

**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 **September 30, 2019**

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

(State or other jurisdiction of
incorporation or organization)

16225 PARK TEN PLACE, SUITE 300
HOUSTON, TEXAS

(Address of principal executive offices)

72-1147390

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

77084

(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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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 November 5, 2019, was 15,263,170.

GULF ISLAND FABRICATION, INC.

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GLOSSARY OF TERMS

As used in this report on Form 10-Q for the quarter ended September 30, 2019 ("this Report"), the following abbreviations and terms have the meanings as 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.

<i>2018 Annual Report</i>	Our annual report for the year ended December 31, 2018, filed with the SEC on Form 10-K on March 1, 2019.
<i>ASU</i>	Accounting Standards Update.
<i>Balance Sheet</i>	Our Consolidated Balance Sheets, as filed in this Report.
<i>contract assets</i>	Costs and estimated earnings recognized to date in excess of cumulative billings.
<i>contract liabilities</i>	Cumulative billings in excess of costs and estimated earnings recognized to date and accrued contract losses.
<i>Credit Agreement</i>	Our \$40.0 million revolving credit facility with Hancock Whitney Bank maturing June 9, 2021, as amended.
<i>deck</i>	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.
<i>direct labor hours</i>	Hours worked by employees directly involved in the production of our products. These hours do not include support personnel such as maintenance and warehousing.
<i>DTA(s)</i>	Deferred tax asset(s).
<i>EPC</i>	Engineering, procurement and construction phases of a complex project that requires project management and coordination of these significant activities.
<i>EPS</i>	Income (loss) per share.
<i>Exchange Act</i>	Securities Exchange Act of 1934, as amended.
<i>Fabrication AHFS</i>	The machinery and equipment previously located at our Texas North Yard that was not sold in connection with the sale of the Texas North Yard and continues to be held for sale by our Fabrication Division.
<i>FASB</i>	Financial Accounting Standards Board.
<i>Financial Statements</i>	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.
<i>FPSO</i>	Floating Production Storage and Offloading vessel. A floating vessel used by the offshore oil and gas industry for the production and processing of hydrocarbons and for the storage of oil.
<i>GAAP</i>	Generally accepted accounting principles in the U.S.
<i>GOM</i>	Gulf of Mexico.
<i>inland or inshore</i>	Typically in bays, lakes and marshy areas.

<i>jacket</i>	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 pilings driven into the seabed. The jacket supports the deck structure located above the water.
<i>LIBOR</i>	London Inter-Bank Offered Rate.
<i>modules</i>	Fabricated structures that include structural steel, piping, valves, fittings, storage vessels and other equipment that are incorporated into a petrochemical or industrial system. These modules are pre-fabricated at our facilities and then transported to the customer's location for final integration.
<i>MPSV</i>	Multi-Purpose Service Vessel.
<i>offshore</i>	In unprotected waters outside coastlines.
<i>onshore</i>	Inside the coastline on land.
<i>OSV</i>	Offshore Support Vessel.
<i>Performance Obligation</i>	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.
<i>piles</i>	Rigid tubular pipes that are driven into the seabed to support platforms.
<i>platform</i>	A structure from which offshore oil and gas development drilling and production are conducted.
<i>pressure vessel</i>	A metal container generally cylindrical or spheroid, capable of withstanding various internal pressure loads.
<i>SEC</i>	U.S. Securities and Exchange Commission.
<i>Shipyards AHFS</i>	A drydock held for sale by our Shipyards Division.
<i>skid unit</i>	Packaged equipment usually consisting of major production, utility or compression equipment with associated piping and control system(s).
<i>South Texas Properties</i>	Our former Texas North Yard and Texas South Yard. The Texas South Yard property was sold on April 20, 2018 and the Texas North Yard was sold on November 15, 2018.
<i>SPAR</i>	Single Point Anchor Reservoir. A floating vessel with a circular cross-section that sits vertically in the water and is used for infield flow lines and associated subsea infrastructure. The SPAR connects subsea production and injection wells for oil and gas production in deepwater environments.
<i>Statement of Cash Flows</i>	Our Consolidated Statements of Cash Flows, as filed in this Report.
<i>Statement of Operations</i>	Our Consolidated Statements of Operations, as filed in this Report.
<i>subsea templates</i>	Tubular frames which are placed on the seabed and anchored with piles. Usually a series of oil and gas wells are drilled through these underwater structures.
<i>Surety</i>	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.
<i>T&M</i>	Work performed and billed to the customer generally at contracted time and material rates, cost plus or other variable fee arrangements which can include a mark-up.

<i>Texas North Yard</i>	Our former fabrication yard, and certain related machinery and equipment, located in Aransas Pass, Texas, which was sold on November 15, 2018.
<i>Texas South Yard</i>	Our former fabrication yard, and certain related machinery and equipment, located in Ingleside, Texas, which was sold on April 20, 2018.
<i>TLP</i>	Tension Leg Platform. A floating hull and deck anchored by vertical tensioned cables or pipes connected to pilings driven into the seabed. A tension leg platform is typically used in water depths exceeding 1,200 feet.
<i>Topic 606</i>	The revenue recognition criteria prescribed under ASU 2014-09, <i>Revenue from Contracts with Customers</i> .
<i>U.S.</i>	The United States of America.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2019	December 31, 2018
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,911	\$ 70,457
Short-term investments	25,457	8,720
Contracts receivable and retainage, net	30,268	22,505
Contract assets	50,855	29,982
Inventory	4,358	6,088
Prepaid expenses and other assets	3,437	3,268
Assets held for sale	18,518	18,935
Total current assets	178,804	159,955
Property, plant and equipment, net	74,770	79,930
Other noncurrent assets	23,591	18,405
Total assets	\$ 277,165	\$ 258,290
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 58,781	\$ 28,969
Contract liabilities	15,682	16,845
Accrued expenses and other liabilities	10,359	10,287
Total current liabilities	84,822	56,101
Other noncurrent liabilities	5,299	1,089
Total liabilities	90,121	57,190
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, 15,263 shares issued and outstanding at September 30, 2019 and 15,090 at December 31, 2018	11,123	11,021
Additional paid-in capital	103,154	102,243
Retained earnings	72,767	87,836
Total shareholders' equity	187,044	201,100
Total liabilities and shareholders' equity	\$ 277,165	\$ 258,290

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 75,802	\$ 49,712	\$ 223,863	\$ 161,016
Cost of revenue	78,487	52,924	227,593	164,248
Gross loss	(2,685)	(3,212)	(3,730)	(3,232)
General and administrative expense	3,970	4,902	11,791	14,703
Asset impairment and (gain) loss on assets held for sale, net	324	146	254	(5,683)
Other (income) expense, net	(51)	2,484	(181)	2,859
Operating loss	(6,928)	(10,744)	(15,594)	(15,111)
Interest (expense) income, net	139	72	527	(166)
Net loss before income taxes	(6,789)	(10,672)	(15,067)	(15,277)
Income tax (expense) benefit	10	(277)	(2)	(419)
Net loss	\$ (6,779)	\$ (10,949)	\$ (15,069)	\$ (15,696)
Per share data:				
Basic and diluted loss per common share	\$ (0.44)	\$ (0.73)	\$ (0.99)	\$ (1.05)

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	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2017	14,910	\$ 10,823	\$ 100,456	\$ 108,214	\$ 219,493
Net loss	—	—	—	(5,296)	(5,296)
Vesting of restricted stock	133	(79)	(708)	—	(787)
Stock-based compensation expense	—	69	607	—	676
Balance at March 31, 2018	15,043	10,813	100,355	102,918	214,086
Net income	—	—	—	549	549
Stock-based compensation expense	—	75	680	—	755
Balance at June 30, 2018	15,043	10,888	101,035	103,467	215,390
Net loss	—	—	—	(10,949)	(10,949)
Vesting of restricted stock	1	—	(8)	—	(8)
Stock-based compensation expense	—	69	634	—	703
Balance at September 30, 2018	15,044	\$ 10,957	\$ 101,661	\$ 92,518	\$ 205,136

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2018	15,090	\$ 11,021	\$ 102,243	\$ 87,836	\$ 201,100
Net loss	—	—	—	(3,042)	(3,042)
Vesting of restricted stock	146	(71)	(643)	—	(714)
Stock-based compensation expense	—	56	504	—	560
Balance at March 31, 2019	15,236	11,006	102,104	84,794	197,904
Net loss	—	—	—	(5,248)	(5,248)
Stock-based compensation expense	—	79	707	—	786
Balance at June 30, 2019	15,236	11,085	102,811	79,546	193,442
Net loss	—	—	—	(6,779)	(6,779)
Vesting of restricted stock	27	(8)	(73)	—	(81)
Stock-based compensation expense	—	46	416	—	462
Balance at September 30, 2019	15,263	\$ 11,123	\$ 103,154	\$ 72,767	\$ 187,044

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

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (15,069)	\$ (15,696)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and lease asset amortization	7,264	7,788
Other amortization, net	37	(458)
Bad debt expense	59	2,776
Asset impairments	622	1,360
(Gain) loss on sale of assets held for sale, net	(369)	(3,701)
(Gain) loss on sale of fixed assets and other assets, net	(565)	87
(Gain) loss on insurance recoveries, net	—	(3,342)
Stock-based compensation expense	1,808	2,134
Changes in operating assets and liabilities:		
Contracts receivable and retainage, net	(7,822)	(6,211)
Contract assets	(20,873)	(11,814)
Prepaid expenses, inventory and other current assets	1,502	(1,722)
Accounts payable	29,244	1,791
Contract liabilities	(1,164)	6,588
Accrued expenses and other liabilities	(470)	632
Noncurrent assets and liabilities, net (including long-term retainage)	(910)	1,122
Net cash used in operating activities	(6,706)	(18,666)
Cash flows from investing activities:		
Capital expenditures	(1,990)	(2,362)
Purchases of short-term investments	(45,366)	(9,174)
Maturities of short-term investments	28,761	—
Proceeds from sale of property, plant and equipment	1,598	57,716
Recoveries from insurance claims	—	9,362
Net cash provided by (used in) investing activities	(16,997)	55,542
Cash flows from financing activities:		
Proceeds from borrowings under Credit Agreement	—	15,000
Repayment of borrowings under Credit Agreement	—	(15,000)
Payment of financing cost	(48)	(44)
Tax payments for vested stock withholdings	(795)	(795)
Net cash used in financing activities	(843)	(839)
Net increase (decrease) in cash and cash equivalents	(24,546)	36,037
Cash and cash equivalents, beginning of period	70,457	8,983
Cash and cash equivalents, end of period	\$ 45,911	\$ 45,020

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

GULF ISLAND FABRICATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019
(Unaudited)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

We are a leading fabricator of complex steel structures, modules and marine vessels used in energy extraction and production, petrochemical and industrial facilities, power generation, alternative energy and shipping and marine transportation operations. We also provide project management, hookup, commissioning, repair, maintenance and civil construction services. We operate and manage our business through three operating divisions ("Fabrication", "Shipyard" and "Services") and one non-operating division ("Corporate"), which represent our reportable segments. During the first quarter 2019, our former EPC Division was operationally combined with our Fabrication Division. See Note 7 for discussion of our realigned operating divisions and related financial information. Our corporate headquarters is located in Houston, Texas, with operating facilities located in Houma, Jennings and Lake Charles, Louisiana.

Significant projects in our backlog include the expansion of a paddle wheel riverboat, the construction of an offshore jacket and deck, five harbor tug vessels, three offshore regional class marine research vessels, three vehicle ferries, two towboats, an ice-breaker tug, and three towing, salvage and rescue ships. Projects completed in recent years include the fabrication of complex modules for a newbuild petrochemical facility and a meteorological tower and platform for an offshore wind project, and construction of two technologically advanced OSVs and five harbor tug vessels. Other completed projects include the fabrication of wind turbine foundations for the first offshore wind project in the U.S., and construction of two of the largest liftboats servicing the Gulf of Mexico ("GOM"), one of the deepest production jackets in the GOM, and the first single point anchor reservoir ("SPAR") hull fabricated in the U.S.

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 nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

Our Consolidated Balance Sheet ("Balance Sheet") at December 31, 2018, 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 the Financial Statements and related footnotes included in our 2018 Annual Report. Certain amounts for the 2018 period have been reclassified within our Consolidated Statements of Operations ("Statement of Operations") and our Consolidated Statements of Cash Flows ("Statement of Cash Flows") to conform to our presentation for the 2019 period.

Business Outlook

We continue to strategically position the Company to participate in the fabrication of petrochemical and industrial facilities, pursue offshore wind opportunities, and diversify our customer base within all operating divisions. In addition, we continue to focus on maintaining our liquidity and securing meaningful new project awards and backlog in the near-term and generating operating income and cash flows from operations in the longer-term. We have made significant progress in our efforts to increase our backlog and improve and preserve our liquidity, including cost reductions and the sale of underutilized assets. We are further focused on strengthening relationships with key customers and enhancing our proposal, estimating and operations resources, processes and procedures to improve our competitiveness and overall project execution. See Note 3 for further discussion of our recent asset sales and assets held for sale at September 30, 2019.

We believe that our cash, cash equivalents and short-term investments at September 30, 2019, and availability under our Credit Agreement (defined in Note 4), 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.

Operating Cycle

The durations of our contracts vary and can 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 noncurrent.

