such estimated margins been forecasted in the prior period. The total impact of changes in estimated margins for a project as disclosed on a quarterly basis may be different from the applicable year-to-date impact due to the application of the POC method and the changing progress of the project at each period end. Such impacts may also be different when a project is commenced and completed within the applicable year-to-date period but spans multiple quarters.

For the three and six months ended June 30, 2023, significant changes in estimated margins on projects negatively impacted operating results for our Shipyard Division by $0.8 million. For the three and six months ended June 30, 2022, individual projects with significant changes in estimated margins did not have a material net impact on our operating results. The changes in estimates for the 2023 periods were associated with the following:

Shipyard Division

- *Seventy-Vehicle Ferry Project* – For each of the three and six months ended June 30, 2023, our operating results were negatively impacted by $0.6 million for our seventy-vehicle ferry project, resulting primarily from increased subcontracted services and duration related costs due to extensions of schedule, including forecast liquidated damages. The impacts were primarily due to subcontractor delays.

  We completed construction of the ferry in the second quarter 2023; however, in connection with the delivery and commissioning of the vessel, corrosion of the propeller blades was identified and replacement of the propeller blades may ultimately be required. Based on our preliminary estimates, we believe the incremental forecast costs associated with replacement of the propeller blades could range from $1.5 million to $2.0 million, with the schedule for replacement and total cost being highly dependent on the timing of receipt of the propeller blades. Additional schedule related costs could be incurred if the customer refuses to take possession of the vessel until after the propeller blade replacement. We believe the customer is responsible for the cost of the propeller blade replacement given that the customer specified the materials and the equipment manufacturers required to be used for the propulsion system and the cathodic protection to be used to mitigate corrosion. Accordingly, our forecasts at June 30, 2023 do not reflect the estimated costs to replace the propeller blades or any potential schedule related costs. The customer has not accepted responsibility for the replacement of the propeller blades and we are having ongoing correspondence with the customer regarding a path forward for the vessel.

  At June 30, 2023, the vessel was substantially complete, exclusive of the potential replacement of the propeller blades. The project was in a loss position at June 30, 2023 and our reserve for estimated losses was $0.1 million. If future subcontractor availability or costs differ from our current estimates or we are unable to achieve our progress estimates, our schedule is further extended or we incur additional liquidated damages, or we experience challenges during sea trials or commissioning of the vessel, or we are unable to recover the costs of the propeller blades replacement or schedule related impacts from our customer, the project would experience further delays and losses.

- *Forty-Vehicle Ferry Projects* – During the first quarter 2023, we received conditional customer acceptance of one of our two forty-vehicle ferries that were under construction, and during the second quarter 2023, we received final customer acceptance of the vessel.

  For each of the three and six months ended June 30, 2023, our operating results were negatively impacted by $0.2 million for our remaining forty-vehicle ferry project, resulting primarily from increased subcontracted services and duration related costs due to extensions of schedule, including forecast liquidated damages. The impacts were primarily due to delays in the receipt of certain equipment and subcontractor delays.

As discussed in our 2022 Financial Statements, we have experienced rework, construction and commissioning challenges on the two ferries, resulting in forecast cost increases and liquidated damages and the need to fabricate a new hull for the vessel that is still under construction. Accordingly, during 2021 we submitted claims to our customer, and subsequently filed a lawsuit, to extend our project schedules and recover the cost impacts of the design deficiencies. The customer denied all liability. Further, during the fourth quarter 2022 and early 2023, we received correspondence from our customer indicating that the new hull for the remaining ferry under construction is exhibiting deformation issues that are potentially beyond the customer's desired tolerance levels. Our subsequent evaluation does not support the customer's conclusions and we are continuing construction of the vessel as designed.

At June 30, 2023, the remaining vessel under construction was approximately 95% complete and is forecast to be completed in the third quarter 2023 (previously the second quarter 2023, but was delayed due to the aforementioned impacts). The project was in a loss position at June 30, 2023 and our reserve for estimated losses was $0.5 million. Our forecast costs and scheduled completion date for the remaining vessel are based on the current vessel design and reflect our best estimates; however, such estimates may be impacted by any future challenges with the vessel design deficiencies, including the final resolution of the aforementioned design and deformation issues in dispute. If future craft labor productivity or subcontractor availability or costs differ from our current estimates or we are unable to achieve our progress estimates, our schedule is further extended or we incur additional liquidated damages, we experience challenges during sea trials, commissioning or delivery of the remaining vessel, or other challenges associated with the design deficiencies, including unanticipated warranty costs for either vessel, and are unable to recover associated costs from our customer, or the customer rejects delivery and/or final acceptance of the remaining vessel due to the design dispute, the project would experience further delays and losses. Our forecasts at June 30, 2023 do not reflect potential future benefits, if any, from the favorable resolution of the aforementioned lawsuit and we can provide no assurance that we will be successful recovering previously incurred costs.

Other Operating and Project Matters

Hurricane Ida **–** On August 29, 2021, Hurricane Ida made landfall near Houma, Louisiana as a high-end Category 4 hurricane, with high winds and heavy rains causing damage to buildings and equipment at our Houma Facilities and resulting in significant debris throughout the facility. Our insurance coverages in effect at the time of the storm generally specify coverage amounts for each of our buildings (including contents) and major equipment.

During the six months ended June 30, 2023 and 2022, we received insurance payments of $0.7 million and $7.0 million, respectively, from our insurance carriers associated with interruptions to our operations and damage to buildings and equipment. In addition, we have received payments from our insurance carriers during other periods subsequent to the storm associated with interruptions to our operations and damage to buildings and equipment. Such payments are nonrefundable, and with respect to our buildings, represent the insurance carriers' estimate of the damage to each building based on the estimated depreciated value of such buildings plus repair costs incurred by us in excess of such estimates for certain buildings. To the extent we incur further repair costs for a building in excess of the amounts received, we may receive additional insurance proceeds up to the limits of our insurance coverage for such building. The classification of insurance proceeds within our Statement of Cash Flows is based on our use or intended use of the proceeds. Proceeds used or intended to be used for repairs that are not deemed to be capital in nature, and proceeds associated with interruptions to our operations, are reflected within operating activities. Proceeds used or intended to be used for repairs that are deemed capital in nature, or proceeds in excess of anticipated repair costs, are reflected within investing activities.

The timing of payments from our insurance carriers have, and may continue to, differ from when we incur the applicable repair and cleanup costs, and accordingly, we have accounted for such differences in timing as follows:

- To the extent we incurred repair costs in excess of insurance proceeds received to date, we recorded an insurance receivable when we believe such amounts are probable of recovery under our insurance policies.
- To the extent we determined that damage to an asset resulted in a complete loss, we recorded an insurance receivable up to the impairments recognized when we believe such amounts are probable of recovery under our insurance policies.
- To the extent proceeds received exceeded repair costs incurred to date, we recorded an insurance gain as we do not have an obligation to perform further repair activities. Charges will be recorded in future periods to the extent such proceeds received are used for future repair activities that are not deemed to be capital in nature.
- Insurance deductibles, clean-up costs and uninsured losses have been expensed.

Based on the above, during the six months ended June 30, 2023, and three and six months ended June 30, 2022, we recorded gains of $0.2 million (related to interruptions to our operations), $3.4 million and $3.1 million, respectively, related to the net impact of insurance recoveries and costs associated with damage previously caused by Hurricane Ida. The gains are included in other (income) expense, net on our Statement of Operations and are reflected within our Fabrication Division. In addition, at June 30, 2023, we had total insurance receivables on our Balance Sheet of $1.3 million. We are continuing to assess our restoration plans and repair efforts are ongoing. We expect to incur future repair costs of approximately $0.5 million to $1.0 million associated with previously received insurance payments for certain buildings and equipment. Further, we expect to incur future repair costs in excess of previously received insurance payments for certain buildings and equipment; however, we believe that recovery of insurance proceeds for such costs is probable.

In addition to damage to our Houma Facilities, the storm resulted in damage to one of our forty-vehicle ferry projects, the multi-purpose supply vessels ("MPSVs") and associated equipment that are in our possession and subject to our MPSV Litigation, and certain bulkheads where the vessels were moored. We are continuing to assess the extent of the storm damage and are evaluating the extent to which any damage was the result of third-party vessels that broke free from their mooring during the storm and struck the ferry, MPSVs and bulkheads. During each of the three and six months ended June 30, 2023, we recorded charges of $0.3 million, and during each of the three and six months ended June 30, 2022, we recorded charges of $0.2 million, associated with damage previously caused by Hurricane Ida. See Note 4 for further discussion of our MPSV Litigation.

Offshore Jackets Project – As discussed above, in February 2023, we received direction from our customer to suspend all activities on our offshore jackets project for our Fabrication Division, and in July 2023, the customer cancelled the contract. At June 30, 2023, we had $11.3 million of accounts receivable on our Balance Sheet related to the project, primarily associated with obligations incurred by us for procurement activities. Subsequent to June 30, 2023, we received payments of $1.0 million related to such accounts receivable and we have received a payment guarantee bond as security for the remaining accounts receivable amounts. Although such amounts are not in dispute, we have received indications from the customer that we may not receive material additional payments until the end of the third quarter 2023.

3. CREDIT FACILITIES AND DEBT

LC Facility

On May 5, 2023, we amended our letter of credit facility with Whitney Bank ("LC Facility") to reduce our letters of credit capacity from $20.0 million to $10.0 million, subject to our cash securitization of the letters of credit, and extend the maturity date to June 30, 2024. Commitment fees on the unused portion of the LC Facility are 0.4% per annum and interest on outstanding letters of credit is 1.5% per annum. At June 30, 2023, we had $1.2 million of outstanding letters of credit under the LC Facility. See Note 4 for further discussion of our letters of credit and associated security obligations.

Surety Bonds

We issue surety bonds in the ordinary course of business to support our projects. At June 30, 2023, we had $110.9 million of outstanding surety bonds, of which $50.0 million relates to our MPSV projects that are subject to our MPSV Litigation, $45.6 million relates to our Active Retained Shipyard Contracts, and $15.3 million relates to our Fabrication Division contracts and certain of our insurance coverages. See Note 4 for further discussion of our surety bonds and related indemnification obligations and our MPSV Litigation.

Insurance Finance Arrangement

In connection with the renewal of our property and equipment insurance coverages during 2022, and general liability insurance coverages during the first quarter 2023, we entered into short-term premium finance arrangements ("Insurance Finance Arrangements"). The property and equipment arrangement totaled $2.4 million, payable in ten equal monthly installments through March 2023, with interest at a fixed rate of 4.3% per annum. The general liability arrangement totaled $0.5 million, payable in eight equal monthly installments through August 2023, with interest at a fixed rate of 6.6% per annum. We consider the transactions to be non-cash financing activities, with the initial financed amount reflected within accrued expenses and other liabilities, and a corresponding asset reflected within prepaid expenses and other assets, on our Balance Sheet. For the six months ended June 30, 2023 and 2022, we have reflected principal payments of $1.1 million and $0.2 million, respectively, as a financing activity on our Statement of Cash Flows, and at June 30, 2023, our remaining principal balance was $0.1 million.

Mortgage Agreement and Restrictive Covenant Agreement

In connection with the receipt of a consent for the Shipyard Transaction from one of our Sureties, we entered into a multiple indebtedness mortgage ("Mortgage Agreement") and a restrictive covenant arrangement ("Restrictive Covenant Agreement") with such Surety to secure our obligations for our MPSV projects and two forty-vehicle ferry projects. The Mortgage Agreement encumbers all remaining real estate that was not sold in connection with the Shipyard Transaction and includes certain covenants and events of default. Further, the Restrictive Covenant Agreement precludes us from paying dividends or repurchasing shares of our common stock. The Mortgage Agreement and Restrictive Covenant Agreement will terminate when the obligations and liabilities of the Surety associated with the outstanding surety bonds are discharged, or any judgment against us or the Surety arising out of litigation related to such contracts is satisfied by us. See Note 1 for further discussion of the Shipyard Transaction.

4. COMMITMENTS AND CONTINGENCIES

Routine Legal Proceedings

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

MPSV Litigation

On March 19, 2018, our subsidiary, Gulf Island Shipyards, LLC ("GIS"), received termination notices from its customer, Hornbeck Offshore Services, LLC ("Hornbeck"), of the contracts for the construction of two MPSVs. GIS disputed the purported terminations and disagreed with Hornbeck's reasons for such terminations. After receipt of such notices, GIS ceased all work and the partially completed vessels and associated equipment and materials remain in its possession in Houma, Louisiana. GIS continues to hold first priority security interests and possessory liens against the MPSVs securing the obligations GIS believes it is owed by Hornbeck under the construction contracts. In connection with such purported terminations, Hornbeck also made claims against the performance bonds issued by the Surety in connection with the construction of the vessels, for which the face amount of the bonds total $50.0 million ("Performance Bonds").

On October 2, 2018, GIS filed a lawsuit against Hornbeck to enforce its rights and remedies under the applicable construction contracts for the two MPSVs. The lawsuit was filed in the Twenty-Second Judicial District Court for the Parish of St. Tammany, State of Louisiana and is styled Gulf Island Shipyards, LLC v. Hornbeck Offshore Services, LLC, bearing docket number 2018-14861 ("MPSV Litigation"). Hornbeck responded to the lawsuit denying many of GIS's allegations and asserted a counterclaim against GIS seeking damages. GIS filed a response to the counterclaim denying all of Hornbeck's claims. Hornbeck subsequently amended its counterclaim to add claims against the Surety and additional claims against GIS.

Following previously disclosed developments in the litigation, on November 16, 2022, Hornbeck filed motions for partial summary judgment against GIS seeking the dismissal of GIS's claim that Hornbeck wrongfully terminated the vessel construction contracts. On January 31, 2023, the trial court granted Hornbeck's motions. GIS appealed such decision, and on March 2, 2023, the appellate court reversed the trial court's decision, thereby reinstating GIS's wrongful termination claim. As a result of the appellate court's ruling, the trial, previously scheduled to begin on March 6, 2023, was rescheduled to begin on October 16, 2023. On April 3, 2023, Hornbeck filed a writ application with the Louisiana Supreme Court relating to such appellate court decision, and on May 23, 2023, the writ application was denied by the Louisiana Supreme Court.

