

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

UNIFAB INTERNATIONAL INC
Form 10-K
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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 0-29416

UNIFAB International, Inc.

(Exact name of registrant as specified in its charter)

Louisiana

72-1382998

(State or other jurisdiction of incorporation or organization)

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

5007 Port Road
New Iberia, LA

70562

(Address of principal executive offices)

(Zip Code)

(337) 367-8291

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, \$0.01 par value per share

(Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes No

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

The aggregate market value of the voting common equity held by nonaffiliates of the registrant as of June 30, 2003 was approximately \$2.7 million based on the closing price of the registrant's common stock on the Nasdaq SmallCap Market on such date of \$0.35 per share.

The number of shares outstanding of the registrant's common stock, \$0.01 par value per share, as of March 18, 2004 was 8,201,913.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2004 Annual Meeting of the Stockholders, which will be filed within 120 days after the end of the fiscal year, are incorporated by reference into Part III hereof.

TABLE OF CONTENTS

PART I	
Items 1 and 2.	Business and Properties.....
Item 3.	Legal Proceedings.....
Item 4.	Submission of Matters to a Vote of Security Holders.....
	Executive Officers of the Registrant.....
PART II	
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters.....
Item 6.	Selected Financial Data.....
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.....
Item 8.	Financial Statements and Supplementary Data.....
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....
Item 9A.	Controls and Procedures.....
PART III	
Item 10.	Directors and Executive Officers of the Registrant.....
Item 11.	Executive Compensation.....
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....
Item 13.	Certain Relationships and Related Transactions.....
Item 14.	Principal Accountant Fees and Services.....
PART IV	
Item 15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....
FINANCIAL STATEMENTS.....	
SIGNATURES.....	
EXHIBIT INDEX.....	

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

GENERAL

UNIFAB International, Inc. (together with its subsidiaries "the Company") provides custom fabrication of decks and modules of drilling and production equipment for offshore oil and gas platforms. The Company is capable of producing equipment weighing up to 7,500 tons, and has special expertise in the fabrication of decks with complex piping requirements and process equipment using special materials. The Company also designs and fabricates production process systems under ASME and ISO 9001 quality certifications.

Decks and modules fabricated by the Company can be installed on fixed and floating platforms regardless of water depth. The Company also fabricates jackets for fixed platforms, pilings and other rolled tubular steel sections, compressor and generator packages, platform living quarters, subsea templates, bridges for connecting offshore platforms, wellhead protectors and modules for the onshore petrochemical and refining industries. In addition, the Company refurbishes and retrofits existing jackets and decks. Allen Process Systems, LLC, a wholly owned subsidiary, designs and manufactures specialized process systems and provides engineering and field commissioning services related to production systems. The Company's main fabrication facilities are located at the Port of Iberia in New Iberia, Louisiana. Structures fabricated by the Company are installed in oil and gas producing waters around the world, primarily the U.S. Gulf of Mexico (the "Gulf of Mexico") and offshore West Africa. The Company's ability to provide high quality fabrication services and maintain control over costs has contributed to its reputation for efficient, timely and quality production.

Demand for the Company's services is primarily a function of worldwide offshore oil and gas activity. An indication of that activity is measured by drilling rig utilization rates, which have increased to approximately 66% in January 2004 from approximately 61% in February 2003 for the Gulf of Mexico and have decreased to approximately 75% from 79% over the same period worldwide. These are the overall rates applicable to jack-up rigs, drill ships and semi-submersible rigs. An increase or decrease in drilling activity is usually consistent with an increase or decrease in the price of crude oil and natural gas, although changes in drilling activity usually lag behind changes in oil and gas prices at uncertain intervals. The price of west Texas intermediate crude oil decreased to approximately \$34.20 per barrel in January 2004 from over \$36.90 per barrel in February 2003, and the price per million cubic feet of natural gas has decreased to approximately \$5.53 in February 2004 from \$6.01 in February 2003.

Due to the time required to drill an exploratory offshore well, formulate a development plan and design offshore platforms, the fabrication and installation of such platforms usually lag the start of exploratory drilling by one to three years. The Company operates in a highly competitive bidding environment, and the low number of major projects for which bids have been requested over the last four years caused the Company to adjust downward the price it could obtain for its fabrication services, to reduce the number of fabrication facilities it operates, and to critically evaluate recovery of investments made in acquired companies and developing facilities over the last five years.

In 1998 and 1999, the Company acquired additional capacity by acquiring companies near its original facilities at the Port of Iberia in New Iberia, Louisiana and by developing a deepwater facility near Lake Charles, Louisiana.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

However, while the Company was acquiring these companies and developing this additional capacity, the price of oil and gas decreased and drilling activity decreased, which resulted in a decrease in the demand for the Company's fabrication services. The current revenue level of the acquired companies is approximately one half of the historical revenue level at which they operated in 1997 and 1998. The Company believes that, as a result of its capital investment in acquisitions and facilities coupled with the decrease in demand, the Company currently has excess capacity. Accordingly, during 2001 the Company ceased operating two of its facilities at the Port of Iberia, and during 2002 relinquished its leases at those facilities. By closing the recapitalization and investment transaction with Midland Fabricators and Process Systems, LLC ("Midland") in August 2002, as described below, the Company was able to stabilize its overall financial condition and add experienced management. In June 2003, the Company was awarded a

1

fixed price contract to fabricate drilling rig components, which required the capabilities of its Lake Charles site and reopened the facility. At this time, the Company does not have a project to place at the facility when the current project has been completed, and expects to close the facility upon completion of the project. The Company continues to evaluate alternatives and seek opportunities for this facility. In the event the Company is unable to operate the facility profitably or to complete another arrangement whereby the facility can be operated profitably, the Company may sell the facility. In evaluating the recoverability of the investment in the Lake Charles facility, the Company estimated net undiscounted cash flows under both operating alternatives and disposal scenarios, and concluded the carrying value of the facility, which had been written down to its estimated fair value of \$5.4 million in 2002, was not impaired any further at December 31, 2003.

ACQUISITIONS. The Company expanded its operations through the acquisition of the assets and business of Professional Industrial Maintenance, LLC effective January 1, 1998, which provided industrial plant maintenance and construction services to the southwest Louisiana area. As part of this acquisition, the Company also acquired lease rights to a 60-acre fabrication yard on an industrial canal, 12 miles southwest of Lake Charles, Louisiana. This facility has 40-foot water depth and access to the Gulf of Mexico through the Calcasieu Ship Channel, which is maintained by the U.S. Army Corp of Engineers. In June 2002, the Company stopped providing industrial plant maintenance services and sold the related assets. The Company is focusing on developing drilling rig repair and other structural fabrication business for its deepwater facility.

Effective July 24, 1998, the Company acquired all of the outstanding common stock of Allen Tank, Inc. ("Allen Tank"), in exchange for 819,000 shares of the Company's common stock, plus \$1.2 million in cash and notes paid to a dissenting shareholder. Allen Tank (which was converted to a limited liability company and renamed Allen Process Systems, LLC) is located in New Iberia, Louisiana on property near the Company's Port of Iberia facilities. Allen Process Systems, LLC designs and manufactures specialized process systems related to the development of oil and gas reserves. This acquisition expanded the Company's ability to offer quality services and products in its core competencies and further strengthened its technological base.

On June 24, 1999, the Company acquired the assets of Compression Engineering Services, Inc. ("CESI") for 60,000 shares of the Company's common stock. CESI provides compressor project engineering from inception through commissioning, including project studies and performance evaluation of new and existing systems, on-site supervision of package installation and equipment sourcing and inspection. CESI operates as a division of Allen Process Systems, LLC.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

MIDLAND RECAPITALIZATION AND INVESTMENT TRANSACTION. In April 2002 the Company entered into an agreement with Midland Fabricators and Process Systems, LLC as a result of which, among other things, Midland acquired the rights of the Company's lenders under the Company's Senior Secured Credit Agreement. On August 13, 2002, pursuant to the agreement with Midland, Midland exchanged \$24.1 million outstanding under the Company's Senior Secured Credit Agreement and \$5.6 million in acquired claims of unsecured creditors for 738 shares of our preferred stock, a secured subordinated convertible debenture in the amount of \$10.7 million and two secured subordinated notes which total \$6.8 million. On August 1, 2003, the Company's shareholders approved a one-for-ten reverse stock split of the outstanding shares of the Company's common stock, to be effective immediately after the conversion of Midland's Series A preferred shares. Accordingly, on August 3, 2003, each share of series A preferred stock was converted into 100,000 shares of Unifab common stock and the one-for-ten reverse stock split was effected, resulting in Midland holding a total of 7,380,000 common shares after the reverse stock split. Midland's debenture is convertible into the Company's common stock at a price of \$3.50 per share, after giving effect to the one-for-ten reverse stock split. The Company also recorded additional paid in capital on the transaction of \$3.7 million, resulting from the discount recorded on the secured subordinated convertible debenture, capital contributions of \$680,000, resulting from forgiveness by Midland of penalties accrued under the Senior Secured Credit Agreement and \$914,000 resulting from partial forgiveness of the unsecured creditor claims acquired by Midland. Further, \$675,000 of the amount the Company owed Midland under the Company's Senior Secured Credit Agreement, was cancelled in exchange for the assignment to Midland of certain accounts receivable.

2

DESCRIPTION OF OPERATIONS

The Company's primary activity is the fabrication of decks and modules for offshore oil and gas drilling and production platforms, including the design and manufacturing of production processing systems for application throughout the world. The Company has extensive experience in the fabrication of decks and modules with complex piping requirements and believes that its reputation for efficient, timely and high quality production of these structures has historically given it a competitive advantage in obtaining projects of this type. The Company also fabricates jackets for fixed production platforms for use in up to 450 feet of water. Other structures fabricated by the Company include buoyancy cans for deep water oil and gas production facilities, pilings and other rolled tubular steel sections, modules of drilling and production equipment, compressor and generator packages, platform living quarters, subsea templates, bridges for connecting offshore platforms, wellhead protectors, other structures used in production and development activities and production processing systems and other modules for the onshore petrochemical and refining industries. The Company can construct, and has in the past constructed, platform drilling rigs, posted drilling rigs and barges, and liftboats.

OPERATING SEGMENTS. Effective January 1, 2003, as a result of the Midland Recapitalization and Investment transaction, management has evaluated the changed organizational and reporting structure and has concluded that the Company operates three reportable segments: the platform fabrication segment, the process systems segment and the drilling rig fabrication segment. The platform fabrication segment fabricates and assembles platforms and platform components for installation and use offshore in the production, processing and storage of oil and gas. The process systems segment designs and manufactures specialized process systems and equipment related to the development and production of oil and gas reserves. The drilling rig fabrication segment

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

provides fabrication services for new construction and repair of drilling rigs. See Note 16 to the consolidated financial statements for certain financial information by business segment.