Use of Estimates

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 contracts, including application of the percentage-of-completion method, estimating costs to complete each contract and the recognition of incentives, unapproved change orders, claims, and liquidated damages; fair value and recoverability assessments that must be periodically performed with respect to long-lived assets and our assets held for sale; determination of deferred income tax assets, liabilities and related valuation allowances; reserves for bad debts; and liabilities related to self-insurance programs. 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.

Income (Loss) Per Share

We report basic and diluted income (loss) per share ("EPS") using the "two-class" method as required under GAAP. The calculation of EPS using the two-class method is required when a company has two or more classes of common stock or participating securities. Certain of our unvested restricted stock (which are not included in our basic or diluted weighted average shares outstanding) contain the right to receive non-refundable dividends and therefore represent participating securities. See Note 6 for calculations of our basic and diluted EPS.

Cash Equivalents and Short-term Investments

Cash equivalents - We consider investments with original maturities of three months or less when purchased to be cash equivalents.

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 September 30, 2019, our short-term investments include U.S. Treasuries with original maturities of less than six months. We intend to hold these investments until maturity and have stated them at amortized cost. Due to their near-term maturities, amortized cost approximates fair value. 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

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 routinely review individual contract receivable balances for collectibility 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, and economic conditions in general.

Our customer base historically includes a significant number of energy related companies and their contractors. This concentration of customers in the energy sector may impact our overall exposure to credit risk, either positively or negatively, in

that customers may be similarly affected by changes in economic or other conditions. See Note 2 for further discussion of our allowance for doubtful accounts.

Stock-Based Compensation

Awards under our stock-based compensation plans are calculated using a fair value-based measurement method. We use the straight-line method 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 in our 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 in our Statement of Cash Flows.

Assets Held for Sale

Assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. See Note 3 for further discussion of our assets held for sale.

Depreciation Expense

We depreciate property, plant and equipment on a straight-line basis over estimated useful lives ranging from three to 25 years, absent any indicators of impairment. Ordinary maintenance and repairs, which do not extend the physical or economic lives of the plant or equipment, are charged to expense as incurred.

Long-Lived Assets

We review long-lived assets for impairment, which include property, plant and equipment and our lease assets included within other noncurrent assets, when events or changes in circumstances indicate that the carrying amount may not be recoverable. If a recoverability assessment is required, the estimated future undiscounted cash flow associated with the assets or asset groups are compared to their respective carrying amounts to determine if an impairment exists. An impairment loss is measured by comparing the fair value of the asset or asset group to its carrying amount and recording the excess of the carrying amount of the asset or asset group over its fair value as an impairment charge. 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. Fair value is determined based on discounted cash flows, appraised values or third-party indications of value, as appropriate. During the three and nine months ended September 30, 2019, we identified no indicators of impairment.

Fair Value Measurements

Our 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 reported for financial instruments, including cash and cash equivalents, short-term investments, contracts receivable and accounts payable, approximate their fair values.

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 and T&M. Our contracts primarily relate to the fabrication and construction of steel structures, modules and marine vessels, and project management services and other service

arrangements. We recognize revenue for our contracts in accordance with Accounting Standards Update ("ASU") 2014-09, Topic 606 "Revenue from Contracts with Customers" ("Topic 606"), which was adopted by us on January 1, 2018, and supersedes previous revenue recognition guidance, including industry-specific guidance.

Fixed-Price and Unit-Rate Contracts - Revenue for our fixed-price and unit-rate contracts is recognized using the percentage-of-completion method (an input method), based on contract costs incurred to date compared to total estimated contract costs. Contract costs include direct costs, such as materials and labor, and indirect costs that are 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 for contracts accounted for using the percentage-of-completion method can be significantly affected by changes in estimated cost to complete such contracts. Significant estimates impacting the cost to complete a contract include: costs of engineering, materials, components, equipment, labor and subcontracts; 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.

T&M Contracts - Revenue for our T&M contracts is recognized at contracted rates when the work is performed, the costs are incurred, and collection is reasonably assured. Our T&M contracts provide for labor and materials to be billed at rates specified within the contract. 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 for contracts can be significantly affected by variable consideration, which can be in the form of unapproved change orders, claims, incentives, and liquidated damages that may not be resolved until the later stages of the contract or after the contract has been completed and delivery occurs. 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.

Adoption of Topic 606 - As discussed above, on January 1, 2018 we adopted Topic 606. Prior to our adoption of Topic 606, our determination of percentage-of-completion for our fixed-price and unit-rate contracts was based on the percentage of direct labor hours incurred to date compared to total estimated direct labor hours, and revenue for materials was recognized only to the extent of costs incurred. However, in our adoption of Topic 606, we adjusted our measure of progress for the determination of percentage-of-completion to include subcontract labor hours in addition to direct labor hours. Accordingly, our determination of percentage-of-completion for the three and nine months ended September 30, 2018, was based on this method.

During the fourth quarter 2018, we concluded that the use of labor hours for the determination of percentage-of-completion for our fixed-price and unit-rate contracts was not appropriate based on the changing mix of our contracts, which include an increasing amount of engineered equipment, manufactured materials, and subcontracted services and materials. We also concluded that in our adoption of Topic 606 as of January 1, 2018, our determination of percentage-of-completion for our fixed-price and unit-rate contracts should have been based on total contract costs incurred to date compared to total estimated contract costs. We further concluded that material costs that are significant to a contract and do not reflect an accurate measure of project completion should be excluded from the determination of our contract progress, and revenue for such materials should only be recognized to the extent of costs incurred. Accordingly, during the fourth quarter 2018, we corrected our percentage-of-completion estimates for our fixed-price and unit-rate contracts to be based on total costs incurred to date compared to total estimated contract costs. Accordingly, our determination of percentage-of-completion for the three and nine months ended September 30, 2019, was based on this method. The impact of the difference in methods of determining percentage-of-completion between the 2019 and 2018 periods was not material.

During 2018 we also evaluated the required cumulative effect adjustment to retained earnings as of January 1, 2018 for the adoption impact of Topic 606. Based on this evaluation, we determined that the cumulative effect adjustment would have been \$0.4 million, which we did not believe was material to our Financial Statements. Accordingly, no cumulative adjustment to retained earnings as of January 1, 2018 was recorded.

Income Taxes

Income taxes have been provided 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.

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.

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.

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 September 30, 2019 and December 31, 2018, we had no deferred pre-contract costs.

Other (Income) Expense, Net

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

New Accounting Standards

Leases - In the first quarter 2019, we adopted ASU 2016-02, "Leases," which required us to record a lease liability on our Balance Sheet equal to the present value of our lease payments for leased assets, and record a lease asset on our Balance Sheet representing our right to use the underlying leased assets for all leases having an original term of longer than 12-months. In our adoption we elected the modified retrospective transition method, and accordingly, prior periods have not been restated and continue to be reported under the lease standard in effect during such periods. We also elected certain practical expedients provided by ASU 2016-02, including not recording an asset or liability for leases having a term of 12-months or less and not separating lease and non-lease components for our leases. Upon adoption, we recorded operating lease assets and lease liabilities of approximately \$7.2 million and \$5.3 million, respectively, at January 1, 2019. Included in our lease asset was an intangible asset of \$1.9 million associated with two favorable lease obligations recorded in connection with a former acquisition, which was reclassified as a lease asset under ASU 2016-02.

The lease asset is reflected within other noncurrent assets, and the current and noncurrent portions of the lease liability are reflected within accrued expenses and other liabilities, and other noncurrent liabilities, respectively, on our Balance Sheet. At September 30, 2019, our lease asset, current lease liability and long-term lease liability were \$6.8 million, \$0.3 million and \$4.7 million, respectively. For leases with escalations over the life of the lease, we recognize expense on a straight-line basis. See Note 5 for further discussion of our lease liabilities.

Stock-based grants - In the first quarter 2019, we adopted ASU 2018-07, "Improvements to Non-employee Share-Based Payment Accounting," which simplifies the accounting for share-based payments granted to non-employees for goods and services. Under the ASU, most of the guidance for such payments to non-employees is now aligned with the requirements for share-based payments to employees. The adoption of the new standard did not have a material impact on our financial position, results of operations or related disclosures.

Financial instruments - In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments," which changes the way companies evaluate credit losses for most financial assets and certain other instruments. For trade and other receivables, short-term investments, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model to evaluate impairment, potentially resulting in earlier recognition of allowances for losses. The new standard also requires enhanced disclosures, including the requirement to disclose the information used to track credit quality by year of origination for most financing receivables. ASU 2016-13 will be effective for us in the first quarter 2020. Early adoption of the new standard is permitted; however, we have not elected to early adopt the standard. The new standard is required to be applied using a cumulative-effect transition method. We are currently evaluating the effect that ASU 2016-13 will have on our financial position, results of operations and related disclosures.

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

As discussed in Note 1, we recognize revenue for 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, for the three and nine months ended September 30, 2019 and 2018 (in thousands):

Contract Type	Three Months Ended September 30, 2019				
	Fabrication	Shipyard	Services	Eliminations	Total
Fixed-price and unit-rate ⁽¹⁾	\$ 19,474	\$ 38,128	\$ 6,770	\$ (65)	\$ 64,307
T&M ⁽²⁾	—	1,308	9,442	—	10,750
Other	—	—	1,295	(550)	745
Total	\$ 19,474	\$ 39,436	\$ 17,507	\$ (615)	\$ 75,802

Contract Type	Three Months Ended September 30, 2018				
	Fabrication	Shipyard	Services	Eliminations	Total
Fixed-price and unit-rate ⁽¹⁾	\$ 3,382	\$ 23,635	\$ 10,422	\$ (494)	\$ 36,945
T&M ⁽²⁾	—	857	10,424	—	11,281
Other	—	—	1,771	(285)	1,486
Total	\$ 3,382	\$ 24,492	\$ 22,617	\$ (779)	\$ 49,712

Contract Type	Nine Months Ended September 30, 2019				
	Fabrication	Shipyard	Services	Eliminations	Total
Fixed-price and unit-rate ⁽¹⁾	\$ 54,520	\$ 108,361	\$ 23,517	\$ (4,311)	\$ 182,087
T&M ⁽²⁾	—	5,229	30,403	—	35,632
Other	—	—	7,254	(1,110)	6,144
Total	\$ 54,520	\$ 113,590	\$ 61,174	\$ (5,421)	\$ 223,863

Contract Type	Nine Months Ended September 30, 2018				
	Fabrication	Shipyard	Services	Eliminations	Total
Fixed-price and unit-rate ⁽¹⁾	\$ 30,197	\$ 62,116	\$ 31,288	\$ (1,989)	\$ 121,612
T&M ⁽²⁾	—	4,561	31,495	—	36,056
Other	—	—	3,909	(561)	3,348
Total	\$ 30,197	\$ 66,677	\$ 66,692	\$ (2,550)	\$ 161,016

(1) Revenue is recognized as the contract is progressed over time.

(2) Revenue is recognized at contracted rates when the work is performed and costs are incurred.

Future Performance Obligations Required Under Contracts

A summary of our remaining performance obligations by operating segment at September 30, 2019, is as follows (in thousands).

Segment	Performance Obligations
Fabrication	\$ 39,894
Shipyards ⁽¹⁾	384,852
Services	15,189
Total	<u>\$ 439,935</u>

(1) Amount excludes approximately \$21.9 million of remaining performance obligations related to contracts for the construction of two MPSVs that are subject to dispute pursuant to termination notices from our customer. See Note 5 for further discussion of these contracts.

We expect to recognize revenue for our remaining performance obligations at September 30, 2019, in the following periods (in thousands):

Year	Performance Obligations
Remainder of 2019	\$ 79,028
2020	230,699
2021	122,068
Thereafter	8,140
Total	<u>\$ 439,935</u>

Contracts Assets and Liabilities

Revenue recognition and customer invoicing for our fixed-price and unit-rate contracts may occur at different times. Revenue recognition is based upon our estimated percentage-of-completion as discussed in Note 1; however, customer invoicing is generally dependent upon predetermined 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. Amounts billed in excess of revenue recognized, and accrued contract losses, are reflected as contract liabilities on our Balance Sheet. Contract assets and contract liabilities included in our Balance Sheet at September 30, 2019 and December 31, 2018, are as follows (in thousands):

	September 30, 2019	December 31, 2018
Contract assets	\$ 50,855	\$ 29,982
Contract liabilities ^{(1), (2), (3)}	(15,682)	(16,845)
Contracts in progress, net	<u>\$ 35,173</u>	<u>\$ 13,137</u>

- (1) The decrease in contract liabilities compared to December 31, 2018, was primarily due to the unwind of advance payments on a project in our Fabrication Division, offset partially by an increase in billings on a project in our Fabrication Division and advance payments on a project in our Shipyards Division.
- (2) Revenue recognized during the three months ended September 30, 2019 and 2018, which related to amounts included in our contract liabilities balance at June 30, 2019 and 2018, was \$8.5 million and \$2.6 million respectively. Revenue recognized during the nine months ended September 30, 2019 and 2018, which related to amounts included in our contract liabilities balance at December 31, 2018 and 2017, was \$14.3 million and \$5.1 million, respectively.
- (3) Contract liabilities at September 30, 2019 and December 31, 2018, includes accrued contract losses of \$3.0 million and \$2.4 million, respectively. See "Project Changes in Estimates" below for further discussion of our accrued contract losses.

