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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22303

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**GULF ISLAND FABRICATION, INC.**

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

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

**583 THOMPSON ROAD,  
HOUMA, LOUISIANA**  
*(Address of principal executive offices)*

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

**70363**  
*(Zip Code)*

**(985) 872-2100**  
*(Registrant's telephone number, including area code)*

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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 at July 19, 2006 was 13,921,188.

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GULF ISLAND FABRICATION, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

GULF ISLAND FABRICATION, INC.  
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2006	(Note 1) December 31, 2005
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 13,328	\$ 5,689
Short-term investments	—	30,212
Contracts receivable, net	72,785	30,790
Contract retainage	1,195	666
Costs and estimated earnings in excess of billings on uncompleted contracts	10,209	27,219
Prepaid expenses	2,458	2,352
Inventory	4,739	5,515
Recoverable income taxes	—	969
Total current assets	104,714	103,412
Property, plant and equipment, net	139,820	59,744
Intangible Assets (less accumulated amortization of \$389,000 at June 30, 2006)	1,011	—
Other assets	699	650
Total assets	<u>\$ 246,244</u>	<u>\$ 163,806</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 13,208	\$ 7,236
Billings in excess of costs and estimated earnings on uncompleted contracts	11,848	4,214
Accrued employee costs	4,617	3,318
Accrued expenses	1,707	1,503
Income taxes payable	3,146	—
Total current liabilities	34,526	16,271
Deferred income taxes	8,888	9,270
Notes payable	17,200	—
Total liabilities	60,614	25,541
Shareholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, no par value, 20,000,000 shares authorized, 13,921,188 and 12,278,621 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	9,082	4,964
Additional paid-in capital	81,646	44,415
Retained earnings	94,902	88,886
Total shareholders' equity	185,630	138,265
Total liabilities and shareholders' equity	<u>\$ 246,244</u>	<u>\$ 163,806</u>

The accompanying notes are an integral part of these statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenue	\$89,955	\$ 55,412	\$ 147,324	\$ 109,644
Cost of revenue	79,005	46,978	132,011	94,703
Gross profit	10,950	8,434	15,313	14,941
General and administrative expenses	2,050	1,514	4,187	2,886
Operating income	8,900	6,920	11,126	12,055
Other income (expense):				
Interest expense	(155)	(9)	(289)	(36)
Interest income	92	310	173	597
Other	2	1	985	(2)
	(61)	302	869	559
Income before income taxes	8,839	7,222	11,995	12,614
Income taxes	2,886	2,652	3,889	4,541
Net income	<u>\$ 5,953</u>	<u>\$ 4,570</u>	<u>\$ 8,106</u>	<u>\$ 8,073</u>
Per share data:				
Basic earnings per share	\$ 0.43	\$ 0.37	\$ 0.59	\$ 0.66
Diluted earnings per share	\$ 0.43	\$ 0.37	\$ 0.59	\$ 0.65
Weighted-average shares	13,916	12,241	13,641	12,219
Effect of dilutive securities: employee stock options	85	103	119	118
Adjusted weighted-average shares	<u>14,001</u>	<u>12,344</u>	<u>13,760</u>	<u>12,337</u>
Cash dividend declared per common share	<u>\$ 0.075</u>	<u>\$ 0.075</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>

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

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at January 1, 2006	12,278,621	\$ 4,964	\$ 44,415	\$ 88,886	\$ 138,265
Exercise of stock options	53,500	82	732	—	814
Income tax benefit from exercise of stock options	—	—	173	—	173
Net income	—	—	—	8,106	8,106
Compensation expense restricted stock	—	7	66	—	73
Compensation expense non-qualified stock options	—	29	260	—	289
Dividends on common stock	—	—	—	(2,090)	(2,090)
Issuance of common shares	1,589,067	4,000	36,000	—	40,000
Balance at June 30, 2006	<u>13,921,188</u>	<u>\$ 9,082</u>	<u>\$ 81,646</u>	<u>\$ 94,902</u>	<u>\$ 185,630</u>

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

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

	Six Months Ended	
	June 30,	
	2006	2005
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 8,106	\$ 8,073
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	5,547	3,118
Amortization on intangible assets	389	—
Deferred income taxes	(382)	(252)
Compensation expense - stock plans	362	—
Changes in operating assets and liabilities:		
Contracts receivable	(35,818)	1,037
Contract retainage	(529)	756
Costs and estimated earnings in excess of billings on uncompleted contracts	17,010	(9,134)
Prepaid expenses and other assets	(106)	549
Inventory	1,479	(949)
Accounts payable	5,972	5,785
Billings in excess of costs and estimated earnings on uncompleted contracts	1,201	(3,045)
Accrued employee costs	1,167	1,170
Accrued expenses	204	81
Income taxes payable/recoverable	4,115	899
Net cash provided by operating activities	<u>8,717</u>	<u>8,088</u>
Cash flows from investing activities:		
Capital expenditures, net	(5,900)	(2,628)
Purchase of short-term investments	—	(1,127)
Proceeds from the sale of short-term investments	30,212	—
Payment for the purchase of net assets acquired	(41,487)	—
Net cash used in investing activities	<u>(17,175)</u>	<u>(3,755)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	814	1,295
Tax benefit from exercise of stock options	173	289
Borrowings against notes payable	39,200	—
Principal payments on notes payable	(22,000)	—
Payments of dividends on common stock	(2,090)	(1,832)
Net cash provided by (used in) financing activities	<u>16,097</u>	<u>(248)</u>
Net change in cash and cash equivalents	7,639	4,085
Cash and cash equivalents at beginning of period	5,689	11,696
Cash and cash equivalents at end of period	<u>\$ 13,328</u>	<u>\$ 15,781</u>
Supplemental cash flow information:		
Interest paid	\$ 233	\$ 138
Income taxes paid	\$ 10	\$ 3,930
Value of common shares issued for net assets acquired	<u>\$ 40,000</u>	<u>\$ —</u>

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

**GULF ISLAND FABRICATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTH AND SIX MONTH**  
**PERIODS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING PRINCIPLES**

Gulf Island Fabrication, Inc., together with its subsidiaries, (the “Company”) is a leading fabricator of offshore drilling and production platforms and other specialized structures used in the development and production of offshore oil and gas reserves. Structures and equipment fabricated by the Company include jackets and deck sections of fixed production platforms; hull and/or deck sections of floating production platforms (such as TLP’s, SPAR’s and FPSO’s); piles; wellhead protectors; subsea templates; various production, compressor and utility modules; and offshore living quarters tanks and barges. The Company, with its corporate offices and three major subsidiaries located in Houma, Louisiana, and another major subsidiary located in San Patricio County, Texas, also provides services such as offshore interconnect pipe hook-up; inshore marine construction; manufacture and repair of pressure vessels; heavy lifts such as ship integration and TLP module integration, loading and offloading jack-up drilling rigs, semi-submersible drilling rigs, TLP’s, SPARs or other similar cargo; steel warehousing and sales; onshore and offshore scaffolding and piping insulation services. The Company’s principal markets are concentrated in the offshore regions of the Gulf of Mexico. The consolidated financial statements include the accounts of Gulf Island Fabrication, Inc. and its subsidiaries. As discussed in Note 3, the Company acquired certain net assets of Gulf Marine Fabricators on January 31, 2006, and its results of operations have been included in the consolidated financial statements of the Company since this date. All significant inter-company balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain items in 2005 have been reclassified to conform to the 2006 financial statement presentation.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

**NOTE 2 – ACCOUNTING FOR STOCK BASED COMPENSATION**

At June 30, 2006, the Company has two stock-based employee compensation plans, which are described more fully in Note 15 *Long-Term Incentive Plans* in the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Prior to January 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by the Financial Accounting Standards Board ("FASB") Statement No. 123, *Accounting for Stock – Based Compensation*. No stock-based employee compensation cost was recognized in the Statements of Income for the three-month and six-month periods ended June 30, 2005 as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the three-month and six-month periods ended June 30, 2006, includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123. Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before income taxes for the three-month and six-month periods ended June 30, 2006, is \$126,000 lower and \$289,000 lower, respectively, than if the Company had continued to account for share-based compensation under APB Opinion No. 25. Net income for the three-month and six-month periods ended June 30, 2006 would have been \$85,000 higher and \$195,000 higher, respectively, if the Company had not adopted Statement 123(R). Basic and diluted earnings per share for the three-month period ended June 30, 2006 would have remained the same if the Company had not adopted Statement 123(R). Basic and diluted earnings per share for the six-month period ended June 30, 2006 would have been \$0.02 lower and \$0.01 lower, respectively, if the Company had not adopted Statement 123(R).