FABRICATION OF DECKS, PROCESS EQUIPMENT AND OTHER OFFSHORE PLATFORM COMPONENTS. The Company fabricates decks and modules for fixed and floating offshore platforms as well as jackets for fixed offshore platforms. A fixed platform is the traditional type of platform used for the offshore drilling and production of oil and gas. Most fixed platforms currently in use are of the traditional jacket-type design. Recently there has been an increase in the use of floating platforms as a result of increased drilling and production activities in deeper waters. Floating platforms are of three basic types: tension-leg platforms, spar platforms and floating production facilities. Fixed platforms are generally better suited for shallower water depths, whereas floating platforms, although they can be used in any water depth, are primarily used in water depths greater than 1,000 feet. Because they are mobile (and can therefore be reused), floating platforms are sometimes used in water depths that could accommodate fixed platforms, particularly where the petroleum reservoir has a relatively short production life.

The Company also fabricates subsea templates that often form a part of a subsea production system. Subsea production systems, which are systems that contain primary well control equipment and rest directly on the ocean floor, are becoming more prevalent in very deep water, in areas subject to severe weather conditions and in smaller fields with relatively short production lives that are located near existing pipelines and infrastructures. These systems are generally connected to existing surface facilities, which augment subsea hydrocarbon processing and transportation operations.

The most common type of fixed platform consists of a deck structure located above the level of the storm waves and supported by a jacket. A jacket is a tubular steel, braced structure extending from the mudline on the seabed to a point above the water surface which is in turn supported on tubular steel pilings driven deep into the seabed. The deck structure is designed to accommodate multiple functions including drilling, production, separating, gathering, piping, compression, well support and crew quartering. Most fixed platforms built today can accommodate both drilling and production operations. These combination platforms are generally larger and more costly than single-purpose structures. However, because directional drilling techniques permit a number of wells to be drilled from a single platform and because drilling and production can take place simultaneously, combination platforms are often more cost effective.

3

Decks are built as either a single structure or in modular units. The composition and quantity of petroleum in the well stream generally determine the design of the production deck on a processing platform. Typical deck production equipment includes crude oil pumps, gas and oil separators, gas compressors and electricity generators. Much of this equipment involves the use of complex piping and electrical components. The equipment, piping and controls associated with major process subsystems are often joined together in modules which can then be installed on the deck as a unit either on land or offshore. Platforms can be joined by bridges to form complexes of platforms to service very large projects and to improve safety by dividing functions among specialized platforms. Floating platforms, like fixed platforms, support decks or modules with equipment to perform oil and gas processing and may support drilling operations as well.

Most of the structural steel used in the Company's operations arrives at the

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Company's fabrication yards as standard steel shapes and steel plate. The standard shapes and plate are cut to appropriate sizes or shapes and, in some cases, rolled into tubular sections by the Company's rolling mill. These sections are welded together into structures that become part of decks, modules, jackets and other platform structures.

Through its wholly owned subsidiary, Allen Process Systems, LLC in New Iberia, Louisiana, the Company designs and manufactures pressure vessels and other production process equipment for use primarily on offshore production platforms. Production process systems include oil and gas separation systems, dehydrators and desalters, glycol dehydrators and the associated mechanical, structural and electrical instrumentation and components of these systems. The Company can fabricate these systems at its facility in New Iberia, Louisiana, using a wide range of alloys as well as carbon steel. The design process utilizes state-of-the-art, computer-aided design and drafting technology to deliver high quality, accurate design and fabrication drawings. In some instances, the customer may supply equipment and pressure vessels. Compression Engineering Services, a division of Allen Process Systems, provides compressor project engineering from inception through commissioning, including project studies and performance evaluation of new and existing systems, on-site supervision of package installation and equipment sourcing and inspection.

While the structural portion of a deck or module is being assembled, process piping is fabricated in the Company's pipe shop. Piping is made into spools by fitting and welding together pipe and pipe fittings. To the extent possible, pipe supports and pipe spools are installed onto the various structural subassemblies of a deck or module before final assembly. The completed structural subassemblies are then lifted, positioned and welded together. Finally, the oil and gas process equipment along with the remaining pipe supports and pipe spools, valves and electrical and instrumentation components are installed and connected. The Company has installed both carbon and alloy steel piping and has also installed process piping for sour gas service, which requires adherence to more stringent industry code requirements. The Company typically procures most of the piping, pipe fittings, valves, instrumentation and electrical materials in accordance with the customer's specifications as set forth in the fabrication contract.

The Company performs a wide range of testing and commissioning activities. Virtually every contract requires, at a minimum, nondestructive testing of structural and piping welds, piping hydrostatic pressure testing and loop testing of instrumentation and electrical systems. The Company also commonly performs commissioning of certain process subsystems. A series of protective coatings is applied to the critical areas of the deck or module to resist the extremely corrosive conditions in an offshore environment. The Company generally subcontracts certain parts of the work to qualified subcontractors, particularly electrical and instrumentation and painting.

Jackets are generally built in sections so that, to the extent possible, much of their fabrication is done on the ground. As each section of legs and bracing is completed, it is lifted by a crawler crane and then joined to another upright section. When a deck, module or jacket is complete and ready for load out, it is moved along a skidway and loaded onto a cargo barge. Using ocean-going tugs, the barge and its cargo are transported to the offshore site for installation by a marine construction contractor.

PLATFORM REFURBISHMENT. The Company is active in the market for the refurbishment of existing jackets and decks. Platform operators occasionally remove platforms previously installed in the Gulf of

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Mexico and return the platforms to a fabricator for refurbishment, which usually consists of general repairs and maintenance work and, in some cases, modification. There are a substantial number of structures stored by customers on Company premises, pending instructions from the customer to commence refurbishment. Refurbishment work is most often conducted on a time and materials basis because generally the scope of the work to be done on the platform being refurbished is refined as the refurbishment is performed and cannot be predicted with 100% accuracy. As a result, a contract to refurbish a deck has a lower effect on the Company's measured backlog at a given date than a contract for a new build deck of the same size.

DRILLING RIG REPAIR AND REFURBISHMENT. The Company performs maintenance, refurbishment and upgrade services on deep-water, semi submersible drilling rigs and jack up rigs at its deep-water facility near Lake Charles, Louisiana. Water channel depth limits access to the Port of Iberia, and as a result equipment and vessels that draw more than 12 ft. cannot be brought into the Port of Iberia. At the Company's Lake Charles facilities, which have no such restrictions, the Company has developed the physical capabilities to support refurbishment upgrades of jack up and semi submersible drilling rigs for deep water use and, as required by customer demand, to support new construction and conversion activities for drilling rigs. The Lake Charles facility also has fabrication shops, super-stabilized yard area and load out capabilities to support fabrication of new platforms and platform components that are larger and heavier than those that can be loaded out at the Company's facilities in New Iberia, Louisiana. At December 31, 2003, the project being constructed at the facility was near completion and there was no backlog of business for the facility following this project. The Company believes that its deepwater facility in Lake Charles has the potential to develop revenue-producing capacity that is equal to that of the New Iberia operations. By closing the Midland transaction in August 2002, the Company was able to stabilize its overall financial condition and add experienced management to evaluate alternatives with respect to the Lake Charles facility. Discussions continue in an effort to develop operations at the facility, including partnering, subletting, and management arrangements. In the event the Company is unable to complete an arrangement whereby the facility can be operated profitably, the Company may sell the facility. In evaluating the recoverability of the investment in the Lake Charles facility, the Company estimated net undiscounted cash flows under both operating alternatives and disposal scenarios and concluded that at December 31, 2002 the facility was impaired. The Company then estimated the fair value of the facility based on the related discounted estimated cash flows, and based on this analysis, recorded an impairment loss of \$5.1 million in the year ended December 31, 2002, which reduced the recorded net value of the facility to its estimated fair value of \$5.4 million based on discounted cash flows. The Company determined that no further impairment of the facility had occurred at December 31, 2003.

FIELD SERVICE AND COMMISSIONING. The Company maintains a staff of experienced, highly trained technicians to provide 24-hour services for trouble shooting and commissioning of oil and gas production facilities around the world. These services are mainly performed on a time and material basis.

FACILITIES AND EQUIPMENT

FACILITIES. The Company's corporate headquarters and main fabrication facilities are located at the Port of Iberia in New Iberia, Louisiana, approximately 20 miles southeast of Lafayette, Louisiana and 30 miles north of the Gulf of Mexico. These fabrication facilities include approximately 171 acres developed for fabrication, one 12,000 square-foot office building that houses administrative staff, approximately 292,000 square feet of covered fabrication area, and approximately 100,000 square feet of warehouse and other storage area. The facilities also have approximately 8,000 linear feet of water frontage, of which 3,000 feet is steel bulkhead that permits outloading of heavy structures.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

The structures that the Company fabricates are transported from the New Iberia facilities by barge to the Gulf of Mexico and other offshore locations by offshore construction companies. The slip, bulkhead and loadout facilities of the Company enable it to produce decks and deck components weighing up to 6,500 tons at its Port of Iberia facilities. Due to the limitations of the various access routes from the Port of Iberia to the Gulf of Mexico, however, a barge carrying a structure weighing over approximately 4,000 tons could not currently move from the Company's Port of Iberia facilities to the Gulf of Mexico without special efforts, including dredging, which would add costs to the project that the customer may be unwilling to bear. One main route to the Gulf of Mexico from the Port of Iberia, the Freshwater Bayou Channel, has

5

locks that prevent the passage of structures more than 80 feet in width. A by-pass channel around these locks has been dredged by the State of Louisiana to remove silt build-up and currently permits passage around the locks without any significant width restrictions. Traffic through the by-pass has permitted the by-pass to remain passable for several years without additional dredging. Additional dredging of the by-pass may be required, however, and the State of Louisiana may not continue to provide it. If the by-pass were not maintained, the Company would be unable to deliver from its Port of Iberia facilities structures weighing over 4,000 tons unless it incurred substantial additional dredging costs. This would reduce the capacity of the Company and decrease its ability to obtain profitable projects. The Port of Iberia and the Army Corps of Engineers are currently studying the feasibility of deepening the channel across Vermillion Bay and deepening the Port of Iberia to a depth of 20 ft.