Allowance for Doubtful Accounts

For the three months ended September 30, 2019, we had no provision for bad debts, and for the three months ended September 30, 2018, our provision for bad debts was \$2.8 million. For the nine months ended September 30, 2019 and 2018, our provision for bad debts was \$0.1 million and \$2.8 million, respectively. Our provision for bad debts is included in other (income) expense, net on our Statement of Operations. Our allowance for doubtful accounts at September 30, 2019 and December 31, 2018 was \$0.1 million and \$0.4 million, respectively.

Variable Consideration

For the three and nine months ended September 30, 2019 and 2018, we had no material amounts in revenue related to unapproved change orders, claims, or incentives. However, at September 30, 2019 and December 31, 2018, certain projects in our Shipyard and Services divisions reflected a reduction to our estimated contract price for liquidated damages of \$11.8 million and \$11.2 million, respectively, of which \$11.2 million was recorded during 2017.

Changes in Project Estimates

For the three and nine months ended September 30, 2019, significant changes in estimated margins on projects resulted in an increase in our operating loss of \$3.9 million and \$5.8 million, respectively. The changes in estimates were associated with our harbor tug projects and ice-breaker tug project in our Shipyard Division and a project in our Services Division.

- The changes in estimates for the harbor tug projects totaled \$1.9 million and \$3.1 million for the three and nine months ended September 30, 2019, respectively. The changes in estimates for the third quarter 2019 were the result of increased forecast costs and liquidated damages, primarily associated with the need to supplement and re-perform work for an under-performing paint subcontractor, higher cost estimates from our electrical and instrumentation subcontractor, and our inability to achieve previously anticipated labor productivity improvements on our uncompleted vessels, resulting in increased craft labor and subcontracted services and extensions of schedule for the projects. The changes in estimates for the first half of 2019 were the result of increased forecast costs, primarily associated with limitations in craft labor availability and the required use of contract labor in lieu of direct hire labor, resulting in lower than anticipated craft labor productivity and extensions of schedule for the projects. The revised forecasts incorporate actual results obtained from completion of the fifth vessel in the third quarter 2019 and progress achieved on the remaining five vessels. At September 30, 2019, the uncompleted vessels were at various stages of completion ranging from approximately 13% to 88% and are forecast to be completed at various dates ranging from the fourth quarter 2019 through the third quarter 2020. The projects were in a loss position at September 30, 2019 and our reserve for estimated losses was \$1.9 million. If future craft labor productivity differs from our current estimates, we are unable to achieve our progress estimates, our schedules are further extended or the projects incur additional schedule liquidated damages, the projects would experience further losses.
- The changes in estimates for the ice-breaker tug project totaled \$0.5 million and \$1.3 million for the three and nine months ended September 30, 2019, respectively. The changes in estimates for the third quarter 2019 were the result of increased forecast costs, primarily associated with difficulties encountered to launch the vessel and anticipated delays and costs to deliver the vessel, resulting in additional craft labor, subcontracted services and support, and an extension of schedule for the project. The changes in estimates for the first half of 2019 were the result of increased forecast costs, primarily associated with incomplete and deficient subcontracted production engineering, resulting in construction rework and disruption, lower than anticipated craft labor productivity and an extension of schedule for the project. At September 30, 2019, the vessel was approximately 85% complete and is forecast to be completed in the fourth quarter 2019 and delivered in the first quarter 2020. The project was in a loss position at September 30, 2019 and our reserve for estimated losses was \$0.1 million. If future craft labor productivity differs from our current estimates, we are unable to achieve our progress estimates, our schedule is further extended, or we experience further delays or additional costs to deliver the vessel, the project would experience further losses.
- The changes in estimates for our Services project totaled \$1.5 million and \$1.4 million for the three and nine months ended September 30, 2019, respectively. The changes in estimates were the result of increased forecast costs and liquidated damages, primarily associated with stringent welding procedure requirements and customer specifications for subsea components, resulting in additional materials, craft labor and subcontracted services and support, and an extension of schedule for the project. At September 30, 2019, the project was approximately 56% complete and is forecast to be completed in the first quarter 2020. The project was in a loss position at September 30, 2019 and our reserve for estimated losses was \$0.6 million. If we continue to experience difficulties with the procedure requirements and specifications for the project or the schedule is further extended, the project would experience further losses.

For the three and nine months ended September 30, 2018, individual projects with significant changes in estimated margins did not have a material net impact on our loss from operations.

Other Project Matters

Project Tariffs - Certain imported materials used, or forecast to be used, for our projects are currently subject to existing, new or increased tariffs or duties. We believe such amounts, if incurred, are recoverable from our customers under the contractual provisions of our contracts; however, we can provide no assurances that we will successfully recover such amounts.

Other - At September 30, 2019 and December 31, 2018, other noncurrent assets on our Balance Sheet included \$3.0 million of retention for a previously completed project in our Fabrication Division for the fabrication of modules for a petrochemical facility. This retention is billable to the customer upon expiration of the contractual warranty period, which is expected to occur in the second quarter 2020; however, the customer has recently announced it is pursuing strategic alternatives and has executed amendments to its financing arrangements that could delay the timing of collection of the retention.

3. ASSETS HELD FOR SALE

A summary of our assets held for sale at September 30, 2019, is as follows (in thousands):

Assets	Fabrication Division	Shipyards Division	Consolidated
Machinery and equipment	\$ 25,789	\$ 898	\$ 26,687
Accumulated depreciation	(7,871)	(298)	(8,169)
Total	\$ 17,918	\$ 600	\$ 18,518

Fabrication Division Assets Held for Sale

South Texas Properties - During the first quarter 2017, we classified our fabrication yards and certain associated equipment in Ingleside, Texas ("Texas South Yard") and Aransas Pass, Texas ("Texas North Yard") (collectively, "South Texas Properties") as held for sale. During the second and fourth quarters of 2018, we completed the sale of the Texas South Yard and Texas North Yard, respectively, which included both fabrication yards and certain equipment. In connection with the sale of the Texas South Yard, during the nine months ended September 30, 2018, we received net proceeds of \$53.8 million and recognized a gain of \$3.9 million, which is included within asset impairments and (gain) loss on assets held for sale, net on our Statement of Operations.

At September 30, 2019, our Fabrication Division continued to have \$17.9 million of assets held for sale ("Fabrication AHFS"), which were initially expected to be sold with the South Texas Properties. These assets consist primarily of three 660-ton crawler cranes, a deck barge, two plate bending roll machines and panel line equipment. The Fabrication AHFS were relocated to our fabrication yard in Houma, Louisiana.

Hurricane Harvey Insurance Recoveries - During the third quarter 2017, buildings and equipment located at our South Texas Properties were damaged by Hurricane Harvey. In connection therewith, during 2017 we received \$6.0 million of insurance proceeds as an initial payment from our insurance carriers, of which approximately \$3.2 million was reflected as a liability on our Balance Sheet at December 31, 2017, related to estimated future repairs associated with Hurricane Harvey. In addition, during the second quarter 2018, we agreed to a global settlement with our insurance carriers for total insurance payments of \$15.4 million, inclusive of the \$6.0 million payment received during 2017 and \$9.4 million of payments received during the nine months ended September 30, 2018. In applying the settlement proceeds (which were inclusive of agreed upon deductibles), we allocated the 2018 recoveries and the liability accrued at December 31, 2017, as follows:

- \$9.0 million, which offset impairments of property and equipment, primarily at our Texas North Yard, resulting in no net gain or loss. Our evaluation considered the Texas North Yard as a single asset group given the sale of our Texas South Yard had been completed. The impairments were based upon our best estimate of the decline in fair value of the asset group as a result of Hurricane Harvey; and
- \$3.6 million gain recorded during the nine months ended September 30, 2018, which is included within asset impairments and (gain) loss on assets held for sale, net on our Statement of Operations.

Other - During the nine months ended September 30, 2019 and 2018, we received proceeds of \$0.4 million and \$1.2 million, respectively, related to the sale of assets that were held for sale, which resulted in a gain of \$0.3 million and loss of \$0.4 million for the nine months ended September 30, 2019 and 2018, respectively. During the nine months ended September 30, 2019 and 2018, we recorded expense of \$0.3 million and \$1.4 million related to the impairment of other assets that were held for sale. The net expense of \$1.8 million for the nine months ended September 30, 2018 is included within asset impairments and (gain) loss on assets held for sale, net on our Statement of Operations.

The sale of our South Texas Properties did not impact our ability to operate our Fabrication Division. Further, the sale of our South Texas Properties, and the Fabrication AHFS, did not qualify for discontinued operations presentation as we continue to operate our Fabrication Division at our fabrication yard in Houma, Louisiana.

Shipyards Division Assets Held for Sale

At September 30, 2019, our Shipyards Division had \$0.6 million of assets held for sale ("Shipyards AHFS"), which consists of a 2,500-ton drydock located at our shipyard in Houma, Louisiana. The carrying value reflects an impairment of \$0.3 million recorded during the three and nine months ended September 30, 2019, as we sold the drydock in October 2019 for net proceeds of \$0.6 million, which was \$0.3 million less than its carrying value. The Shipyards AHFS did not qualify for discontinued operations presentation.

4. CREDIT FACILITIES

Credit Agreement

We have a \$40.0 million revolving credit facility with Hancock Whitney Bank ("Credit Agreement") that can be used for borrowings or letters of credit. On May 1, 2019, we amended our Credit Agreement to extend its maturity date to June 9, 2021 and amend certain financial covenants. Our amended quarterly financial covenants for the remaining term of the Credit Agreement are as follows:

- Ratio of current assets to current liabilities of not less than 2.00:1.00;
- Minimum tangible net worth of at least the sum of \$170.0 million, plus 100% of the net proceeds from any issuance of stock or other equity after deducting any fees, commissions, expenses and other costs incurred in such offering; and
- Ratio of funded debt (which includes outstanding letters of credit) to tangible net worth of not more than 0.50:1.00.

Our Credit Agreement also includes restrictions regarding our ability to: (i) grant liens; (ii) make certain loans or investments; (iii) incur additional indebtedness or guarantee other indebtedness in excess of specified levels; (iv) make any material change to the nature of our business or undergo a fundamental change; (v) make any material dispositions; (vi) acquire another company or all or substantially all of its assets; (vii) enter into a merger, consolidation, or sale leaseback transaction; or (viii) declare and pay dividends if any potential default or event of default occurs.

Interest on borrowings under the Credit Agreement may be designated, at our option, as either the *Wall Street Journal* published Prime Rate (5.0% at September 30, 2019) or LIBOR (2.0% at September 30, 2019) plus 2.0% per annum. Commitment fees on the unused portion of the Credit Agreement are 0.4% per annum, and interest on outstanding letters of credit is 2.0% per annum. The Credit Agreement is secured by substantially all our assets (with a negative pledge on our real property).

At September 30, 2019, we had no outstanding borrowings under our Credit Agreement and \$10.4 million of outstanding letters of credit, providing \$29.6 million of available capacity. At September 30, 2019, we were in compliance with all of our financial covenants, with a tangible net worth of \$185.2 million (as defined by the Credit Agreement), a ratio of current assets to current liabilities of 2.11:1.00, and a ratio of funded debt to tangible net worth of 0.06:1.00.

Surety Bonds

We issue surety bonds in the ordinary course of business to support our projects. At September 30, 2019, we had \$409.3 million of outstanding surety bonds.

5. COMMITMENTS AND CONTINGENCIES

We are subject to various routine legal proceedings in the normal conduct of 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 lawsuits, legal proceedings and claims 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 cash flows.

MPSV Termination Letter

During the first quarter 2018, we received notices of termination of the contracts for the construction of two MPSVs from one of our Shipyard Division customers. We dispute the purported terminations and disagree with the customer's reasons for such terminations. Pending the resolution of the dispute, we have ceased all work and the partially completed vessels and associated equipment and materials remain at our shipyard in Houma, Louisiana. The customer also made claims under the bonds issued by the Surety in connection with the construction of the vessels. We have discussed with the Surety our disagreement with the customer's purported terminations and its claims and continue to confer with the Surety regarding the dispute with the customer.

On October 2, 2018, we filed a lawsuit against the customer to enforce our rights and remedies under the applicable construction contracts. Our lawsuit disputes the propriety of the customer's purported terminations of the construction contracts and seeks to recover damages associated with the customer's actions. The customer filed its response to our lawsuit denying many of the allegations in the lawsuit and asserting a counterclaim against us seeking, among other things, declaratory judgment as to the validity of the customer's purported terminations of the construction contracts and other purported claims for which the customer is seeking damages in an unspecified amount. We filed a response to the counterclaim denying all of the customer's claims. The customer subsequently filed a motion with the court seeking, among other things, to obtain possession of the vessels. A hearing on that motion was held on May 28, 2019, and the customer's request to obtain possession of the vessels was denied by the court. The customer recently filed an amendment to its counterclaim to add claims by the customer against the Surety. The customer also recently filed a second motion for summary judgment re-urging its previously denied request to obtain possession of the vessels. A hearing on the second motion is currently scheduled for November 5, 2019. Discovery in connection with the lawsuit is underway.

We are unable to determine the probability of a favorable or unfavorable outcome with respect to the dispute or estimate the amount of potential loss, if any, related to this matter. We can provide no assurances that we will not incur additional costs as we pursue our rights and remedies under the contracts and defend against the customer's claims. At September 30, 2019 and December 31, 2018, other noncurrent assets on our Balance Sheet included a net contract asset of \$12.5 million, which consisted of our contract asset, accrued contract losses, and deferred revenue balances at the time of the customer's purported termination of the contracts.