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement 123(R) to options granted under the Company's stock option plans for the three-month and six-month periods ended June 30, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes-Merton option-pricing formula and amortized to expense over the options' vesting periods.



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	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Reported net income	\$ 4,570	\$ 8,073
Add back: Stock compensation costs, net of tax included in the determination of net income reported	—	—
Less: Stock compensation costs, net of tax, had option expense been measured at fair value applied to all awards	181	362
Pro forma net income	<u>\$ 4,389</u>	<u>\$ 7,711</u>
Weighted-average shares (basic) as reported	12,241	12,219
Adjusted weighted-average shares (diluted) as reported	12,344	12,337
Basic earnings-per-share		
Reported net income	\$ 0.37	\$ 0.66
Pro forma net income	\$ 0.36	\$ 0.63
Diluted earnings-per-share		
Reported net income	\$ 0.37	\$ 0.65
Pro forma net income	\$ 0.36	\$ 0.63

**NOTE 3 – ACQUISITION OF GULF MARINE FABRICATORS**

Effective January 31, 2006, the Company acquired the facilities, machinery and equipment of Gulf Marine Fabricators (“Gulf Marine”) located in San Patricio County, Texas. The aggregate consideration for the acquisition (“Acquisition”) paid at the closing consisted of (i) \$40 million in cash (subject to certain purchase price adjustments), (ii) 1,589,067 shares of the Company’s common stock, which constitute approximately 11% of the Company’s outstanding common stock, and (iii) assumption of certain liabilities. The Company assumed all of Gulf Marine’s uncompleted fabrication contracts, as of the date of the closing. The only significant fabrication contract assumed was a contract with Chevron USA for the construction of the 19,000 ton topsides on its Tahiti project. The Company also assumed two significant non-fabrication contracts. One contract is for either the rental or purchase of three 600 ton crawler cranes. During 2006, the Company expects to complete the purchase of the three crawler cranes for approximately \$12 million. The other contract, which terminates in 2010, is for the charter hire of a tug and barge for \$836,000 per year.

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The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and Gulf Marine as if the acquisition had occurred on January 1, 2006 and 2005, respectively. No pro forma adjustments were necessary for the three-months ended June 30, 2006, Gulf Marine is included for entire quarter. Pro forma adjustments include (i) additional depreciation related to the step-up in property, plant and equipment, (ii) adjustments to record the amortization related to intangible assets, (iii) adjustments for the increase in interest expense, and (iv) the related tax effects.

	Three-Months Ended June 30,	
	2006	2005
	(in thousands, except per share amounts)	
Revenue	\$ 89,955	\$ 64,249
Pro forma net income	\$ 5,953	\$ 2,627
Pro forma basic and diluted net income per share	\$ 0.43	\$ 0.19

  

	Six-Months Ended June 30,	
	2006	2005
	(in thousands, except per share amounts)	
Revenue	\$ 151,819	\$ 118,481
Pro forma net income	\$ 6,041	\$ 4,499
Pro forma basic and diluted net income per share	\$ 0.44	\$ 0.33

The following table sets forth the cost and related initial purchase price allocation of the assets acquired and liabilities assumed resulting from the Gulf Marine Acquisition.

Cost of the acquisition (in thousands):	
Cash paid from the proceeds of debt	\$ 12,000
Cash paid from cash on hand	28,009
Cash paid for other Acquisition cost	1,487
Cash to be received from seller for assumed liabilities	(6,186)
Issuance of common stock	40,000
	<u>\$ 75,310</u>
Allocation of the purchase price:	
Property, plant and equipment	\$ 79,772
Intangibles (amortization ranging 18-24 months)	1,400
Inventory	703
Current liabilities	(6,565)
	<u>\$ 75,310</u>

The valuation of property, plant and equipment, intangibles and acquisition costs are estimates through June 30, 2006, and have not been completely finalized.

**NOTE 4 - LINE OF CREDIT AND NOTES PAYABLE**

On January 30, 2006, the Company and its lenders, (“Whitney National Bank and JPMorgan Chase Bank, N.A.”), amended the Company’s credit facility, in part to accommodate our payment of part of the cash portion of the purchase price for the Acquisition. Pursuant to the amendment, the maximum principal amount of the aggregate borrowings available under the credit facility was increased from \$20 million to \$50 million. In addition, under the amendment, borrowings under the credit facility will remain the same and bear interest equal to, at our option, the prime lending rate established by JP Morgan Chase or LIBOR plus 1.25%. On May 11, 2006, the Company and its lenders entered into the Fifth Amendment to Ninth Amended and Restated Credit Agreement. The amendment, which is effective March 31, 2006, extends the term of the credit facility from July 31, 2008 to December 31, 2008.

On January 31, 2006, the Company borrowed \$12 million against the credit facility to fund a portion of the cash purchase price of the Acquisition. At June 30, 2006, the Company had borrowings outstanding under the credit facility of \$17.2 million and had letters of credit outstanding totaling \$19.1 million, which reduced the unused portion of the revolver. The Company is required to maintain certain covenants, including balance sheet and cash flow ratios. At June 30, 2006, the Company was in compliance with these covenants.

**NOTE 5 – CONTINGENCIES**

In November 2004, Gulf Island, L.L.C., a wholly-owned subsidiary of Gulf Island Fabrication, Inc., filed a breach of contract suit against J. Ray McDermott for non-payment of a portion of a contract completed by Gulf Island, L.L.C. earlier in 2004. The amount of the unpaid portion of the contract in Contracts receivable, net is approximately \$5 million. J. Ray McDermott has deposited certified funds with the Terrebonne Parish Clerk of Court in the amount of 125% of the unpaid portion. After consultation with legal counsel, the Company does not expect that the ultimate resolution of this matter will have a material adverse effect on the financial position or results of operations of the Company.

In December 2004, the Company received notice from Louisiana Department of Environmental Quality (“LDEQ”) that the Corrective Action Plan submitted in October 2004 was not acceptable. The Corrective Action Plan was developed to provide remediation to several isolated areas located on property the Company sold in 2001. In mid 2005, the LDEQ approved a sampling plan with the proposed sampling to begin in September of 2005. Due to the hurricanes that struck the Louisiana coast in 2005, the scheduled sampling was cancelled. As of this date, new sampling dates have not been re-scheduled. Cost of remediation based on revising the Corrective Action Plan according to LDEQ’s recommendations is not expected to exceed \$230,000 and remains unchanged. The Company has included in Accrued Expenses \$150,000 which is the current estimated cost to remediate the site.

**NOTE 6 - SALE OF MINDOC**

Effective January 23, 2006, the Company sold its entire right, title and interest in MinDOC, L.L.C. to the other member of the company for \$1 million. The sales resulted in a gain of \$983,000. The Company believes that the other member, being an architectural/engineering company, is better suited to market the concept to potential customers. The Company also believes that if the concept is sold, we will participate as a bidder to build the project.

**NOTE 6 – NEW ACCOUNTING PRONOUNCEMENT**

In February 2006, the FASB issued FIN 48 - Accounting for Uncertainty in Income Taxes with respect to FASB 109 – Accounting for Income Taxes regarding the accounting for and disclosure of uncertain tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for uncertainty in tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not completed the evaluation of FIN 48 to determine the impact this interpretation will have on its results of operations or financial position.

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Report of Independent Registered  
Public Accounting Firm

The Board of Directors and Shareholders  
Gulf Island Fabrication, Inc.

We have reviewed the condensed consolidated balance sheet of Gulf Island Fabrication, Inc. as of June 30, 2006, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2006 and 2005, the condensed consolidated statement of changes in shareholders' equity for the six-month period ended June 30, 2006 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2006 and 2005. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Gulf Island Fabrication, Inc. as of December 31, 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (not presented herein) and in our report dated March 8, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

New Orleans, Louisiana  
July 25, 2006

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

**Critical Accounting Policies and Estimates**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates and assumptions (see Note 1 to the consolidated financial statements included in the annual report on Form 10-K for the year ended December 31, 2005). The Company believes that of its significant accounting policies, the following involve a higher degree of judgement and complexity: revenue recognition and estimating the recoverability of accounts receivable. Critical accounting policies are discussed more fully in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. There have been no changes in the Company's evaluation of its critical accounting policies since that date.