GIS continues to believe that Hornbeck wrongfully terminated the construction contracts and is liable to GIS for damages, including amounts due to GIS for unpaid work. However, Hornbeck is seeking damages against GIS based on Hornbeck's estimates of the cost to complete the vessels and its claims for lost profits (all of which are disputed by GIS) that together significantly exceed the face amount of the Performance Bonds. GIS believes that Hornbeck will only be entitled to recover damages if it is determined that Hornbeck rightfully terminated the construction contracts and if Hornbeck can prove it incurred damages. Further, GIS believes that Hornbeck is only entitled to recover damages for lost profits if GIS is found to have breached the construction contracts in bad faith and if the waiver of consequential damages that is included in the construction contracts is found to be ineffective. GIS also believes that Hornbeck has significantly overstated its damages, a belief that is supported by GIS and the Surety's expert evaluations.

Due to inherent uncertainties of litigation, there is a range of potential favorable or unfavorable outcomes with respect to the disputed claims, and the amount of GIS's potential recovery or loss, if any, or the timing of payment thereof, are uncertain. We can provide no assurances that GIS will not incur additional costs as it pursues its rights and remedies under the construction contracts and defends against Hornbeck's claims. An unfavorable outcome to GIS in the litigation could have a material adverse effect on our financial condition, results of operations and liquidity and would be accounted for as a reversal of previously recognized revenue with respect to the construction contracts to the extent of any loss.

At both June 30, 2023 and December 31, 2022, other noncurrent assets on our Balance Sheet included a net contract asset of $12.5 million, representing GIS's net receivable amount (after giving effect to purported liquidated damages of $11.2 million) at the time of Hornbeck's purported terminations of the construction contracts; however, an unfavorable outcome in the litigation could result in a loss from the write-off of such contract asset, or portions thereof.

Insurance

We maintain insurance coverage for various aspects of our business and operations. However, we may be exposed to future losses due to coverage limitations and our use of deductibles and self-insured retentions for our exposures related to property and equipment damage, builder's risk, third-party liability and workers' compensation and USL&H claims. In connection with our insurance coverage renewal for our property and equipment in the second quarter 2023, we determined that the benefits of maintaining insurance coverage for our property and equipment were limited due to high premium costs and deductibles and increased coverage limitations. Accordingly, we did not renew all of our property and equipment coverage and are now generally self-insured for exposures resulting from any future damage to our property and equipment.

To the extent we have insurance coverage, we do not have an offset right for liabilities in excess of any deductibles and self-insured retentions. Accordingly, we have recorded a liability for estimated amounts in excess of our deductibles and retentions, and have recorded a corresponding asset related to estimated insurance recoveries, on our Balance Sheet. Further, to the extent we are self-insured, reserves are recorded based upon our estimates, with input from legal and insurance advisors. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change. See Note 2 for discussion of insurance deductibles incurred associated with damage caused by Hurricanes Ida.

Letters of Credit and Surety Bonds

We obtain letters of credit under our LC Facility or surety bonds from financial institutions to provide to our customers in order to secure advance payments or guarantee performance under our contracts, or in lieu of retention being withheld on our contracts. Letters of credit under our LC Facility are subject to cash securitization of the full amount of the outstanding letters of credit. In the event of non-performance under a contract, our cash securitization with respect to the letter of credit supporting such contract would become the property of Whitney Bank. With respect to surety bonds, including those relating to the construction contracts associated with our MPSV Litigation, payments by a Surety pursuant to a bond in the event of non-performance are subject to reimbursement to such Surety by us under a general indemnity agreement relating to such bond. Such indemnification obligations may include the face amount of the surety bond, or portions thereof, as well as other reimbursable items such as interest and certain investigative expenses and legal fees of the Surety. Such indemnification obligations would require us to use our cash, cash equivalents or short-term investments, and we may not have sufficient liquidity to satisfy such indemnification obligations. When a contract is complete, the contingent obligation terminates, and letters of credit or surety bonds are returned. See Note 3 for further discussion of our LC Facility and surety bonds.

Environmental Matters

Our operations are subject to extensive and changing U.S. federal, state and local laws and regulations, as well as the laws of other countries, that establish health and environmental quality standards. These standards, among others, relate to air and water pollutants and the management and disposal of hazardous substances and wastes. We are exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes. In connection with the historical operation of our facilities, including those associated with acquired operations, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. We believe we are in compliance, in all material respects, with environmental laws and regulations and maintain insurance coverage to mitigate exposure to environmental liabilities. We do not believe any environmental matters will have a material adverse effect on our financial condition, results of operations or cash flow.

Leases

We maintain operating leases for our corporate office and certain operating facilities and equipment. See Note 1 for further discussion of our leases.

5. INCOME (LOSS) PER SHARE

The following table presents the computation of basic and diluted income (loss) per share for the three and six months ended June 30, 2023 and 2022 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	$ 1,102	$ 528	$ 1,743	$ (4,499)
Weighted average shares[(1)]	16,201	15,836	16,098	15,750
Basic and diluted income (loss) per common share	$ 0.07	$ 0.03	$ 0.11	$ (0.29)

(1) The effect of approximately 148 thousand, 82 thousand and 256 thousand dilutive non-vested shares is not material to the calculation of diluted income per share for the three months ended June 30, 2023 and 2022, or the six months ended June 30, 2023, respectively.

6. OPERATING SEGMENTS

We currently operate and manage our business through three operating divisions ("Services", "Fabrication" and "Shipyard") and one non-operating division ("Corporate"), which represent our reportable segments. Our three operating divisions and Corporate Division are discussed below:

Services Division – Our Services Division provides maintenance, repair, construction, scaffolding, coatings, welding enclosures and other specialty services on offshore platforms and inland structures and at industrial facilities; provides services required to connect production equipment and service modules and equipment on offshore platforms; provides project management and commissioning services; provides industrial staffing services; and performs municipal and drainage projects, including pump stations, levee reinforcement, bulkheads and other public works. Our services activities are managed from our various Facilities and include the results of the DSS Acquisition. See Note 1 for further discussion of the DSS Acquisition.

Fabrication Division – Our Fabrication Division fabricates modules, skids and piping systems for onshore refining, petrochemical, LNG and industrial facilities and offshore facilities; fabricates foundations, secondary steel components and support structures for alternative energy developments and coastal mooring facilities; fabricates offshore production platforms and associated structures, including jacket foundations, piles and topsides for fixed production and utility platforms, as well as hulls and topsides for floating production and utility platforms; and fabricates other complex steel structures and components. Our fabrication activities are performed at our Houma Facilities.

Shipyard Division – Our Shipyard Division previously fabricated newbuild marine vessels and provided marine repair and maintenance services. However, on April 19, 2021, we sold our Shipyard Division operating assets and certain construction contracts ("Shipyard Transaction"). The Shipyard Transaction excluded the contracts and related obligations for our seventy-vehicle ferry and two forty-vehicle ferry projects ("Active Retained Shipyard Contracts") that were under construction as of the transaction date and excluded the contracts and related obligations for the projects that are subject to our MPSV Litigation. The Active Retained Shipyard Contracts have been or will be completed at our Houma Facilities and we intend to wind down our Shipyard Division operations (which exclude the projects subject to our MPSV Litigation) by the third quarter 2023 (previously the second quarter 2023, but was delayed and is subject to the potential schedule impacts discussed in Note 2). At June 30, 2023 and December 31, 2022, the net operating liabilities on our Balance Sheet associated with our Shipyard Division operations totaled $3.4 million and $2.7 million, respectively. See Note 1 for further discussion of the Shipyard Transaction and Note 4 for further discussion of our MPSV Litigation.

Corporate Division and Allocations – Our Corporate Division includes costs that do not directly relate to our operating divisions. Such costs include, but are not limited to, costs of maintaining our corporate office, executive management salaries and incentives, board of directors' fees, certain insurance costs and costs associated with overall corporate governance and reporting requirements for a publicly traded company. Shared resources and costs that benefit more than one operating division are allocated amongst the operating divisions based on each operating division's estimated share of the benefit received. Such costs include, but are not limited to, human resources, insurance, information technology, accounting, business development and certain division leadership.

Segment Results – We generally evaluate the performance of, and allocate resources to, our divisions based upon gross profit or loss and operating income or loss. Segment assets are comprised of all assets attributable to each division. Intersegment revenues are priced at the estimated fair value of work performed. Summarized financial information for our segments as of June 30, 2023 and 2022, and for the three and six months ended June 30, 2023 and 2022, is as follows (in thousands):

	Three Months Ended June 30, 2023				
	Services	Fabrication	Shipyard	Corporate	Consolidated
Revenue	$ 24,470	$ 14,741	$ 382	$ (267)	$ 39,326
Gross profit (loss)	4,101	1,564	(1,184)	—	4,481
Operating income (loss)	3,269	1,295	(1,948)	(1,867)	749
Depreciation and amortization expense	496	825	—	71	1,392
Capital expenditures	244	325	—	—	569
Total assets[(1)]	31,030	47,320	14,020	44,123	136,493

	Three Months Ended June 30, 2022				
	Services	Fabrication	Shipyard	Corporate	Consolidated
Revenue	$ 22,180	$ 10,839	$ 2,968	$ (85)	$ 35,902
Gross profit (loss)	3,204	(1,369)	(163)	—	1,672
Operating income (loss)	2,335	1,600	(1,384)	(2,018)	533
Depreciation and amortization expense	386	813	—	74	1,273
Capital expenditures	—	34	—	—	34
Total assets[(1)]	33,670	33,392	17,137	48,801	133,000

	Six Months Ended June 30, 2023				
	Services	Fabrication	Shipyard	Corporate	Consolidated
Revenue	$ 46,057	$ 54,403	$ 1,729	$ (695)	$ 101,494
Gross profit (loss)	7,088	4,026	(1,599)	—	9,515
Operating income (loss)	5,610	3,539	(4,151)	(3,921)	1,077
Depreciation and amortization expense	938	1,647	—	140	2,725
Capital expenditures	508	538	—	10	1,056
Total assets[(1)]	31,030	47,320	14,020	44,123	136,493

	Six Months Ended June 30, 2022				
	Services	Fabrication	Shipyard	Corporate	Consolidated
Revenue	$ 42,844	$ 16,456	$ 5,465	$ (177)	$ 64,588
Gross profit (loss)	5,132	(3,390)	(490)	—	1,252
Operating income (loss)	3,522	(1,333)	(2,572)	(4,066)	(4,449)
Depreciation and amortization expense	746	1,629	—	149	2,524
Capital expenditures	318	156	—	—	474
Total assets[(1)]	33,670	33,392	17,137	48,801	133,000

(1) Cash and short-term investments are reported within our Corporate Division.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* is provided to assist readers in understanding our financial performance during the periods presented and significant trends that may impact our future performance. This discussion should be read in conjunction with our Financial Statements and the related notes thereto. References to "Notes" relate to the Notes to our Financial Statements in Item 1. Certain terms are defined in the *"Glossary of Terms"* beginning on page ii.

Cautionary Statement on Forward-Looking Information

This Report contains forward-looking statements in which we discuss our potential future performance. Forward-looking statements, within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, are all statements other than statements of historical facts, such as projections or expectations relating to timing of delivery of vessels related to the Active Retained Shipyard Contracts and subsequent wind down of our Shipyard Division operations; expected exposure in the event of an adverse outcome in the MPSV Litigation; diversification and entry into new end markets; improvement of risk profile; industry outlook; oil and gas prices; timing of investment decisions and new project awards; cash flows and cash balance; capital expenditures; liquidity; and tax rates. The words "anticipates," "may," "can," "plans," "believes," "estimates," "expects," "projects," "targets," "intends," "likely," "will," "should," "to be," "potential" and any similar expressions are intended to identify those assertions as forward-looking statements.

We caution readers that forward-looking statements are not guarantees of future performance and actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include: supply chain disruptions (including global shipping and logistics challenges), inflationary pressures, economic slowdowns and recessions, banking industry disruptions, natural disasters, public health crises (such as COVID-19), labor costs and geopolitical conflicts (such as the conflict in Ukraine), and the related volatility in oil and gas prices and other factors impacting the global economy; cyclical nature of the oil and gas industry; outcome of the MPSV Litigation and our ability to resolve any other material legal proceedings; competition; reliance on significant customers; competitive pricing and cost overruns on our projects; performance of subcontractors and dependence on suppliers; timing and our ability to secure and commence execution of new project awards, including fabrication projects for refining, petrochemical, LNG, industrial and sustainable energy end markets; our ability to maintain and further improve project execution; nature of our contract terms and customer adherence to such terms; suspension or termination of projects; changes in contract estimates; customer or subcontractor disputes; operating dangers, weather events and limits on insurance coverage; operability and adequacy of our major equipment; final assessment of damage at our Houma Facilities and the related recovery of any insurance proceeds; our ability to raise additional capital; our ability to amend or obtain new debt financing or credit facilities on favorable terms; our ability to generate sufficient cash flow; our ability to obtain letters of credit or surety bonds and ability to meet any indemnification obligations thereunder; consolidation of our customers; financial ability and credit worthiness of our customers; adjustments to previously reported profits or losses under the percentage-of-completion method; our ability to employ a skilled workforce; loss of key personnel; utilization of facilities or closure or consolidation of facilities; failure of our safety assurance program; barriers to entry into new lines of business; weather impacts to operations; any future asset impairments; changes in trade policies of the U.S. and other countries; compliance with regulatory and environmental laws; lack of navigability of canals and rivers; systems and information technology interruption or failure and data security breaches; performance of partners in any future joint ventures and other strategic alliances; shareholder activism; focus on environmental, social and governance factors by institutional investors and regulators; and other factors described under "Risk Factors" in Part I, Item 1A of our 2022 Annual Report as updated in Item 1A "Risk Factors" in this Report and as may be further updated by subsequent filings with the SEC.

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned that many of the assumptions upon which our forward-looking statements are based are likely to change after the date the forward-looking statements are made, which we cannot control. Further, we may make changes to our business plans that could affect our results. We caution investors that we undertake no obligation to publicly update or revise any forward-looking statements, which speak only as of the date made, for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise, and notwithstanding any changes in our assumptions, changes in business plans, actual experience or other changes.