Insurance

We may be exposed to future losses through our use of deductibles and self-insured retentions for our exposures related to third party liability and workers' compensation. We expect liabilities in excess of any deductibles and self-insured retentions to be covered by insurance. 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.

Letters of Credit and Surety Bonds

We obtain letters of credit under our Credit Agreement 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. With respect to a letter of credit under our Credit Agreement, any advance payment in the event of non-performance under a contract would become a borrowing under our Credit Agreement and thus a direct obligation. With respect to a surety bond, any advance payment in the event of non-performance is subject to indemnification of the Surety by us, which may require us to borrow under our Credit Agreement. When a contract is complete, the contingent obligation terminates, and letters of credit or surety bonds are returned. See Note 4 for further discussion of our Credit Agreement and surety bonds.

Leases

Our significant operating leases include our corporate office in Houston, Texas and our shipyard facilities in Lake Charles and Jennings, Louisiana. Our corporate office lease expires in 2025 and our Lake Charles and Jennings leases include renewal options that allow us to extend the lease terms through 2038 and 2045, respectively. We are reasonably certain we will exercise

the renewal options and have therefore included the optional renewal periods in our expected lease terms and the measurement of our operating lease assets and liabilities. The table below sets forth the approximate future lease payments related to our operating leases with initial terms of more than one year (in thousands):

Period	Payments
Remainder of 2019	\$ 163
2020	659
2021	668
2022	677
2023	676
Thereafter	6,173
Total lease payments	9,016
Less interest	(3,989)
Present value of lease liabilities	\$ 5,027

The discount rate used to determine the present value of our lease liabilities was based on the interest rate on our Credit Agreement adjusted for terms similar to that of our leased properties. At September 30, 2019, our weighted-average remaining lease term was approximately 15.8 years and the weighted-average discount rate used to derive our lease liability was 7.5%. Cash paid for lease liabilities for the three and nine months ended September 30, 2019 was \$0.2 million and \$0.5 million, respectively.

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.

6. INCOME (LOSS) PER COMMON SHARE

The following table presents the computation of basic and diluted income (loss) per share for the three and nine months ended September 30, 2019 and 2018 (in thousands, except for per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net loss attributable to common shareholders	\$ (6,779)	\$ (10,949)	\$ (15,069)	\$ (15,696)
Weighted-average shares ⁽¹⁾	15,254	15,044	15,214	15,017
Basic and diluted loss per common share	\$ (0.44)	\$ (0.73)	\$ (0.99)	\$ (1.05)

(1) We have no dilutive securities.

7. SEGMENT DISCLOSURES

During 2018, we operated and managed our business through four operating divisions ("Fabrication", "Shipyard", "Services" and "EPC") and one non-operating division ("Corporate"), which represented our reportable segments. During the first quarter 2019, our EPC Division was operationally combined with our Fabrication Division. Our EPC Division was previously created to support the pursuit of a specific EPC project and other projects that require project management of EPC activities. Our operational combination of the EPC Division with the Fabrication Division is the result of our reduced emphasis on EPC project management opportunities and greater focus on modular fabrication and offshore wind opportunities. As a result of the aforementioned, we currently operate and manage our business through three operating divisions ("Fabrication", "Shipyard" and "Services") and one non-operating division ("Corporate"), which represent our current reportable segments. The segment results for the EPC Division for the three and nine months ended September 30, 2018 were combined with the Fabrication Division to conform to the

presentations of our reportable segments for the 2019 periods. We believe that our operating divisions meet the criteria of reportable segments under GAAP. Our three operating divisions and Corporate Division are discussed below:

Fabrication Division - Our Fabrication Division fabricates modules for petrochemical and industrial facilities, foundations for alternative energy developments and other complex structures. Our Fabrication Division also fabricates offshore drilling and production platforms and other offshore structures for customers in the oil and gas industry, including jackets and deck sections of fixed production platforms, hull and/or deck sections of floating production platforms (such as TLPs, SPARs, FPSOs), piles, wellhead protectors, subsea templates, and various production, compressor, and utility modules along with pressure vessels. In addition, our Fabrication Division supports our efforts to pursue offshore wind opportunities and other projects that require project management of EPC activities. These activities are performed at our fabrication yard in Houma, Louisiana.

Shipyards Division - Our Shipyards Division fabricates newbuild vessels, including OSVs, MPSVs, research vessels, tugboats, salvage vessels, towboats, barges, drydocks, anchor handling vessels, lift boats and other marine vessels. Our Shipyards Division also performs marine repair activities, including steel repair, blasting and painting services, electrical systems repair, machinery and piping system repairs, and propeller, shaft, and rudder reconditioning. In addition, our Shipyards Division performs conversion projects that consist of lengthening vessels, modifying vessels to permit their use for a different type of activity, and other modifications to enhance the capacity or functionality of a vessel. These activities are performed at our shipyards in Houma, Jennings and Lake Charles, Louisiana.

Services Division - Our Services Division provides interconnect piping and related services on offshore platforms and inland structures. Interconnect piping services involve sending employee crews to offshore platforms in the GOM to perform welding and other activities required to connect production equipment, service modules and other equipment on a platform. Our Services Division also contracts with oil and gas companies that have platforms and other structures located in the inland lakes and bays throughout the southeastern U.S. for various on-site construction and maintenance activities. In addition, our Services Division fabricates packaged skid units and performs various municipal and drainage projects, such as pump stations, levee reinforcement, bulkheads and other public works projects for state and local governments. These services are performed at customer facilities or at our services yard in Houma, Louisiana.

Corporate Division - Our Corporate Division represents costs that do not directly relate to our three operating divisions. Such costs include, but are not limited to, executive management and directors' fees, clerical and administrative salaries, costs of maintaining our corporate office and costs associated with overall governance and being a publicly traded company. Costs incurred by our Corporate Division on behalf of our operating divisions are allocated to the operating divisions. Such costs include, but are not limited to, costs related to human resources, insurance, sales and marketing, information technology and accounting.

We generally evaluate the performance of, and allocate resources to, our operating divisions based upon revenue, gross profit (loss) and operating income (loss). Division 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 and for the three and nine months ended September 30, 2019 and 2018, is as follows (in thousands):

	Three Months Ended September 30, 2019				
	Fabrication	Shipyards	Services	Corporate	Consolidated
Revenue	\$ 19,474	\$ 39,436	\$ 17,507	\$ (615)	\$ 75,802
Gross profit (loss)	(428)	(2,402)	210	(65)	(2,685)
Operating loss	(848)	(3,349)	(407)	(2,324)	(6,928)
Depreciation and amortization expense	840	992	362	96	2,290
Capital expenditures	137	326	168	—	631
Total assets ⁽¹⁾	63,098	109,129	28,604	76,334	277,165

Three Months Ended September 30, 2018

	Fabrication	Shipyard	Services	Corporate	Consolidated
Revenue	\$ 3,382	\$ 24,492	\$ 22,617	\$ (779)	\$ 49,712
Gross profit (loss)	(4,237)	(1,764)	3,191	(402)	(3,212)
Operating income (loss)	(8,277)	(2,454)	2,482	(2,495)	(10,744)
Depreciation and amortization expense	1,023	1,050	365	42	2,480
Capital expenditures	142	783	545	1	1,471
Total assets ⁽¹⁾	85,780	86,162	32,427	58,595	262,964

Nine Months Ended September 30, 2019

	Fabrication	Shipyard	Services	Corporate	Consolidated
Revenue	\$ 54,520	\$ 113,590	\$ 61,174	\$ (5,421)	\$ 223,863
Gross profit (loss)	(1,877)	(5,594)	4,088	(347)	(3,730)
Operating income (loss)	(3,599)	(7,817)	2,610	(6,788)	(15,594)
Depreciation and amortization expense	2,698	3,148	1,099	319	7,264
Capital expenditures	282	1,060	648	—	1,990
Total assets ⁽¹⁾	63,098	109,129	28,604	76,334	277,165

Nine Months Ended September 30, 2018

	Fabrication	Shipyard	Services	Corporate	Consolidated
Revenue	\$ 30,197	\$ 66,677	\$ 66,692	\$ (2,550)	\$ 161,016
Gross profit (loss)	(5,888)	(5,563)	9,390	(1,171)	(3,232)
Operating income (loss)	(6,572)	(7,810)	7,223	(7,952)	(15,111)
Depreciation and amortization expense	3,219	3,170	1,141	258	7,788
Capital expenditures	142	1,442	708	70	2,362
Total assets ⁽¹⁾	85,780	86,162	32,427	58,595	262,964

(1) Cash and short-term investments are reported within our Corporate Division. Total assets previously reported for 2018 have been recast to conform to our presentation for 2019.

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.

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 oil and gas prices, operating cash flows, 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 the cyclical nature of the oil and gas industry, competition, consolidation of our customers, timing and award of new contracts, reliance on significant customers, financial ability and credit worthiness of our customers, nature of our contract terms, competitive pricing and cost overruns on our projects, adjustments to previously reported profits or losses under the percentage-of-completion method, weather conditions, changes in backlog estimates, suspension or termination of projects, ability to raise additional capital, ability to amend or obtain new debt financing or credit facilities on favorable terms, ability to remain in compliance with our covenants contained in our Credit Agreement, ability to generate sufficient cash flow, ability to sell certain assets, customer or subcontractor disputes, ability to resolve the dispute with a customer relating to the purported termination of contracts to build two MPSVs, operating dangers and limits on insurance coverage, barriers to entry into new lines of business, ability to employ skilled workers, loss of key personnel, performance of subcontractors and dependence on suppliers, changes in trade policies of the U.S. and other countries, compliance with regulatory and environmental laws, lack of navigability of canals and rivers, shutdowns of the U.S. government, systems and information technology interruption or failure and data security breaches, performance of partners in our joint ventures and other strategic alliances, and other factors described in Item 1A "Risk Factors" in our 2018 Annual Report as may be updated by subsequent filings with the SEC.

Investors are cautioned that many of the assumptions upon which our forward-looking statements are based are likely to change after 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 do not intend to update forward-looking statements more frequently than quarterly notwithstanding any changes in our assumptions, changes in business plans, actual experience or other changes, and we undertake no obligation to update any forward-looking statements.

Overview

Certain terms are defined in the "Glossary of Terms" beginning on page ii.

We are a leading fabricator of complex steel structures, modules and marine vessels used in energy extraction and production, petrochemical and industrial facilities, power generation, alternative energy and shipping and marine transportation operations. We also provide project management, hookup, commissioning, repair, maintenance and civil construction services. Our customers include United States ("U.S.") and, to a lesser extent, international energy producers; petrochemical, industrial, power, and marine operators; EPC companies; and agencies of the U.S. Government.

We operate and manage our business through three operating divisions ("Fabrication", "Shipyards" and "Services") and one non-operating division ("Corporate"), which represent our reportable segments. During the first quarter 2019, our former EPC Division was operationally combined with our Fabrication Division, and accordingly, the segment results for the EPC Division for the three and nine months ended September 30, 2018 were combined with the Fabrication Division to conform to the presentation of our reportable segments for the 2019 period. See Note 7 of our Financial Statements for further discussion of our realigned operating divisions. Our corporate headquarters is located in Houston, Texas, with operating facilities located in Houma, Jennings and Lake Charles, Louisiana.

Beginning in late 2014, a severe and sustained decline in oil and gas prices led to a significant decline in oil and gas industry drilling activities and capital spending from our traditional offshore customer base. As a result, our operating results and cash flows were negatively impacted as we experienced reductions in revenue, lower margins due to competitive pricing and a significant underutilization of our facilities in our Fabrication and Shipyards Divisions. In addition, we incurred losses on certain projects in our Shipyards and Fabrication Divisions. As a result of these market changes and project losses, we implemented initiatives to preserve and improve our liquidity through cost reduction efforts and the sale of underutilized assets. Further, to reduce our Fabrication Division's reliance on offshore oil and gas construction and our Shipyards Division's reliance on marine vessel work related to the oil and gas sector, we began to strategically reposition the Company to participate in the fabrication of petrochemical and industrial facilities, pursue offshore wind opportunities and diversify our customer base within all our operating divisions. We have made significant progress in our efforts to reposition the Company, increase our backlog and improve and preserve our liquidity, including cost reductions (including reducing the compensation paid to our directors and executive officers) and the sale of underutilized assets. We are further focused on strengthening relationships with key customers and enhancing our proposal, estimating and operations resources, processes and procedures to improve our competitiveness and overall project execution.

Ongoing Effort to Divest of Underutilized Assets

Fabrication Assets Held for Sale - At September 30, 2019, our Fabrication Division had \$17.9 million of assets held for sale ("Fabrication AHFS") which were initially expected to be sold with the South Texas Properties. These assets consist primarily of three 660-ton crawler cranes, a deck barge, two plate bending roll machines and panel line equipment. The Fabrication AHFS were relocated to our fabrication yard in Houma, Louisiana. See Note 3 of our Financial Statements for further discussion of our assets held for sale, including recent sales of underutilized assets.

Shipyards Assets Held for Sale - At September 30, 2019, our Shipyards Division had \$0.6 million of assets held for sale, which consists of a 2,500-ton drydock. We sold the drydock in October 2019 for net proceeds of \$0.6 million.