**Introduction**

Effective January 31, 2006, the Company acquired the facilities, machinery and equipment of Gulf Marine Fabricators ("Gulf Marine") located in San Patricio County, Texas as further described in the Form 8-K filed on February 3, 2006. Included in our operating results are the operating results of Gulf Marine for the three-month and for February through June of the six-month periods ended June 30, 2006. Those results are (in thousands):

	<b>Three Months Ended June 30, 2006</b>	<b>Six Months Ended June 30, 2006</b>
Revenue	\$ 30,061	\$ 39,651
Cost of revenue	\$ 27,256	\$ 37,095
General and administrative expense	\$ 514	\$ 1,140

**Results of Operations**

The Company's revenue for the three-month and six-month periods ended June 30, 2006 was \$90.0 million and \$147.3 million, an increase of 62.5% and 34.4% respectively, compared to \$55.4 million and \$109.6 million in revenue for the three-month and six-month periods ended June 30, 2005. The increase in revenue for the three-month and six-month periods ended June 30, 2005 was directly associated with the acquisition of Gulf Marine. Exclusive of Gulf Marine, revenue increased \$4.5 million or 8.1% for the three-month period ended June 30, 2006. For the six-month period ended June 30, 2006, exclusive of Gulf Marine, revenue decreased \$2.0 million or 2.0%. The Company is in a highly competitive market place and the awards of contracts during the last few quarters have been suppressed relative to market indicators such as commodity prices for crude oil and natural gas.

For the three-month and six-month periods ended June 30, 2006, gross profit was \$11.0 million (12.2% of revenue) and \$15.3 million (10.4% of revenue), compared to gross profit of \$8.4 million (15.2% of revenue) and \$14.9 million (13.6% of revenue) for the three-month and six-month periods ended June 30, 2005. Exclusive of Gulf Marine, gross profit was \$8.1 million or 13.5% of revenue for the three-month period ended June 30, 2006. For the six-month period ended June 30, 2006, exclusive of Gulf Marine, gross profit was \$12.8 million, or 11.9% of revenue. Because of the competitiveness in the marine construction industry, recent project awards have included somewhat lower than historical margins.

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The Company's general and administrative expenses were \$2.1 million for the three-month period ended June 30, 2006 and \$4.2 million for the six-month period ended June 30, 2006. This compares to \$1.5 million for the three-month period ended June 30, 2005 and \$2.9 million for the six-month period ended June 30, 2005. As a percentage of revenue, general and administrative expenses decreased to 2.3% from 2.7%, but increased to 2.8% from 2.6%, of revenue for the three-month and six-month periods ended June 30, 2006 and 2005, respectively. Exclusive of Gulf Marine, general and administrative expenses were \$1.5 million, 2.6% of revenue, for the three-month period ended June 30, 2006. For the six-month period ended June 30, 2006, exclusive of Gulf Marine, general and administrative expenses were \$3.0 million, 2.8% of revenue. The absolute dollar increase in general and administrative expenses represent increases in salaries and wages associated with the increases in production related activities.

The Company had net interest expense of \$63,000 and \$116,000 for the three-month and six-month periods ended June 30, 2006, respectively, compared to net interest income of \$301,000 and \$561,000 for the three-month and six-month periods ended June 30, 2005. The increase in net interest expense is the result of borrowings incurred by the Company related to the acquisition of Gulf Marine.

The increase in other income (expense) is associated with the sale of the Company's interest in MinDOC, which was effective January 23, 2006, which generated a gain of \$983,000.

The Company's effective income tax rate was 32.7% and 32.4% for the three-month and six-month periods ended June 30, 2006, respectively, compared to 36.7% and 36.0% of income before income taxes for the comparative periods of 2005. The decrease relates primarily to the change in the apportionment of taxable state income and employment hiring credits.

### **Liquidity and Capital Resources**

Historically the Company has funded its business activities primarily through cash generated from operations. The Company also maintains a revolving line of credit with its commercial banks. On January 30, 2006, the Company and its lenders amended the credit facility ("the Revolver") to increase the maximum principal amount of the aggregate borrowings available under the credit facility from \$20 million to \$50 million. In addition, borrowings under the Revolver will remain the same and bear interest equal to, at the option of the Company, the prime lending rate established by JP Morgan Chase or LIBOR plus 1.25%. On January 31, 2006, the Company borrowed \$12 million against the Revolver to fund a portion of the cash purchase price of the acquisition of Gulf Marine. During the six months ended June 30, 2006, the Company borrowed an additional \$27.2 million against the Revolver to fund capital expenditures and working capital needs, but made payments of \$22.0 million during the six month period to reduce the balance on the Revolver to \$17.2 million at June 30, 2006.

On May 11, 2006, the Company and its lenders entered into the Fifth Amendment to Ninth Amended and Restated Credit Agreement. The amendment, which is effective March 31, 2006, extends the term of the credit facility from July 31, 2008 to December 31, 2008, and also facilitates certain banking services and certain guarantees. The Revolver is secured by a mortgage on the Company's real estate, machinery and equipment, and fixtures. The Company pays a fee on a quarterly basis of three-sixteenths of one percent per annum on the weighted-average unused portion of the Revolver. At June 30, 2006, the Company had letters of credit outstanding totaling \$19.1 million, which reduces the unused portion of the Revolver. The Company is required to maintain certain covenants, including balance sheet and cash flow ratios. At June 30, 2006 the Company was in compliance with these covenants.

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At June 30, 2006, the Company's cash balance was \$13.3 million and working capital was \$70.2 million, resulting in a current ratio of 3.0 to 1. Net cash provided by operating activities was \$8.7 million for the six-months ended June 30, 2006. Net cash used in investing activities for the six-months ended June 30, 2006, was \$17.2 million, which includes \$41.5 million used in conjunction with the purchase of Gulf Marine, \$5.9 million related to capital expenditures for equipment and improvements to its production facilities, and proceeds of \$30.2 million from the sale of short-term investments. Net cash provided by financing activities for the six-month period ended June 30, 2006 was \$16.1 million, which consisted of \$39.2 million from the borrowings against the credit facility, principal payments of \$22.0 million on the credit facility, \$814,000 from the exercise of stock options, \$173,000 related to the tax benefit of stock options exercised and \$2.1 million used to pay dividends on common stock.

Capital expenditures for the remaining six months of 2006 are estimated to be approximately \$22.1 million, which includes the purchase of machinery and equipment and additional yard and facility expansion improvements. In July 2006, the Company purchased two Demag CC2800 crawler cranes for \$7.8 million and deposited into an escrow account an additional \$3.6 million to purchase a third Demag crawler crane. Management believes that its available funds, cash generated by operating activities and funds available under the bank credit facility will be sufficient to fund its capital expenditures and working capital needs.

### **Contractual Obligations**

There have been no material changes from the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

### **Off-Balance Sheet Arrangements**

There have been no material changes from the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

### **Accounting for Stock Based Compensation**

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the six-month period ended June 30, 2006, includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123. Results for prior periods have not been restated.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before income taxes for the three-month and six-month periods ended June 30, 2006, is \$126,000 lower and \$289,000 lower, respectively, than if the Company had continued to account for share-based compensation under APB Opinion No. 25. Net income for the three-month and six-month periods ended June 30, 2006 would have been \$85,000 higher and \$195,000 higher, respectively, if the Company had not adopted Statement 123(R). Basic and diluted earnings per share for the three-month period ended June 30, 2006 would have



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remained the same if the Company had not adopted Statement 123(R). Basic and diluted earnings per share for the six-month period ended June 30, 2006 would have been \$0.02 lower and \$0.01 lower, respectively, if the Company had not adopted Statement 123(R).

There were no differences in valuation methodologies or assumptions. The Black-Scholes-Merton option-pricing model was used to value the options under APB Opinion No. 25 and Statement 123(R). In 2005, the Company did not grant stock options, but did award restricted stock to its employees as designated by the compensation committee. The compensation cost related to non-vested awards not yet recognized is approximately \$1.2 million and is expected to be recognized in the operating results of the Company through December 31, 2009. Thus, the adoption of Statement 123(R) will not result in significant differences between the financial statements of periods before and after the adoption.

### **Forward-Looking Statements**

Statements under “Results of Operations” and “Liquidity and Capital Resources” and other statements in this report and the exhibits hereto that are not statements of historical fact are forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results and outcomes to differ materially from the results and outcomes predicted in the statement and investors are cautioned not to place undue reliance upon them. Important factors that may cause our actual results to differ materially from expectations or projections include those described under the heading “Cautionary Statements” in Item 1A. Risk Factors included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005. Such factors include, among others, the timing and extent of changes in the prices of crude oil and natural gas; the timing of new projects and the Company’s ability to obtain them; competitive factors in the heavy marine fabrication industry; and the Company’s ability to attract and retain qualified production employees at acceptable compensation rates.