The Company's facility in Lake Charles, Louisiana is located on an industrial canal at the intersection of the Intracoastal Canal and the Calcasieu Ship Channel, 12 miles south of Lake Charles and 20 miles from the Gulf of Mexico. The industrial canal is dredged to a 40-foot water depth with a bottom width of 400 feet. The facility is currently being leased from the Lake Charles Harbor & Terminal District under a lease with 12 years remaining, including option periods, and with options to lease up to an additional 68 acres. The facility has 67,400 square feet of covered fabrication area, approximately 9,500 square feet of covered warehouse area and administrative support facilities on the site. The facility has 1,100 linear feet of steel bulkhead water frontage. The access from this facility to the Gulf of Mexico imposes no weight or size limitations on any structure fabricated or refurbished at the facility, but the facility does not currently have equipment and personnel with capabilities as extensive as those at the Company's New Iberia facilities.

The Company also leases a sales office in Houston, Texas.

EQUIPMENT. The Company's main fabrication facilities house its Bertsch steel plate bending rolls with capacities to roll up to 4" steel plate into structural components. These plate rolls allow the Company to provide 100% of its rolling needs and enable the Company to reduce the risk of cost overruns and delays in project completion. In addition, the Company sells rolled steel goods to other fabricators on a subcontracting basis. The Company also uses a Huber oven for stress relief and heat treatment of high-pressure vessels. This oven allows the Company to bend steel plate up to 5 1/2" thickness. The Company owns a grit blast system that can blast steel at a rate approximately ten times faster than conventional sandblasting. This greatly reduces labor costs and also decreases the Company's use of conventional sandblasting, which is considered to be a more hazardous and slower method of preparing steel for painting.

The Company also has an automatic plate-cutting machine used for cutting

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

steel in complex geometric sections, as well as various other equipment used in the Company's fabrication business. The Company currently owns eleven crawler cranes, which range in tonnage capacity from 50 to 250 tons. The Company performs routine maintenance on all of its equipment.

As part of an ongoing program, equipment is evaluated against expected operating volume and specific needs in the foreseeable future. Equipment that is no longer useful to the Company, or equipment that will not be utilized to capacity, is marketed for disposal.

MATERIALS

The principal materials used by the Company in its fabrication business -- standard steel shapes, steel plate, piping, pipe fittings, valves, welding gases, fuel oil, gasoline and paint -- are currently available in adequate supply from many sources. The Company does not depend upon any single supplier or source. Significant increases in the costs of these items that cannot be passed on to the customer will adversely impact operating results.

SAFETY AND QUALITY ASSURANCE

Management is concerned with the safety and health of the Company's employees and maintains a safety assurance program to reduce the possibility of costly accidents. The Company's safety department establishes guidelines to ensure compliance with all applicable state and federal safety regulations. The

6

Company provides training and safety education through orientations for new employees and subcontractors, daily crew safety meetings and training programs as required by OSHA regulations. The Company also employs several safety technicians. The Company has a comprehensive drug-testing program and conducts periodic random employee health screenings. In its ongoing commitment to a safe and healthy work environment, the Company from time to time contracts with a third-party safety consultant to provide training and suggestions from a licensed emergency medical technician. The Company believes that its safety program and commitment to quality are vital to attracting and retaining customers and high-quality employees.

The Company fabricates to the standards of the American Petroleum Institute, the American Welding Society, the American Society of Mechanical Engineers, the American Bureau of Shipping and specific customer specifications. The Company uses welding and fabrication procedures in accordance with the latest technology and industry requirements. Training programs are conducted to upgrade skilled personnel and maintain high quality standards. In addition, the Company maintains on-site facilities for the x-ray of all pipe welds, which process is performed by an independent contractor. Management believes that these programs generally enhance the quality of its products and reduce related repair rates.

Allen Process Systems, LLC is certified as an ISO 9001 fabricator. ISO 9001 is an internationally recognized verification system for quality management overseen by the International Standards Organization based in Geneva, Switzerland. The certification is based on a review of the Company's programs and procedures designed to maintain and enhance quality production. The certification is subject to annual review and recertification.

CUSTOMERS AND CONTRACTING

The Company's customers are primarily major and independent oil and gas companies and offshore marine construction contractors. Fixed platforms and

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

other structures fabricated by the Company are used primarily in the Gulf of Mexico and offshore West Africa. Process equipment manufactured by the Company is in use worldwide. See Note 12 to the consolidated financial statements for certain financial information about geographic areas and international sales.

A few customers have historically generated a large portion of the Company's revenue, although not necessarily the same customers from year-to-year. The following table provides information with respect to customers who accounted for more than 10% of the Company's revenue for the years ended December 31, 2003, 2002 and 2001:

	CUSTOMER	% OF REVENUE
Year ended December 31, 2003	BP Amoco, Pride Offshore, Ridgelake Energy	50
Year ended December 31, 2002	Dominion Offshore	17
Year ended December 31, 2001	BP Amoco	19

Although the Company's direct customers on many projects are installation contractors, each project is ultimately fabricated for use either directly or indirectly by an oil and gas company. The Company, from time to time, contracts with multiple installation contractors who may be supplying structures to the same oil and gas company and, in some instances, contracts directly with the oil and gas companies. Thus, concentration among the Company's customers may be greater when the customer is viewed as the oil and gas company rather than the installation contractor.

The level of fabrication that the Company may provide, directly or indirectly, to any particular oil and gas company depends, among other things, on the size of that company's capital expenditure budget devoted to platform construction in a particular year and the Company's ability to meet the customer's delivery schedule. Similarly, the level of fabrication that the Company may provide as a subcontractor to an offshore construction company depends, among other things, on the ability of that company to successfully obtain prime contracts with oil and gas companies and the ability of the Company to meet the delivery schedule of the prime contractor. For these reasons, the oil and gas companies and the prime contractors who account for a significant portion of revenue in one fiscal year may represent an immaterial portion of

7

revenue in subsequent years. However, the loss of any significant customer (whether an oil and gas company with which the Company directly contracts or a prime contractor for which the Company has provided services on a subcontract basis) for any reason, including a sustained decline in an oil and gas company's capital expenditure budget or the prime contractor's inability to successfully obtain contracts, or other competitive factors, could result in a substantial loss of revenue and have a material adverse effect on the Company's operating performance.

Historically, the Company's customers in awarding contracts have considered such factors as the availability, capability, reputation and safety record of a contractor, but price and the ability to meet a customer's delivery schedule have been the principal factors on which the Company is awarded contracts. During 2001 and most of 2002, the Company was impeded in obtaining contracts by customer concerns as to the Company's potential insolvency. The Company believes

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

that the financial restructuring that occurred on August 13, 2002 in connection with the transactions with Midland, as discussed in "Management's Discussion and Analysis", has eliminated those concerns. The Company's contracts generally vary in length from one to 18 months depending on the size and complexity of the project.

Most of the Company's fabrication work is performed pursuant to fixed-price contracts, although some projects are performed on a time and materials basis. Under fixed-price contracts, the Company receives the price fixed in the contract, subject to adjustment only for change orders placed by the customer. As a result, with respect to fixed-price contracts, the Company retains all cost savings but is also responsible for all cost overruns. Under time and materials arrangements, the Company receives a specified hourly rate for direct labor hours worked and a specified percentage mark-up over its cost for materials. As a result, under time and materials contracts, the Company is protected against cost overruns but does not benefit directly from cost savings. As the Company is typically able to obtain prices for materials in excess of its costs, the cost and productivity of the Company's labor force are the key factors affecting the Company's operating results. Consequently, it is essential that the Company control its costs and maximize the productivity of its workforce.

The following table sets forth for the periods presented the percentage of the Company's revenue derived from each type of contract used by the Company:

TYPE OF CONTRACT (1)	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
Fixed-Price.....	90.2%	67.0%	62.5%
Time and Materials..	9.0%	31.4%	37.5%

 (1) Remaining revenues were derived from platform storage and compressor leasing activities

SEASONALITY

The Company's operations are subject to seasonal variations in weather conditions and daylight hours. Because most of the Company's construction activities take place outdoors, the number of direct labor hours worked generally declines in winter months due to an increase in rainy and cold conditions and a decrease in daylight hours. Operations may also be affected by the rainy weather, hurricanes and other storms prevalent along the United States Gulf Coast throughout the year. As a result, the Company's revenue, gross profit and net income during the quarter ending December 31 are subject to being disproportionately low as compared to the quarters ending June 30 and September 30, and full year results may not in all cases be a direct multiple of any particular quarter or combination of quarters. In particular, during 2002, the financial condition of the Company and the lack of bonding capacity prevented the Company from bidding and reduced the number of projects that the Company was able to perform. This impacted the normal seasonal trends that had been experienced in the past. The Midland recapitalization and investment transaction that closed on August 13, 2002 provided the Company with the capability to again qualify for bonds, and stabilized the financial condition of the Company. The table below indicates for each quarter of fiscal years ended December 31, 2003, 2002 and 2001 the percentage of annual revenue and net income earned and the number of direct labor hours worked in each quarter.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

	DECEMBER 31, 2003				DECEMBER 31, 2002			
	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
Revenue.....	17%	26%	28%	29%	30%	25%	17%	28%
Net income (loss).....	(12%)	(10%)	(31%)	(47%)	(10%)	(17%)	(17%)	(56%)
Direct labor hours worked (in thousands).....	131	190	231	288	160	120	106	94

Recent reductions in industry activity levels may tend to increase the effects of seasonality on the Company's operations.

COMPETITION

The offshore platform fabrication industry is highly competitive and influenced by events largely outside of the control of offshore platform fabrication companies. Projects are generally awarded on a competitive bid basis with customers usually requesting bids on projects one to three months or more prior to commencement. Since 1992, there has been consolidation in the industry as several marine fabrication companies have combined with other companies or ceased operations altogether. The domestic fabricators that operate in the custom fabrication market, several of which are substantially larger and have greater resources and capabilities than the Company, compete intensely for available projects. For international projects, the Company competes with many of the same domestic fabricators, as well as with numerous foreign fabricators, most of which are substantially larger and have greater financial resources and capabilities than the Company.

The Company's marketing staff contacts offshore construction contractors and oil and gas companies to obtain information as to upcoming projects so that the Company will be well positioned to bid for the projects. Price and the contractor's ability to meet a customer's delivery schedule are the principal factors in determining which qualified fabricator is awarded a contract for a project. Customers also consider, among other things, the availability of technically capable personnel and facility space, a fabricator's efficiency, condition of equipment, reputation, safety record and customer relations. The Company believes that the limited availability of experienced supervisory and management personnel, as well as skilled laborers, presents the greatest barrier to entry to new companies trying to enter the fabrication industry.