Overview

We are a leading fabricator of complex steel structures and modules and provider of specialty services, including project management, hookup, commissioning, repair, maintenance, scaffolding, coatings, welding enclosures, civil construction and staffing services to the industrial and energy sectors. Our customers include U.S. and, to a lesser extent, international energy producers; refining, petrochemical, LNG, industrial and power operators; and EPC companies. We currently operate and manage our business through three operating divisions ("Services", "Fabrication" and "Shipyard") and one non-operating division ("Corporate"), which represent our reportable segments. Our corporate headquarters is located in The Woodlands, Texas, and our primary operating facilities are located in Houma, Louisiana ("Houma Facilities"). See Note 6 for further discussion of our reportable segments.

On April 19, 2021, we sold our Shipyard Division operating assets and certain construction contracts ("Shipyard Transaction") and intend to wind down our remaining Shipyard Division operations (which exclude the projects that are subject to our MPSV Litigation) by the third quarter 2023 (previously the second quarter 2023, but was delayed and is subject to the potential schedule impacts discussed in Note 2). See Note 1 for further discussion of the Shipyard Transaction and Note 4 for discussion of our MPSV Litigation.

On December 1, 2021, we acquired a services and industrial staffing business ("DSS Acquisition,") which increased our skilled workforce, further diversified our customer base and expanded our service offerings for our Services Division. See Note 1 for further discussion of the DSS Acquisition.

Impacts of Oil and Gas Price Volatility and Macroeconomic Conditions on Operations

Since 2008, the prices of oil and gas have experienced significant volatility, including depressed prices over extended periods, resulting in reductions in capital spending and drilling activities from our traditional offshore oil and gas customer base. Consequently, our operating results and cash flows were negatively impacted as we experienced reductions in revenue, lower margins due to competitive pricing and under-utilization of our operating facilities and resources. Beginning in 2020, the global coronavirus pandemic ("COVID-19") added another layer of pressure and uncertainty on oil and gas prices (with oil prices reaching a twenty-year low and gas prices reaching a four-year low), which further negatively impacted certain of our end markets during the first quarter 2022. This volatility in oil and gas prices was compounded by Russia's invasion of Ukraine in February 2022 (and the related European energy crisis), and the U.S. and other countries actions in response (with oil prices reaching an eight-year high and gas prices reaching a fourteen-year high), which positively impacted certain of our end markets. While oil and gas prices have somewhat stabilized, the duration of such stability is uncertain and difficult to predict.

In addition, global economic factors that are beyond our control, have and could continue to impact our operations, including, but are not limited to, supply chain disruptions (including global shipping and logistics challenges that began in 2020), inflationary pressures, economic slowdowns and recessions, bank failures, natural disasters, public health crises (such as COVID-19), and geopolitical conflicts (such as the conflict in Ukraine).

The ultimate business and financial impacts of oil and gas price volatility and macroeconomic conditions on our business and results of operations continues to be uncertain, but the impacts have included, or may continue to include, among other things, reduced bidding activity; suspension or termination of backlog; deterioration of customer financial condition; and unanticipated project costs and schedule delays due to supply chain disruptions, labor and material price increases, lower labor productivity, increased employee and contractor absenteeism and turnover, craft labor hiring challenges, increased safety incidents, lack of performance by subcontractors and suppliers, and contract disputes. We continue to monitor the impacts of oil and gas price volatility and macroeconomic conditions on our operations, and our estimates in future periods will be revised for any events and changes in circumstances arising after the date of this Report. See Note 1 for further discussion of the impacts of oil and gas price volatility and macroeconomic conditions and Note 2 for further discussion of the impacts of the aforementioned on our projects. See also *"Risk Factors"* in Part I, Item 1A of our 2022 Annual Report as updated in this Report.

Other Impacts to Operations

Hurricane Ida – On August 29, 2021, Hurricane Ida made landfall near Houma, Louisiana as a high-end Category 4 hurricane, with high winds and heavy rains causing damage to buildings and equipment at our Houma Facilities and resulting in significant debris throughout the facility. See Note 2 for further discussion of the impacts of Hurricane Ida.

Ferry Projects – We have experienced construction challenges and cost increases on our seventy-vehicle ferry and forty-vehicle ferry projects. See Note 2 for further discussion of our project impacts.

Initiatives to Improve Operating Results and Generate Stable, Profitable Growth

We previously outlined a strategy to address our operational, market and economic challenges and position the Company to generate stable, profitable growth. Underpinning the first phase of our strategic transformation was a focus on the following initiatives:

- Mitigate the impacts of COVID-19 on our operations and workforce;
- Reduce our risk profile;
- Preserve and improve our liquidity;
- Improve our resource utilization and centralize key project resources;
- Improve our competitiveness and project execution; and
- Reduce our reliance on the offshore oil and gas construction sector and pursue new growth end markets, including:
  - Fabricating modules, piping systems and other structures for onshore refining, petrochemical, LNG and industrial facilities in our core Gulf Coast region, and
  - Fabricating foundations, secondary steel components and support structures for offshore wind developments.

With the significant progress achieved on these objectives, we have shifted our focus to the next phase of our strategic transformation, which is focused on generating stable, profitable growth. Underpinning this strategy is a focus on the following initiatives:

- Expand our skilled workforce;
- Further strengthen project execution and maintain bidding discipline;
- Diversify our offshore services customer base, increase our offshore services offerings and expand our services business to include onshore facilities along the Gulf Coast;
- Continue to pursue opportunities in our traditional offshore fabrication markets; and
- Pursue additional growth end markets and increase our T&M versus fixed price revenue mix, including:
  - Fabricating structures in support of our customers as they transition away from fossil fuels to green energy end markets, and
  - Fabricating structures that support commercial construction activities outside of energy end markets.

Progress on our Strategic Transformation Initiatives

Efforts to mitigate the impacts of COVID-19 on our operations and workforce – We continue to take actions to mitigate the impacts of COVID-19 on our operations and maintain a safe work environment for our workforce, including maintaining protocols for handling employees who have tested positive for COVID-19 or have come in contact with individuals that have tested positive for COVID-19. In addition, we have protocols for employees to return to work that test positive for COVID-19, including requiring a negative COVID-19 antigen test prior to returning to work.

Efforts to reduce our risk profile – The completion of the Shipyard Transaction improved our risk profile by removing potential future risks associated with certain construction contracts that represented approximately 90% of our backlog with durations that extended through 2024. The Active Retained Shipyard Contracts have been or will be completed at our Houma Facilities and we are winding down our Shipyard Division operations, which is currently anticipated to occur by the third quarter 2023 (previously the second quarter 2023, but was delayed and is subject to the potential schedule impacts discussed in Note 2). The wind down of our Shipyard Division operations does not include our contracts and related obligations for the projects that are subject to our MPSV Litigation. See Note 1 for further discussion of the Shipyard Transaction and Note 4 for further discussion of our MPSV Litigation.

Efforts to preserve and improve our liquidity – We continue to take actions to preserve and improve our liquidity, including cost reduction initiatives, monetization of under-utilized assets and facilities, and an ongoing focus on project cash flow management. In addition, as a result of the Shipyard Transaction and anticipated wind down of our Shipyard Division operations (which exclude the projects that are subject to our MPSV Litigation), our bonding, letters of credit and working capital requirements for our remaining Shipyard Division operations were significantly reduced. See Note 1 for further discussion of the Shipyard Transaction, Note 3 for further discussion of our outstanding bonds and letters of credit and Note 4 for further discussion of our MPSV Litigation.

Efforts to improve our resource utilization and centralize key project resources – We have improved our resource utilization and centralized key project resources through the rationalization and integration of our facilities and operations.

- *Consolidation of our fabrication activities* – In the first quarter 2022, we combined all of our fabrication activities within our Fabrication Division to improve utilization and operational efficiency.
- *Sublease and lease termination of previously closed facilities* – In the first quarter 2022, we entered into a sublease arrangement for a previously closed leased facility associated with our Shipyard Division operations that will recover our lease costs for the facility for the duration of our lease. In the third quarter 2022, we also terminated a lease for a previously closed facility associated with our Shipyard Division operations that eliminated our future lease obligations for the facility.
- *Completion of Shipyard Transaction and anticipated wind down of our Shipyard Division operations* – In the second quarter 2021, we completed the Shipyard Transaction and intend to wind down our Shipyard Division operations upon completion of the Active Retained Shipyard Contracts (which exclude the projects that are subject to our MPSV Litigation), which is currently anticipated to occur by the third quarter 2023 (previously the second quarter 2023, but was delayed and is subject to the potential schedule impacts discussed in Note 2). The Shipyard Transaction and wind down of our Shipyard Division operations is expected to reduce overhead costs, improve utilization and enable senior management to focus on existing and new higher-margin markets associated with our other operating divisions. See Note 1 for further discussion of the Shipyard Transaction and Note 4 for further discussion of our MPSV Litigation.
- *Sale of assets* – In the third quarter 2022, we sold (for $1.9 million, net of transaction and other costs) a purchase option entered into in connection with the DSS Acquisition that provided us with a right to buy a leased fabrication and operating facility for a nominal amount. Further, the fabrication activities previously performed at the facility were moved to our Houma Facilities to improve utilization and operational efficiency. In addition, we entered into a separate lease arrangement for a smaller and more cost-effective office and warehouse facility to accommodate our services activities performed at the previous facility. See *"Overview"* above and Note 1 for further discussion of the DSS Acquisition.
- *Sublease of our corporate office* – In the third quarter 2022, we entered into a sublease arrangement with a third-party for the remainder of our corporate office, which will partially recover our lease costs for the office for the duration of our lease. In addition, we entered into a separate lease arrangement for a smaller and more cost-effective office to accommodate our corporate activities.

Efforts to improve our competitiveness, project execution and bidding discipline – We have taken, and continue to take, actions to improve our competitiveness and project execution by enhancing our proposal, estimating and operations resources, processes and procedures. Our actions include strategic changes in management and key personnel, the addition of functional expertise, project management training, development of a formal "lessons learned" program, and other measures designed to strengthen our personnel, processes and procedures. Further, we are taking a disciplined approach to pursuing and bidding project opportunities, putting more rigor around our bid estimates to provide greater confidence that our estimates are achievable, increasing accountability and providing incentives for the execution of projects in line with our original estimates and subsequent forecasts, and incorporating previous experience into the bidding and execution of future projects. Additionally, we are focused on managing the risks associated with long-term fixed price contracts given the unpredictability of labor availability and labor and material costs, with a priority on increasing the mix of T&M contracts in our backlog.

Efforts to expand our skilled workforce – We are focused on ways to improve retention and enhance and add to our skilled, craft personnel, as we believe a strong workforce will be a key differentiator in pursuing new project awards given the scarcity of available skilled labor. The DSS Acquisition in the fourth quarter 2021 nearly doubled our skilled workforce and expanded our geographic footprint for skilled labor, which we believe will contribute to the retention and recruitment of personnel. We have successfully maintained our headcount levels for our Services Division and have opportunistically looked to shift our workforce to higher margin opportunities given the industry-wide labor constraints. See *"Overview"* above and Note 1 for further discussion of the DSS Acquisition.

Efforts to diversify our offshore services customer base, increase our offshore services offerings and expand our services business to include onshore facilities along the Gulf Coast – We believe diversifying and expanding our services business will deliver a more stable revenue stream while providing underpinning work to recruit, develop and retain our craft professionals. The DSS Acquisition in the fourth quarter 2021 accelerated our progress in this initiative and provides a stronger platform to continue such progress. Further, in the third quarter 2022, we made capital and other investments to expand our offshore services offering to include welding enclosures, which provide a safe environment for welding, cutting and burning without the need to shut down operations. We are also pursuing opportunities to partner with original equipment manufacturers to provide critical services to our customers along the Gulf Coast and strategic partnership opportunities with engineering companies to provide turnkey solutions. See *"Overview"* above and Note 1 for further discussion of the DSS Acquisition.

Efforts to pursue opportunities in our traditional offshore fabrication markets – We continue to fabricate structures associated with our traditional offshore markets, including subsea and associated structures. During the third quarter 2022, we were awarded a large contract for the fabrication of jacket foundations for an offshore project; however, the project was suspended in February 2023 and cancelled in July 2023. See *"New Project Awards and Backlog"* below and Note 2 for further discussion of the project cancellation.

Efforts to reduce our reliance on the offshore oil and gas construction sector, pursue new growth end markets and increase our T&M versus fixed price revenue mix – While we continue to pursue opportunities in our traditional offshore markets, we are pursuing initiatives to grow our business and diversify our revenue mix.

- *Fabricate onshore modules, piping systems and structures* – We continue to focus our business development efforts on the fabrication of modules, piping systems and other structures for onshore refining, petrochemical, LNG and industrial facilities. We are having success with smaller project opportunities and our volume of bidding activity for onshore modules, piping systems and structures continues to be strong. We continue to believe that our strategic location in Houma, Louisiana and track record of quality and on-time completion of onshore modules position us well to compete in the onshore fabrication market. We intend to remain disciplined in our pursuit of future large project opportunities to ensure we do not take unnecessary risks generally associated with the long-term, fixed-price nature of such projects. The timing of any future large project opportunities may be impacted by ongoing uncertainty created by oil and gas price volatility and macroeconomic conditions. We continue to strengthen our relationships with key customers and strategic partners and enhance and rationalize our resources as discussed above. See Note 1 for further discussion of the impacts of oil and gas price volatility and macroeconomic conditions.
- *Fabricate offshore wind foundations, secondary steel components and support structures* – We continue to believe that current initiatives, and potential future requirements, to provide electricity from renewable and green sources will result in growth of offshore wind projects. Furthermore, we believe that we possess the expertise to fabricate foundations, secondary steel components and support structures for this emerging market. This is demonstrated by our fabrication of wind turbine foundations for the first offshore wind project in the U.S. and the fabrication of a meteorological tower and platform for an offshore wind project. While we believe we have the capability to participate in this emerging market, we do not expect meaningful opportunities in the near-term.
- *Fabricate structures in support of our customers as they transition away from fossil fuels to green energy end markets* – We believe that our expertise and capabilities provide us with the necessary foundation to fabricate steel structures in support of our customers as they transition away from fossil fuels to green energy end markets. Examples of these opportunities include refiners who are looking to process biofuels, customers looking to embrace the growing hydrogen economy, and customers using carbon capture technologies to offset their carbon footprint.
- *Fabricate structures that support commercial construction activities outside of energy end markets* – We believe our expertise and capabilities for the fabrication of steel structures will enable us to successfully serve the commercial construction market. Examples of these opportunities include the fabrication of structures for data centers and semiconductor manufacturing sites.