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

There have been no material changes from the information included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

### **Item 4. Controls and Procedures.**

The Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2006. The evaluation was carried out under the supervision of and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in reports the Company files with or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934. Except for the acquisition of Gulf Marine, there have been no changes during the fiscal quarter ended June 30, 2006, 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. The Company is currently evaluating and assessing the effectiveness of the internal controls of Gulf Marine, which was acquired effective January 31, 2006.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

For a description of legal proceedings, see Item 3 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

**Item 1A. Risk Factors**

There have been no material changes to the Company's risk factors from the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

- (a) An annual meeting of the Company's shareholders was held on April 26, 2006.
- (b) At the annual meeting, the shareholders elected Kerry J. Chauvin, Alden J. Laborde, and Huey J. Wilson to serve as directors of the Company until the 2009 annual meeting of shareholders. The shareholders elected David W. Sverre to serve as director of the Company until the 2008 annual meeting of shareholders. The terms of office of directors Hugh J. Kelly, Thomas E. Fairley, Ken C. Tamblyn, Gregory J. Cotter and John P. LaBorde continued after the annual meeting.
- (c) The following matters were voted upon at such meeting with the results indicated below:
  - (1) Election of the following nominees for directors.

Kerry J. Chauvin

Number of Votes Cast For – 9,779,048

Number of Votes Cast Against or Withheld – 2,270,185

Number of Abstentions – None

Number of Broker Non-Votes – None

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### Alden J. Laborde

Number of Votes Cast For – 10,780,492  
Number of Votes Cast Against or Withheld – 1,268,471  
Number of Abstentions – None  
Number of Broker Non-Votes – None

### Huey J. Wilson

Number of Votes Cast For – 12,019,463  
Number of Votes Cast Against or Withheld – 29,770  
Number of Abstentions – None  
Number of Broker Non-Votes – None

### David W. Sverre

Number of Votes Cast For – 9,890,452  
Number of Votes Cast Against or Withheld – 2,158,781  
Number of Abstentions – None  
Number of Broker Non-Votes – None

### (2) Proposal to amend the Company's 2002 Stock Incentive Plan to remove the limit applicable to awards of restricted stock and other stock-based awards.

Number of Votes Cast For – 10,154,856  
Number of Votes Cast Against or Withheld – 206,701  
Number of Abstentions – 495,434  
Number of Broker Non-Votes – 1,192,242

## **Item 6. Exhibits**

- 10.1 Fifth Amendment to Ninth Amended and Restated Credit Agreement among the Company, Whitney National Bank and JPMorgan Chase Bank N.A. dated March 31, 2006.
- 10.2 Amended and Restated 2002 Stock Incentive Plan
- 15.1 Letter regarding unaudited interim financial information.
- 31.1 CEO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
- 31.2 CFO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
- 32 Section 906 Certification furnished pursuant to 18 U.S.C. Section 1350.
- 99.1 Press release issued by the Company on July 12, 2006, announcing the scheduled time for the release of its 2006 quarter earnings and its quarterly conference call.

**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/ Joseph P. Gallagher, III  
Joseph P. Gallagher, III  
Vice President – Finance,  
Chief Financial Officer  
and Treasurer  
(Principal Financial Officer  
and Duly Authorized Officer)

Date: July 25, 2006

**GULF ISLAND FABRICATION, INC.**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.1	Fifth Amendment to Ninth Amended and Restated Credit Agreement among the Company, Whitney National Bank and JPMorgan Chase Bank N.A. dated March 31, 2006.
10.2	Amended and Restated 2002 Stock Incentive Plan
15.1	Letter regarding unaudited interim financial information.
31.1	CEO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
31.2	CFO Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
32	Section 906 Certification furnished pursuant to 18 U.S.C. Section 1350.
99.1	Press release issued by the Company on July 12, 2006, announcing the scheduled time for the release of its 2006 second quarter earnings and its quarterly conference call.

**FIFTH AMENDMENT TO  
NINTH AMENDED AND RESTATED  
CREDIT AGREEMENT**

This FIFTH AMENDMENT dated as of March 31, 2006 (this "Fifth Amendment") to that certain **NINTH AMENDED AND RESTATED CREDIT AGREEMENT**, as amended (as so amended, the "Credit Agreement"), dated as of December 31, 2003, is among **GULF ISLAND FABRICATION, INC.**, a Louisiana corporation ("Borrower"), **GULF ISLAND, L.L.C.**, a Louisiana limited liability company ("Gulf Island Subsidiary"), **DOLPHIN SERVICES, L.L.C.**, a Louisiana limited liability company and successor by merger to Dolphin Services, Inc. ("Dolphin"), **SOUTHPORT, L.L.C.**, a Louisiana limited liability company and successor by merger to Southport, Inc. ("Southport"), **GULF ISLAND MINDOC COMPANY, L.L.C.** (formerly Vanguard Ocean Services, L.L.C.), a Louisiana limited liability company ("MinDOC"), **G.M. FABRICATORS, L.P.** (formerly NEW VISION L.P.), a Texas limited Partnership ("GM Fabricators"), **GULF MARINE FABRICATORS GENERAL PARTNER, L.L.C.**, (formerly NEW VISION GENERAL PARTNER, L.L.C.), a Louisiana limited liability company ("GM GP"), and **GULF MARINE FABRICATORS LIMITED PARTNER, L.L.C.** (formerly NEW VISION LIMITED PARTNER, L.L.C.), a Louisiana limited liability company ("GM LP"), as Guarantors, **WHITNEY NATIONAL BANK**, a national banking association ("Whitney") and **JPMORGAN CHASE BANK, N.A.** (successor by merger to BANK ONE, N.A., Chicago) in its individual capacity ("JPMorgan") (Whitney and JPMorgan, each a "Lender" and collectively the "Lenders") and JPMorgan, as Agent and LC Issuer.

WHEREAS, the Borrower has requested that the Lenders to extend the Facility Termination Date under the Credit Agreement and to amend the Credit Agreement to facilitate certain banking services and certain guarantees; and

WHEREAS, the Lenders are agreeable thereto, on the terms and conditions set forth herein;

NOW, THEREFORE, the parties hereto do hereby amend the Credit Agreement, all on the terms and conditions hereof and do hereby agree as follows:

1. Unless otherwise defined herein, all defined terms used in this Fifth Amendment shall have the same meaning ascribed to such terms in the Credit Agreement.
2. The Credit Agreement is hereby amended by inserting the following two definitions, in proper alphabetical order, in Article I (Definitions) of the Credit Agreement:

“Banking Services” means each and any of the following bank services provided to Borrower or any Guarantor by any Lender or Affiliate of a Lender: (i) commercial credit cards; (ii) stored value

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cards; and (iii) treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

“Banking Service Obligations” means any and all obligations of the Borrower or any Guarantor, whether absolute or contingent and howsoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Banking Services, including any guaranty by Borrower of any Banking Service Obligations of any Guarantor.

3. The Credit Agreement is hereby amended by amending and restating the definition of “Obligations” to read in its entirety as follows:

“Obligations” means all unpaid principal of and accrued and unpaid interest on the Loans, all Reimbursement Obligations, all Rate Management Obligations and Banking Service Obligations, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent, the LC Issuer or any indemnified party arising under the Loan Documents, and of the Borrower to any Lender or any Affiliate of a Lender arising pursuant to any guaranty by Borrower of any Rate Management Obligations or Banking Service Obligations of any Guarantor.

4. The Credit Agreement is hereby amended by amending and restating the definition of “Facility Termination Date” to read in its entirety as follows:

“Facility Termination Date” means December 31, 2008 or any later date as may be specified as the Facility Termination Date in any amendment to this Agreement or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof.

5. Section 6.10 of the Credit Agreement is hereby amended by adding thereto new sections (viii) and (ix) reading as follows:

(viii) Banking Service Obligations of Borrower or any Guarantor.

(ix) Guaranties by Borrower of any Indebtedness of any Guarantor of the type listed in subsections (i), (ii), (iv), (v), (vi), or (vii) above.

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6. Section 6.20 of the Credit Agreement is hereby amended by deleting the reference to “Section 6.10(vii)” and replacing it with a reference to “Section 6.10(vi)”.

7. In order to facilitate the provision of Banking Services to any one or more Guarantors, now or hereafter, Borrower does hereby absolutely and unconditionally guarantee as primary obligor and not as surety, in favor of each Lender and the Affiliates of each Lender, the full and punctual payment (whether at stated maturity, upon acceleration, or otherwise, and at all times thereafter) of all Banking Service Obligations of each Guarantor, hereby binding itself in solido with each Guarantor in favor of each Lender and the Affiliates of each Lender. This guaranty is a guaranty of payment and not of collection. The Borrower waives any right to require any Lender to sue any Guarantors obligated for all or any part of the Banking Service Obligations, or otherwise to enforce its payment against any collateral securing all or any part of the Banking Service Obligations.

8. Except to the extent its provisions are specifically amended, modified or superseded by this Fifth Amendment, the representations, warranties and affirmative and negative covenants of the Borrower contained in the Credit Agreement are incorporated herein by reference for all purposes as if copied herein in full. The Borrower hereby restates and reaffirms each and every term and provision of the Credit Agreement, as amended, including, without limitation, all representations, warranties and affirmative and negative covenants. Except to the extent its provisions are specifically amended, modified or superseded by this Fifth Amendment, the Credit Agreement, as amended, and all terms and provisions thereof shall remain in full force and effect, and the same in all respects are confirmed and approved by the parties hereto.