The Company's competitive pricing, expertise in fabrication of offshore marine structures, expertise in design and manufacture of production process systems and its long-term relationships with international customers have enabled it in the past to compete effectively for projects destined for international waters. The Company recognizes, however, that foreign governments often use subsidies and incentives to create jobs where oil and gas production is being developed. The additional transportation costs incurred when exporting structures from the U.S. to foreign locations may hinder the Company's ability to successfully bid for projects against foreign competitors. Because of subsidies, import duties and fees, taxes on foreign operators, lower wage rates in foreign countries, fluctuations in the value of the U.S. dollar, collection risks on projects payable in a foreign currency and other factors, the Company may find it increasingly difficult to remain competitive with foreign contractors for projects designed for use in international waters.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Because of its poor financial condition, the Company was severely affected by competition in 2002 and 2001. In some cases, the Company was not asked to bid on long-term projects. In other cases, the Company did not have the resources to provide financial bonds for its performance and was therefore not able to submit bids on significant projects. The Midland recapitalization and investment transaction on August 13, 2002 provided the Company with the capability to again qualify for bonds, stabilized the financial condition of the Company, and added experienced management personnel who are well recognized in the industry. As a result of this transaction, the Company expects to again compete effectively for projects in the coming year.

9

BACKLOG

As of December 31, 2003, the Company's backlog was approximately \$7.6 million, substantially all of which management expects to be performed before December 31, 2004. At December 31, 2002, the Company's backlog was approximately \$22.5 million.

The Company's backlog is based on management's estimate of the remaining labor, material and subcontracting costs to be incurred with respect to those projects as to which a customer has authorized the Company to begin work or purchase materials pursuant to written contracts, letters of intent or other forms of authorization. Often, however, original contract prices are based on incomplete engineering and design specifications. As engineering and design plans are finalized or changes to existing plans are made, the total contract price to complete such projects is likely to change. In addition, most projects currently included in the Company's backlog are subject to termination at the option of the customer, in which case the customer is generally required to pay the Company for work performed and materials purchased through the date of termination and, in some instances, pay the Company termination fees.

GOVERNMENT AND ENVIRONMENTAL REGULATION

Many aspects of the Company's operations and properties are materially affected by federal, state and local regulation, as well as certain international conventions and private industry organizations. The exploration and development of oil and gas properties located on the outer continental shelf of the United States is regulated primarily by the Mineral Management Services ("MMS"). The MMS has promulgated federal regulations under the Outer Continental Shelf Lands Act requiring the construction of offshore structures located on the outer continental shelf to meet stringent engineering and construction specifications. The Company is not directly affected by regulations applicable to offshore construction operations as are its customers that install and operate the structures fabricated by the Company, but the Company is required to construct these structures in accordance with customer design that must comply with applicable regulations; to the extent such regulations detrimentally affect customer activities, the operations of the Company may be adversely affected. Violations of the laws and related regulations directly affecting the Company's operations can result in substantial civil and criminal penalties as well as injunctions curtailing operations. The Company believes that its operations are in compliance with these and all other laws and related regulations affecting the fabrication of structures for delivery to the outer continental shelf of the United States and the laws and related regulations governing other areas of the world. In addition, the Company depends on the demand for its services from the oil and gas industry and, therefore, is affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry. In addition, offshore construction and drilling in certain areas has been opposed

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

by environmental groups and, in certain areas, has been restricted or prohibited. To the extent laws or regulations are enacted or other governmental actions are taken that prohibit or restrict offshore construction and drilling or impose environmental protection requirements that result in increased costs to the oil and gas industry in general and the offshore construction industry in particular, the business and prospects of the Company could be adversely affected. Such restrictions in the areas where the Company's products are used have not been substantial to date. The Company cannot determine to what extent future operations and earnings of the Company may be affected by new legislation, new regulations or changes in existing laws or regulations.

The Company's operations and properties are subject to a wide variety of increasingly complex and stringent federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. These laws may provide for "strict liability" for damages to natural resources and threats to public health and safety, rendering a party liable for environmental damage without regard to negligence or fault on the part of such party. Sanctions for noncompliance may include revocation of permits, corrective action orders, cease and desist orders, administrative or civil penalties and criminal prosecution. Certain environmental laws provide for strict, joint and several liability, without regard to fault or negligence, for remediation of spills and other releases of hazardous substances. In addition, the Company may be subject to claims alleging personal injury, property damage or natural resource damage as a result of the handling of hazardous substances.

10

Such laws and regulations may also expose the Company to liability for the conduct of or conditions caused by others, or for acts of the Company that were in compliance with all applicable laws at the time such acts were performed.

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

In addition to the Company's operations, other industrial operations have been conducted in the past by other entities on the properties now used by the Company. Although the Company does not believe that there is any material remediation requirements on its properties, it is possible that these past operations may have caused unknown environmental conditions that might require future remediation.

The Company's operations are also governed by laws and regulations relating to workplace safety and worker health, primarily the Occupational Safety and Health Act and regulations promulgated thereunder. In addition, various other governmental and quasi-governmental agencies require the Company to obtain certain miscellaneous permits, licenses and certificates with respect to its operations. The kind of permits, licenses and certificates required in the Company's operations depend upon a number of factors. The Company believes that

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

it has all such miscellaneous permits, licenses and certificates that are material to the conduct of its existing business.

The Company's compliance with the laws and regulations discussed in this section have entailed certain additional expenses and changes in operating procedures. These expenses have not been substantial over the past 10 years, and the Company believes that compliance with these laws and regulations will not have a material adverse effect on the Company's business or financial condition for the near future. However, future events, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies, stricter or different interpretations of existing laws and regulations or adoption of new laws and regulations, may require additional expenditures by the Company, which expenditures may be material.

The Company also has employees engaged in offshore operations that are covered by provisions of the Jones Act, the Death on the High Seas Act and general maritime law, which laws operate to make the liability limits established under state workers' compensation laws (which are applicable to the Company's other employees) inapplicable to these employees and, instead, permit them or their representatives to pursue actions against the Company for damages or job related injuries, with generally no limitations on the Company's potential liability.

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

INSURANCE

The Company maintains insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction to the Company's facilities. The Company also maintains general liability insurance, workers' compensation liability and maritime employer's liability insurance. All policies are subject to deductibles and other coverage limitations. Although management believes that the Company's insurance protection is adequate, we cannot be sure that

11

the Company will be able to maintain adequate insurance at rates which are commercially reasonable, nor that coverage is adequate to cover all claims that may arise. The insurance policies that are currently in place do not cover claims arising from acts of terrorism. Management has evaluated the risk of such acts to the Company and believes it to be low.

EMPLOYEES

The Company's workforce varies based on the level of ongoing operating activity at any particular time. As of December 31, 2003, the Company employed approximately 425 full-time production employees at its three operating facilities, two of which are located in New Iberia, Louisiana and one in Lake Charles, Louisiana. The Company also engages the services of subcontractors to perform specific tasks in connection with certain projects. Management estimates these subcontractors have in the past provided over 350 workers depending on the volume and nature of Company projects. None of the Company's employees is employed pursuant to a collective bargaining agreement, and the Company believes that it has positive working relationships with its employees.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

The Company's ability to compete depends substantially on its ability to attract and retain skilled construction workers, primarily welders, fitters and equipment operators. In addition, the Company's ability to expand its operations depends, among other things, on its ability to increase its workforce. While the supply of production workers has been historically limited, the recent reduced demand for the Company's products and services has stabilized the demand for such services. While the Company believes its relationship with its skilled labor force is good, a significant increase in the wages paid by competing employers could result in a reduction in the Company's skilled labor force, increases in the wage rates paid by the Company, or both. If either of these occurs in the near-term, the profits expected by the Company from work in progress could be reduced or eliminated and, in the long-term, to the extent such wage increases could not be passed on to the Company's customers, the production capacity of the Company could be diminished and the growth potential of the Company could be impaired.

CAUTIONARY STATEMENTS

Certain statements included in this report and in oral statements made from time to time by management of the Company that are not statements of historical fact are forward-looking statements. In this report, forward-looking statements are included primarily in the sections entitled "Business and Properties," "Legal Proceedings," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The words "expect," "believe," "anticipate," "project," "plan," "estimate," "predict," and similar expressions often identify forward-looking statements. Such statements may involve risks and uncertainties and include, among other things, information as to possible future increases in oil and gas prices and drilling activity and the effect of current and future levels of prices and drilling activity on demand for products and services of the Company, on the prices the Company can obtain for its products and services and on the profitability of the Company. All such statements are subject to factors that could cause actual results and outcomes to differ materially from the results and outcomes predicted in the statements, and investors are cautioned not to place undue reliance upon them. Those factors include, but are not limited to, the risks described immediately below and elsewhere in this report.

THE COMPANY RELIES ON THE FINANCIAL SUPPORT FROM MIDLAND, WITHOUT WHICH WE MAY NOT BE ABLE TO MEET FINANCIAL OBLIGATIONS WHEN THEY BECOME DUE.

Midland has provided substantial financial support to the Company since the Midland Transaction. At December 31, 2003, the Company had \$5.9 million in advances from Midland, which the Company used for working capital. The Company has no control over whether Midland will provide additional funding in the future and does not know whether such additional funding will be available from Midland as the Company requires it. If Midland does not provide such additional funding in the future as the Company requires it, the Company could be unable to meet its obligations, including obligations under the Credit Agreement, in the ordinary course of business. The Company requires the continued support from Midland until such time as it has sustained profitable operations and its financial condition is stable and no longer requires this support. Accordingly, there can be no assurance that the Company will continue as a going concern through fiscal

2004.

THE COMPANY'S WORKING CAPITAL DECREASED SUBSTANTIALLY DURING 2003.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

The Company has \$7.9 million outstanding on its \$8.0 million Credit Agreement at December 31, 2003. Liquidity beyond the Credit Agreement has been provided by advances obtained from Midland as needed from time to time. These advances are classified as current liabilities at December 31, 2003 and as a result, the Company has a working capital deficit of \$1,341,000 at December 31, 2003. If the Company's working capital position does not improve during 2004, the Company may be forced to cease its operations.

THE DEMAND FOR OUR SERVICES IS CYCLICAL AND DEPENDS ON THE LEVEL OF ACTIVITY IN THE OIL AND GAS INDUSTRY; DECREASES IN OIL AND GAS ACTIVITY COULD REDUCE DEMAND FOR OUR SERVICES AND RESULT IN LOWER REVENUE.

We fabricate decks, jackets and modules of drilling and production equipment, and design and fabricate production process equipment for offshore oil and gas platforms. We also repair and refurbish drilling rigs. The purchasers of our products and services are oil and gas companies and installation contractors for oil and gas companies. Thus, the demand for our services depends on the condition of the oil and gas industry and, in particular, the level of capital expenditures of oil and gas companies that operate in offshore oil and gas producing areas throughout the world.