Operating Outlook

Our focus remains on securing profitable new project awards and backlog and generating operating income and cash flows, while ensuring the safety and well-being of our workforce. Our success, including achieving the aforementioned initiatives, will be determined by, among other things:

- Our ability to hire, develop, motivate and retain key personnel and craft labor to execute our projects in light of industry-wide labor constraints, and maintain our expected project margins if such constraints result in labor cost increases that cannot be recovered from our customers;
- Oil and gas prices and the level of volatility in such prices, including the impact of macroeconomic conditions, geopolitical conflicts (such as the conflict in Ukraine and the related European energy crisis) and any current or future public health crises (such as COVID-19);
- The level of fabrication opportunities in our traditional offshore markets and the new markets that we are pursuing, including refining, petrochemical, LNG and industrial facilities, green energy and offshore wind developments, and the impact of any climate related regulations;
- The outcome of our MPSV Litigation, for which an unfavorable outcome could have a material adverse effect on our financial condition, results of operations and liquidity. See Note 4 for further discussion of our MPSV Litigation;
- The timing of recognition of our backlog as revenue;
- Our ability to secure new project awards through competitive bidding and/or alliance and partnering arrangements;
- Our ability to execute projects within our cost estimates and successfully manage them through completion (including the Active Retained Shipyard Contracts);
- The successful wind down of our Shipyard Division operations;
- Consideration of organic and inorganic opportunities for growth, including, but not limited to, acquisitions, mergers, joint ventures, partnerships and other strategic arrangements, transactions and capital allocations;
- The operability and adequacy of our major equipment; and
- The successful restoration of our Houma Facilities within our insurance coverage amounts, resulting from damage previously caused by Hurricane Ida.

In addition, the near-term utilization of our Fabrication Division will be impacted by the timing of new project awards and their execution and our cancelled offshore jackets project, and our operations may continue to be impacted by inefficiencies and disruptions associated with employee turnover, craft labor hiring challenges, engineering delays, and supplier and subcontractor disruptions. Our results may also be adversely affected by (i) costs associated with the retention of certain personnel that may be temporarily under-utilized as we evaluate our resource requirements to support our future operations, (ii) investments in key personnel and process improvement efforts to support our aforementioned initiatives, and (iii) higher costs and availability of craft labor due to industry labor constraints. See Note 1 for further discussion of the impacts of oil and gas price volatility and macroeconomic conditions, *"Results of Operations"* below and Note 2 for further discussion of our project impacts, and *"New Project Awards and Backlog"* below and Note 2 for further discussion of the project cancellation.

Critical Accounting Policies

For a discussion of critical accounting policies and estimates used in the preparation of our Financial Statements, refer to "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in Part II, Item 7 included in our 2022 Annual Report. There have been no changes to our critical accounting policies and estimates since December 31, 2022.

New Project Awards and Backlog

New project awards represent expected revenue values of commitments received during a given period, including scope growth on existing commitments. A commitment represents authorization from our customer to begin work or purchase materials pursuant to a written agreement, letter of intent or other form of authorization. Backlog represents the unrecognized revenue for our new project awards and at June 30, 2023, was consistent with the value of remaining performance obligations for our contracts required to be disclosed under Topic 606 and presented in Note 2. In general, a performance obligation is a contractual obligation to construct and/or transfer a distinct good or service to a customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. We believe that backlog, a non-GAAP financial measure, provides useful information to investors as it represents work that we are obligated to perform under our current contracts. New project awards and backlog may vary significantly each reporting period based on the timing of our major new contract commitments.

Projects in our backlog are generally subject to delay, suspension, termination, or an increase or decrease in scope at the option of the customer; however, the customer is required to pay us for work performed and materials purchased through the date of termination, suspension, or decrease in scope. Depending on the size of the project, the delay, suspension, termination or increase or decrease in scope of any one contract could significantly impact our backlog and change the expected amount and timing of revenue recognized. New project awards by Division for the three and six months ended June 30, 2023 and 2022, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Services	$ 24,330	$ 23,060	$ 45,802	$ 42,462
Fabrication	13,438	11,726	30,144	20,022
Shipyard	(227)	833	(349)	833
Eliminations	(267)	(85)	(695)	(177)
Total	$ 37,274	$ 35,534	$ 74,902	$ 63,140

Backlog by Division at June 30, 2023 and December 31, 2022, is as follows (in thousands):

	June 30, 2023		December 31, 2022	
	Amount	Labor Hours	Amount	Labor Hours
Services	$ 1,067	13	$ 1,322	20
Fabrication(1)	9,897	91	110,287	613
Shipyard(2)	1,194	4	3,272	22
Total(3)	$ 12,158	108	$ 114,881	655

(1) In February 2023, we received direction from our customer to suspend all activities on our offshore jackets project for our Fabrication Division, and in July 2023, the customer cancelled the contract. Accordingly, our backlog was reduced by $76.1 million to reflect the estimated revenue amount that will not be recognized due to the cancellation. See Note 2 for further discussion of the project cancellation.

(2) At June 30, 2023, backlog for our Shipyard Division included the following significant projects:

(i) Construction of a forty-vehicle ferry for our Shipyard Division that is being performed primarily on a fixed-price basis. We estimate completion of the vessel in the third quarter 2023 (previously the second quarter 2023, but was delayed and is subject to the potential schedule impacts discussed in Note 2);

(ii) Construction of a seventy-vehicle ferry for our Shipyard Division that is being performed primarily on a fixed-price basis. At June 30, 2023, the vessel was substantially complete (exclusive of the potential impacts discussed in Note 2).

(3) Based on our current estimates we expect to recognize revenue of approximately $11.8 million and $0.4 million for the remainder of 2023 and 2024, respectively, associated with our backlog at June 30, 2023. Certain factors and circumstances could result in changes in the timing of recognition of our backlog as revenue and the amounts ultimately recognized.

Results of Operations

Comparison of the Three Months Ended June 30, 2023 and 2022 (in thousands in each table, except for percentages):

Consolidated

	Three Months Ended June 30,		Favorable (Unfavorable)
	2023	2022	Change
New project awards	$ 37,274	$ 35,534	$ 1,740
Revenue	$ 39,326	$ 35,902	$ 3,424
Cost of revenue	34,845	34,230	(615)
Gross profit	4,481	1,672	2,809
Gross profit percentage	*11.4%*	*4.7%*	
General and administrative expense	3,736	4,345	609
Other (income) expense, net	(4)	(3,206)	(3,202)
Operating income	749	533	216
Interest (expense) income, net	340	(18)	358
Income before income taxes	1,089	515	574
Income tax (expense) benefit	13	13	—
Net income	$ 1,102	$ 528	$ 574

References below to 2023 and 2022 refer to the three months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were $37.3 million and $35.5 million, respectively. New project awards for both periods were primarily related to:

- Small-scale fabrication work for our Fabrication Division, and
- Offshore services work for our Services Division.

Revenue – Revenue for 2023 and 2022 was $39.3 million and $35.9 million, respectively, representing an increase of 9.5%. The increase was primarily due to:

- Higher revenue for our Services Division of $2.3 million, primarily attributable to:
  - Incremental revenue associated with our welding enclosures business line (commenced in the third quarter 2022), and
  - Higher activity for our core services business, and
- Higher revenue for our Fabrication Division of $3.9 million, primarily attributable to increased small-scale fabrication activity, offset partially by,
- Lower revenue for our Shipyard Division of $2.6 million, primarily attributable to our seventy-vehicle ferry and forty-vehicle ferry projects, which are completed or nearing completion.

Gross profit – Gross profit for 2023 and 2022 was $4.5 million (11.4% of revenue) and $1.7 million (4.7% of revenue), respectively. Gross profit for 2023 was primarily impacted by:

- A strong market and demand for the services provided by our Services Division, offset partially by,
- The partial under-recovery of overhead costs due to the under-utilization of our facilities and resources for our Fabrication Division,
- Project charges of $0.8 million related to forecast cost increases and liquidated damages on our seventy-vehicle ferry project and remaining forty-vehicle ferry project for our Shipyard Division, and
- Holding costs of $0.2 million related to the two MPSVs that remain in our possession and are subject to our MPSV Litigation for our Shipyard Division.

The increase in gross profit for 2023 relative to 2022 was primarily due to:

- Higher revenue for our Fabrication Division and Services Division,
- A higher margin mix for our Fabrication Division and Services Division, and
- A decrease in the under-recovery of overhead costs for our Fabrication Division, offset partially by,
- The aforementioned project charges of $0.8 million for 2023 for our Shipyard Division.

See *"Operating Segments"* below and Note 2 for further discussion of our project impacts.

General and administrative expense – General and administrative expense for 2023 and 2022 was $3.7 million and $4.3 million, respectively, representing a decrease of 14.0%. The decrease was primarily due to lower legal and advisory fees associated with our MPSV Litigation for our Shipyard Division. General and administrative expense included legal and advisory fees of $0.5 million and $1.0 million for 2023 and 2022, respectively, associated with our MPSV Litigation, which are reflected within our Shipyard Division. See Note 4 for further discussion of our MPSV Litigation.

Other (income) expense, net – Other (income) expense, net for 2023 and 2022 was income of less than $0.1 million and income of $3.2 million, respectively. Other (income) expense, net generally represents recoveries or provisions for bad debts and credit losses, gains or losses associated with the sale or disposition of property and equipment, and income or expense associated with certain nonrecurring items. Other expense for 2023 was primarily due to:

- Miscellaneous income items for our Fabrication Division, offset partially by,
- Charges of $0.3 million associated with damage previously caused by Hurricane Ida to bulkheads and the MPSVs which are in our possession and subject to our MPSV Litigation for our Shipyard Division.

Other income for 2022 was primarily due to:

- Gains of $3.4 million related to the net impact of insurance recoveries and costs associated with damage previously caused by Hurricane Ida to buildings and equipment at our Houma Facilities for our Fabrication Division, offset partially by,
- Charges of $0.2 million associated with damage previously caused by Hurricane Ida to bulkheads and the MPSVs which are in our possession and subject to our MPSV Litigation for our Shipyard Division.

See Note 2 for further discussion of the impacts of Hurricanes Ida.

Interest (expense) income, net – Interest (expense) income, net for 2023 and 2022 was income of $0.3 million and expense of less than $0.1 million, respectively. Interest (expense) income, net for both periods included the net impact of interest earned on our cash and short-term investment balances and interest incurred on the unused portion of our LC Facility and on our Insurance Finance Arrangements. The income for 2023 relative to expense for 2022 was primarily due to higher interest earned on our cash and short-term investment balances for the 2023 period.

Income tax (expense) benefit – Income tax (expense) benefit for 2023 and 2022 represents state income taxes. No federal income tax expense was recorded for our income for 2023 or 2022 as it was fully offset by the reversal of valuation allowance on our net deferred tax assets.

Operating Segments

Services Division

	Three Months Ended June 30,		Favorable (Unfavorable)
	2023	**2022**	**Change**
New project awards	$ 24,330	$ 23,060	$ 1,270
Revenue	$ 24,470	$ 22,180	$ 2,290
Gross profit	4,101	3,204	897
Gross profit percentage	*16.8%*	*14.4%*	
General and administrative expense	792	760	(32)
Other (income) expense, net	40	109	69
Operating income	3,269	2,335	934

References below to 2023 and 2022 refer to the three months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were $24.3 million and $23.1 million, respectively, and were primarily related to offshore services work, with the increase primarily due to incremental new project awards associated with our welding enclosures business line (commenced in the third quarter 2022).

Revenue – Revenue for 2023 and 2022 was $24.5 million and $22.2 million, respectively, representing an increase of 10.3%. The increase was primarily due to:

- Incremental revenue associated with our welding enclosures business line (commenced in the third quarter 2022), and
- Higher activity for our core services business.

Gross profit – Gross profit for 2023 and 2022 was $4.1 million (16.8% of revenue) and $3.2 million (14.4% of revenue), respectively. The increase in gross profit for 2023 relative to 2022 was primarily due to:

- Higher revenue, and
- A higher margin mix (including the benefit of our welding enclosures business line).

General and administrative expense – General and administrative expense for 2023 and 2022 was $0.8 million and $0.8 million, respectively, representing an increase of 4.2%.

Other (income) expense, net – Other (income) expense, net for 2022 was expense of $0.1 million.

Fabrication Division

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Favorable (Unfavorable) Change
New project awards	$ 13,438	$ 11,726	$ 1,712
Revenue	$ 14,741	$ 10,839	$ 3,902
Gross profit (loss)	1,564	(1,369)	2,933
Gross profit (loss) percentage	*10.6 %*	*(12.6)%*	
General and administrative expense	470	567	97
Other (income) expense, net	(201)	(3,536)	(3,335)
Operating income	1,295	1,600	(305)

References below to 2023 and 2022 refer to the three months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were $13.4 million and $11.7 million, respectively, and were primarily related to small-scale fabrication work.

Revenue – Revenue for 2023 and 2022 was $14.7 million and $10.8 million, respectively, representing an increase of 36.0%. The increase was primarily due to higher small-scale fabrication activity.

Gross profit (loss) – Gross profit for 2023 was $1.6 million (10.6% of revenue) and gross loss for 2022 was $1.4 million (12.6% of revenue). Gross profit for 2023 was primarily impacted by the partial under-recovery of overhead costs due to the under-utilization of our facilities and resources due to low work hours. The gross profit for 2023 relative to the gross loss for 2022 was primarily due to:

- Higher revenue,
- A decrease in the under-recovery of overhead costs due an increase in work hours associated with our small-scale fabrication work and recoveries associated with our offshore jackets project prior to its cancellation, and
- A higher margin mix associated with our small-scale fabrication work.

The Fabrication Division utilization for 2022 benefited by $0.2 million from providing resources and facilities to our Shipyard Division for our seventy-vehicle ferry and forty-vehicle ferry projects. See Note 2 for further discussion of our project impacts.