9. Borrower and each Guarantor acknowledge and agree that this Fifth Amendment shall not be considered a novation or a new contract. Borrower and each Guarantor acknowledge that all existing rights, titles, powers, Liens, security interests and estates in favor of the Lenders constitute valid and existing obligations and Liens and security interests as against the Collateral in favor of the Agent for the benefit of the Lenders. Borrower and each Guarantor confirm and agree that (a) neither the execution of this Fifth Amendment nor the consummation of the transactions described herein shall in any way effect, impair or limit the covenants, liabilities, obligations and duties of the Borrower and each Guarantor under the Loan Documents and (b) the obligations evidenced and secured by the Loan Documents continue in full force and effect. Each Guarantor hereby further confirms that it unconditionally guarantees to the extent set forth in the Guaranty the due and punctual payment and performance of any and all amounts and obligations owed the Borrower under the Credit Agreement or the other Loan Documents.

10. Borrower and each Guarantor that has executed any mortgage, security agreement, pledge, or other security device as security for the obligations under the Credit Agreement hereby acknowledges and affirms that such security remains in effect



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for the Obligations. Further, Borrower and each Guarantor agree to execute such amendments, modifications, and additions as may be requested by Agent from time to time.

11. This Fifth Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

12. **THIS FIFTH AMENDMENT AND THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF LOUISIANA, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.**

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IN WITNESS WHEREOF, the Borrower, the Guarantors, the Lenders, the LC Issuer and the Agent have executed this Fourth Amendment as of the date first above written.

**BORROWER:**

**GULF ISLAND FABRICATION, INC.**

By: /s/ Kerry J. Chauvin  
Kerry J. Chauvin, President & CEO

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**GUARANTORS:**

**GULF ISLAND, L.L.C.**

By: /s/ William G. Blanchard

William G. Blanchard, President & CEO

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**DOLPHIN SERVICES, L.L.C.,**  
successor by merger to Dolphin Services, Inc.

By: /s/ William J. Fromenthal  
William J. Fromenthal, President & CEO

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**SOUTHPORT, L.L.C.**

By: /s/ Jacques C. Olivier

Jacques C. Olivier, President & CEO

By: /s/ Kerry J. Chauvin  
Kerry J. Chauvin, Manager

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**G.M. FABRICATORS, L.P.**  
(formerly NEW VISION, L.P.)

By: Gulf Marine Fabricators General Partner, L.L.C.

By: /s/ Kirk J. Meche  
Kirk J. Meche, President

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**GULF MARINE FABRICATORS GENERAL  
PARTNER, LLC**  
(Formerly NEW VISION GENERAL PARTNER, L.L.C.)

By: /s/ Kirk J. Meche  
Kirk J. Meche, President



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**GULF MARINE FABRICATORS LIMITED  
PARTNER, LLC**  
(Formerly NEW VISION LIMITED PARTNER, L.L.C.)

By: /s/ Kerry J. Chauvin  
Kerry J. Chauvin, Manager

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**LENDERS:**

**JPMORGAN CHASE BANK, N.A.,**  
Successor by merger to Bank One, NA, Chicago  
Individually, as LC Issuer, and as Agent

By: /s/ Tara T. Narasiman  
Tara T. Narasiman, Associate

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**WHITNEY NATIONAL BANK**

By: /s/ Josh J. Jones  
Josh J. Jones, Assistant Vice President

**GULF ISLAND FABRICATION, INC.**  
**AMENDED AND RESTATED**  
**2002 LONG-TERM INCENTIVE PLAN**  
**(as of April 26, 2006)**

**1. Purpose.** The purpose of the 2002 Long-Term Incentive Plan (the “Plan”) of Gulf Island Fabrication, Inc. (“Gulf Island”) is to increase shareholder value and to advance the interests of Gulf Island and its subsidiaries (collectively, the “Company”) by furnishing stock-based economic incentives (the “Incentives”) designed to attract, retain, reward and motivate key employees, officers, directors and consultants or advisors to the Company and to strengthen the mutuality of interests between such employees, officers and directors and Gulf Island’s shareholders. Incentives consist of opportunities to purchase or receive shares of common stock, no par value per share, of Gulf Island (the “Common Stock”), on terms determined under the Plan. As used in the Plan, the term “subsidiary” means any corporation, limited liability company or other entity, of which Gulf Island owns (directly or indirectly) within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended (the “Code”), 50% or more of the total combined voting power of all classes of stock, membership interests or other equity interests issued thereby.

**2. Administration.**

**2.1 Composition.** The Plan shall be administered by the Compensation Committee of the Board of Directors of Gulf Island or by a subcommittee thereof (the “Committee”). The Committee shall consist of not fewer than two members of the Board of Directors, each of whom shall (a) qualify as a “non-employee director” under Rule 16b-3 under the Securities Exchange Act of 1934 (the “1934 Act”) or any successor rule, and (b) qualify as an “outside director” under Section 162(m) of the Code (“Section 162(m”).

**2.2 Authority.** The Committee shall have plenary authority to award Incentives under the Plan, to interpret the Plan, to establish any rules or regulations relating to the Plan that it determines to be appropriate, to enter into agreements with or provide notices to participants as to the terms of the Incentives (the “Incentive Agreements”) and to make any other determination that it believes necessary or advisable for the proper administration of the Plan. Its decisions in matters relating to the Plan shall be final and conclusive on the Company and participants. The Committee may delegate its authority hereunder to the extent provided in Section 3 hereof. Directors who are not also employees of the Company (“Outside Directors”) may receive awards under the Plan only as specifically provided in Section 10 hereof.

**3. Eligible Participants.** Key employees, officers and directors of the Company and persons providing services as consultants or advisors to the Company shall become eligible to receive Incentives under the Plan when designated by the Committee. Employees may be designated individually or by groups or categories, as the Committee deems appropriate. With respect to participants not subject to Section 16 of the 1934 Act or Section 162(m) of the Code,

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the Committee may delegate to appropriate officers of the Company its authority to designate participants, to determine the size and type of Incentives to be received by those participants and to set and modify the terms of the Incentives; provided, however, that the per share exercise price of any options granted by an officer, rather than by the Committee, shall be equal to the Fair Market Value (as defined in Section 11.11) of a share of common stock. Outside Directors may participate in the Plan only as specifically provided in Section 10 hereof.

**4. Types of Incentives.** Incentives may be granted under the Plan to eligible participants in the forms of (a) incentive stock options; (b) non-qualified stock options; (c) restricted stock and (d) Other Stock-Based Awards (as defined in Section 8 hereof).

**5. Shares Subject to the Plan.**

**5.1 Number of Shares.** Subject to adjustment as provided in Section 11.5, the maximum number of shares of Common Stock that may be delivered to participants and their permitted transferees under the Plan shall be 500,000 shares.

**5.2 Share Counting.** To the extent any shares of Common Stock covered by a stock option are not delivered to a participant or permitted transferee because the Option is forfeited or canceled, or shares of Common Stock are not delivered because an Incentive is paid or settled in cash or used to satisfy the applicable tax withholding obligation, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under this Plan. In the event that shares of Common Stock are issued as an Incentive and thereafter are forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such forfeited and reacquired Shares may again be issued under the Plan. If the exercise price of any stock option granted under the Plan or the applicable withholding tax obligation is satisfied by tendering shares of Common Stock to the Company (by either actual delivery or by attestation), only the number of shares of Common Stock issued net of the shares of Common Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under the Plan.

**5.3 Limitations on Awards.** Subject to Section 11.5, the following additional limitations are imposed under the Plan:

**A.** The maximum number of shares of Common Stock that may be issued upon exercise of stock options intended to qualify as incentive stock options under Section 422 of the Code shall be 500,000 shares. Notwithstanding any other provision herein to the contrary, (i) all shares issuable under incentive stock options shall be counted against this limit and (ii) shares that are issued and are later forfeited, cancelled or reacquired by the Company, shares withheld to satisfy withholding tax obligations and shares delivered in payment of the option exercise price or withholding taxes shall have no effect on this limitation.

**B.** The maximum number of shares of Common Stock that may be covered by Incentives granted under the Plan to any one individual during any one calendar-year period shall be 200,000.

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C. [Intentionally deleted]

D. The maximum dollar amount of cash compensation that may be paid as an Other Stock-Based Award to a participant in any calendar year is \$200,000.

**5.4 Type of Common Stock.** Common Stock issued under the Plan may be authorized and unissued shares or issued shares held as treasury shares.