A prolonged reduction in oil or natural gas prices in the future or expectations of such a reduction would likely depress offshore drilling and development activity. A substantial reduction of this activity could reduce demand for our services and could substantially reduce our revenues.

OUR FINANCIAL CONDITION DETERIORATED SIGNIFICANTLY DURING 2001 AND 2002, AND WE SUSTAINED MATERIAL OPERATING LOSSES IN 2003. OIL AND GAS COMPANIES MAY BE RELUCTANT TO USE OUR SERVICES.

Customers may not permit the Company to bid on long-term construction projects due to the financial condition of the Company and the substantial deterioration in that condition experienced since 2001. We have applied substantial efforts and resources to reestablish our good name and acquaint the market and our customers with the recapitalization and investment transaction with Midland, but this process is slow. To date, our Company has not been able to secure credit for working capital without the financial guarantee of Midland.

OUR BUSINESS REQUIRES A STEADY SUPPLY OF SKILLED WORKERS, AND WE MAY NOT BE ABLE TO RETAIN AND ATTRACT ENOUGH OF THEM, IN WHICH CASE OUR RESULTS WILL LIKELY BE IMPAIRED.

Our financial results depend substantially on our ability to retain and attract skilled construction workers, primarily welders, fitters and equipment operators. We currently employ approximately 425 skilled workers, which is significantly lower than the number we employed in fiscal 1999, Transition 2000 and in the first half of 2001 during periods of greater activity. We may not be successful in increasing our workforce to meet any future increases in demand for our services, in which case we may lose contracts and, for contracts we obtain, our profit margins may be reduced as a result of the need to pay overtime rates to a limited workforce. The demand for skilled workers in south Louisiana is high and the supply of skilled workers is extremely limited, and we may not succeed in increasing the size of our workforce through acquisitions, training, or new hiring programs. Although we believe that a large number of trainable workers reside reasonably close to our facilities, we may not be successful in recruiting and training them due to a variety of factors, including the current skill levels of workers, the potential inability or lack of desire by workers to commute to our facilities or to relocate to areas closer to them, and competition for workers from other industries. While we believe that our wage rates are competitive and that our relationship with our skilled workforce is good, a significant increase in the wages paid by competing employers could result in a reduction in our skilled workforce, increases in the

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

wage rates paid, or both. If either of these events occurs, in the near term our profits from work in progress would be reduced or eliminated and, in the long term our production capacity and revenues could be diminished and our growth potential could be impaired.

13

IF CUSTOMERS TERMINATE PROJECTS OUR REPORTED BACKLOG COULD DECREASE, WHICH COULD SUBSTANTIALLY REDUCE OUR REVENUE.

Our backlog is based on our estimate of the remaining labor, material and subcontracting costs to be incurred for projects on which a customer has authorized us to begin work or purchase materials pursuant to written contracts, letters of intent, or other forms of authorization. Our customers retain the right to change or to terminate most projects in our backlog, either of which could substantially change the amount of backlog currently reported. In the case of a termination, the customer is generally required to pay for our work performed and materials purchased through the date of termination, and in some cases, pay us termination fees. Due to the large dollar amounts of backlog estimated for each of a small number of projects, however, amounts included in our backlog could decrease substantially if one or more of these projects were to be terminated by our customers. Approximately 87% of our backlog at December 31, 2003 was attributable to three projects. Termination of one or more of these large projects could have a material adverse effect on our revenue for 2004.

OUR OPERATIONS ARE HAZARDOUS TO PERSONS AND PROPERTY, AND OUR LIABILITY FOR INJURIES OR DAMAGES COULD RESULT IN SUBSTANTIAL LOSSES TO US.

Our operations involve a high degree of risk, particularly of personal injury or loss of life, severe damage to and destruction of property and equipment and suspension of operations. The failure of our structures during and after installation can result in similar injuries and damages for which we could be liable. We also have employees engaged in offshore operations that are covered by provisions of the Jones Act, the Death on the High Seas Act and general maritime law. These laws operate to make the liability limits established by state workers' compensation laws (which cover our other employees) inapplicable to these employees and, instead, permit them or their representatives to pursue actions against us for damages for job-related injuries, with generally no limitations on our potential liability. In addition, due to their proximity to the Gulf of Mexico, our facilities are subject to the possibility of physical damage caused by hurricanes or flooding. Although we maintain the level of insurance protection that we consider economically prudent, our insurance may not be sufficient under all circumstances or against all claims or hazards, nor do we carry insurance for the loss of profits that may result from these hazards. A successful claim or damage resulting from a hazard for which we are not fully insured could result in substantial losses to us. Moreover, we may not be able to maintain adequate insurance in the future at rates that we consider economically prudent.

WE COULD INCUR LOSSES UNDER OUR FIXED-PRICE CONTRACTS AS A RESULT OF COST OVERRUNS OR DELAYS IN DELIVERY.

Most of our projects are performed pursuant to fixed-price contracts, although some projects are performed on a time and materials basis. Under fixed-price contracts, we receive the price fixed in the contract, subject to adjustment only for change orders placed by the customer. We are responsible for all cost overruns, which could occur for various reasons, including errors in estimates or bidding, changes in the availability and cost of labor and material and variations in productivity from the original estimates. This could result in reduced profitability or losses on projects and, depending on the size of a

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

project, could significantly reduce our earnings in any fiscal quarter or year. Most of our fixed-price contracts also provide for liquidated damages for late delivery. If we were to miss the delivery date specified by any of our contracts, whether due to equipment problems, labor shortages, adverse weather conditions or other causes, we could be subject to liquidated damages that could significantly reduce our profitability.

Under time and materials arrangements, we receive a specified hourly rate for direct labor hours (which exceeds our direct labor costs) and a specified percentage mark-up over our cost for materials. Under these contracts, we are protected against cost overruns but do not benefit directly from cost savings.

14

INACCURATE ESTIMATES MADE IN OUR PERCENTAGE-OF-COMPLETION ACCOUNTING COULD RESULT IN A REDUCTION OF PREVIOUSLY REPORTED PROFITS.

Most of our revenue and expenses are recognized on a percentage-of-completion basis determined by the ratio that labor hours incurred to date bear to the total estimated labor hours required for completion. We review expected labor hours, costs and profits monthly as the work progresses, and make adjustments proportionate to the percentage of completion in revenue for the period when the estimates are revised. To the extent that these adjustments result in a reduction of previously reported profits, we must recognize a charge against current earnings, which may be significant depending on the size of the project or the adjustment.

OUR REVENUE FOR ANY FISCAL QUARTER CAN DECLINE AS A RESULT OF INCLEMENT WEATHER AND SEASONAL DECREASES IN DAYLIGHT HOURS.

Our operations are subject to seasonal variations in weather conditions and daylight hours. Because most of our construction activities take place outdoors, the average number of direct labor hours worked per day generally declines in winter months due to an increase in rainy and cold conditions and a decrease in daylight hours. Operations may also be affected by the rainy weather, hurricanes and other storms prevalent along the Gulf Coast throughout the year. As a result, our revenue during the quarter ending December 31 is subject to being disproportionately low as compared to the quarters ending June 30 and September 30, and full year results may not in all cases be a direct multiple of any particular quarter or combination of quarters.

THE LOSS OF A SIGNIFICANT CUSTOMER COULD RESULT IN A SUBSTANTIAL LOSS OF REVENUE.

A few customers have historically generated a large portion of our revenue, although not necessarily the same customers from year to year. For example, customers individually accounting for more than 10% of our annual revenue accounted as a group for 50% (three customers), 17% (one customer), and 19% (one customer), of revenue for the years ended December 31, 2003, 2002 and 2001.

Although our direct customers on many projects are installation contractors, an oil and gas company ultimately fabricates each project for use. Thus, concentration among our customers may be greater when the customer is viewed as the oil and gas company rather than the installation contractor. We contract from time to time with multiple installation contractors who may be supplying structures to the same oil and gas company and in some instances contract directly with the oil and gas company.

The prime contractors who account for a significant portion of revenue in one fiscal year may represent an immaterial portion of revenue in subsequent

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

years. The loss, however, of any significant customer (whether an oil and gas company with which we directly contract or a prime contractor for which we have provided services on a subcontract basis) could result in a substantial loss of revenue.

Recent consolidation in the oil and gas industry may tend to increase the concentration of our work with significant customers and may also increase the power of some important customers to obtain price concessions from us.

OUR BUSINESS IS VERY COMPETITIVE, AND LOW LEVELS OF DEMAND FOR OUR SERVICES HAVE FORCED US TO REDUCE PRICES FOR OUR PRODUCTS. THIS HAS INCREASED OUR OPERATING LOSSES AND, BECAUSE OF WORKFORCE REDUCTIONS, OUR ABILITY TO BENEFIT FROM FUTURE INCREASES IN DEMAND MAY BE DIMINISHED.

The offshore platform fabrication industry is highly competitive and influenced by events largely outside the control of offshore platform fabrication companies. Contracts for our services are generally awarded on a competitive bid basis with customers usually requesting bids on projects from one to three months prior to commencement. Price and the contractor's ability to meet a customer's delivery schedule are the principal factors in determining which qualified contractor is awarded a contract for a project. We compete with both large and small companies, and some of them have greater financial and other resources than we do. Small companies that can perform some of the kinds of fabrication work that we do have entered the market over

15

the last few years. Thus, the number of companies that perform fabrication services to the oil and gas industry has increased. The intense competition we face in our industry, especially in periods of low demand, keeps us from raising our prices and can limit or decrease our revenue. Until bidding activity by oil and gas companies results in the awarding of new fabrication contracts, particularly contracts for larger structures, the bidding on smaller projects will remain very competitive. In order to obtain sufficient work to maintain a productive workforce, we must reduce prices on these smaller projects. These prices can be below our cost and, if demand for our fabrication services remains low, we may be required to make further reductions in the number of skilled craftsmen and supervisors we employ and other cost reductions. After we reduce our workforce, we may not be able to replace them in sufficient numbers to respond to increased demand.

OUR OPERATIONS ARE SUBJECT TO EXTENSIVE GOVERNMENTAL REGULATION, COMPLIANCE WITH WHICH IS EXPENSIVE; CHANGES IN THE REGULATORY ENVIRONMENT CAN OCCUR AT ANY TIME AND GENERALLY INCREASE OUR COSTS.

Our operations and properties are subject to and affected by various types of governmental regulation, including numerous federal, state and local environmental protection laws and regulations, compliance with which is becoming increasingly complex, stringent and expensive. Some of these laws provide for "strict liability" for damages to natural resources or threats to public health and safety, rendering a party liable for environmental damage without regard to its negligence or fault. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. We are subject to claims for personal injury or property damage as a result of alleged exposure to hazardous substances.