General and administrative expense – General and administrative expense for 2023 and 2022 was $0.5 million and $0.6 million, respectively, representing a decrease of 17.1%. The decrease was primarily due to various cost savings.

Other (income) expense, net – Other (income) expense, net for 2023 and 2022 was income of $0.2 million and $3.5 million, respectively. Other income for 2023 was primarily due to miscellaneous income items. Other income for 2022 was primarily due to gains of $3.4 million related to the net impact of insurance recoveries and costs associated with damage previously caused by Hurricane Ida to buildings and equipment at our Houma Facilities.

Shipyard Division

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Favorable (Unfavorable) Change
New project awards	$ (227)	$ 833	$ (1,060)
Revenue	$ 382	$ 2,968	$ (2,586)
Gross loss	(1,184)	(163)	(1,021)
Gross loss percentage	*(309.9)%*	*(5.5)%*	
General and administrative expense	537	1,000	463
Other (income) expense, net	227	221	(6)
Operating loss	(1,948)	(1,384)	(564)

References below to 2023 and 2022 refer to the three months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were negative $0.2 million and $0.8 million, respectively. The negative new project awards for 2023 were due to liquidated damages for our seventy-vehicle ferry and forty-vehicle ferry projects.

Revenue – Revenue for 2023 and 2022 was $0.4 million and $3.0 million, respectively, representing a decrease of 87.1%. The decrease was primarily due to:

- Lower revenue for our forty-vehicle ferry project, which was substantially completed in the fourth quarter 2022 and accepted by the customer in the second quarter 2023,
- Lower revenue for our remaining forty-vehicle ferry project, which is nearing completion, and
- Lower revenue for our seventy-vehicle ferry project, which is nearing completion.

Gross loss – Gross loss for 2023 and 2022 was $1.2 million (309.9% of revenue) and $0.2 million (5.5% of revenue), respectively. The gross loss for 2023 was primarily due to:

- Project charges of $0.8 million related to forecast cost increases and liquidated damages on our seventy-vehicle ferry project and remaining forty-vehicle ferry project,
- Holding costs of $0.2 million related to the two MPSVs that remain in our possession and are subject to our MPSV Litigation, and
- The partial under-recovery of overhead costs due to the under-utilization of our resources due to low work hours as our remaining projects are nearing completion.

The increase in gross loss for 2023 relative to 2022 was primarily due to:

- The aforementioned project charges of $0.8 million for 2023, and
- An increase in the under-recovery of overhead costs due to a decrease in work hours as our remaining projects are nearing completion.

See Note 2 for further discussion of our project impacts and Note 4 for further discussion of our MPSV Litigation.

General and administrative expense – General and administrative expense for 2023 and 2022 was $0.5 million and $1.0 million, respectively, representing a decrease of 46.3%. General and administrative expense relates to legal and advisory fees associated with our MPSV Litigation. See Note 4 for further discussion of our MPSV Litigation.

Other (income) expense, net – Other (income) expense, net for 2023 and 2022 was expense of $0.2 million and $0.2 million, respectively, and was primarily due to charges of $0.3 million and $0.2 million, respectively, associated with damage previously caused by Hurricane Ida to bulkheads and the MPSVs which are in our possession and subject to our MPSV Litigation.

Corporate Division

	Three Months Ended June 30,		Favorable (Unfavorable)
	2023	2022	Change
New project awards (eliminations)	$ (267)	$ (85)	$ (182)
Revenue (eliminations)	$ (267)	$ (85)	$ (182)
Gross profit	—	—	—
General and administrative expense	1,937	2,018	81
Other (income) expense, net	(70)	—	70
Operating loss	(1,867)	(2,018)	151

References below to 2023 and 2022 refer to the three months ended June 30, 2023 and 2022, respectively.

General and administrative expense – General and administrative expense for 2023 and 2022 was $1.9 million and $2.0 million, respectively, representing a decrease of 4.0%.

Other (income) expense, net – Other (income) expense, net for 2023 was income of $0.1 million.

Comparison of the Six Months Ended June 30, 2023 and 2022 (in thousands in each table, except for percentages):

Consolidated

	Six Months Ended June 30,		Favorable (Unfavorable)
	2023	2022	Change
New project awards	$ 74,902	$ 63,140	$ 11,762
Revenue	$ 101,494	$ 64,588	$ 36,906
Cost of revenue	91,979	63,336	(28,643)
Gross profit	9,515	1,252	8,263
Gross profit percentage	*9.4%*	*1.9%*	
General and administrative expense	8,803	8,455	(348)
Other (income) expense, net	(365)	(2,754)	(2,389)
Operating income (loss)	1,077	(4,449)	5,526
Interest (expense) income, net	660	(58)	718
Income (loss) before income taxes	1,737	(4,507)	6,244
Income tax (expense) benefit	6	8	(2)
Net income (loss)	$ 1,743	$ (4,499)	$ 6,242

References below to 2023 and 2022 refer to the six months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were $74.9 million and $63.1 million respectively. New project awards for both periods were primarily related to:

- Small-scale fabrication work for our Fabrication Division, and
- Offshore services work for our Services Division.

Revenue – Revenue for 2023 and 2022 was $101.5 million and $64.6 million, respectively, representing an increase of 57.1%. The increase was primarily due to:

- Higher revenue for our Services Division of $3.2 million, primarily attributable to incremental revenue associated with our welding enclosures business line (commenced in the third quarter 2022), and
- Higher revenue for our Fabrication Division of $37.9 million, primarily attributable to:
  - Revenue for our offshore jackets project prior to its cancellation (primarily related to procurement activities prior to project suspension), and
  - Increased small-scale fabrication activity, offset partially by,
- Lower revenue for our Shipyard Division of $3.7 million, primarily attributable to our seventy-vehicle ferry and forty-vehicle ferry projects, which are completed or nearing completion.

Gross profit – Gross profit for 2023 and 2022 was $9.5 million (9.4% of revenue) and $1.3 million (1.9% of revenue), respectively. Gross profit for 2023 was primarily impacted by:

- A strong market and demand for the services provided by our Services Division, offset partially by,
- The low margin associated with procurement activities for our cancelled offshore jackets project prior to its suspension for our Fabrication Division,
- The partial under-recovery of overhead costs due to the under-utilization of our facilities and resources for our Fabrication Division,
- Project charges of $0.8 million related to forecast cost increases and liquidated damages on our seventy-vehicle ferry project and remaining forty-vehicle ferry project for our Shipyard Division, and
- Holding costs of $0.5 million related to the two MPSVs that remain in our possession and are subject to our MPSV Litigation for our Shipyard Division.

The increase in gross profit for 2023 relative to 2022 was primarily due to:

- Higher revenue for our Fabrication Division and Services Division,
- A higher margin mix for our Fabrication Division and Services Division, and
- A decrease in the under-recovery of overhead costs for our Fabrication Division, offset partially by,
- The aforementioned project charges of $0.8 million for 2023 for our Shipyard Division.

See *"Operating Segments"* below and Note 2 for further discussion of our project impacts.

General and administrative expense – General and administrative expense for 2023 and 2022 was $8.8 million and $8.5 million, respectively, representing an increase of 4.1%. The increase was primarily due to higher legal and advisory fees associated with our MPSV Litigation for our Shipyard Division. General and administrative expense included legal and advisory fees of $2.3 million and $1.7 million for 2023 and 2022, respectively, associated with our MPSV Litigation, which are reflected within our Shipyard Division. See Note 4 for further discussion of our MPSV Litigation.

Other (income) expense, net – Other (income) expense, net for 2023 and 2022 was income of $0.4 million and $2.8 million, respectively. Other (income) expense, net generally represents recoveries or provisions for bad debts and credit losses, gains or losses associated with the sale or disposition of property and equipment, and income or expense associated with certain nonrecurring items. Other income for 2023 was primarily due to:

- Miscellaneous income items for our Fabrication Division, and
- Gains of $0.2 million related to the net impact of insurance recoveries and costs associated with damage previously caused by Hurricane Ida to buildings and equipment at our Houma Facilities for our Fabrication Division, offset partially by,
- Charges of $0.3 million associated with damage previously caused by Hurricane Ida to bulkheads and the MPSVs which are in our possession and subject to our MPSV Litigation for our Shipyard Division.

Other income for 2022 was primarily due to:

- Gains of $3.1 million related to the net impact of insurance recoveries and costs associated with damage previously caused by Hurricane Ida to buildings and equipment at our Houma Facilities for our Fabrication Division, offset partially by,
- Charges of $0.2 million associated with damage previously caused by Hurricane Ida to bulkheads and the MPSVs which are in our possession and subject to our MPSV Litigation for our Shipyard Division.

See Note 2 for further discussion of the impacts of Hurricanes Ida.

Interest (expense) income, net – Interest (expense) income, net for 2023 and 2022 was income of $0.7 million and expense of $0.1 million, respectively. Interest (expense) income, net for both periods included the net impact of interest earned on our cash and short-term investment balances and interest incurred on the unused portion of our LC Facility and on our Insurance Finance Arrangements. The income for 2023 relative to expense for 2022 was primarily due to higher interest earned on our cash and short-term investment balances for the 2023 period.

Income tax (expense) benefit – Income tax (expense) benefit for 2023 and 2022 represents state income taxes. No federal income tax expense was recorded for our income for 2023 as it was fully offset by the reversal of valuation allowance on our net deferred tax assets, and no federal income tax benefit was recorded for our loss for 2022 as a full valuation allowance was recorded against our net deferred tax assets generated during the period.

Operating Segments

Services Division

	Six Months Ended June 30,		Favorable (Unfavorable)
	2023	2022	Change
New project awards	$ 45,802	$ 42,462	$ 3,340
Revenue	$ 46,057	$ 42,844	$ 3,213
Gross profit	7,088	5,132	1,956
Gross profit percentage	*15.4%*	*12.0%*	
General and administrative expense	1,502	1,489	(13)
Other (income) expense, net	(24)	121	145
Operating income	5,610	3,522	2,088

References below to 2023 and 2022 refer to the six months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were $45.8 million and $42.5 million, respectively, and were primarily related to offshore services work, with the increase due to incremental new project awards associated with our welding enclosures business line (commenced in the third quarter 2022).

Revenue – Revenue for 2023 and 2022 was $46.1 million and $42.8 million, respectively, representing an increase of 7.5%. The increase was primarily due to incremental revenue associated with our welding enclosures business line (commenced in the third quarter 2022).

Gross profit – Gross profit for 2023 and 2022 was $7.1 million (15.4% of revenue) and $5.1 million (12.0% of revenue), respectively. The increase in gross profit for 2023 relative to 2022 was primarily due to:

- Higher revenue, and
- A higher margin mix (including the benefit of our welding enclosures business line).

General and administrative expense – General and administrative expense for 2023 and 2022 was $1.5 million and $1.5 million, respectively, representing an increase of 0.9%.

Other (income) expense, net – Other (income) expense, net for 2022 was expense of $0.1 million.

Fabrication Division

	Six Months Ended June 30,		Favorable (Unfavorable)
	2023	2022	Change
New project awards	$ 30,144	$ 20,022	$ 10,122
Revenue	$ 54,403	$ 16,456	$ 37,947
Gross profit (loss)	4,026	(3,390)	7,416
Gross profit (loss) percentage	*7.4%*	*(20.6)%*	
General and administrative expense	990	1,192	202
Other (income) expense, net	(503)	(3,249)	(2,746)
Operating income (loss)	3,539	(1,333)	4,872

References below to 2023 and 2022 refer to the six months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were $30.1 million and $20.0 million, respectively, and were primarily related to small-scale fabrication work.

Revenue – Revenue for 2023 and 2022 was $54.4 million and $16.5 million, respectively, representing an increase of 230.6%. The increase was primarily due to:

- Revenue for our offshore jackets project prior to its cancellation (primarily related to procurement activities prior to project suspension), and
- Higher small-scale fabrication activity.

Gross profit (loss) – Gross profit for 2023 was $4.0 million (7.4% of revenue) and gross loss for 2022 was $3.4 million (20.6% of revenue). Gross profit for 2023 was primarily impacted by:

- The low margin associated with procurement activities for our cancelled offshore jackets project prior to its suspension, and
- The partial under-recovery of overhead costs due to the under-utilization of our facilities and resources due to low work hours.

The gross profit for 2023 relative to the gross loss for 2022 was primarily due to:

- Higher revenue,
- A decrease in the under-recovery of overhead costs due an increase in work hours associated with our small-scale fabrication work and recoveries associated with our offshore jackets project prior to its cancellation, and
- A higher margin mix associated with our small-scale fabrication work, offset partially by,
- Higher property and equipment insurance costs.

The Fabrication Division utilization for 2023 and 2022 benefited by $0.1 million and $0.4 million, respectively, from providing resources and facilities to our Shipyard Division for our seventy-vehicle ferry and forty-vehicle ferry projects. See Note 2 for further discussion of our project impacts.

General and administrative expense – General and administrative expense for 2023 and 2022 was $1.0 million and $1.2 million, respectively, representing a decrease of 16.9%. The decrease was primarily due to various cost savings.

Other (income) expense, net – Other (income) expense, net for 2023 and 2022 was income of $0.5 million and $3.2 million, respectively. Other income for 2023 was primarily due to:

- Miscellaneous income items, and
- Gains of $0.2 million related to the net impact of insurance recoveries and costs associated with damage previously caused by Hurricane Ida to buildings and equipment at our Houma Facilities.

Other income for 2022 was primarily due to gains of $3.1 million related to the net impact of insurance recoveries and costs associated with damage previously caused by Hurricane Ida to buildings and equipment at our Houma Facilities.

Shipyard Division

	Six Months Ended June 30,		Favorable (Unfavorable)
	2023	2022	Change
New project awards	$ (349)	$ 833	$ (1,182)
Revenue	$ 1,729	$ 5,465	$ (3,736)
Gross loss	(1,599)	(490)	(1,109)
Gross loss percentage	*(92.5)%*	*(9.0)%*	
General and administrative expense	2,250	1,746	(504)
Other (income) expense, net	302	336	34
Operating loss	(4,151)	(2,572)	(1,579)

References below to 2023 and 2022 refer to the six months ended June 30, 2023 and 2022, respectively.

New project awards – New project awards for 2023 and 2022 were negative $0.3 million and $0.8 million, respectively. The negative new project awards for 2023 were due to liquidated damages for our seventy-vehicle ferry and forty-vehicle ferry projects.