Ongoing Efforts to Increase Our Backlog, Diversify Our Customer Base and Resolve Customer Dispute

Pursuit of petrochemical and industrial fabrication work - We continue to focus our business development efforts on petrochemical and industrial fabrication opportunities in response to the depressed offshore fabrication market. Although our pursuit of certain large project opportunities has been negatively affected by the timing and delay of such opportunities and the competitive market environment, we have experienced success with several smaller project opportunities, and our volume of bidding activity for onshore modules and structures continues to be at its highest level since we commenced our initiative. In addition, during 2018 we completed the fabrication and timely delivery of four large modules for a new petrochemical facility in the U.S., providing increased confidence to our customers that we can successfully compete and execute in the onshore fabrication market.

Pursuit of offshore wind - We continue to believe that future requirements to provide electricity from renewable and green sources will result in growth of offshore wind projects. Further, we believe we possess the expertise and relationships to successfully participate in this growing market. During 2015, we fabricated wind turbine foundations for the first offshore wind power project in the U.S., and during 2018, we fabricated a meteorological tower and platform for an offshore wind project located off the U.S.

coast of Maryland. These projects demonstrate our ability to provide structures for this emerging industry. We are also strengthening our project management capabilities to support potential offshore wind projects and, during the first quarter 2019, executed a cooperation agreement with Smulders to jointly pursue U.S. offshore wind opportunities. Smulders, a Belgian company, is a major fabrication supplier of offshore wind structures in Europe. Although we believe such a relationship will help to strategically position us in our pursuit of offshore wind projects, we can provide no assurances that we will successfully obtain future project awards as a result of this arrangement.

Diversification and Growth of our Customer Base - We are continuing to diversify our customer base within our operating divisions.

- *Shipyards Division* - Within our Shipyards Division we have increased our backlog with customers outside of the oil and gas sector. At September 30, 2019, projects in our backlog include:
 - The construction of three towing, salvage and rescue ships (individual project values of approximately \$64.0 million), with customer options for five additional vessels;
 - The construction of three regional class research vessels (individual project values of approximately \$69.0 to \$77.0 million);
 - The construction of a seventy-vehicle ferry;
and
 - The construction of five harbor tug vessels.
- *Fabrication Division* - Within our Fabrication Division we have increased our backlog with traditional and non-traditional fabrication work as we continue to pursue petrochemical and industrial fabrication opportunities for modules and structures. At September 30, 2019, projects in our backlog include:
 - The fabrication of an offshore jacket and deck (destined for Trinidad);
 - The expansion and delivery of a 245-guest paddle wheel riverboat. The riverboat will be reconfigured using the existing hull of a former gaming vessel;
and
 - The construction of two, forty-vehicle ferries.

These projects represent large steel structures that are well suited for our fabrication yard in Houma, Louisiana.

- *Services Division* - Within our Services Division our activity has been impacted by the timing of new project awards and fluctuations in the demand for our products and services. Further, in recent periods we have experienced an increasing amount of lower margin maintenance work and material sales compared to services associated with offshore tie-backs and fabricated products, which have historically provided higher margin opportunities. We anticipate this recent mix of work will continue for the remainder of 2019. Although visibility beyond 2019 is uncertain, and fluctuations in the timing and mix of work are normal, we believe that the overall market demand for the products and services offered by this Division is strong. We are continuing to pursue opportunities for offshore and onshore plant expansion and maintenance work, and we are receiving indications from our customers that the need for offshore tie-backs and fabricated products is increasing.

MPSV Contracts Dispute - During the first quarter 2018, we received notices of termination of the contracts for the construction of two MPSVs from one of our Shipyards Division customers. We dispute the purported terminations and disagree with the customer's reasons for such terminations. Pending the resolution of the dispute, we have ceased all work, and the partially completed vessels and associated equipment and materials remain at our shipyard in Houma, Louisiana. The customer also made claims under the bonds issued by the Surety in connection with the construction of the vessels. We have discussed with the Surety our disagreement with the customer's purported terminations and its claims and continue to confer with the Surety regarding the dispute with the customer.

On October 2, 2018, we filed a lawsuit against the customer to enforce our rights and remedies under the applicable construction contracts. Our lawsuit disputes the propriety of the customer's purported terminations of the construction contracts and seeks to recover damages associated with the customer's actions. The customer filed its response to our lawsuit denying many of the allegations in the lawsuit and asserting a counterclaim against us seeking, among other things, declaratory judgment as to the validity of the customer's purported terminations of the construction contracts and other purported claims for which the customer is seeking damages in an unspecified amount. We filed a response to the counterclaim denying all of the customer's claims. The customer subsequently filed a motion with the court seeking, among other things, to obtain possession of the vessels. A hearing on that motion was held on May 28, 2019, and the customer's request to obtain possession of the vessels was denied by the court. The customer recently filed an amendment to its counterclaim to add claims by the customer against the Surety. The customer also recently filed a second motion for summary judgment re-urging its previously denied request to obtain possession of the

vessels. A hearing on the second motion is currently scheduled for November 5, 2019. Discovery in connection with the lawsuit is underway.

We are unable to determine the probability of a favorable or unfavorable outcome with respect to the dispute or estimate the amount of potential loss, if any, related to this matter. We can provide no assurances that we will not incur additional costs as we pursue our rights and remedies under the contracts and defend against the customer's claims. At September 30, 2019, other noncurrent assets on our Balance Sheet included a net contract asset of \$12.5 million related to these projects. See "Legal Proceedings" in Part II, Item 1 of this Report and Note 5 of our Financial Statements for further discussion of our dispute.

Review of Alternative Strategies

On November 4, 2019, we announced the completion of our previously announced review of alternative strategies that began in early May 2019.

Operating Outlook

Our results of operations will be affected prospectively by the overall demand and market for our services. Further, our success in strategically repositioning the Company to participate in the fabrication of petrochemical and industrial facilities, pursue offshore wind opportunities and diversify our customer base within all of our operating divisions, will be determined by, among other things:

- The level of construction and fabrication projects in the new markets we are pursuing for our Fabrication Division, including petrochemical and industrial facilities and offshore wind developments, and our ability to secure new project awards;
- Continued growth within our Shipyard and Services Divisions;
- 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; and
- Our ability to resolve our dispute with our customer related to the construction of two MPSVs.

We continue to respond to the competitive environment within our industry and actively compete for additional opportunities. Our focus remains on maintaining our liquidity and securing meaningful new project awards and backlog in the near-term and generating operating income and cash flows from operations in the longer-term. Although we experienced a decline in backlog for our Fabrication and Shipyard Divisions during the third quarter 2019, we believe we will be successful securing new project awards and growing our backlog in the future. Further, we are experiencing significantly improved utilization of our Shipyard facilities as we ramp up construction activities for our large projects in backlog; however, we anticipate that our Fabrication Division will be negatively impacted in the near-term by the underutilization of its facilities due to the delay in timing of new project awards. Both divisions will also be impacted by lower margin backlog related to previous project awards bid at competitive pricing. In addition, certain projects within our backlog are in a loss position, and the projects will result in future revenue with no gross profit.

Safety

We are committed to the safety and health of our employees and subcontractors. We believe that a strong safety culture is a critical element of our success. We continue to improve and maintain a stringent safety assurance program designed to ensure the safety of our employees and allow us to remain in compliance with all applicable federal and state mandated safety regulations. We are committed to maintaining a well-trained workforce and providing timely instruction to ensure our employees have the knowledge and skills to perform their work safely while maintaining the highest standards of quality. We provide continuous safety education and training to employees and subcontractors to ensure they are ready for the challenges inherent in all our projects. Our employees commence training on their first day of employment with a comprehensive orientation class that addresses Company policies and procedures and provides clear expectations for working safely. We have a zero-tolerance policy for drugs and alcohol use in the workplace. We support this policy through the use of a comprehensive drug and alcohol screening program that includes initial screenings for all employees and periodic random screenings throughout employment. Additionally, we require our subcontractors to follow alcohol and drug screening policies substantially the same as ours.

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 Item 7 included in our 2018 Annual Report. There have been no changes to our critical accounting policies since December 31, 2018.

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 unearned value of our new project awards and may differ from the value of remaining performance obligations for our contracts required to be disclosed under Topic 606 and presented in Note 2 of our Financial Statements. 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. Backlog includes our performance obligations at September 30, 2019, plus signed contracts that are temporarily suspended or under protest that may not meet the criteria to be reported as future performance obligations under Topic 606 but represent future work that we believe will be performed. We believe that backlog, a non-GAAP financial measure, provides useful information to investors. 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 reduction in scope at the option of the customer, although the customer is required to pay us for work performed and materials purchased through the date of termination, suspension, or reduction in scope. Depending on the size of the project, the delay, suspension, termination or increase or reduction in scope of any one contract could significantly impact our backlog and change the expected amount and timing of revenue recognized.

A reconciliation of our remaining performance obligations under Topic 606 (the most comparable GAAP measure as presented in Note 2 of our Financial Statements) to our reported backlog at September 30, 2019, is provided below (in thousands).

	September 30, 2019			
	Fabrication	Shipyard	Services	Consolidated
Remaining performance obligations under Topic 606	\$ 39,894	\$ 384,852	\$ 15,189	\$ 439,935
Contracts under purported termination ⁽¹⁾	—	21,888	—	21,888
Total Backlog ⁽²⁾	\$ 39,894	\$ 406,740	\$ 15,189	\$ 461,823

Backlog by Division at September 30, 2019 and December 31, 2018, is as follows (in thousands):

Division	September 30, 2019		December 31, 2018	
	Amount	Labor hours	Amount	Labor hours
Fabrication	\$ 39,894	253	\$ 63,883	369
Shipyard	406,740	2,364	281,531	1,684
Services	15,189	283	11,046	171
Total Backlog ⁽²⁾	\$ 461,823	2,900	\$ 356,460	2,224

Backlog at September 30, 2019 is expected to be recognized as revenue in the following periods (in thousands, except for percentages):

Year ⁽³⁾	Total
Remainder of 2019	\$ 79,028
2020	230,699
2021	122,068
Thereafter	8,140
Future performance obligations under Topic 606	439,935
Contracts under purported termination ⁽¹⁾	21,888
Backlog ⁽²⁾	\$ 461,823

- (1) Represents backlog within our Shipyard Division related to contracts for the construction of two MPSVs that are subject to a purported notice of termination by our customer. We dispute the purported termination and disagree with the customer's reasons for the same. We can provide no assurances that we will reach a favorable resolution with the customer for completion of the two MPSVs. See Note 5 of our Financial Statements for further discussion of the dispute.
- (2) At September 30, 2019, nine customers represented approximately 95% of our backlog, and at December 31, 2018, seven customers represented approximately 90% of our backlog. At September 30, 2019, backlog from the nine customers consisted of:
- (i) Construction of two harbor tugs within our Shipyard Division. The third of five vessels was completed in the third quarter 2019. We estimate completion of the remaining vessels in 2020;
 - (ii) Construction of three harbor tugs within our Shipyard Division (separate from above). The second of five vessels was completed in the second quarter 2019. We estimate completion of the remaining vessels in 2019 and 2020;
 - (iii) Construction of three regional class research vessels within our Shipyard Division. We estimate completion of the vessels in 2021 and 2022;
 - (iv) Construction of three towing, salvage and rescue ships within our Shipyard Division. We estimate completion of the vessels in 2021 and 2022. Our customer has options for the construction of five additional vessels;
 - (v) Expansion of a 245-guest paddle wheel riverboat within our Fabrication Division. We estimate completion of the vessel in 2020;
 - (vi) Construction of two, forty-vehicle ferries within our Fabrication Division. We estimate completion of the vessels in 2020;
 - (vii) Fabrication of an offshore jacket and deck (destined for Trinidad) within our Fabrication Division. We estimate completion of the project in 2020;
 - (viii) Construction of a seventy-vehicle ferry within our Shipyard Division. We estimate completion of the vessel in 2020;
and
 - (ix) Construction of two MPSV's within our Shipyard Division. See footnote 1 above for further discussion.
- (3) The timing of recognition of the revenue presented in our backlog is based on our current estimates to complete the projects. Certain factors and circumstances could cause changes in the amounts ultimately recognized and the timing of recognition of revenue from our backlog.

Our contracts for the construction of three towing, salvage and rescue ships contain options which grant our customer (the U.S. Navy) the right, if exercised, for the construction of additional vessels at contracted prices. We do not include options in our backlog. If all options under our current contracts were exercised by our customer, our backlog would increase by approximately \$333.0 million. We have not received any commitments from our customer related to the exercise of these options, and we can provide no assurances that any options will be exercised. We believe disclosing these options provides investors with useful information to evaluate additional potential work that we would be contractually obligated to perform under our current contracts as well as the potential significance of these options, if exercised.

As our backlog increases, we will add personnel with critical project management and fabrication skills to ensure we have the resources necessary to properly execute our projects and support our project risk mitigation discipline for all projects. This may negatively impact near-term results.

Results of Operations

Comparison of Three Months Ended September 30, 2019 and 2018 (in thousands in each table, except for percentages):

In the comparative tables below, percentage changes that are not considered meaningful (generally when the prior period amount is immaterial or when the percentage change is significantly greater than 100%) are shown below as "nm" (not meaningful).