**6. Stock Options.** A stock option is a right to purchase shares of Common Stock from Gulf Island. Stock options granted under the Plan may be incentive stock options (as such term is defined in Section 422 of the Code) or non-qualified stock options. Any option that is designated as a non-qualified stock option shall not be treated as an incentive stock option. Each stock option granted by the Committee under this Plan shall be subject to the following terms and conditions:

**6.1 Price.** The exercise price per share shall be determined by the Committee, subject to adjustment under Section 11.5; provided that in no event shall the exercise price be less than the Fair Market Value of a share of Common Stock on the date of grant, except in case of a stock option granted in assumption or substitution for an outstanding award of a company acquired by the Company or with which the Company combines.

**6.2 Number.** The number of shares of Common Stock subject to the option shall be determined by the Committee, subject to Section 5 and subject to adjustment as provided in Section 11.5.

**6.3 Duration and Time for Exercise.** The term of each stock option shall be determined by the Committee. Each stock option shall become exercisable at such time or times during its term as shall be determined by the Committee. Notwithstanding the foregoing, the Committee may accelerate the exercisability of any stock option at any time, in addition to the automatic acceleration of stock options under Section 11.10.

**6.4 Repurchase.** Upon approval of the Committee, the Company may repurchase a previously granted stock option from a participant by mutual agreement before such option has been exercised by payment to the participant of the amount per share by which: (i) the Fair Market Value (as defined in Section 11.11) of the Common Stock subject to the option on the business day immediately preceding the date of purchase exceeds (ii) the exercise price.

**6.5 Manner of Exercise.** A stock option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of shares of Common Stock to be purchased. The exercise notice shall be accompanied by the full purchase price for such shares. The option price shall be payable in United States dollars and may be paid (a) in cash; (b) by check; (c) by delivery of shares of Common Stock which, unless otherwise determined by the Committee, shall have been held by the optionee for at least six months, and which shares shall be valued for this purpose at the Fair Market Value on the business day immediately preceding the date such option is exercised; (d) by delivery of irrevocable written instructions to a broker approved by the Company (with a copy to the Company) to immediately sell a portion of the shares issuable under the option and to deliver promptly to the Company the amount of sale proceeds (or loan proceeds if the broker lends funds to the participant for delivery to the Company) to pay the exercise price; or (e) in such other manner as may be authorized from time to time by the Committee.

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**6.6 Incentive Stock Options.** Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options that are intended to qualify as incentive stock options (as such term is defined in Section 422 of the Code):

**A.** Any incentive stock option agreement authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain or be deemed to contain all provisions required in order to qualify the options as incentive stock options.

**B.** All incentive stock options must be granted within ten years from the date on which this Plan is adopted by the Board of Directors.

**C.** Unless sooner exercised, all incentive stock options shall expire no later than ten years after the date of grant.

**D.** No incentive stock options shall be granted to any participant who, at the time such option is granted, would own (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation.

**E.** The aggregate Fair Market Value (determined with respect to each incentive stock option as of the time such incentive stock option is granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year (under the Plan or any other plan of Gulf Island or any of its subsidiaries) shall not exceed \$100,000. To the extent that such limitation is exceeded, such options shall not be treated, for federal income tax purposes, as incentive stock options.

## **7. Restricted Stock.**

**7.1 Grant of Restricted Stock.** The Committee may award shares of restricted stock to such eligible participants as the Committee determines pursuant to the terms of Section 3. An award of restricted stock shall be subject to such restrictions on transfer and forfeitability provisions and such other terms and conditions, including the attainment of specified performance goals, as the Committee may determine, subject to the provisions of the Plan. To the extent restricted stock is intended to qualify as “performance-based compensation” under Section 162(m), it must be granted subject to the attainment of performance goals as described in Section 9 below and meet the additional requirements imposed by Section 162(m).

**7.2 The Restricted Period.** At the time an award of restricted stock is made, the Committee shall establish a period of time during which the transfer of the shares of restricted stock shall be restricted and after which the shares of restricted stock shall be vested (the “Restricted Period”). Except for shares of restricted stock that vest based on the attainment of performance goals, the Restricted Period shall be a minimum of three years, with incremental

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vesting of portions of the award over the three-year period permitted. If the vesting of the shares of restricted stock is based upon the attainment of performance goals, a minimum Restricted Period of one year is allowed, with incremental vesting of portions of the award over the one-year period permitted. Each award of restricted stock may have a different Restricted Period. The expiration of the Restricted Period shall also occur as provided under Section 11.3 and under the conditions described in Section 11.10 hereof.

**7.3 Escrow.** The participant receiving restricted stock shall enter into an Incentive Agreement with the Company setting forth the conditions of the grant. Certificates representing shares of restricted stock shall be registered in the name of the participant and deposited with the Company, together with a stock power endorsed in blank by the participant. Each such certificate shall bear a legend in substantially the following form:

The transferability of this certificate and the shares of Common Stock represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the Gulf Island Fabrication, Inc. 2002 Long-Term Incentive Plan (the "Plan"), and an agreement entered into between the registered owner and Gulf Island Fabrication, Inc. thereunder. Copies of the Plan and the agreement are on file at the principal office of the Company.

**7.4 Dividends on Restricted Stock.** Any and all cash and stock dividends paid with respect to the shares of restricted stock shall be subject to any restrictions on transfer, forfeitability provisions or reinvestment requirements as the Committee may, in its discretion, prescribe in the Incentive Agreement.

**7.5 Forfeiture.** In the event of the forfeiture of any shares of restricted stock under the terms provided in the Incentive Agreement (including any additional shares of restricted stock that may result from the reinvestment of cash and stock dividends, if so provided in the Incentive Agreement), such forfeited shares shall be surrendered and the certificates cancelled. The participants shall have the same rights and privileges, and be subject to the same forfeiture provisions, with respect to any additional shares received pursuant to Section 10.5 due to a recapitalization, merger or other change in capitalization.

**7.6 Expiration of Restricted Period.** Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee, the restrictions applicable to the restricted stock shall lapse and a stock certificate for the number of shares of restricted stock with respect to which the restrictions have lapsed shall be delivered, free of all such restrictions and legends, except any that may be imposed by law, to the participant or the participant's estate, as the case may be.

**7.7 Rights as a Shareholder.** Subject to the terms and conditions of the Plan and subject to any restrictions on the receipt of dividends that may be imposed in the Incentive Agreement, each participant receiving restricted stock shall have all the rights of a shareholder with respect to shares of stock during the Restricted Period, including without limitation, the right to vote any shares of Common Stock.



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## 8. Other Stock-Based Awards.

**8.1 Grant of Other Stock-Based Awards.** Subject to the limitations described in Section 8.2 hereof, the Committee may grant to eligible participants “Other Stock-Based Awards,” which shall consist of awards (other than options or restricted stock in Sections 6 and 7) the value of which is based in whole or in part on the value of shares of Common Stock. Other Stock-Based Awards may be awards of shares of Common Stock or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of, or appreciation in the value of, Common Stock (including, without limitation, securities convertible or exchangeable into or exercisable for shares of Common Stock), as deemed by the Committee consistent with the purposes of this Plan. The Committee shall determine the terms and conditions of any Other Stock-Based Award (including which rights of a shareholder, if any, the recipient shall have with respect to Common Stock associated with any such award) and may provide that such award is payable in whole or in part in cash. An Other Stock-Based Award may be subject to the attainment of such specified performance goals or targets as the Committee may determine, subject to the provisions of this Plan. To the extent that an Other Stock-Based Award is intended to qualify as “performance-based compensation” under Section 162(m), it must be granted subject to the attainment of performance goals as described in Section 9 below and meet the additional requirements imposed by Section 162(m).

**8.2 Limitations.** Other Stock-Based Awards granted under this Section 8 shall be subject to a vesting period of at least three years, with incremental vesting of portions of the award over the three-year period permitted; provided, however, that if the vesting of the award is based upon the attainment of performance goals, a minimum vesting period of one year is allowed, with incremental vesting of portions of the award over the one-year period permitted, and further provided that the Committee may make special awards under this Section 8 with respect to an aggregate of no more than 25,000 shares of Common Stock, as adjusted under Section 11.5, which special awards shall not be subject to any minimum vesting requirements.