Revenue – Revenue for 2023 and 2022 was $1.7 million and $5.5 million, respectively, representing a decrease of 68.4%. The decrease was primarily due to:

- Lower revenue for our forty-vehicle ferry project that was substantially completed in the fourth quarter 2022 and accepted by the customer in the second quarter 2023,
- Lower revenue for our remaining forty-vehicle ferry project, which is nearing completion, and
- Lower revenue for our seventy-vehicle ferry project, which is nearing completion.

Gross loss – Gross loss for 2023 and 2022 was $1.6 million (92.5% of revenue) and $0.5 million (9.0% of revenue), respectively. The gross loss for 2023 was primarily due to:

- Project charges of $0.8 million related to forecast cost increases and liquidated damages on our seventy-vehicle ferry project and remaining forty-vehicle ferry project,
- Holding costs of $0.5 million related to the two MPSVs that remain in our possession and are subject to our MPSV Litigation, and
- The partial under-recovery of overhead costs due to the under-utilization of our resources due to low work hours as our remaining projects are nearing completion.

The increase in gross loss for 2023 relative to 2022 was primarily due to:

- The aforementioned project charges of $0.8 million for 2023, and
- An increase in the under-recovery of overhead costs due to a decrease in work hours as our remaining projects are nearing completion.

See Note 2 for further discussion of our project impacts and Note 4 for further discussion of our MPSV Litigation.

General and administrative expense – General and administrative expense for 2023 and 2022 was $2.3 million and $1.7 million, respectively, representing an increase of 28.9%. General and administrative expense relates to legal and advisory fees associated with our MPSV Litigation. See Note 4 for further discussion of our MPSV Litigation.

Other (income) expense, net – Other (income) expense, net for 2023 and 2022 was expense of $0.3 million and $0.3 million, respectively, and was primarily due to charges of $0.3 million and $0.2 million, respectively, associated with damage previously caused by Hurricane Ida to bulkheads and the MPSVs which are in our possession and subject to our MPSV Litigation.

Corporate Division

	Six Months Ended June 30,		Favorable (Unfavorable)
	2023	2022	Change
New project awards (eliminations)	$ (695)	$ (177)	$ (518)
Revenue (eliminations)	$ (695)	$ (177)	$ (518)
Gross profit	—	—	—
General and administrative expense	4,061	4,028	(33)
Other (income) expense, net	(140)	38	178
Operating loss	(3,921)	(4,066)	145

References below to 2023 and 2022 refer to the six months ended June 30, 2023 and 2022, respectively.

General and administrative expense – General and administrative expense for 2023 and 2022 was $4.1 million and $4.0 million, respectively, representing an increase of 0.8%.

Other (income) expense, net – Other (income) expense, net for 2023 was income of $0.1 million.

Liquidity and Capital Resources

Available Liquidity

Our primary sources of liquidity are our cash, cash equivalents and scheduled maturities of our short-term investments. At June 30, 2023, our cash, cash equivalents, short-term investments and restricted cash totaled $40.2 million, as follows (in thousands):

		June 30, 2023
Cash and cash equivalents	$	23,858
Short-term investments[1]		15,165
Available cash, cash equivalents and short-term investments		39,023
Restricted cash, current		1,197
Total cash, cash equivalents, short-term investments and restricted cash	$	40,220

(1) Includes U.S. Treasuries with original maturities of six months.

Our available liquidity is impacted by changes in our working capital and our capital expenditure requirements. Fluctuations in our working capital, and its components, are not unusual in our business and are impacted by the size of our projects and the mix of our backlog. Our working capital is particularly impacted by the timing of new project awards and related payments in advance of performing work, and the subsequent achievement of billing milestones or project progress on backlog. Working capital is also impacted at period-end by the timing of contract receivables collections and accounts payable payments on our projects.

At June 30, 2023, our working capital was $59.6 million and included $40.2 million of cash, cash equivalents, short-term investments and restricted cash. Excluding cash, cash equivalents, short-term investments and restricted cash, our working capital at June 30, 2023 was $19.4 million, and consisted of: net contract assets and contract liabilities of $3.6 million; contract receivables and retainage of $36.3 million; inventory, prepaid expenses and other current assets of $7.7 million; and accounts payable, accrued expenses and other current liabilities of $28.2 million. The components of our working capital (excluding cash, cash equivalents, short-term investments and restricted cash) at June 30, 2023 and December 31, 2022, and changes in such amounts during the six months ended June 30, 2023, were as follows (in thousands):

		June 30, 2023		December 31, 2022		Change[3]
Contract assets	$	6,662	$	4,839	$	1,823
Contract liabilities[1]		(3,065)		(8,196)		5,131
Contracts in progress, net[2]		3,597		(3,357)		6,954
Contract receivables and retainage, net		36,315		29,427		6,888
Prepaid expenses, inventory and other current assets		7,651		8,074		(423)
Accounts payable, accrued expenses and other current liabilities		(28,184)		(22,593)		(5,591)
Total	$	19,379	$	11,551	$	7,828

(1) Contract liabilities at June 30, 2023 and December 31, 2022, includes accrued contract losses of $0.6 million and $1.6 million, respectively, associated primarily with the Active Retained Shipyard Contracts.

(2) Represents our cash position relative to revenue recognized on projects, with contract assets representing unbilled amounts that reflect future cash inflows on projects, and contract liabilities representing (i) advance payments that reflect future cash expenditures and non-cash earnings on projects and (ii) accrued contract losses that represent future cash expenditures on projects.

(3) Changes referenced in the *"Cash Flow Activity"* section below may differ from the changes in this table due to non-cash reclassifications and due to certain changes in balance sheet accounts being reflected within other line items on the Statement of Cash Flows, including allowance for doubtful accounts and credit losses, gains and losses on sales of fixed assets and other assets, and accruals for capital expenditures.

Cash Flow Activity *(in thousands)*

	Six Months Ended June 30,	
	2023	2022
Net cash used in operating activities	$ (2,193)	$ (13,875)
Net cash provided by (used in) investing activities	(5,965)	475
Net cash used in financing activities	(1,611)	(369)

Operating Activities – Cash used in operating activities for the six months ended June 30, 2023 and 2022 was $2.2 million and $13.9 million, respectively, and was primarily due to the net impacts of the following:

2023 Activity

- Net income adjusted for depreciation and amortization of $2.7 million, gain from net changes in allowance for doubtful accounts and credit losses of $0.2 million, gain on insurance recoveries of $0.2 million and stock-based compensation expense of $1.0 million;
- Increase in contract assets of $1.8 million related to the timing of billings on projects, primarily due to increased unbilled positions on various projects for our Fabrication Division, offset partially by decreased unbilled positions on our forty-vehicle ferry projects for our Shipyard Division;
- Decrease in contract liabilities of $5.1 million, primarily due to a decrease in advance billings on our cancelled offshore jackets project for our Fabrication Division and accrued contract losses on our forty-vehicle ferry projects for our Shipyard Division;
- Increase in contract receivables and retainage of $7.1 million related to the timing of billings and collections on projects, primarily due to increased receivable positions on our cancelled offshore jackets project and various projects for our Services Division, offset partially by decreased receivable positions on various projects for our Fabrication Division;
- Decrease in prepaid expenses, inventory and other assets of $1.0 million, primarily due to prepaid expenses and the associated timing of certain prepayments. The change differs from the table above primarily due to the Insurance Finance Arrangements discussed further in Note 3;
- Increase in accounts payable, accrued expenses and other current liabilities of $6.3 million, primarily due to the timing of payments and increased accounts payable positions on our cancelled offshore jackets project. The change differs from the table above primarily due to the Insurance Finance Arrangements discussed further in Note 3; and
- Change in noncurrent assets and liabilities, net of $0.4 million.

2022 Activity

- Net loss adjusted for depreciation and amortization of $2.5 million and stock-based compensation expense of $1.1 million;
- Increase in contract assets of $0.4 million related to the timing of billings on projects, primarily due to increased unbilled positions on our seventy-vehicle ferry and forty-vehicle ferry projects for our Shipyard Division, offset partially by decreased unbilled positions on various projects for our Fabrication Division;
- Decrease in contract liabilities of $3.3 million, primarily due to a decrease in accrued contract losses and the unwind of advance payments on our forty-vehicle ferry projects for our Shipyard Division;
- Increase in contract receivables and retainage of $10.8 million related to the timing of billings and collections on projects, primarily due to increased receivable positions on various projects for our Services Division;
- Increase in prepaid expenses, inventory and other assets of $0.4 million, primarily due to prepaid expenses and the associated timing of certain prepayments;
- Increase in accounts payable, accrued expenses and other current liabilities of $2.5 million, primarily due to the timing of payments and increased accounts payable positions on various projects for our Services Division and Fabrication Division; and
- Change in noncurrent assets and liabilities, net of $0.3 million.

Investing Activities – Cash used in investing activities for the six months ended June 30, 2023 was $6.0 million and cash provided by investing activities for the six months ended June 30, 2022 was $0.5 million. Cash used in investing activities for 2023 was primarily due to net purchases of short-term investments of $5.3 million and capital expenditures of $1.1 million, offset partially by recoveries from insurance claims and proceeds from the sale of fixed assets. Cash provided by investing activities for 2022 was primarily due to proceeds from the Shipyard Transaction of $0.9 million and the sale of fixed assets, offset partially by capital expenditures of $0.5 million.

Financing Activities – Cash used in financing activities for the six months ended June 30, 2023 and 2022 was $1.6 million and $0.4 million, respectively. Cash used in financing activities for 2023 and 2022 was primarily due to payments on our Insurance Finance Arrangements of $1.1 million and $0.2 million, respectively, and tax payments made on behalf of employees from vested stock withholdings. See Note 3 for further discussion of our Insurance Finance Arrangements.

Credit Facilities

See Note 3 for discussion of our LC Facility, Surety Bonds, Insurance Finance Arrangements, Mortgage Agreement and Restrictive Covenant Agreement.

Registration Statement

We have a shelf registration statement that is effective with the SEC that expires on November 27, 2023. The shelf registration statement enables us to issue up to $200.0 million in either debt or equity securities, or a combination thereof, from time to time subsequent to the filing of a prospectus supplement, which among other things, identifies the underwriter, dealer or agent, specifies the number and value of securities that may be sold, and provides a time frame over which the securities may be offered.

Liquidity Outlook

We have made significant progress in our efforts to preserve and improve our liquidity, including cost reductions, the sale of under-utilized assets and facilities, an improved overall cash flow position on our projects in backlog and the completion of the Shipyard Transaction. The primary uses of our liquidity for the remainder of 2023 and the foreseeable future are to fund:

- Overhead costs associated with the under-utilization of our facilities and resources for our Fabrication Division until we secure and begin to execute sufficient backlog to fully recover our overhead costs;
- Capital expenditures, including expenditures to maintain, upgrade and replace aged equipment;
- Accrued contract losses for the Active Retained Shipyard Contracts;
- Working capital requirements for our projects, including the unwind of advance payments on projects and the payment of vendor obligations prior to receipt of payment from our customer for our cancelled offshore jackets project. See *"New Project Awards and Backlog"* above and Note 2 for further discussion of the project cancellation;
- Remaining liabilities of the Shipyard Division operations that were excluded from the Shipyard Transaction;
- Legal and other costs associated with our MPSV Litigation, including losses, if any, resulting from the ultimate resolution of the litigation. An unfavorable outcome could have a material adverse effect on our financial condition, results of operations and liquidity. In the event of an unfavorable outcome, we believe, after consultation with external legal counsel, that our ultimate exposure is unlikely to exceed our indemnification obligations under the Performance Bonds; however, we can provide no assurance that any such exposure will be limited to our indemnification obligations. See Note 4 for further discussion of our MPSV Litigation;
- Corporate administrative expenses (including the temporary under-utilization of personnel as we evaluate our resource requirements to support our future operations);
- Initiatives to diversify and enhance our business; and
- Costs associated with the impacts of Hurricane Ida, including insurance deductibles and uninsured losses, if any, as well as repair costs for buildings and equipment for which insurance payments have previously been received from our insurance carriers.

We anticipate capital expenditures of $3.0 million to $3.5 million for the remainder of 2023, excluding any future expenditures for deductibles and uninsured losses, if any, associated with damage caused by Hurricane Ida, that may be determined to be capital items. Further investments in facilities may be required to win and execute potential new project awards, which are not included in these estimates.

We believe that our cash, cash equivalents and short-term investments at June 30, 2023, will be sufficient to enable us to fund our operating expenses, meet our working capital and capital expenditure requirements, and satisfy any debt service obligations or other funding requirements, for at least twelve months from the date of this Report. Our evaluation of the sufficiency of our cash and liquidity is primarily based on our financial forecast for 2023 and 2024, which is impacted by our existing backlog and estimates of future new project awards and may be further impacted by the ongoing effects of oil and gas price volatility and macroeconomic conditions, as well as the outcome of our MPSV Litigation and any related indemnification obligations to the Surety, and future losses, if any, due to coverage limitations and our use of deductibles and self-insured retentions for our exposures related to property and equipment damage, builder's risk, third-party liability and workers' compensation and USL&H claims. We can provide no assurances that our financial forecast will be achieved or that we will have sufficient cash and short-term investments to meet planned operating expenses and unforeseen cash requirements. Accordingly, we may be required to obtain new or additional credit facilities, sell additional assets or conduct equity or debt offerings at a time when it is not beneficial to do so.

Off-Balance Sheet Arrangements

We are not a party to any contract or other obligation not included on our Balance Sheet that has, or is reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this Report.

During the second quarter 2023, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 4 of our Financial Statements in Part I, Item 1 for discussion of our legal proceedings, including our MPSV Litigation, which is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes to our risk factors previously disclosed in Part I, Item 1A. "Risk Factors" of our 2022 Annual Report, except for the risk factors included below, which were previously disclosed in Part I, Item 1A. "Risk Factors" of our 2022 Annual Report and should be read in conjunction with such risk factors set forth therein. The following risk factors are amended and restated as follows:

We could be exposed to potentially significant liability and costs due to limits on our insurance coverage and losses for which we do not have third-party insurance coverage.