Consolidated

	Three Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 75,802	\$ 49,712	\$ 26,090	52.5%
Cost of revenue	78,487	52,924	(25,563)	(48.3)%
Gross loss	(2,685)	(3,212)	527	16.4%
<i>Gross loss percentage</i>	<i>(3.5)%</i>	<i>(6.5)%</i>		
General and administrative expense	3,970	4,902	932	19.0%
Asset impairments and (gain) loss on assets held for sale, net	324	146	(178)	(121.9)%
Other (income) expense, net	(51)	2,484	2,535	nm
Operating loss	(6,928)	(10,744)	3,816	35.5%
Interest (expense) income, net	139	72	67	93.1%
Net loss before income taxes	(6,789)	(10,672)	3,883	36.4%
Income tax (expense) benefit	10	(277)	287	nm
Net loss	\$ (6,779)	\$ (10,949)	\$ 4,170	38.1%

Revenue - Revenue for 2019 and 2018 was \$75.8 million and \$49.7 million, respectively, representing an increase of 52.5%. The increase was primarily due to:

- Increased revenue for our Shipyard Division of \$14.9 million, primarily due to progress on our regional class research vessel projects and towing, salvage and rescue ship projects, offset partially by lower revenue for our harbor tug projects and ice-breaker tug project; and
- Increased revenue for our Fabrication Division of \$16.1 million, primarily due to progress on our paddle wheel riverboat project, vehicle ferry projects and offshore jacket and deck project, which were not under construction in the prior period; offset partially by,
- Decreased revenue for our Services Division of \$5.1 million, primarily due to the timing of new project awards and materials representing a lower percentage of revenue.

Gross loss - Gross loss for 2019 and 2018 was \$2.7 million (3.5% of revenue) and \$3.2 million (6.5% of revenue), respectively. The gross loss for 2019 was primarily due to:

- Under recovery of overhead costs (primarily associated with the underutilization of our facilities within our Fabrication Division, and to a lesser extent within our Shipyard Division), including a \$0.4 million impact due to Hurricane Barry associated with the costs of hurricane preparation and its impact on the utilization of our facilities and personnel;
- Charge of \$1.9 million related to forecast cost increases and liquidated damages on our harbor tug projects in our Shipyard Division (see Note 2 of our Financial Statements for further discussion of the changes in estimates on these projects);
- Charge of \$1.5 million related to forecast cost increases and liquidated damages on a subsea components fabrication project in our Services Division (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project); and
- Charge of \$0.5 million related to forecast cost increases on our ice-breaker tug project in our Shipyard Division (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project).

The decrease in gross loss for 2019 relative to the prior period was primarily due to:

- Higher revenue and increased recoveries of overhead costs due to higher activity; and
- A higher margin project mix for our Shipyard Division (excluding the aforementioned project charges); offset partially by,
- The aforementioned project charges of \$3.9 million for 2019; and
- A lower margin project mix for our Services Division (excluding the aforementioned project charge).

General and administrative expense - General and administrative expense for 2019 and 2018 was \$4.0 million (5.2% of revenue) and \$4.9 million (9.9% of revenue), respectively, representing a decrease of 19.0%. The decrease was primarily due to:

- Lower incentive plan costs, board of director compensation costs, and legal and advisory fees related to customer disputes; offset partially by,
- Higher professional fees and other costs associated with the evaluation of strategic alternatives and initiatives to diversify and enhance our business.

The customer disputes relate primarily to the pursuit of claims against a customer for disputed change orders for a completed project, and our MPSV projects which are subject to a purported termination and for which construction has been suspended. Legal and advisory fees related to such disputes totaled \$0.3 million and \$0.6 million for 2019 and 2018, respectively.

Asset impairments and (gain) loss on assets held for sale, net - Asset impairments and (gain) loss on assets held for sale, net for 2019 and 2018 was a loss of \$0.3 million and \$0.1 million, respectively. The loss for 2019 was primarily due to the impairment of a drydock held for sale in our Shipyard Division as we sold the drydock for net proceeds of \$0.6 million in October 2019, which was \$0.3 million less than its carrying value. See Note 3 of our Financial Statements for further discussion of our assets held for sale.

Other (income) expense, net - Other (income) expense, net for 2019 and 2018 was income of \$0.1 million and expense of \$2.5 million, respectively. Other (income) expense, net generally represents (recoveries) provisions for bad debts, (gains) losses associated with the sale or disposition of property and equipment other than assets held for sale, and (income) expense associated with certain nonrecurring items. The expense for 2018 was primarily due to bad debt expense of \$2.8 million related to a contracts receivable reserve recorded during the quarter within our Fabrication Division as we received indications that collectibility of the receivable was no longer probable, offset partially by net gains on the sales of equipment. The reserved receivable was ultimately collected in the fourth quarter 2018.

Interest (expense) income, net - Interest (expense) income, net for 2019 and 2018, was income of \$0.1 million and \$0.1 million, respectively. The net interest income for 2019 was primarily due to interest earned on our cash and short-term investment balances, offset partially by interest amortization associated with our long-term lease liability. The net interest income for 2018 was primarily due to interest earned on our cash and short-term investment balances.

Income tax (expense) benefit - Income tax (expense) benefit for 2019 and 2018 was a benefit of \$10,000 and expense of \$0.3 million, respectively. Income tax (expense) benefit represents state income taxes. No federal tax benefit was recorded for losses during 2019 or 2018 as a full valuation allowance was recorded against our deferred tax assets generated during the periods.

Operating Segments

Fabrication Division⁽¹⁾

	Three Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 19,474	\$ 3,382	\$ 16,092	475.8%
Gross loss	(428)	(4,237)	3,809	89.9%
<i>Gross loss percentage</i>	<i>(2.2)%</i>	<i>(125.3)%</i>		
General and administrative expense	440	1,409	969	68.8%
Asset impairments and (gain) loss on assets held for sale, net	—	146	146	100.0%
Other (income) expense, net	(20)	2,485	2,505	100.8%
Operating loss	(848)	(8,277)	7,429	89.8%

(1) During the first quarter 2019, our former EPC Division was operationally combined with our Fabrication Division. Accordingly, results for our former EPC Division for the 2018 period have been combined with the Fabrication Division to conform to the presentation of our reportable segments for the 2019 period. See Note 7 of our Financial Statements for further discussion of our realigned operating divisions and related financial information.

Revenue - Revenue for 2019 and 2018 was \$19.5 million and \$3.4 million, respectively, representing an increase of 475.8%. The increase was primarily due to progress on our paddle wheel riverboat project, vehicle ferry projects and jacket and deck project, which were not under construction in the prior period.

Gross loss - Gross loss for 2019 and 2018 was \$0.4 million (2.2% of revenue) and \$4.2 million (125.3% of revenue), respectively. The gross loss for 2019 was primarily due to the under recovery of overhead costs. The decrease in gross loss for 2019 relative to the prior period was primarily due to higher revenue and increased recoveries of overhead costs due to higher activity.

General and administrative expense - General and administrative expense for 2019 and 2018 was \$0.4 million (2.3% of revenue) and \$1.4 million (41.7% of revenue), respectively, representing a decrease of 68.8%. The decrease was primarily due to lower costs associated with our former EPC Division and lower legal and advisory fees related to a customer dispute as the costs are reflected within the Corporate Division in 2019.

Asset impairments and (gain) loss on assets held for sale, net - Asset impairments and (gain) loss on assets held for sale, net for 2018 was a loss of \$0.1 million.

Other (income) expense, net - Other (income) expense, net for 2019 and 2018 was income of \$20,000 and expense of \$2.5 million, respectively. The expense for 2018 was primarily due to bad debt expense of \$2.8 million related to a contracts receivable reserve recorded during the quarter as we received indications that collectibility of the receivable was no longer probable, offset partially by net gains on the sales of equipment. The reserved receivable was ultimately collected in the fourth quarter 2018.

Shipyards

	Three Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 39,436	\$ 24,492	\$ 14,944	61.0%
Gross loss	(2,402)	(1,764)	(638)	(36.2)%
<i>Gross loss percentage</i>	<i>(6.1)%</i>	<i>(7.2)%</i>		
General and administrative expense	657	696	39	5.6%
Asset impairments and (gain) loss on assets held for sale, net	324	—	(324)	<i>nm</i>
Other (income) expense, net	(34)	(6)	28	<i>nm</i>
Operating loss	(3,349)	(2,454)	(895)	(36.5)%

Revenue - Revenue for 2019 and 2018 was \$39.4 million and \$24.5 million, respectively, representing an increase of 61.0%. The increase was primarily due to:

- Progress on our regional class research vessel projects and towing, salvage and rescue ship projects; offset partially by,
- Lower revenue for our harbor tug projects and ice-breaker tug project.

Gross loss - Gross loss for 2019 and 2018 was \$2.4 million (6.1% of revenue) and \$1.8 million (7.2% of revenue), respectively. The gross loss for 2019 was primarily due to:

- Charge of \$1.9 million related to forecast cost increases and liquidated damages on our harbor tug projects (see Note 2 of our Financial Statements for further discussion of the changes in estimates on these projects);
- Charge of \$0.5 million related to forecast cost increases on our ice-breaker tug project (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project); and
- Under recovery of overhead costs.

The increase in gross loss for 2019 relative to the prior period was primarily due to:

- The aforementioned project charges of \$2.4 million for 2019; offset partially by,
- Higher revenue and increased recoveries of overhead costs due to higher activity; and
- A higher margin project mix (excluding the aforementioned project charges).

General and administrative expense - General and administrative expense for 2019 and 2018 was \$0.7 million (1.7% of revenue) and \$0.7 million (2.8% of revenue), respectively, representing a decrease of 5.6%. The decrease was primarily due to lower legal and advisory fees related to a customer dispute as the costs are reflected within the Corporate Division in 2019.

Asset impairments and (gain) loss on assets held for sale, net- Asset impairments and (gain) loss on assets held for sale, net for 2019 was a loss of \$0.3 million. The loss for 2019 was primarily due to the impairment of a drydock held for sale as we sold the drydock for net proceeds of \$0.6 million in October 2019, which was \$0.3 million less than its carrying value.

Services

	Three Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 17,507	\$ 22,617	\$ (5,110)	(22.6)%
Gross profit	210	3,191	(2,981)	(93.4)%
<i>Gross profit percentage</i>	<i>1.2%</i>	<i>14.1%</i>		
General and administrative expense	614	705	91	12.9%
Other (income) expense, net	3	4	1	<i>nm</i>
Operating income (loss)	(407)	2,482	(2,889)	(116.4)%

Revenue - Revenue for 2019 and 2018 was \$17.5 million and \$22.6 million, respectively, representing a decrease of 22.6%. The decrease was primarily due to the timing of new project awards and materials representing a lower percentage of revenue.

Gross profit - Gross profit for 2019 and 2018 was \$0.2 million (1.2% of revenue) and \$3.2 million (14.1% of revenue), respectively. Gross profit for 2019 was impacted by a charge of \$1.5 million related to forecast cost increases and liquidated damages on a subsea components fabrication project (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project). The 2019 period was also impacted by \$0.2 million due to Hurricane Barry associated with the costs of hurricane preparation and its impact on the utilization of our facilities and personnel.

The decrease in gross profit for 2019 relative to the prior period was primarily due to the aforementioned project charge, lower revenue and a lower margin project mix (excluding the project charge).

General and administrative expense - General and administrative expense for 2019 and 2018 was \$0.6 million (3.5% of revenue) and \$0.7 million (3.1% of revenue), respectively, representing a decrease of 12.9%. The decrease was primarily due to lower incentive plan costs other cost reductions.

Corporate

	Three Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue (eliminations)	\$ (615)	\$ (779)	\$ 164	<i>nm</i>
Gross loss	(65)	(402)	337	83.8%
<i>Gross loss percentage</i>	<i>n/a</i>	<i>n/a</i>		
General and administrative expense	2,259	2,092	(167)	(8.0)%
Other (income) expense, net	—	1	1	100.0%
Operating loss	(2,324)	(2,495)	171	6.9%

Gross loss - Gross loss for 2019 and 2018 was \$0.1 million and \$0.4 million, respectively. The decrease was primarily due to lower costs related to supporting our former EPC Division.

General and administrative expense - General and administrative expense for 2019 and 2018 was \$2.3 million (3.0% of consolidated revenue) and \$2.1 million (4.2% of consolidated revenue), respectively, representing an increase of 8.0%. The increase was primarily due to:

- Increased legal and advisory fees related to customer disputes as the costs were reflected within the operating divisions in 2018; and
- Higher professional fees and other costs associated with the evaluation of strategic alternatives and initiatives to diversify and enhance our business; offset partially by,
- Lower incentive plan costs and board of director compensation costs.

The customer disputes relate primarily to the pursuit of claims against a customer for disputed change orders for a completed project, and our MPSV projects which are subject to a purported termination and for which construction has been suspended.

Comparison of Nine Months Ended September 30, 2019 and 2018 (in thousands for each table, except for percentages):

In the comparative tables below, percentage changes that are not considered meaningful (generally when the prior period amount is immaterial or when the percentage change is significantly greater than 100%) are shown below as "nm" (not meaningful).