## 9. Section 162(m) Awards.

**9.1 Performance Goals.** To the extent that shares of restricted stock or Other Stock-Based Awards granted under the Plan are intended to qualify as “performance-based compensation” under Section 162(m), the vesting, grant or payment of such awards shall be conditioned on the achievement of one or more performance goals and must satisfy the other requirements of Section 162(m). The performance goals pursuant to which such awards shall vest, be granted or be paid out shall be any or a combination of the following performance measures applied to the Company, Gulf Island, a division or a subsidiary: earnings per share, return on assets, an economic value added measure, shareholder return, earnings, stock price, return on equity, return on total capital, safety performance, reduction of expenses or increase in cash flow. For any performance period, such performance objectives may be measured on an absolute basis or relative to a group of peer companies selected by the Committee, relative to internal goals or relative to levels attained in prior years. For performance-based compensation under Section 162(m), the Committee may not waive any of the pre-established performance goal objectives, except for an automatic waiver under Section 11.10 hereof, or as may be provided by the Committee in the event of death or disability.

**9.2 Adjustments to Performance Goals.** The terms used in Section 9.1 to describe the performance goals shall have the same meanings as used in the Company's financial statements, or if the terms are not used in the Company's financial statements, they shall have the meanings generally applied pursuant to generally accepted accounting principles, or as used in the industry, as applicable. The Committee may appropriately adjust any evaluation of performance under a performance goal to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs, and (v) extraordinary, non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year.

**10. Stock Options for Outside Directors.**

**10.1 Grant of Options.** During each calendar year that the Plan remains in effect, each Outside Director may be granted, in the discretion of the Committee, non-qualified stock options to purchase up to 5,000 shares of Common Stock, the exact number of which shall be set each year by the Committee.

**10.2 Exercisability of Stock Options.** The stock options granted to Outside Directors under this Section 10 shall be exercisable six months after the date of grant and shall expire no later than ten years following the date of grant.

**10.3 Exercise Price.** The Exercise Price of the Stock Options granted to Outside Directors shall be equal to the Fair Market Value, as defined in the Plan, of a share of Common Stock on the date of grant. The Exercise Price may be paid as provided in Section 6.5 hereof.

**10.4 Exercise After Termination of Board Service.** In the event an Outside Director ceases to serve on the Board, the stock options granted hereunder must be exercised, to the extent otherwise exercisable at the time of termination of Board service, within one year from termination of Board service; provided, however, that

**A.** In the event of termination of Board service as a result of death or disability, the stock options may be exercised within two years from the date of termination of Board service; and

**B.** In the event of termination of Board service as a result of retirement (at age 65 or later or after having completed five or more years of service on the Board), the stock options may be exercised within five years from the date of termination of Board service; and further provided, that no stock options may be exercised later than ten years after the date of grant.

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## 11. General.

**11.1 Duration.** Subject to Section 11.9, the Plan shall remain in effect until all Incentives granted under the Plan have either been satisfied by the issuance of shares of Common Stock or otherwise been terminated under the terms of the Plan and all restrictions imposed on shares of Common Stock in connection with their issuance under the Plan have lapsed.

**11.2 Transferability.** No Incentives granted hereunder may be transferred, pledged, assigned or otherwise encumbered by a participant except: (a) by will; (b) by the laws of descent and distribution; (c) pursuant to a domestic relations order, as defined in the Code; or (d) as to options only, if permitted by the Committee and so provided in the Incentive Agreement or an amendment thereto, (i) to Immediate Family Members, (ii) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the sole owners, members or beneficiaries, as appropriate, are the sole partners, (iii) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the sole owners, members or beneficiaries, as appropriate, are the sole members, or (iv) to a trust for the sole benefit of Immediate Family Members. "Immediate Family Members" shall be defined as the spouse and natural or adopted children or grandchildren of the participant and their spouses. To the extent that an incentive stock option is permitted to be transferred during the lifetime of the participant, it shall be treated thereafter as a nonqualified stock option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Incentives, or levy of attachment or similar process upon Incentives not specifically permitted herein, shall be null and void and without effect.

**11.3 Effect of Termination of Employment or Death.** Except as provided in Section 10.4 with respect to Outside Directors, in the event that a participant ceases to be an employee of the Company or to provide services to the Company for any reason, including death, disability, early retirement or normal retirement, any Incentives may be exercised, shall vest or shall expire at such times as may be determined by the Committee and provided in the Incentive Agreement.

**11.4 Additional Conditions.** Anything in this Plan to the contrary notwithstanding: (a) the Company may, if it shall determine it necessary or desirable for any reason, at the time of award of any Incentive or the issuance of any shares of Common Stock pursuant to any Incentive, require the recipient of the Incentive, as a condition to the receipt thereof or to the receipt of shares of Common Stock issued pursuant thereto, to deliver to the Company a written representation of present intention to acquire the Incentive or the shares of Common Stock issued pursuant thereto for his own account for investment and not for distribution; and (b) if at any time the Company further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of any Incentive or the shares of Common Stock issuable pursuant thereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the award of any Incentive, the issuance of shares of Common Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such Incentive shall not be awarded or such shares of Common Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

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**11.5 Adjustment.** In the event of any merger, consolidation or reorganization of the Company with any other corporation or corporations, there shall be substituted for each of the shares of Common Stock then subject to the Plan, including shares subject to restrictions, options or achievement of performance objectives, the number and kind of shares of stock, other securities or property (including cash) to which the holders of the shares of Common Stock are entitled pursuant to the transaction. In the event of any recapitalization, stock dividend, stock split, combination of shares or other similar change in the Common Stock, the number of shares of Common Stock then subject to the Plan, including shares subject to outstanding Incentives, and all limitations on the number of shares that may be issued hereunder shall be adjusted in proportion to the change in outstanding shares of Common Stock. In the event of any such adjustments, the purchase price of any option and the performance objectives of any Incentive, shall also be adjusted as and to the extent appropriate, in the reasonable discretion of the Committee, to provide participants with the same relative rights before and after such adjustment. No substitution or adjustment shall require the Company to issue a fractional share under the Plan and the substitution or adjustment shall be limited by deleting any fractional share.

**11.6 Withholding.**

**A.** The Company shall have the right to withhold from any payments made or stock issued under the Plan or to collect as a condition of payment, issuance or vesting, any taxes required by law to be withheld. At any time that a participant is required to pay to the Company an amount required to be withheld under applicable income tax laws in connection with the lapse of restrictions on Common Stock or the exercise of an option, the participant may, subject to disapproval by the Committee, satisfy this obligation in whole or in part by electing (the "Election") to deliver currently owned shares of Common Stock or to have the Company withhold shares of Common Stock, in each case having a value equal to the minimum statutory amount required to be withheld under federal, state and local law. The value of the shares to be delivered or withheld shall be based on the Fair Market Value of the Common Stock on the date that the amount of tax to be withheld shall be determined ("Tax Date").

**B.** Each Election must be made prior to the Tax Date. The Committee may disapprove of any Election, may suspend or terminate the right to make Elections, or may provide with respect to any Incentive that the right to make Elections shall not apply to such Incentive. If a participant makes an election under Section 83(b) of the Code with respect to shares of restricted stock, an Election to have shares withheld to satisfy withholding taxes is not permitted to be made.

**11.7 No Continued Employment.** No participant under the Plan shall have any right, because of his or her participation, to continue in the employ of the Company for any period of time or to any right to continue his or her present or any other rate of compensation.

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**11.8 Deferral Permitted.** Payment of an Incentive may be deferred at the option of the participant if permitted in the Incentive Agreement.

**11.9 Amendments to or Termination of the Plan.** The Board may amend or discontinue this Plan at any time; provided, however, that no such amendment may:

A. without the approval of the shareholders, (i) except for adjustments permitted herein, increase the maximum number of shares of Common Stock that may be issued through the Plan, (ii) materially increase the benefits accruing to participants under the Plan or (iii) materially expand the classes of persons eligible to participate in the Plan, or

B. materially impair, without the consent of the recipient, an Incentive previously granted.

**11.10 Change of Control.**

A. A Change of Control shall mean:

(i) the acquisition by any person of beneficial ownership of 30% or more of the outstanding shares of the Common Stock or 30% or more of the combined voting power of Gulf Island's then outstanding securities entitled to vote generally in the election of directors; provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control:

(a) any acquisition (other than a Business Combination (as defined below) which constitutes a Change of Control under Section 11.10(A)(iii) hereof) of Common Stock directly from the Company,

(b) any acquisition of Common Stock by the Company,

(c) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or

(d) any acquisition of Common Stock by any corporation pursuant to a Business Combination that does not constitute a Change of Control under Section 11.10(A)(iii) hereof; or

(e) any acquisition by Huey J. Wilson, Alden J. Laborde, their Immediate Family Members or any entity controlled by Huey J. Wilson, Alden J. Laborde or their Immediate Family Members, or

(ii) individuals who, as of January 1, 2002, constituted the Board of Directors of Gulf Island (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual becoming a director subsequent to such date whose election, or

nomination for election by Gulf Island's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Incumbent Board; or

(iii) consummation of a reorganization, share exchange, merger or consolidation (including any such transaction involving any direct or indirect subsidiary of Gulf Island) or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"); provided, however, that in no such case shall any such transaction constitute a Change of Control if immediately following such Business Combination:

(a) the individuals and entities who were the beneficial owners of Gulf Island's outstanding Common Stock and Gulf Island's voting securities entitled to vote generally in the election of directors immediately prior to such Business Combination have direct or indirect beneficial ownership, respectively, of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the surviving or successor corporation, or, if applicable, the ultimate parent company thereof (the "Post-Transaction Corporation"), and

(b) except to the extent that such ownership existed prior to the Business Combination, no person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either Gulf Island, the Post-Transaction Corporation or any subsidiary of either corporation) beneficially owns, directly or indirectly, 25% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or 25% or more of the combined voting power of the then outstanding voting securities of such corporation, and

(c) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or

(iv) approval by the shareholders of Gulf Island of a complete liquidation or dissolution of Gulf Island.