The fabrication of structures and the services we provide involves operating hazards that can cause accidents resulting in personal injury or loss of life, severe damage to and destruction of property and equipment, and suspension of operations.

In addition, due to the proximity to the GOM, our facilities are subject to the possibility of physical damage caused by hurricanes or flooding. For example, in 2021, Hurricane Ida damaged our buildings and equipment and vessels under construction and in our possession, at our Houma Facilities, which resulted in repair and replacement costs in excess of our deductible amounts. See the risk factor below titled *"We are susceptible to adverse weather conditions in our market areas"* for further discussion of the impacts of adverse weather conditions to our operations.

Further, our employees may engage in certain activities that are covered by the provisions of the Jones Act or USL&H, including services conducted on offshore platforms, services performed on barges owned or chartered by us, and construction activities associated with marine vessels that are performed at our facilities. These laws make the liability limits established under state workers' compensation laws inapplicable to these employees and, instead, permit them or their representatives to pursue actions against us for damages or job-related injuries, with generally no limitations on our potential liability. Our ownership and operation of vessels and our fabrication of customer vessels can also give rise to large and varied liability risks, such as risks of collisions with other vessels or structures, sinking, fires and other marine casualties, which can result in significant claims for damages against both us and third parties. Litigation arising from any such occurrences may result in our being named as a defendant in lawsuits asserting large claims.

We may be exposed to future losses due to coverage limitations and our use of deductibles and self-insured retentions for our exposures related to property and equipment damage, builder's risk, third-party liability and workers' compensation and USL&H claims. For any such exposure, we will rely on existing liquidity and cash flows to meet obligations that would arise from an incident or series of events. The occurrence of a significant incident, series of events, or unforeseen liability for which we are self-insured or not fully insured, or for which insurance recovery is significantly delayed, could have a material adverse effect on our results of operations or financial condition.

There can be no assurance that we will be able to maintain adequate insurance at rates we consider reasonable or that our insurance coverages will be adequate to cover claims that may arise. Changes in the insurance industry have generally led to higher insurance costs and decreased availability of coverage. The availability of insurance that covers risks we typically insure against may decrease, and the insurance that we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms. In connection with our insurance coverage renewal for our property and equipment in the second quarter 2023, we determined that the benefits of maintaining insurance coverage for our property and equipment were limited due to high premium costs and deductibles and increased coverage limitations. Accordingly, we did not renew all of our property and equipment coverage and are now generally self-insured for exposures resulting from any future damage to our property and equipment. To the extent we are self-insured, reserves are recorded based upon our estimates, with input from legal and insurance advisors. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change. See Note 4 for further discussion of our insurance coverages.

We may not be able to generate sufficient cash flow to meet our obligations.

Our ability to fund operations depends on our ability to generate future cash flows from operations. This, to a large extent, is subject to conditions in the oil and gas industry, including commodity prices, demand for our services and the prices we are able to charge for our services, general economic and financial conditions, competition in the markets in which we operate, the impact of legislative and regulatory actions on how we conduct our business and other factors, all of which are beyond our control. During 2022 and 2021, we experienced negative cash flows from operations, and this trend could continue if global macroeconomic conditions continue or worsen or oil and gas prices decline significantly resulting in delayed or suspended capital expenditures by customers, or if we were to experience losses on our projects or in any pending litigation. Additionally, exposure to future losses due to coverage limitations and our use of deductibles and self-insured retentions for our exposures related to property and equipment damage, builder's risk, third-party liability and workers' compensation and USL&H claims, could have a material adverse effect on our results of operations or financial condition. See *"Liquidity and Capital Resources"* in Item 2 for further discussion of our business outlook and the risk factor above titled "*We could be exposed to potentially significant liability and costs due to limits on our insurance coverage and losses for which we do not have third-party insurance coverage*".

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

Our operations may be subject to seasonal variations due to weather conditions and daylight hours, and to the extent climate change results in an increase in extreme adverse weather conditions, the likelihood of a negative impact on our operations may increase. Although we have large covered fabrication facilities, a significant amount of our fabrication activities continues to take place outdoors, and accordingly, the number of labor hours worked may decline during the winter months due to unfavorable weather conditions and a decrease in daylight hours. In addition, the seasonality of oil and gas industry activity in the GOM also affects our operations. Our offshore oil and gas customers often schedule the completion of their projects during the summer months in order to take advantage of more favorable weather during such months. Further, rainy weather, tropical storms, hurricanes and other storms prevalent in the GOM and along the Gulf Coast may also affect our operations. For example, in 2021, we experienced damage to our Houma Facilities due to Hurricane Ida, which made landfall as high-end Category 4 hurricane. Beyond financial and regulatory impacts, climate change poses potential physical risks. Scientific studies forecast that these risks include increases in sea levels, stresses on water supply, rising average temperatures and other changes in weather conditions, such as increases in precipitation and extreme weather events, such as floods, heat waves, hurricanes and other tropical storms and cyclones. The projected physical effects of climate change have the potential to directly affect the operations we conduct for customers and result in increased costs related to our operations. However, because the nature and timing of changes in extreme weather events (such as increased frequency, duration, and severity) are uncertain, it is not possible for us to estimate reliably the future financial risk to our operations caused by these potential physical risks. The impact of severe weather conditions or natural disasters has included and may continue to include the disruption of our workforce; curtailment of services; weather-related damage to our facilities and equipment, for which we are generally self-insured, and impacts from infrastructure challenges in the surrounding areas, resulting in suspension of operations; inability to deliver equipment, personnel and products to project sites in accordance with contract schedules; and loss of productivity. Our suppliers and subcontractors are also subject to severe weather and natural or environmental disasters that have in the past and could in the future affect their ability to deliver products or services or otherwise perform under their contracts. Furthermore, our customers' operations have been and in the future may be materially and adversely affected by severe weather and seasonal weather conditions, including Hurricane Ida, resulting in reduced demand for our services. See *"Overview"* in Item 2 and Note 2 for further discussion of the impacts of adverse weather conditions to our operations and the risk factor above titled "*We could be exposed to potentially significant liability and costs due to limits on our insurance coverage and losses for which we do not have third-party insurance coverage*".

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of the Company, incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed with the SEC on May 22, 2020 (SEC File No. 001-34279).
3.2	Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed with the SEC on November 10, 2020 (SEC File No. 001-34279).
4.1	Description of Common Stock of the Company. *
10.1	Form of Performance-Based Restricted Stock Unit Agreement. *†
10.2	The Company's Second Amended and Restated Gulf Island Fabrication, Inc. 2015 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed with the SEC on May 18, 2023. †
31.1	CEO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. *
31.2	CFO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. *
32	Section 906 Certification furnished pursuant to 18 U.S.C. Section 1350. *
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. *
101.SCH	Inline XBRL Taxonomy Extension Schema Linkbase Document. *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document. *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. *
104	The cover page for the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, has been formatted in Inline XBRL and is contained in Exhibit 101. *

* Filed or furnished herewith.
† Management Contract or Compensatory Plan.

SIGNATURES

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

GULF ISLAND FABRICATION, INC.

BY: /s/ Westley S. Stockton

Westley S. Stockton
Executive Vice President, Chief Financial
Officer, Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)

Date: August 8, 2023

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT OF 1934

Gulf Island Fabrication, Inc. (the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common stock, no par value per share, which we refer to as our common stock.

The following summary of the material terms of our capital stock is not meant to be complete and is qualified by reference to the relevant provisions of our Amended and Restated Articles of Incorporation ("Articles") and our Amended and Restated By-laws ("By-laws"). Copies of our Articles and our By-laws, incorporated by reference into our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 as Exhibits 3.1 and 3.2, respectively, are incorporated herein by reference.

Authorized Capital Stock

Our authorized capital stock consists of 30,000,000 shares of common stock, no par value per share, and 5,000,000 shares of preferred stock, no par value per share, the rights and preferences of which may be established from time to time by our Board of Directors.

Description of Common Stock

The rights of all holders of the common stock are identical in all respects. Each shareholder is entitled to one vote for each share of common stock held on all matters submitted to a vote of the shareholders.

Dividends. Subject to the preferences of any outstanding preferred stock and any other stock ranking prior to the common stock as to the payment of dividends, the holders of the common stock are entitled to receive ratably such dividends, if any, as may be declared by our Board of Directors out of legally available funds.

Voting Rights. Each holder of record of common stock is entitled to one vote for each share on all matters duly submitted to shareholders for their vote or consent. Holders of our common stock do not have cumulative voting rights. As a result, the holders of more than 50% of the voting power are able to elect all of the directors, subject to any voting rights of holders of any shares of outstanding preferred stock. Unless otherwise required by law or, our Articles or By-laws, any matter brought before any meeting of shareholders, other than a contested election of directors, is decided by the affirmative vote of the holders of a majority of the votes cast, assuming a quorum is present. Except as otherwise provided by our By-laws, each of our directors is elected by the vote of a majority of the votes cast with respect to such director at any meeting of shareholders held for the election of directors at which a quorum is present; *provided, however*, that if the number of nominees exceeds the number of directors to be elected, the directors shall be elected by the vote of a plurality of the votes cast at any such meeting.

Liquidation Rights. Upon the dissolution, liquidation or winding up of the Company, after payments of debts and expenses and payment of the liquidation preference plus any accrued dividends on any shares of our outstanding preferred stock, the holders of our common stock will be entitled to receive all remaining assets of the Company ratably in proportion to the number of shares held by them, unless and to the extent that holders of any outstanding shares of preferred stock or other securities are entitled to participate with the holders of our common stock in receiving distributions of such remaining assets.

Preemptive and Other Rights. Holders of our common stock have no preemptive, subscription, sinking fund, or conversion rights and are not subject to further calls or assessments, or rights of redemption by the Company.

Nasdaq. Our common stock is listed for trading on the NASDAQ Global Select Market under the trading symbol "GIFI."

Transfer Agent. As of the date of this prospectus, the transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC.

Certain Anti-Takeover Provisions of our Articles and By-laws

General. Provisions of our Articles and By-laws may delay or discourage transactions involving an actual or potential change in control of the Company or change in its management.

Amendment of our Articles or By-laws. Our By-laws may be adopted only by a majority vote of our Board of Directors. Our By-laws may be amended or repealed by (i) a two-thirds vote of our Board of Directors, or (ii) the affirmative vote of the holders of at least a majority of the total number of votes that are entitled to be cast on the amendment, voting together as a single class, present or represented at any regular or special meeting of shareholders, the notice of which meeting of shareholders expressly states that the proposed amendment or repeal is to be considered at the meeting. Our Articles may be amended by the affirmative vote of at least a majority of the total number of votes that are entitled to be cast on the amendment.

Effects of Authorized but Unissued Common Stock and Blank Check Preferred Stock. One of the effects of the existence of authorized but unissued common stock and undesignated preferred stock may be to enable our Board of Directors to make more difficult or to discourage an attempt to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise, and thereby to protect the continuity of management. If, in the due exercise of its fiduciary obligations, our Board of Directors were to determine that a takeover proposal was not in our best interest, such shares could be issued by our Board of Directors without shareholder approval in one or more transactions that might prevent or render more difficult or costly the completion of the takeover transaction by diluting the voting or other rights of the proposed acquirer or insurgent shareholder group, by putting a substantial voting block in institutional or other hands that might undertake to support the position of the incumbent Board of Directors, by effecting an acquisition that might complicate or preclude the takeover, or otherwise.

In addition, our Articles grant our Board of Directors broad power to establish the rights and preferences of authorized and unissued shares of preferred stock. The issuance of shares of preferred stock could decrease the amount of earnings and assets available for distribution to holders of shares of common stock. The issuance also may adversely affect the rights and powers, including voting rights, of those holders and may have the effect of delaying, deterring or preventing a change in control of the Company.

Board Membership — Size, Removal, Vacancies. Our By-laws provide that our Board of Directors may be comprised of not less than three nor more than 12 persons as set from time to time by our Board of Directors. Our shareholders may remove one or more directors for cause only by a vote of not less than two-thirds of the outstanding shares. Our By-laws provide that any vacancy on our Board of Directors may be filled by our Board of Directors. In addition, despite the expiration of a director's term, the director shall continue to serve until his or her successor is elected and qualified, or until his or her resignation or removal.

Advance Notice of Intention to Nominate a Director. Our By-laws permit a shareholder to nominate a person for election as a director at either an annual meeting of shareholders or at a special meeting of shareholders where the notice of meeting specifies that directors will be elected. Such a nomination is permitted only if written notice of such shareholder's intent to make a nomination has been delivered to our Secretary not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting or prior to such special meeting, as applicable. This provision also requires that the notice set forth, among other things, a description of all arrangements or understandings between the nominee and the shareholder pursuant to which the nomination is to be made or the nominee is to be elected and such other information regarding the nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules promulgated under the Securities Exchange Act of 1934, as amended, had the nominee been nominated by our Board of Directors. In addition, a shareholder director nominee must complete, sign and supplement, upon request, a questionnaire provided by the Company. Any nomination that fails to comply with these requirements may be disqualified.

Advance Notice of Shareholder Proposals. Our By-laws permit a shareholder proposal to be presented at a shareholders' meeting only if prior written notice of the proposal is provided to the Company within the time periods and in the manner specified in our By-laws.

Power to Call Special Shareholder Meeting. Special meetings of shareholders may be called by (i) any shareholder or group of shareholders holding at least 20% of all the votes entitled to be cast on an issue proposed to be considered at a proposed special meeting, subject to such shareholder's or group of shareholders' compliance with the procedural and information requirements set forth in our By-laws; or (ii) our Board of Directors.

Limitation of Liability of Directors and Officers. Our Articles and By-laws provide that no director or officer will be personally liable for monetary damages for any action taken, or any failure to take any action, as a director or officer except to the extent that by law a director's or officer's liability for monetary damages may not be limited. This provision does not eliminate or limit the liability of our directors and officers for (i) any breach of the director's or officer's duty of loyalty to the Company or our shareholders, (ii) any acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) any unlawful dividend, stock repurchase or other distribution, payment or return of assets to shareholders, or (iv) any transaction from which the director or officer derived an improper personal benefit. This provision may preclude shareholder derivative actions and may be construed to preclude other third-party claims against the directors and officers.