Consolidated

	Nine Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 223,863	\$ 161,016	\$ 62,847	39.0%
Cost of revenue	227,593	164,248	(63,345)	(38.6)%
Gross loss	(3,730)	(3,232)	(498)	(15.4)%
<i>Gross loss percentage</i>	<i>(1.7)%</i>	<i>(2.0)%</i>		
General and administrative expense	11,791	14,703	2,912	19.8%
Asset impairments and (gain) loss on assets held for sale, net	254	(5,683)	(5,937)	(104.5)%
Other (income) expense, net	(181)	2,859	3,040	nm
Operating loss	(15,594)	(15,111)	(483)	(3.2)%
Interest (expense) income, net	527	(166)	693	nm
Net loss before income taxes	(15,067)	(15,277)	210	1.4%
Income tax (expense) benefit	(2)	(419)	417	nm
Net loss	\$ (15,069)	\$ (15,696)	\$ 627	4.0%

Revenue - Revenue for 2019 and 2018 was \$223.9 million and \$161.0 million, respectively, representing an increase of 39.0%. The increase was primarily due to:

- Increased revenue for our Shipyard Division of \$46.9 million, primarily due to progress on our regional class research vessel projects and towing, salvage and rescue ship projects, offset partially by lower revenue for our harbor tug projects and the prior period including revenue on our two MPSV contracts which were suspended during the first quarter 2018 (See Note 5 of our Financial Statements for further discussion of our MPSV contracts); and
- Increased revenue for our Fabrication Division of \$24.3 million, primarily due to progress on our paddle wheel riverboat project, vehicle ferry projects and jacket and deck project, which were not under construction in the prior period, offset partially by the prior period including revenue associated with the fabrication of modules for a petrochemical facility which was completed during the second quarter 2018; offset partially by,
- Decreased revenue for our Services Division of \$5.5 million due to the timing of new project awards.

Gross loss - Gross loss for 2019 and 2018 was \$3.7 million (1.7% of revenue) and \$3.2 million (2.0% of revenue), respectively. The gross loss for 2019 was primarily due to:

- Under recovery of overhead costs (primarily associated with the underutilization of our facilities within our Fabrication Division, and to a lesser extent within our Shipyard Division);
- Holding costs of \$1.0 million related to the two MPSV vessels which remain in our possession and are subject to dispute (See Note 5 of our Financial Statements for further discussion of our MPSV dispute);
- Charge of \$3.1 million related to forecast cost increases and liquidated damages on our harbor tug projects in our Shipyard Division (see Note 2 of our Financial Statements for further discussion of the changes in estimates on these projects);
- Charge of \$1.4 million related to forecast cost increases and liquidated damages on a subsea components fabrication project in our Services Division (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project); and
- Charge of \$1.3 million related to forecast cost increases on our ice-breaker tug project in our Shipyard Division (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project).

The increase in gross loss for 2019 relative to the prior period was primarily due to:

- The aforementioned project charges of \$5.8 million for 2019; and
- A lower margin project mix for our Services Division (excluding the aforementioned project charge); offset partially by,
- Higher revenue and increased recoveries of overhead costs due to higher activity; and
- A higher margin project mix for our Fabrication Division and Shipyard Division (excluding the aforementioned project charges).

General and administrative expense - General and administrative expense for 2019 and 2018 was \$11.8 million (5.3% of revenue) and \$14.7 million (9.1% of revenue), respectively, representing a decrease of 19.8%. The decrease was primarily due to:

- Lower incentive plan costs, board of director compensation costs, and legal and advisory fees related to customer disputes; offset partially by,
- Higher professional fees and other costs associated with the evaluation of strategic alternatives and initiatives to diversify and enhance our business.

The customer disputes relate primarily to the pursuit of claims against a customer for disputed change orders for a completed project, and our MPSV projects which are subject to a purported termination and for which construction has been suspended. Legal and advisory fees related to such disputes totaled \$0.8 million and \$1.5 million for 2019 and 2018, respectively.

Asset impairments and (gain) loss on assets held for sale, net - Asset impairments and (gain) loss on assets held for sale, net for 2019 and 2018 was a loss of \$0.3 million and a gain \$5.7 million, respectively. The loss for 2019 was primarily due to the impairment of a drydock held for sale. The gain for 2018 was primarily due to the net impact of:

- A gain of \$3.9 million from the sale of our Texas South Yard; and
- A gain of \$3.6 million from the settlement of our insurance claim related to Hurricane Harvey damage at our South Texas Properties incurred during 2017; offset partially by,
- Impairments of \$1.4 million related to assets held for sale.

See Note 3 of our Financial Statements for further discussion of our assets held for sale.

Other (income) expense, net - Other (income) expense, net for 2019 and 2018 was income of \$0.2 million and expense of \$2.9 million, respectively. Other (income) expense, net generally represents (recoveries) provisions for bad debts, (gains) losses associated with the sale or disposition of property and equipment other than assets held for sale, and (income) expense associated with certain nonrecurring items. The income for 2019 was primarily due to net gains on the sales of equipment. The expense for 2018 was primarily due to bad debt expense of \$2.8 million related to a contracts receivable reserve recorded within our Fabrication Division as we received indications that collectibility of the receivable was no longer probable, offset partially by net gains on the sales of equipment. The reserved receivable was ultimately collected in the fourth quarter 2018.

Interest (expense) income, net - Interest (expense) income, net for 2019 and 2018, was income of \$0.5 million and expense of \$0.2 million, respectively. The net interest income for 2019 was primarily due to interest earned on our cash and short-term investment balances, offset partially by interest amortization associated with our long-term lease liability. The net interest expense for 2018 was primarily due to borrowings under our Credit Agreement during 2018.

Income tax (expense) benefit - Income tax (expense) benefit for 2019 and 2018 was expense of \$2,000 and \$0.4 million, respectively. Income tax expense represents state income taxes. No federal tax benefit was recorded for losses during 2019 or 2018 as a full valuation allowance was recorded against our deferred tax assets generated during the periods.

Operating Segments

Fabrication Division⁽¹⁾

	Nine Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 54,520	\$ 30,197	\$ 24,323	80.5%
Gross loss	(1,877)	(5,888)	4,011	68.1%
<i>Gross loss percentage</i>	<i>(3.4)%</i>	<i>(19.5)%</i>		
General and administrative expense	1,949	3,886	1,937	49.8%
Asset impairments and (gain) loss on assets held for sale, net	(70)	(5,683)	(5,613)	(98.8)%
Other (income) expense, net	(157)	2,481	2,638	<i>nm</i>
Operating loss	(3,599)	(6,572)	2,973	<i>nm</i>

(1) During the first quarter 2019, our former EPC Division was operationally combined with our Fabrication Division. Accordingly, results for our former EPC Division for the 2018 period have been combined with the Fabrication Division to conform to the presentation of our reportable segments for the 2019 period. See Note 7 of our Financial Statements for further discussion of our realigned operating divisions and related financial information.

Revenue - Revenue for 2019 and 2018 was \$54.5 million and \$30.2 million, respectively, representing an increase of 80.5%. The increase was primarily due to:

- Progress on our paddle wheel riverboat project, vehicle ferry projects and jacket and deck project which were not under construction in the prior period; offset partially by,
- The prior period including revenue associated with the fabrication of modules for a petrochemical facility which was completed during the second quarter 2018.

Gross loss - Gross loss for 2019 and 2018 was \$1.9 million (3.4% of revenue) and \$5.9 million (19.5% of revenue), respectively. The gross loss for 2019 was primarily due to the under recovery of overhead costs. The decrease in gross loss for 2019 relative to the prior period was primarily due to higher revenue, increased recoveries of overhead costs due to higher activity, and a higher margin project mix.

General and administrative expense - General and administrative expense for 2019 and 2018 was \$1.9 million (3.6% of revenue) and \$3.9 million (12.9% of revenue), respectively, representing a decrease of 49.8%. The decrease was primarily due to lower costs associated with our former EPC Division and lower legal and advisory fees related to a customer dispute as the costs are reflected within the Corporate Division in 2019.

Asset impairments and (gain) loss on assets held for sale, net - Asset impairments and (gain) loss on assets held for sale, net for 2019 and 2018 was a gain of \$0.1 million and \$5.7 million, respectively. The gain for 2018 was primarily due to the net impact of:

- A gain of \$3.9 million from the sale of our Texas South Yard;
and
- A gain of \$3.6 million from the settlement of our insurance claim related to Hurricane Harvey damage at our South Texas Properties incurred during 2017; offset partially by,
- Impairments of \$1.4 million related to assets held for sale.

Other (income) expense, net - Other (income) expense, net for the 2019 and 2018 was income of \$0.2 million and expense of \$2.5 million, respectively. The income for 2019 was primarily due to net gains on the sales of equipment. The expense for 2018 was primarily due to bad debt expense of \$2.8 million related to a contracts receivable reserve recorded during the period as we received indications that collectibility of the receivable was no longer probable, offset partially by net gains on the sales of equipment. The reserved receivable was ultimately collected in the fourth quarter 2018.

Shipyards

	Nine Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 113,590	\$ 66,677	\$ 46,913	70.4%
Gross loss	(5,594)	(5,563)	(31)	(0.6)%
<i>Gross loss percentage</i>	<i>(4.9)%</i>	<i>(8.3)%</i>		
General and administrative expense	1,871	2,089	218	10.4%
Asset impairments and (gain) loss on assets held for sale, net	324	—	(324)	<i>nm</i>
Other (income) expense, net	28	158	130	82.3%
Operating loss	(7,817)	(7,810)	(7)	(0.1)%

Revenue - Revenue for 2019 and 2018 was \$113.6 million and \$66.7 million, respectively, representing an increase of 70.4%. The increase was primarily due to:

- Progress on our regional class research vessel projects and towing, salvage and rescue ship projects; offset partially by,
- Lower revenue for our harbor tug projects and the prior period including revenue on our two MPSV contracts which were suspended during the first quarter 2018 (See Note 5 of our Financial Statements for further discussion of our MPSV contracts).

Gross loss - Gross loss for 2019 and 2018 was \$5.6 million (4.9% of revenue) and \$5.6 million (8.3% of revenue), respectively. The gross loss for 2019 was primarily due to:

- Holding costs of \$1.0 million related to the two MPSV vessels which remain in our possession and are subject to dispute (See Note 5 of our Financial Statements for further discussion of our MPSV dispute);
- Charge of \$3.1 million related to forecast cost increases and liquidated damages on our harbor tug projects (see Note 2 of our Financial Statements for further discussion of the changes in estimates on these projects);
- Charge of \$1.3 million related to forecast cost increases on our ice-breaker tug project (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project); and
- Under recovery of overhead costs.

The comparable gross loss for 2019 relative to the prior period was primarily due to:

- Higher revenue and increased recoveries of overhead costs due to higher activity; and
- A higher margin project mix (excluding the aforementioned project charges); offset partially by,
- The aforementioned project charges of \$4.4 million for 2019.

General and administrative expense - General and administrative expense for 2019 and 2018 was \$1.9 million (1.6% of revenue) and \$2.1 million (3.1% of revenue), respectively, representing a decrease of 10.4%. The decrease was primarily due to lower legal and advisory fees related to a customer dispute as the costs are reflected within the Corporate Division in 2019.

Asset impairments and (gain) loss on assets held for sale, net - Asset impairments and (gain) loss on assets held for sale, net for 2019 was a loss of \$0.3 million. The loss for 2019 was primarily due to the impairment of a drydock held for sale.

Other (income) expense, net - Other (income) expense, net for 2019 and 2018, was expense of \$28,000 and \$0.2 million, respectively, primarily due to net losses on the sales of equipment.

Services

	Nine Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue	\$ 61,174	\$ 66,692	\$ (5,518)	(8.3)%
Gross profit	4,088	9,390	(5,302)	(56.5)%
<i>Gross profit percentage</i>	<i>8.9%</i>	<i>14.1%</i>		
General and administrative expense	1,530	2,201	671	30.5%
Other (income) expense, net	(52)	(34)	18	52.9%
Operating income	2,610	7,223	(4,613)	(63.9)%

Revenue - Revenue for 2019 and 2018 was \$61.2 million and \$66.7 million, respectively, representing a decrease of 8.3%. The decrease was primarily due to the timing of new project awards.

Gross profit - Gross profit for 2019 and 2018 was \$4.1 million (8.9% of revenue) and \$9.4 million (14.1% of revenue), respectively. Gross profit for 2019 was impacted by a charge of \$1.4 million related to forecast cost increases and liquidated damages on a subsea components fabrication project (see Note 2 of our Financial Statements for further discussion of the changes in estimates on this project). The decrease in gross profit for 2019 relative to the prior period was primarily due to the aforementioned project charge, lower revenue and a lower margin project mix (excluding the project charge).

General and administrative expense - General and administrative expense for 2019 and 2018 was \$1.5 million (2.5% of revenue) and \$2.2 million (3.3% of revenue), respectively, representing a decrease of 30.5%. The decrease was primarily due to lower incentive plan costs and other cost reductions.

Corporate

	Nine Months Ended September 30,		Favorable (Unfavorable) Change	
	2019	2018	Amount	Percent
Revenue (eliminations)	\$ (5,421)	\$ (2,550)	\$ (2,871)	<i>nm</i>
Gross loss	(347)	(1,171)	824	70.4%
<i>Gross loss percentage</i>	<i>n/a</i>	<i>n/a</i>		
General and administrative expense	6,441	6,527	86	1.3%
Other (income) expense, net	—	254	254	100.0%
Operating loss	(6,788)	(7,952)	1,164	14.6%

Gross loss - Gross loss for 2019 and 2018 was \$0.3 million and \$1.2 million, respectively. The decrease was primarily due to lower costs related to supporting our former EPC Division.