The laws and regulations that affect our operations most extensively are primarily the Occupational Safety and Health Act and to a lesser extent the federal and state laws and regulations enforced by the Environmental Protection Agency and the Louisiana Department of Environmental Quality. Those

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

environmental laws include the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act, and the Safe Drinking Water Act. We incur costs as a result of safety procedures and inspections made necessary by the Occupational Safety and Health Act and for environmental license and permit fees, and containment and disposal of wastes, including sand from sand blasting, lead from paint and paint thinners, oil leaked from machinery and vehicles, and storm and drain runoff water. Although these costs have not been material, any significant change in, or in the enforcement of, these laws and regulations could increase our expenses and thus render more difficult our ability to compete. We anticipate that environmental control and protection laws and regulations will become increasingly stringent and result in more compliance costs for us.

Because we depend on the demand for our services from the oil and gas industry, the adoption of laws and regulations curtailing exploration and developmental drilling for oil and gas for economic, environmental and other policy reasons could reduce the demand for our services and, ultimately, our revenue. For example, if oil and gas drilling is restricted or forbidden in additional areas in the waters offshore the U. S. Gulf of Mexico or elsewhere, the activities of our customers in those areas would be reduced and our revenues would likely decline.

WE ARE DEPENDENT ON KEY PERSONNEL; THE LOSS OF THEIR SERVICES COULD RESULT IN INEFFICIENCIES IN OUR OPERATIONS, LOST BUSINESS OPPORTUNITIES, OR THE LOSS OF ONE OR MORE OF OUR CUSTOMERS.

Our success depends on, among other things, the continued active participation of our officers and key operating personnel. We currently have no employment contracts with our key employees. The loss of the services of any of our key employees could result in inefficiencies in our operations, lost business opportunities, or the loss of one or more of our customers.

WE DO NOT INTEND TO PAY DIVIDENDS IN THE NEAR FUTURE; THUS, AN INVESTOR IN OUR COMMON STOCK SHOULD NOT EXPECT TO RECEIVE PERIODIC INCOME ON AN INVESTMENT IN OUR COMMON STOCK.

16

We currently intend to retain earnings, if any, to meet our working capital requirements and to finance the future operation and growth of our business and, therefore, do not plan to pay cash dividends to holders of our common stock in the near future. An investor in our common stock should not expect to receive periodic income on an investment in our common stock.

ITEM 3. LEGAL PROCEEDINGS.

In addition to the matters described below, the Company is a party to various routine legal proceedings primarily involving commercial claims, workers' compensation claims, and claims for personal injury under the General Maritime Laws of the United States. A number of the Company's vendors have sued the Company to collect amounts of money allegedly due to them. These vendors are, in each case, unsecured creditors of the Company. While the outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty, management believes that the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial statements.

In a lawsuit filed against the Company on September 29, 1998, in the 14th Judicial Court in the Parish of Calcasieu, State of Louisiana, Professional Industrial Maintenance, L.L.C., Don E. Spano and Kimberly Spano alleged multiple

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

claims for breach of contract, breach of specific performance, a request for injunction, request for damages, and a request for treble damages and attorney fees for violations of the Louisiana Unfair Trade Practices Act. Mr. Spano was the managing member of Professional Industrial Maintenance, LLC, the company whose assets we acquired in January 1998. The Company filed a counterclaim for recovery of certain amounts paid on behalf of Professional Industrial Maintenance, LLC and Mr. Spano as a result of the transaction. In January, 2004 the parties agreed to settle the disputes subject of the lawsuit with full and final releases for all claims in exchange for a cash payment to the plaintiffs in the amount of \$300,000; however, as of the filing of this report, the details of the settlement agreement and release have not been finalized.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

EXECUTIVE OFFICERS OF THE REGISTRANT

All executive officers serve the Company at the discretion of the Board of Directors. Listed below are the names, ages and offices of each of the executive officers of the Company as of December 31, 2003:

NAME	AGE	POSITION
William A. Hines.....	67	Principal Executive Officer
Larry J. Verzwylvelt.....	56	President, Universal Fabricators, LLC and Allen Process Systems, LLC
Martin K. Bech.....	35	Vice President, Secretary and General Counsel
Peter J. Roman.....	53	Vice President and Chief Financial Officer
Allen C. Porter.....	71	President and Chief Executive Officer *
William A. Downey.....	57	Executive Vice President and Chief Operating Officer **

William A. Hines became the Principal Executive Officer of the Company in March 2003. Mr. Hines also serves as our Chairman of the Board. Mr. Hines is also the Chairman of the Board and President of Nassau Holding Corporation, the parent company of several oilfield-related companies, including Midland, and a director of Whitney Holding Corporation, a publicly traded regional bank holding company. Mr. Hines previously served as a director of our company from July 1998 through March 2001.

Larry J. Verzwylvelt was named President of Universal Fabricators, LLC, a wholly-owned subsidiary of the Company in September 2003 and was named President of Allen Process Systems, LLC, a wholly-owned subsidiary of the Company in October 2003. Prior to joining Universal Fabricators, Mr. Verzwylvelt was the Operations Manager, Fabrication - North America, for J. Ray McDermott, Inc., a position he held since 1999. Before joining J. Ray McDermott in 1995, Mr. Verzwylvelt was the Fabrication Division Manager

for OPI International, Inc., where he was responsible for all domestic and international fabrication operations. He also held various operational and project management positions with OPI, Gulf Marine Fabricators, Inc. and Service Marine Group, Inc.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Martin K. Bech was hired as General Counsel of the Company on April 16, 2001 and was appointed Secretary of the Company on June 1, 2001 and Vice President of the Company on August 2, 2001. Mr. Bech earned two bachelor's degrees from Louisiana State University in 1990 and his Juris Doctorate from Loyola University School of Law in New Orleans in 1996. Prior to joining the Company, Mr. Bech was an associate in the New Orleans office of the regional law firm of Phelps Dunbar LLP from March 1997 until March 2001.

Peter J. Roman was appointed Vice President and Chief Financial Officer of the Company on June 30, 1997 and served as Secretary of the Company from May 1, 1998 until June 1, 2001. From June 1984 until June 1997, Mr. Roman was a certified public accountant with the international accounting firm of Ernst & Young LLP, attaining the level of senior manager. Mr. Roman earned a Bachelor of Sciences degree from Louisiana State University in 1984 and is a member of the Louisiana State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

* Allen C. Porter, Jr. served as President and Chief Executive Officer from August 13, 2002 through October 2003. Mr. Porter also served for the same period as the President of Allen Process Systems, LLC, a wholly owned subsidiary of our Company, and was the founder and President of Allen Tank, Inc., the predecessor of Allen Process Systems, LLC. From 1998 to 2000, Mr. Porter was a construction manager for Versatruss Americas LLC, a designer and manufacturer of offshore heavy lift systems. From 2000 through his joining our company in August 2002, Mr. Porter was the Executive Vice President of Yarbrough Cable Co., a Versabar company.

** William A. Downey served as Executive Vice President and Chief Operating Officer from August 13, 2002 through August 2003. Mr. Downey also served for the same period as the President of Universal Fabricators, LLC, a wholly owned subsidiary of our company. From May 1985 through January 2000, Mr. Downey served as Vice President of Operations for Gulf Island Fabrication, Inc., a publicly traded company engaged in the fabrication of platforms and structures used in the development and production of oil and gas. Mr. Downey was also the President of Gulf Island, LLC, a subsidiary of Gulf Island Fabrication, Inc., from January 2000 through June 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock, \$.01 par value per share (the "Common Stock"), is traded on the Nasdaq SmallCap Market under the symbol "UFAB." At March 15, 2004, the Company had approximately 1,121 holders of record of its Common Stock. Effective June 12, 2002, the Company transferred its common stock listing to the Nasdaq SmallCap Market. The transfer to the Nasdaq SmallCap Market resulted in a more favorable cost structure and less stringent listing requirements than that of the Nasdaq National Market.

On August 1, 2003, the Company's shareholders approved a one-for-ten reverse stock split of the outstanding shares of the Company's common stock, to be effective immediately after the conversion of Midland's Series A preferred shares. Accordingly, on August 1, 2003, each share of series A preferred stock was converted into 100,000 shares of Unifab common stock and the one-for-ten reverse stock split was effected resulting in Midland holding a total of 7,380,000 common shares after the reverse stock split.

The following table sets forth the high and low bid prices per share of the Common Stock, as reported by the Nasdaq SmallCap and National Markets, for each fiscal quarter in the years ended December 31, 2003 and 2002, giving effect to the one-for-ten reverse stock split:

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

18

	HIGH -----	LOW -----
December 31, 2003		
First Quarter	\$ 3.80	\$ 0.05
Second Quarter	3.90	2.20
Third Quarter	3.60	1.10
Fourth Quarter	2.10	0.90
December 31, 2002		
First Quarter	\$ 8.40	\$ 1.60
Second Quarter	13.00	2.00
Third Quarter	9.40	2.00
Fourth Quarter	3.90	1.60

The Company has not paid cash dividends in the two most recent fiscal years. The Company intends to retain earnings, if any, to meet its working capital requirements and to finance the future operations and growth of its business and, therefore, does not plan to pay any cash dividends to holders of its Common Stock in the foreseeable future.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about shares of our Common Stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2003.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equ compensation plans (excluding securities reflected in column (a) (c)
-----	-----	-----	-----
Equity compensation plans approved by security holders(1)	43,233	\$ 34.24	2,456,
Equity compensation plans not approved by security holders(2)	6,740	\$ 71.20	558,
-----	-----	-----	-----
Total	49,973	\$ 34.24	3,015,
	=====	=====	=====

(1) Reflects options granted under our company's long-term incentive plan.

(2) Reflects options granted under our company's employee long-term

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

incentive plan.

- (3) All of the referenced shares may be issued to participants through incentive stock options, nonqualified stock options, restricted stock or "other stock-based awards" (which are based in whole or in part on the value of our Common Stock).

EMPLOYEE LONG-TERM INCENTIVE PLAN

19

In 2000, our board of directors adopted our employee long-term incentive plan (the "2000 plan") to provide long-term incentives to our key employees who are not officers or directors of our company. The 2000 plan has not been approved by our shareholders. Under the 2000 plan, which is administered by the chairman of our board and our chief executive officer, our company may grant incentive stock options, nonqualified stock options, restricted stock, other stock-based awards or any combination thereof to our key employees. The committee reviews and approves awards made under the 2000 plan and approves the exercise price of any stock options granted under the 2000 plan. The exercise price may not be less than the fair market value of our common stock on the date of grant.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for each of the past five fiscal periods should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Annual Report. Effective December 31, 2000, the Company changed its fiscal accounting year end to December 31, each year. The table below also presents comparative information for the twelve months ended December 31, 2000.