For purposes of this Section 11.10, the term "person" shall mean a natural person or entity, and shall also mean the group or syndicate created when two or more persons act

as a syndicate or other group (including, without limitation, a partnership or limited partnership) for the purpose of acquiring, holding, or disposing of a security, except that "person" shall not include an underwriter temporarily holding a security pursuant to an offering of the security.

**B.** Upon a Change of Control of the type described in clause (A)(i) or (A)(ii) of this Section 11.10 or immediately prior to any Change of Control of the type described in clause (A)(iii) or (A)(iv) of this Section 11.10, all outstanding Incentives granted pursuant to this Plan shall automatically become fully vested and exercisable, all restrictions or limitations on any Incentives shall automatically lapse and, unless otherwise provided in the applicable Incentive Agreement, all performance criteria and other conditions relating to the payment of Incentives shall be deemed to be achieved or waived by Gulf Island without the necessity of action by any person. As used in the immediately preceding sentence, 'immediately prior' to the Change of Control shall mean sufficiently in advance of the Change of Control to permit the grantee to take all steps reasonably necessary (i) if an optionee, to exercise any such option fully and (ii) to deal with the shares purchased or acquired under any such option or any Other Stock-Based Award and any formerly restricted shares on which restrictions have lapsed so that all types of shares may be treated in the same manner in connection with the Change of Control as the shares of Common Stock of other shareholders.

**C.** No later than 30 days after a Change of Control of the type described in subsections (A)(i) or (A)(ii) of this Section 11.10 and no later than 30 days after the approval by the Board of a Change of Control of the type described in subsections (A)(iii) or (A)(iv) of this Section 11.10, the Committee, acting in its sole discretion without the consent or approval of any participant (and notwithstanding any removal or attempted removal of some or all of the members thereof as directors or Committee members), may act to effect one or more of the alternatives listed below, which may vary among individual participants and which may vary among Incentives held by any individual participant:

(i) require that all outstanding options or Other Stock-Based Awards be exercised on or before a specified date (before or after such Change of Control) fixed by the Committee, after which specified date all unexercised options and Other Stock-Based Awards and all rights of participants thereunder shall terminate,

(ii) make such equitable adjustments to Incentives then outstanding as the Committee deems appropriate to reflect such Change of Control (provided, however, that the Committee may determine in its sole discretion that no adjustment is necessary),

(iii) provide for mandatory conversion of some or all of the outstanding options or Other Stock-Based Awards held by some or all participants as of a date, before or after such Change of Control, specified by the Committee, in which event such options and Other Stock-Based Awards shall be deemed automatically cancelled and the Company shall pay, or cause to be paid, to each

such participant an amount of cash per share equal to the excess, if any, of the Change of Control Value of the shares subject to such option or Other Stock-Based Award, as defined and calculated below, over the exercise price of such options or the exercise or base price of such Other Stock-Based Awards or, in lieu of such cash payment, the issuance of Common Stock or securities of an acquiring entity having a Fair Market Value equal to such excess, or

(iv) provide that thereafter, upon any exercise of an option or Other Stock-Based Award that entitles the holder to receive Common Stock, the holder shall be entitled to purchase or receive under such option or Other Stock-Based Award, in lieu of the number of shares of Common Stock then covered by such option or Other Stock-Based Award, the number and class of shares of stock or other securities or property (including, without limitation, cash) to which the holder would have been entitled pursuant to the terms of the agreement providing for the reorganization, share exchange, merger, consolidation or asset sale, if, immediately prior to such Change of Control, the holder had been the record owner of the number of shares of Common Stock then covered by such option or Other Stock-Based Award.

D. For the purposes of paragraph (iii) of Section 11.10(C), the "Change of Control Value" shall equal the amount determined by whichever of the following items is applicable:

(i) the per share price to be paid to shareholders of Gulf Island in any such merger, consolidation or other reorganization,

(ii) the price per share offered to shareholders of Gulf Island in any tender offer or exchange offer whereby a Change of Control takes place,

(iii) in all other events, the fair market value per share of Common Stock into which such options being converted are exercisable, as determined by the Committee as of the date determined by the Committee to be the date of conversion of such options, or

(iv) in the event that the consideration offered to shareholders of Gulf Island in any transaction described in this Section 11.10 consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered that is other than cash.

**11.11 Definition of Fair Market Value.** Whenever "Fair Market Value" of Common Stock shall be determined for purposes of this Plan, it shall be determined as follows: (i) if the Common Stock is listed on an established stock exchange or any automated quotation system that provides sale quotations, the closing sale price for a share of the Common Stock on such exchange or quotation system on the applicable date, or if no sale of the Common Stock shall have been made on that day, on the next preceding day on which there was a sale of the Common Stock; (ii) if the Common Stock is not listed on any exchange or quotation system, but bid and asked prices are quoted and published, the mean between the quoted bid and asked prices



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on the applicable date, and if bid and asked prices are not available on such day, on the next preceding day on which such prices were available; and (iii) if the Common Stock is not regularly quoted, the fair market value of a share of Common Stock on the applicable date as established by the Committee in good faith.

The Board of Directors and Shareholders  
Gulf Island Fabrication, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 333-46155) pertaining to the Long-Term Incentive Plan and the Registration Statement (Form S-8 No. 333-88466) pertaining to the 2002 Long-Term Incentive Plan, of our reports dated April 27, 2006 and July 25, 2006, relating to the unaudited condensed consolidated financial statements of Gulf Island Fabrication, Inc. that are included in its Forms 10-Q for the quarters ended March 31, 2006 and June 30, 2006.

/s/ Ernst & Young LLP

New Orleans, Louisiana  
July 25, 2006

## Certifications

I, Kerry J. Chauvin, 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

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- (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: July 25, 2006

/s/ Kerry J. Chauvin

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Kerry J. Chauvin  
President and Chief Executive Officer

## Certifications

I, Joseph P. Gallagher, III, 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

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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: July 25, 2006

/s/ Joseph P. Gallagher, III

Joseph P. Gallagher, III  
Chief 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 period ended June 30, 2006, 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 Section 906 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/ Kerry J. Chauvin

Kerry J. Chauvin  
Chief Executive Officer  
July 25, 2006

By: /s/ Joseph P. Gallagher, III

Joseph P. Gallagher, III  
Chief Financial Officer  
July 25, 2006

*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.*

**NEWS RELEASE**

For further information contact:

Kerry J. Chauvin  
Chief Executive Officer  
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Joseph "Duke" Gallagher  
Chief Financial Officer  
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**FOR IMMEDIATE RELEASE  
JULY 12, 2006**

**GULF ISLAND FABRICATION, INC.  
TO ANNOUNCE EARNINGS RESULTS  
AND QUARTERLY CONFERENCE CALL**

Houma, LA — (BUSINESS WIRE) — July 12, 2006—Gulf Island Fabrication, Inc. (NASDAQ: GIFL), will announce 2006 second quarter earnings on Wednesday, July 26, 2006 at 8:00 a.m. Central Time (9:00 a.m. Eastern Time).

The management of Gulf Island Fabrication, Inc. will hold a conference call on Wednesday, July 26, 2006, at 9:00 a.m. Central Time (10:00 a.m. Eastern Time) to discuss the Company's financial results for the quarter ended June 30, 2006.

The call is accessible by webcast through CCBN and by dialing the following:

Dial In: 1.800.406.5345

Webcast: [www.gulfisland.com](http://www.gulfisland.com)

A digital rebroadcast of the call is available two hours after the call and ending August 4, 2006 by dialing:

Phone Number: 1.888.203.1112

Replay Passcode: 2416235

Gulf Island Fabrication, Inc., based in Houma, Louisiana, is a leading fabricator of offshore drilling and production platforms, offshore living quarters and other specialized structures used in the development and production of offshore oil and gas reserves. The Company also offers offshore interconnect pipe hook-up, inshore marine construction, manufacture and repair of pressure vessels, and steel warehousing and sales.