Preferred Stock

We may issue shares of preferred stock in series and may, at the time of issuance, determine the rights, preferences and limitations of each series. Satisfaction of any dividend preferences of outstanding shares of preferred stock would reduce the amount of funds available for the payment of dividends on shares of common stock. Holders of shares of preferred stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding up of the Company before any payment is made to the holders of shares of common stock. In some circumstances, the issuance of shares of preferred stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our securities or the removal of incumbent management. Our Board of Directors, without shareholder approval, may issue shares of preferred stock with voting and conversion rights which could adversely affect the holders of shares of common stock. The issuance of any shares of preferred stock in the future could adversely affect the rights of the holders of common stock.

Exhibit 10.1

FORM OF
PERFORMANCE-BASED RESTRICTED STOCK UNIT
AGREEMENT

This PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT (this “Agreement”) dated as of ____, 20__ (the “Date of Grant”) is by and between Gulf Island Fabrication, Inc. (“Gulf Island”) and **<<Participant Name>>** (the “Participant”).

WHEREAS, Gulf Island has adopted the Amended and Restated 2015 Stock Incentive Plan (the “Plan”), under which the Compensation Committee (the “Committee”) of the Board of Directors of Gulf Island, or its delegee, may, among other things, grant performance-based restricted stock units payable in shares of Gulf Island common stock, no par value per share (the “Common Stock”) and “other stock-based awards” payable in Common Stock or cash based on the value of the Common Stock, to officers and key employees of Gulf Island or its subsidiaries (collectively, the “Company”); and

WHEREAS, the Committee believes that entering into this Agreement with the Participant is consistent with the purpose for which the Plan was adopted.

NOW, THEREFORE, Gulf Island and the Participant hereby agree as follows:

1.
AWARD OF PERFORMANCE-BASED RESTRICTED STOCK UNITS

1.1 Subject to the terms of this Agreement, effective as of the Date of Grant, Gulf Island hereby grants to the Participant an award of ___________ (the “Target Award”) performance-based restricted stock units ("PSUs"). Each PSU represents the right to receive one share of Common Stock, subject to the terms and conditions set forth in this Agreement and the Plan. The actual number of PSUs that may be earned will depend on the Company’s level of achievement and the Committee’s certification of the performance metrics specified in Section 1.2 during the period beginning January 1, 20__, and ending December 31, 20__ (the “Performance Period”). Any PSUs that are deemed not subject to vesting as of the end of the Performance Period shall be forfeited.

1.2 Provided the Participant satisfies the service conditions set forth in Section 1.5, between 0% and 200% of the Target Award may be earned based on the Company’s achievement during the Performance Period of the performance metrics set forth on Appendix A hereto, as determined by the Committee (with such amount referred to herein as the “Final PSUs”).

1.3 Following the end of the Performance Period, the Committee shall, within a reasonably practicable time, determine the results of the performance metrics set forth on Appendix A and the resulting number of Final PSUs, if any, that may be earned based on the level of achievement of the performance metrics. Such determination shall be final, conclusive and binding on the Participant, and on all other persons, to the maximum extent permitted by law. Any portion of the Target Award in excess of the Final PSU amount shall immediately be forfeited.

1.4 The Final PSUs shall vest, subject to the conditions of Sections 2 and 3, on the following dates (each, a “Vesting Date”):

Scheduled Vesting Date	Amount of Final PSUs To Vest
First Anniversary of Date of Grant	33%
Second Anniversary of Date of Grant	33%
Third Anniversary of Date of Grant	Remaining balance

2.
ISSUANCE OF SHARES UPON VESTING

2.1 As soon as practicable after each Vesting Date, but no later than 30 days from such date, Gulf Island will credit the Participant’s brokerage account with the shares of Common Stock issuable upon vesting. If the Participant has not established a brokerage account, the shares will be held by Gulf Island’s transfer agent until such time as the Participant opens an account.

2.2 Upon issuance of such shares of Common Stock, the Participant is free to hold or dispose of such shares, subject to applicable securities laws and any internal policy then in effect and applicable to the Participant, such as Gulf Island’s Insider Trading Policy.

2.3 If the total number of shares of Common Stock earned by the Participant under all Incentives granted to him during ___ would exceed the numerical limit on shares of Common Stock that may be covered by Incentives granted under the Plan to an individual in a single calendar year as provided in the Plan (the “Share Limit”), then any PSUs earned under this Agreement, that, if issued as shares of Common Stock, would exceed the Share Limit, will instead be settled in cash rather than shares of Common Stock.

3.
TERMINATION OF EMPLOYMENT; CHANGE OF CONTROL

3.1 If the Participant’s employment terminates for any reason prior to the vesting of some or all of the PSUs (except in connection with a Change of Control as described in Section 3.2 below and Section 12.10 of the Plan), all unvested PSUs granted hereunder shall immediately be forfeited.

3.2 If a Change of Control occurs prior the end of the Performance Period, the performance metrics in Section 1.2 shall be waived and the Final PSUs shall equal the Target Award, which will continue to be subject to the vesting schedule set for in Section 1.5. If a Change of Control occurs after the end of the Performance Period but before the Final PSUs have fully vested in accordance with Section 1.5 above, the unvested PSUs shall vest and all restrictions shall lapse, if, within one year following such Change of Control, the Participant’s employment with the Company is terminated by the Company without Cause or by such Participant with Good Reason, as further described in Section 12.10 of the Plan.

4.
FORFEITURE OF AWARD

4.1 If the Participant engages in grossly negligent conduct or intentional misconduct that either (a) requires the Company's financial statements to be restated at any time beginning on the Date of Grant and ending on the third anniversary of the end of the final Vesting Date set forth in Section 1.5 or (b) results in an increase of the value of the PSUs upon vesting, then the Committee, after considering the costs and benefits to the Company of doing so, may seek recovery for the benefit of the Company of the difference between the shares of Common Stock received upon vesting during the three-year period following such conduct and the shares of Common Stock that would have been received based on the restated financial statements or absent the increase described in part (b) above (the "Excess Shares"). All determinations regarding the amount of the Excess Shares shall be made solely by the Committee in good faith.

4.2 This award is also subject to any clawback policies the Company may adopt in order to conform to the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any resulting rules issued by the United States Securities and Exchange Commission or national securities exchanges thereunder.

4.3 If the Committee determines that the Participant owes any amount to the Company under Sections 4.1 or 4.2 above, the Participant shall return to the Company the Excess Shares (or the shares recoverable under Section 4.2) acquired by the Participant pursuant to this Agreement (or other securities into which such shares have been converted or exchanged) or, if no longer held by the Participant, the Participant shall pay to the Company, without interest, all cash, securities or other assets received by the Participant upon the sale or transfer of such shares. The Participant acknowledges that the Company may, to the fullest extent permitted by applicable law, deduct such amount owed from any amounts the Company owes the Participant from time to time for any reason (including without limitation amounts owed to the Participant as salary, wages, reimbursements or other compensation, fringe benefits, retirement benefits or vacation pay). Whether or not the Company elects to make any such set-off in whole or in part, if the Company does not recover by means of set-off the full amount the Participant owes it, the Participant hereby agrees to pay immediately the unpaid balance to the Company.

5.
WITHHOLDING TAXES; TAX TREATMENT

5.1 At the time that all or any portion of the PSUs vest, the Participant must deliver to Gulf Island the amount of any taxes required by law to be withheld. In accordance with the terms of the Plan, the Participant may satisfy the tax withholding obligation by delivering currently owned shares of Common Stock or by electing to have Gulf Island withhold from the shares of the Participant otherwise would receive hereunder shares of Common Stock having a value equal to the minimum amount required to be withheld (as determined under the Plan).

5.2 The PSUs are intended to satisfy the short-term deferral exception to the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), and shall be interpreted, construed and administered in accordance with such exception. Notwithstanding anything in this Agreement to the contrary, if the PSUs constitute "deferred compensation" under Section 409A and the payout of the PSUs is accelerated pursuant to

Section 3, a distribution of shares, or cash if applicable, to the Participant shall be delayed for a period of six months after the Participant's termination of employment, if the Participant is a key employee (as defined under Section 409A) and if so required pursuant to Section 409A. If settlement of the PSUs is so delayed, the PSUs shall be settled within 30 days of the date that is the six-month anniversary of the Participant's termination of employment. Notwithstanding any provision to the contrary herein, distributions to be made upon a termination of employment hereunder may only be made upon a "separation from service" as defined under Section 409A. In no event shall a Participant, directly or indirectly, designate the calendar year of payment.

6.
ADDITIONAL CONDITIONS

Anything in this Agreement to the contrary notwithstanding, if at any time Gulf Island further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of the shares of Common Stock issuable pursuant hereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the issuance of shares of Common Stock pursuant hereto, such shares of Common Stock shall not be issued, in whole or in part, or the restrictions thereon removed, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to Gulf Island. Gulf Island agrees to use commercially reasonable efforts to issue all shares of Common Stock issuable hereunder on the terms provided herein.

7.
NO CONTRACT OF EMPLOYMENT INTENDED

Nothing in this Agreement shall confer upon the Participant any right to continue in the employment of the Company, or to interfere in any way with the right of the Company to terminate the Participant's employment relationship with the Company at any time.

8.
BINDING EFFECT

This Agreement may not be transferred, assigned pledged or hypothecated in any manner at law or otherwise, other than by will or by the laws of descent and distribution, if applicable, and shall not be subject to execution, attachment or similar process. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, legal representatives and permitted successors.

9.
INCONSISTENT PROVISIONS

The PSUs granted hereby are subject to the terms, conditions, restrictions and other provisions of the Plan as fully as if all such provisions were set forth in their entirety in this Agreement. If any provision of this Agreement conflicts with a provision of the Plan, the Plan provision shall control. The Participant acknowledges that a copy of the Plan and a prospectus summarizing the Plan was distributed or made available to the Participant and that the Participant was advised to review such materials prior to entering into this Agreement. The Participant waives the right to claim that the provisions of the Plan are not binding upon the Participant and the Participant's heirs, executors, administrators, legal representatives and successors.

10.
GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the grant of the PSUs or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the courts of Harris County, Texas, or the federal courts for the United States for the Southern District of Texas, and no other courts, where this grant is made and/or to be performed.

11.
MISCELLANEOUS

11.1The Participant understands and acknowledges that he is one of a limited number of employees of the Company who have been selected to receive equity grants and that this grant is considered confidential information. The Participant hereby covenants and agrees not to disclose the award of PSUs pursuant to this Agreement to any other person except (a) the Participant's immediate family and legal or financial advisors who agree to maintain the confidentiality of this Agreement, (b) as required in connection with the administration of this Agreement and the Plan as it relates to this award or under applicable law, (c) to the extent the terms of this Agreement have been publicly disclosed by the Company and (d) as may be required pursuant to Section 16 of the Securities Exchange Act of 1934.

11.2The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of this Agreement by the Committee and any decision made by it with respect to this Agreement shall be final and binding on all persons.

11.3Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall be subject to the terms of the Plan, and this Agreement is subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Terms used but not otherwise defined herein shall have the meanings ascribed to them in the Plan.

11.4Each notice relating to this Agreement shall be in writing and delivered in person or by mail to Gulf Island at its office, 16225 Park Ten Place, Suite 300, Houston, Texas, 77084, to the attention of the Secretary or at such other address as Gulf Island may specify in writing to the Participant by a notice delivered in accordance with this Section 11.4. All notices to the Participant shall be delivered to the Participant's address on file with the Company or at such other address as the Participant may specify in writing to the Secretary by a notice delivered in accordance with this Section 11.4 and Section 11.7.

11.5If any term or provision of this Agreement, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, the Participant and Gulf Island intend for any court construing this Agreement to modify or limit such provision so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

11.6Gulf Island's obligation under the Plan and this Agreement is an unsecured and unfunded promise to pay benefits that may be earned in the future. Gulf Island shall have no obligation to set aside, earmark or invest any fund or money with which to pay its obligations under this Agreement. The Participant or any successor in interest shall be and remain a general creditor of Gulf Island in the same manner as any other creditor having a general claim for matured and unpaid compensation.

11.7Gulf Island may, in its sole discretion, deliver any documents related to the Participant's current or future participation in the Plan by electronic means or request the Participant's consent to participate in the Plan by electronic means. By accepting the terms of this Agreement, the Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an online or electronic system established and maintained by Gulf Island or a third party designated by Gulf Island.

11.8The Participant must expressly accept the terms and conditions of this Agreement by executing this Agreement in a timely manner. If the Participant does not accept the terms of this Agreement, the PSUs are subject to cancellation.

12.
ENTIRE AGREEMENT; MODIFICATION; WAIVER

The Plan and this Agreement contain the entire agreement between the parties with respect to the subject matter contained herein and may not be modified, except as provided in the Plan, as it may be amended from time to time in the manner provided therein, or in this Agreement, as it may be amended from time to time by a written document signed by each of the parties hereto, including by electronic means as provided in Section 11.7. Any oral or written agreements, representations, warranties, written inducements, or other communications with respect to the subject matter contained herein made prior to the acceptance of the Agreement shall be void and ineffective for all purposes.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered on the day and year first above written.

GULF ISLAND FABRICATION, INC.

By:

Robert M. Averick
Chairman of the Compensation Committee of the Board of Directors

{Insert name}
Participant

Appendix A
to
PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT
(20___ Award)

Exhibit 31.1

Certifications

I, Richard W. Heo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gulf Island Fabrication, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 8, 2023

/s/ Richard W. Heo

Richard W. Heo
President, Chief Executive Officer and Director (Principal Executive Officer)

Exhibit 31.2

Certifications

I, Westley S. Stockton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gulf Island Fabrication, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 8, 2023

/s/ Westley S. Stockton

Westley S. Stockton
Executive Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32

Certification Furnished Pursuant to
18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Gulf Island Fabrication, Inc. (the “Company”) for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, who are the Chief Executive Officer and Chief Financial Officer of the Company, certify pursuant to U.S.C. Section 1350, as adopted pursuant to of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by the Report.

By: /s/ Richard W. Heo
Richard W. Heo
President, Chief Executive Officer and Director (Principal Executive Officer)
August 8, 2023

By: /s/ Westley S. Stockton
Westley S. Stockton
Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
August 8, 2023

A signed original of this written statement required by Section 906 has been provided to Gulf Island Fabrication, Inc. and will be retained by Gulf Island Fabrication, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.