	Year ended December 31,			
	2003	2002	2001	2000 (2)
	(Dollars in thousands, except per s			
Statement of Operations Data:				
Revenue	\$ 55,774	\$ 33,286	\$ 81,733	\$ 77,692
Cost of revenue	60,618	39,260	79,244	80,876
Gross profit (loss)	(4,844)	(5,974)	2,489	(3,184)
Other operating expenses(3)	--	--	5,425	20,276
General and administrative expense	5,051	7,242	7,417	8,704
Operating income (loss)	(9,985)	(18,641)	(25,204)	(11,888)
Other income (expense), net	(1,940)	(1,876)	(2,761)	(2,070)
Income (loss) before income taxes	(11,835)	(20,517)	(27,965)	(13,958)
Income tax expense (benefit)	--	--	1,316	(4,832)
Net income (loss)	\$ (11,835)	\$ (20,517)	\$ (29,281)	\$ (9,126)

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Earnings (loss) per share(4)				
Basic	\$ (1.44)	\$ (5.59)	\$ (36.02)	\$ (12.76)
	=====	=====	=====	=====
Diluted	\$ (1.44)	\$ (5.59)	\$ (36.02)	\$ (12.76)
	=====	=====	=====	=====
Weighted average shares outstanding(4) , (5)				
Basic	8,200	3,670	814	715
Diluted	8,200	3,670	814	715
Cash dividends declared per common shares(1) \$	--	--	--	--
Other financial data:				
Depreciation and amortization	\$ 2,214	\$ 2,700	\$ 3,054	\$ 2,965
Capital expenditures	1,306	1,194	2,293	7,308
Net cash (used in) operating activities	(10,625)	(2,676)	(94)	(4,089)
Net cash (used in) investing activities	(1,236)	(1,037)	(2,203)	(7,130)
Net cash provided by financing activities	11,791	3,039	2,047	10,492
Other operating data:				
Direct labor hours worked	839,000	479,000	1,176,000	1,166,000
Number of employees (at end of period)	425	317	450	674
Backlog (at end of period)	\$ 7,617	\$ 22,487	\$ 8,333	\$ 27,000

20

	AS OF DECEMBER 31,				AS OF MARCH
	2003	2002	2001	2000	2000
	-----	-----	-----	-----	-----
Balance Sheet Data:					
Working capital (deficit)	\$ (1,341)	\$ 2,841	\$ (15,513)	\$ 11,813	\$ (3,
Property, plant and equipment, net	25,223	26,221	34,125	34,549	31,
Total assets	40,219	39,279	63,207	82,654	84,
Debt	29,300	16,988	23,368	20,303	24,
Shareholders' equity	2,111	13,910	19,133	47,990	44,

- (1) The Company intends to retain earnings, if any, to meet its working capital requirements and to finance the future operation and growth of its business, and therefore, does not plan to pay cash dividends to holders of its common stock in the foreseeable future.
- (2) Information for the year ended December 31, 2000 is derived from unaudited financial information and presented for comparison purposes only.
- (3) Includes primarily asset impairments. See Note 1 to the Consolidated Financial Statements.
- (4) Earnings (loss) per share and weighted average share amounts have been restated to give effect to the one-for-ten reverse stock split on August 3, 2003.
- (5) For the year ended December 31, 2002, basic and diluted weighted average shares include the effect of the conversion of the preferred stock issued on August 13, 2002 in connection with the Midland Recapitalization and Investment Transaction.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion presents management's discussion and analysis of the Company's financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements.

SUMMARY

During the year ended December 31, 2003:

- Since the Midland Transaction, Midland has provided financial, operational, and management support to the Company. During 2003, the Company funded operations and capital expenditures through advances from Midland and draws against its line of credit. At December 31, 2003, the Company had \$5.9 million in advances from Midland and \$7.9 million outstanding under its line of credit, which is guaranteed by Midland. The liquidity afforded by these advances from Midland was necessary for the Company to meet its obligations and fund operations. However, the Company has no control over whether Midland will provide additional funding in the future and does not know whether such additional funding will be available from Midland as the Company requires it. If Midland does not provide such additional funding in the future as the Company requires it, the Company could be unable to meet its obligations, including obligations under its line of credit, in the ordinary course of business.
- Revenue increased over last year by 68% to \$55.8 million. This was largely due to the stability afforded the Company by the Midland Investment and Recapitalization transaction, which was completed on August 13, 2002;
- Cost of sales exceeded revenue by \$4.8 million for the year ended December 31, 2003 caused primarily by two loss contracts and costs of reopening the Lake Charles facility, which had been closed since 2001. The loss contracts are expected to be complete in the first quarter of 2004.

21

- Selling, general and administrative expenses were reduced by approximately 30% in 2003. This was achieved mainly by reducing administrative costs in 2003 and resulted from the Company closing several facilities in 2002, which were considered excess.
- On August 1, 2003 the shareholders of the Company approved the increase in the number of shares of authorized common stock to 150,000,000 shares. This increase allowed Midland to convert the 738 shares of preferred stock issued in relation to the Midland Investment and Recapitalization transaction into 73,800,000 shares of common stock. The shareholders also approved a one-for-ten reverse stock split, which was effected on August 3, 2003. After giving effect to the one-for-ten reverse stock split, the number of shares of common stock held by Midland was 7,380,000.

MIDLAND SUPPORT

Since the Midland Transaction, Midland has provided financial, operational,

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

and management support to the Company. Nassau Holding Company (an affiliate of Midland) has guaranteed the Company's Senior Secured Credit Agreement with the Whitney National Bank. Midland has provided a standby letter of credit to a customer of the Company in support of a contract included in the Company's backlog at December 31, 2003. The letter of credit is in the amount of \$3.1 million and expires on March 31, 2004. Under an informal arrangement with the Company, Midland has agreed to provide financial support and funding for working capital or other needs at Midland's discretion, from time to time. During the year ended December 31, 2003, Midland advanced \$5,900,000 to the Company for working capital, all of which was outstanding at December 31, 2003. Midland provides accounting information system and reporting services to the Company, including maintaining computer hardware and software to process financial information and produce management reports, processing data associated with those reports, assisting in report design and preparation, processing operating and payroll checks, consulting assistance with the design and implementation of financial reporting systems, and other related services. Included in general and administrative expenses for the year ended December 31, 2003 is \$180,000 related to these services. This support was necessary to stabilize the financial position and operations of the Company. The Company requires the continued support from Midland until such time as it has sustained profitable operations and its financial condition is stable and no longer requires this support.

IDENTIFICATION OF OPERATING SEGMENTS

Effective January 1, 2003, as a result of the Midland Recapitalization and Investment transaction, management has evaluated the changed organizational and reporting structure and has concluded that the Company operates three reportable segments: the platform fabrication segment, the process systems segment and the drilling rig fabrication segment. The platform fabrication segment fabricates and assembles platforms and platform components for installation and use offshore in the production, processing and storage of oil and gas. The process systems segment designs and manufactures specialized process systems and equipment related to the development and production of oil and gas reserves. The drilling rig fabrication segment provides fabrication services for new construction and repair of drilling rigs.

THE MIDLAND TRANSACTION

On August 13, 2002, the Company and Midland Fabricators and Process Systems, LLC closed a transaction under which Midland exchanged \$24.1 million outstanding under the Company's Senior Secured Credit Agreement and \$5.6 million in claims of unsecured creditors for 738 shares of preferred stock, a secured subordinated debenture and two secured subordinated notes in the aggregate amount of \$17.5 million. The debenture, valued at \$10.7 million, is convertible into the Company's common stock at a price of \$3.50 per share on a post-reverse split basis. Midland's preferred stock was converted into a total of 7,380,000 shares of the Company's common stock on August 1, 2003. The Company also recorded additional capital contributions on the transaction of \$3.7 million resulting from the discount recorded on the convertible debenture, \$680,000 resulting from forgiveness by Midland of penalties accrued under the Senior Secured Credit Agreement, and \$914,000 resulting from partial forgiveness of unsecured creditor claims acquired by Midland. On November 18, 2002, the Company entered into a Senior Secured Credit'

Agreement with the Whitney National Bank, which is guaranteed by Nassau Holding Company (an affiliate of Midland), the subsidiaries of Unifab, and the principle members of Midland, in accordance with the terms of the Midland transaction.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

RESULTS OF OPERATIONS

Overview

The Company's results of operations depend primarily on (i) the level of oil and gas exploration and development activity of oil and gas companies in the Gulf of Mexico, offshore West Africa, South and Central America and the Middle East; (ii) the Company's ability to win contracts through competitive bidding or alliance/partnering arrangements; and (iii) the Company's ability to manage those contracts to successful completion. The level of exploration and development activity is related to several factors, including trends of oil and gas prices, exploration and production companies' expectations of future oil and gas prices and changes in technology which reduce costs and improve expected returns on investment. In addition, improvements in three-dimensional seismic, directional drilling, production techniques and other advances in technology have increased drilling success rates and reduced costs. Although we believe our operations depend on these indicators, the correlation of those measures with our revenue is not direct as to timing and level.

During the years ended December 31, 2003, 2002 and 2001, 2%, 24%, and 21%, respectively, of the Company's revenue was derived from projects fabricated for installation in international areas, with the remainder designed for installation in the Gulf of Mexico.

Comparison of the Year Ended December 31, 2003 and Year Ended December 31, 2002

Revenue for the year ended December 31, 2003 increased 68% to \$55.8 million from \$33.3 million for the year ended December 31 2002. Revenue increased for the Company's platform fabrication segment and drilling rig fabrication segment in the current year, compared to last year. This overall increase was partially offset by decreased revenue in the process systems segment. Additionally, decreased revenues from plant maintenance and derrick fabrication services in the current year partially offset this increase; the Company no longer provides these services. Backlog was approximately \$7.6 million and \$22.5 million at December 31, 2003 and 2002, respectively. Throughout 2003, the level of bidding activity was approximately 60% of the level experienced at the end of 2002. Additionally, because of the financial difficulties experienced by the Company prior to the Midland investment and recapitalization transaction, the Company was not being allowed to bid on all projects. This lower level of bidding activity increases competition for the projects being bid, which results in lower profit expectations for those projects when they are awarded. Since the beginning of 2004, the level of bidding activity has increased, and the Company is again competing on bids for larger projects, which generally have fewer qualifying bidders and offer greater opportunities for the Company to generate profitable operating results.