General and administrative expense - General and administrative expense for 2019 and 2018 was \$6.4 million (2.9% of consolidated revenue) and \$6.5 million (4.1% of consolidated revenue), respectively, representing a decrease of 1.3%. The decrease was primarily due to:

- Lower incentive plan costs and board of director compensation costs; offset partially by,
- Increased legal and advisory fees related to customer disputes as the costs were reflected within the operating divisions in 2018; and
- Higher professional fees and other costs associated with the evaluation of strategic alternatives and initiatives to diversify and enhance our business.

The customer disputes relate primarily to the pursuit of claims against a customer for disputed change orders for a completed project, and our MPSV projects which are subject to a purported termination and for which construction has been suspended.

Other (income) expense, net - Other (income) expense, net for 2018 was expense of \$0.3 million.

Liquidity and Capital Resources

Available Liquidity

Our primary sources of liquidity are our cash and cash equivalents, scheduled maturities of our short-term investments, and availability under our Credit Agreement (discussed below). At September 30, 2019, our cash, cash equivalents and short-term investments totaled \$71.4 million, and our immediately available liquidity was as follows (in thousands):

Available Liquidity	Total
Cash and cash equivalents	\$ 45,911
Short-term investments ⁽¹⁾	25,457
Total cash, cash equivalents and short-term investments	71,368
Credit Agreement total capacity	40,000
Outstanding letters of credit	(10,434)
Credit Agreement available capacity	29,566
Total available liquidity	\$ 100,934

(1) Includes U.S. Treasuries with original maturities of more than three months, but less than six months.

Working Capital

Our available liquidity is impacted by changes in our working capital and our capital expenditure requirements. At September 30, 2019, our working capital was \$94.0 million and included \$71.4 million of cash, cash equivalents and short-term investments and \$18.5 million of assets held for sale. Excluding cash, cash equivalents, short-term investments and assets held for sale, our working capital at September 30, 2019 totaled \$4.1 million, and consisted of net contracts assets and contract liabilities (collectively, "Contracts in Progress") of \$35.2 million; contracts receivable and retainage of \$30.3 million; inventory, prepaid expenses and other assets of \$7.8 million; and accounts payable, accrued expenses and other liabilities of \$69.1 million. The components of our working capital (excluding cash, cash equivalents, short-term investments and assets held for sale) at September 30, 2019 and December 31, 2018, and changes in such amounts during the nine months ended September 30, 2019, were as follows (in thousands):

	September 30, 2019	December 31, 2018	Change ⁽³⁾
Contract assets	\$ 50,855	\$ 29,982	\$ (20,873)
Contract liabilities ⁽¹⁾	(15,682)	(16,845)	(1,163)
Contracts in progress, net ⁽²⁾	35,173	13,137	(22,036)
Contracts receivable and retainage, net	30,268	22,505	(7,763)
Inventory, prepaid expenses and other assets	7,795	9,356	1,561
Accounts payable, accrued expenses and other liabilities	(69,140)	(39,256)	29,884
Total	\$ 4,096	\$ 5,742	\$ 1,646

(1) Contract liabilities at September 30, 2019 and December 31, 2018, include accrued contract losses of \$3.0 million and \$2.4 million, respectively.

(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 bad debt expense and (gain) loss on sales of fixed assets and other assets.

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.

as we complete certain phases of work. Working capital is also impacted at period-end by the timing of contracts receivable collections and accounts payable payments on our projects.

Cash Flow Activity

Operating Activities - During the nine months ended September 30, 2019, net cash used in operating activities was \$6.7 million, compared to net cash used in operating activities of \$18.7 million for the nine months ended September 30, 2018. Cash used in operating activities during the 2019 period was primarily due to an operating loss for the period and the net impact of the following:

- Net gains from asset sales of \$0.9 million, bad debt expense of \$59,000, depreciation and amortization expense of \$7.3 million, asset impairments of \$0.6 million, and stock-based compensation expense of \$1.8 million;
- Increase in contract assets of \$20.9 million related to the timing of billings on projects, primarily due to an increase in unbilled positions on four projects in our Shipyard Division (primarily for our three regional class research vessel projects and our first towing, salvage and rescue ship) and a project in our Services Division, offset partially by a decrease in unbilled positions on our harbor tug projects. See below for discussion of increase in related accounts payable;
- Decrease in contract liabilities of \$1.2 million, primarily due to the unwind of advance payments on a project in our Fabrication Division, offset partially by an increase in billings on a project in our Fabrication Division and advance payments on a project in our Shipyard Division;
- Increase in contracts receivable and retainage of \$7.8 million related to the timing of billings and collections on our projects, primarily due to an increase in billings on two projects in our Fabrication Division, offset partially by a decrease in billings on certain projects in our Services Division;
- Decrease in prepaid expenses, inventory and other assets of \$1.5 million, primarily due to a decrease in inventory;
- Increase in accounts payable, accrued expenses and other current liabilities of \$28.8 million, primarily due to increased project activity and the timing of payments for projects in our Shipyard Division (primarily for our three regional class research vessel projects and three towing, salvage and rescue ship projects); and
- Change in noncurrent assets and liabilities, net of \$0.9 million.

During the three months ended September 30, 2019, net cash used in operating activities was \$3.8 million.

Investing Activities - During the nine months ended September 30, 2019, net cash used in investing activities was \$17.0 million, compared to net cash provided by investing activities of \$55.5 million for the nine months ended September 30, 2018. Cash used in investing activities during the 2019 period was primarily due to the purchase of short-term investments of \$45.4 million and capital expenditures of \$2.0 million, offset partially by maturities of short-term investments of \$28.8 million and proceeds from the sales of equipment of \$1.6 million.

Financing Activities - During the nine months ended September 30, 2019, net cash used in financing activities was \$0.8 million, compared to net cash used in financing activities of \$0.8 million for the nine months ended September 30, 2018. Cash used in financing activities for both the 2019 and 2018 periods was primarily due to tax payments made on behalf of employees from vested stock withholdings.

Credit Facilities

Credit Agreement - We have a \$40.0 million revolving credit facility with Hancock Whitney Bank ("Credit Agreement") that can be used for borrowings or letters of credit. On May 1, 2019, we amended our Credit Agreement to extend its maturity date to June 9, 2021 and amend certain financial covenants. Our amended quarterly financial covenants for the remaining term of the Credit Agreement, are as follows:

- Ratio of current assets to current liabilities of not less than 2.00:1.00;
- Minimum tangible net worth of at least the sum of \$170.0 million, plus 100% of the net proceeds from any issuance of stock or other equity after deducting any fees, commissions, expenses and other costs incurred in such offering; and
- Ratio of funded debt (which includes outstanding letters of credit) to tangible net worth of not more than 0.50:1.00.

Our Credit Agreement also includes restrictions regarding our ability to: (i) grant liens; (ii) make certain loans or investments; (iii) incur additional indebtedness or guarantee other indebtedness in excess of specified levels; (iv) make any material change to the nature of our business or undergo a fundamental change; (v) make any material dispositions; (vi) acquire another company or all or substantially all of its assets; (vii) enter into a merger, consolidation, or sale leaseback transaction; or (viii) declare and pay dividends if any potential default or event of default occurs.

Interest on borrowings under the Credit Agreement may be designated, at our option, as either the *Wall Street Journal* published Prime Rate (5.0% at September 30, 2019) or LIBOR (2.0% at September 30, 2019) plus 2.0% per annum. Commitment fees on the unused portion of the Credit Agreement are 0.4% per annum, and interest on outstanding letters of credit is 2.0% per annum. The Credit Agreement is secured by substantially all our assets (with a negative pledge on our real property).

At September 30, 2019, we had no outstanding borrowings under our Credit Agreement and \$10.4 million of outstanding letters of credit, providing \$29.6 million of available capacity. At September 30, 2019, we were in compliance with all of our financial covenants, with a tangible net worth of \$185.2 million (as defined by the Credit Agreement), a ratio of current assets to current liabilities of 2.11:1.00 and a ratio of funded debt to tangible net worth of 0.06:1.00.

Surety Bonds - We issue surety bonds in the ordinary course of business to support our projects. At September 30, 2019, we had \$409.3 million of outstanding surety bonds. Although we believe there is sufficient bonding capacity available to us from one or more financial institutions, such capacity is uncommitted, and accordingly, we can provide no assurances that necessary bonding capacity will be available to support our future bonding requirements.

Liquidity Outlook

As discussed in our Overview, we continue to focus on maintaining liquidity and securing meaningful new project awards and backlog in the near-term and generating operating income and cash flow from operations in the longer-term. We have made significant progress in our efforts to increase our backlog and improve and preserve our liquidity, including cost reductions (including reducing the compensation paid to our directors and executive officers) and the sale of underutilized assets. In addition, at September 30, 2019, we continue to have \$18.5 million of assets held for sale; however, we can provide no assurances that we will successfully sell these assets or that we will recover their carrying value. The primary uses of our liquidity for the remainder of 2019 and the foreseeable future are to fund:

- The underutilization of our facilities within our Fabrication Division, and to a lesser extent within our Shipyard Division, until we secure and/or begin to execute sufficient backlog to fully recover our overhead costs;
- Capital expenditures (including potential enhancements to our Shipyard Division facilities and investments in our Fabrication Division facilities to win and execute potential offshore wind projects);
- Accrued contract losses recorded at September 30, 2019;
- Working capital requirements for our projects (including the potential additional projects for the U.S. Navy if the aforementioned options are exercised); and
- Corporate administrative expenses and strategic initiatives.

We anticipate capital expenditures of \$2.0 million to \$3.0 million for the remainder of 2019.

If conditions for the oil and gas industry do not improve, we are unable to increase our backlog, we are unable to diversify our customer base, or we are unsuccessful in our strategic repositioning of the Company, we would take additional measures to reduce costs and preserve our liquidity until we are able to generate cash flows from operations.

We believe that our cash, cash equivalents and short-term investments at September 30, 2019, and availability under our Credit Agreement, 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 2019 and 2020, which is impacted by our existing backlog and estimates of future new project awards. We can provide no assurances that our financial forecast will be achieved or that we will have sufficient cash or availability under our Credit Agreement to meet planned operating expenses and other 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.

Contractual Obligations

There have been no material changes from the information included in our 2018 Annual Report. For more information on our contractual obligations, refer to Part II, Item 7 of our 2018 Annual Report.

Off-Balance Sheet Arrangements

There have been no material changes from the information included in our 2018 Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the Company's market risks during the nine months ended September 30, 2019. For more information on market risk, refer to Part II, Item 7A of our 2018 Annual Report.

Item 4. Controls and Procedures.

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

During the three months ended September 30, 2019, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 lawsuits, legal proceedings and claims 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 cash flows.

On October 2, 2018, we filed a lawsuit against our customer to enforce our rights and remedies under the applicable construction contracts for 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*. The customer responded to our lawsuit by denying many of the allegations in the lawsuit and asserting a counterclaim against us. We filed a response to the counterclaim denying all the customer's claims. The customer subsequently filed a motion with the court seeking, among other things, to obtain possession of the vessels. A hearing on that motion was held on May 28, 2019, and the customer's request to obtain possession of the vessels was denied by the court. The customer recently filed an amendment to its counterclaim to add claims by the customer against our Surety for the contracts. The customer also recently filed a second motion for summary judgment urging its previously denied request to obtain possession of the vessels. A hearing on the second motion is currently scheduled for November 5, 2019.

See Note 5 of our Financial Statements for further discussion of this litigation.

Item 1A. Risk Factors.

There have been no material changes from the information included in Item 1A "Risk Factors" in our 2018 Annual Report.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	<u>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 13, 2019 (SEC File No. 001-34279).</u>
3.2	<u>Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed with the SEC on May 13, 2019 (SEC File no. 001-34279).</u>
10.1	<u>Separation and Transition Agreement by and between Gulf Island Fabrication, Inc. and Kirk J. Meche, dated October 18, 2019, incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed with the SEC on October 21, 2019 (SEC File No. 001-34279).</u>
31.1	<u>CEO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.</u> *
31.2	<u>CFO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.</u> *
32	<u>Section 906 Certification furnished pursuant to 18 U.S.C. Section 1350.</u> *
101	Attached as Exhibit 101 to this report are the following items formatted in XBRL (Extensible Business Reporting Language): <ul style="list-style-type: none">(i) Consolidated Balance Sheets,(ii) Consolidated Statements of Operations,(iii) Consolidated Statement of Changes in Shareholders' Equity,(iv) Consolidated Statements of Cash Flows, and(v) Notes to Consolidated Financial Statements.

* Filed herewith.

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, Secretary
and Treasurer (Principal Financial Officer)

Date: November 5, 2019

Certifications

I, Kirk J. Meche, 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: November 5, 2019

/s/ Kirk J. Meche

Kirk J. Meche
President, Chief Executive Officer and Director (Principal Executive Officer)

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: November 5, 2019

/s/ Westley S. Stockton

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

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 September 30, 2019, 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/ Kirk J. Meche
Kirk J. Meche
President, Chief Executive Officer and Director
(Principal Executive Officer)
November 5, 2019

By: /s/ Westley S. Stockton
Westley S. Stockton
Executive Vice President, Chief Financial Officer and Treasurer (Principal
Financial Officer)
November 5, 2019

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.