Total direct labor hours worked through December 31, 2003 increased 75% overall from the levels experienced last year. Nearly 40% of this overall increase was attributable to the drilling rig fabrication segment, which resulted from the reopening of the Company's facility in Lake Charles, Louisiana in June 2003. Furthermore, direct labor hours worked at the Company's platform fabrication and process system facilities increased by nearly 74% from the same period last year. This increase was offset by a reduction of approximately 84,000 direct labor hours incurred in the year ended December 31, 2002 on plant maintenance, derrick fabrication and drilling rig repair. No labor hours were incurred associated with these types of projects in the year ended December 31, 2003.

Cost of revenue was \$60.6 million and exceeded revenue by \$4.8 million for the year ended December 31, 2003. Cost of revenue was \$39.3 million and exceeded revenue by \$6.0 million for the year ended December 31, 2002. Cost of revenue consists of costs associated with the fabrication process, including direct

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

costs (such as direct labor costs and raw materials) and indirect costs that can be specifically allocated to projects (such as supervisory labor, utilities, welding supplies and equipment costs). This increase in costs of revenue relative to revenue includes \$2.2 million cost in excess of revenue on a contract

23

to fabricate buoyancy cans and \$1.4 million related to a contract to fabricate drilling rig components. Additionally, underutilization at the Company's process systems manufacturing facility and costs related to start up operations at the Company's drilling rig fabrication facility increased costs per manhour, which could not be recovered at the current pricing levels.

Gross profit (loss) for the year ended December 31, 2003 decreased to a loss of \$4.8 million from a loss of \$6.0 million last year.

Selling, general and administrative expense decreased to \$5.1 million in the year ended December 31, 2003 compared to \$7.2 million in the year ended December 31, 2002. This decrease is mainly due to reduced general and administrative expenses associated with overall reductions in administrative overhead and number of employees. Included in selling, general and administrative expense in the year ended December 31, 2003 is \$284,000 related to operations that were shut down in 2003 and \$300,000 related to the settlement of a lawsuit against the Company. The Company's selling, general and administrative expense as a percentage of revenue decreased to 9% in the year ended December 31, 2003 from 22% in last year.

Interest expense for the year ended December 31, 2003 was approximately the same as last year. Lower effective interest rates in 2003 compared to 2002 reduced interest expense. This reduction was offset due to the Company increasing outstanding debt during the year. Additionally, interest expense includes amortization of the discount on the secured, subordinated debenture issued to Midland of \$522,000 and \$200,000 in the years ended December 31, 2003 and 2002, respectively, which is being recorded as interest expense.

No net income tax benefit was recognized on the net loss recorded in the years ended December 31, 2003 and 2002. In accordance with FAS 109, the Company considered that it had a cumulative pre-tax loss for recent years, which must be carried forward and used to offset future taxable income. The ability of the Company to utilize net operating loss carryforwards is also limited on an annual basis because the transaction with Midland resulted in a change in control under tax regulations. At December 31, 2003, the Company has deferred tax assets of \$19.6 million, including \$19.0 million related to net operating loss carryforwards, which, if not used expire in years 2020 through 2024. The Company has recorded a valuation allowance of \$16.3 million to offset the deferred tax asset related to the net operating loss carryforwards and other deferred tax assets that exceed net deferred tax liabilities of the Company at December 31, 2003. The valuation allowance reflects the Company's judgment that it is more likely than not that these deferred tax assets will not be realized. Management will continue to assess the adequacy of the valuation allowance on a quarterly basis.

SEGMENT INFORMATION

The Company has identified three reportable segments as required by SFAS No. 131. The following discusses the results of operations for each of those reportable segments.

PLATFORM FABRICATION SEGMENT

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Revenue for the platform fabrication segment increased \$17.4 million to \$34.8 million for the year ended December 31, 2003 from \$17.4 million for the year ended December 31, 2002. Fabrication activity has increased over last year, although bidding for projects in this segment has remained competitive, causing lower profit margins. Direct manhours in the year ended December 31, 2003 increased 92% over last year. Segment loss was \$2.9 million in the year ended December 31, 2003 compared to a loss of \$1.9 million in the year ended December 31, 2002. In the year ended December 31, 2003 a loss of \$2.2 million was recorded on a contract to fabricate buoyancy cans, which is expected to be complete in the first quarter of 2004. Segment loss for the year ended December 31, 2003 includes \$489,000 related to the repair of the roof on the Company's main fabrication building. Savings from the reduction of administrative staff and the consolidation of general and administrative functions reduced segment loss in the year ended December 31, 2003.

24

PROCESS SYSTEMS SEGMENT

Revenue for the process systems segment decreased to \$11.8 million in the year ended December 31, 2003 from \$12.1 million last year. The primary cause of the decrease was the shut down of the Company's foreign subsidiary in London, England. Revenue from this subsidiary decreased \$3.6 million in the year ended December 31, 2003 from \$4.0 million in the year ended December 31, 2002. In the year ended December 31, 2003, direct manhours at the Company's facility in New Iberia, Louisiana increased 19% over 2002. However, revenue remained approximately the same in both years. Segment loss decreased to \$889,000 in the year ended December 31, 2003 from \$4.2 million in 2002. The reduction in segment loss relates to the shut down of the Company's foreign subsidiary, the higher manhour levels at the Company's facility in New Iberia in 2003, and the higher profitability in the Company's process system contracts in 2003. Savings from the reduction of administrative staff and the consolidation of general and administrative functions reduced segment loss in the year ended December 31, 2003.

DRILLING RIG FABRICATION SEGMENT

Revenue for the drilling rig fabrication segment was \$9.2 million in the year ended December 31, 2003 and was \$498,000 in last year. Segment loss was \$3.0 million in the year ended December 31, 2003 and \$7.4 million in the year ended December 31, 2002. The Company suspended operations in this segment prior to the Midland investment and recapitalization transaction. In June 2003, the Company was awarded a fixed price contract to fabricate drilling rig components, which required the capabilities of its Lake Charles site and reopened the facility. The Company recorded a \$1.4 million loss on the contract to recognize estimated cost overruns related primarily to inefficiencies caused by starting up the facility and low productivity at the facility during the construction of this initial project. At this time, the Company does not have a project to place at the facility when the drilling rig components have been completed, and expects to close the facility upon completion of the project.

Comparison of the Year Ended December 31, 2002 and Year Ended December 31, 2001

Revenue for the year ended December 31, 2002 decreased 59% to \$33.3 million from \$81.7 million for the year ended December 31, 2001. This decrease is primarily due to reduced barge and jack up rig repair operations and reduced newbuild liftboat activities resulting from the closure of the Company's OBI facilities at the Port of Iberia and the suspension of operations at its deepwater facility in Lake Charles. Revenue levels for the Company's platform

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

fabrication and process system segments for the year ended December 31, 2002 are approximately one third of revenue in those segments in the year ended December 31, 2001. Throughout the year ended December 31, 2002, the Company has experienced reduced opportunities to bid on projects and was eliminated from bidding on various projects as a result of the substantial deterioration of the Company's financial condition and results of operations experienced during the 2001 fiscal year. Further, the Company was unable to post sufficient collateral to secure performance bonds and as a result was unable to qualify to bid on various contracts. At September 30, 2002, backlog was approximately \$4.2 million. On August 13, 2002 the Company completed a debt restructuring and recapitalization transaction with Midland significantly improving the financial position, working capital and liquidity of the Company. Additionally, Midland added key management personnel, who are well known and respected throughout our industry. Since August 13, 2002, there has been a substantial increase in bidding activity in the Company's main fabrication and process equipment markets. In addition, the Company's capacity to provide performance bonds on projects has improved significantly. As a result, backlog at December 31, 2002 increased to approximately \$22.4 million.

Total direct labor hours worked decreased 60% overall during 2002 from the levels experienced in 2001. Direct labor hours worked at the Company's platform fabrication and process system fabrication facilities during 2002 decreased by nearly 50% from 2001. Direct labor hours at the Company's drilling rig fabrication facilities were eliminated with the suspension of operations at the Lake Charles facility.

Cost of revenue was \$39.3 million for the year ended December 31, 2002 compared to \$79.2 million for the year ended December 31, 2001. Cost of revenue consists of costs associated with the fabrication process, including direct costs (such as direct labor costs and raw materials) and indirect costs that can be

25

specifically allocated to projects (such as supervisory labor, utilities, welding supplies and equipment costs). This increase in costs as a percentage of revenue in 2002 includes a \$778,000 adjustment to workers comp insurance expense related to increased costs of claims incurred, \$603,000 depreciation of facilities and equipment at the Lake Charles facility at which operations have been suspended and the very low level of activity at the Company's process equipment facility which did not generate sufficient profit margin to recover fixed operating costs. In December 2002 the Company executed contracts to fabricate two offshore platforms and recorded estimated loss reserves on those contracts of \$441,000. These contracts were negotiated and executed during the time when the Company's backlog was critically low. Management determined that the severely low level of fabrication work in backlog without these contracts would not support maintaining the skilled labor force in place, and losing that labor force would further delay any recovery for the Company. These contracts were completed in 2003 and are being stored at the Company's fabrication facility. Cost of revenue for the year ended December 31, 2002 also includes a loss provision of \$194,000 recorded on a fixed price contract to fabricate power plant components. The contract for power plant components was completed and delivered in December 2002. Cost of revenue for the year ended December 31, 2002 also includes losses of \$772,000 on contracts to provide process equipment overseas. The contracts are expected to be completed in the second quarter of 2003. Included in cost of revenue for the year ended December 31, 2002 is an adjustment of \$550,000 related to disputed billings on two contracts to manufacture derricks. The Company also recorded in cost of revenue a charge of \$510,000 to write off uncompleted waste water tanks.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Gross profit (loss) for the year ended December 31, 2002 decreased to a loss of \$6.0 million from a profit of \$2.5 million for the year ended December 31, 2001. In addition to the adjustments to increase cost of revenue described above, the decrease in gross profit is also due to costs in excess of revenue for the Company's process system fabrication facility and at the Company's deep water facility in Lake Charles. Additionally, decreased man hour levels in 2002 at the Company's facilities compared to 2001 caused hourly fixed overhead rates to increase and resulted in increased costs relative to revenue. The effect of these factors reducing gross profit in the year ended December 31, 2002 compared to 2001 was offset in part by a \$1.1 million contract loss reserve recorded in 2001.

Other operating expenses in the year ended December 31, 2002 include an impairment loss of \$5.1 million on the Lake Charles facility. Operating losses incurred at the facility and the business outlook resulted in the Company actively seeking alternative sources of capital to sustain development and operations at the facility. By closing the Midland transaction in August 2002, the Company was able to stabilize its overall financial condition and add experienced management to evaluate alternatives with respect to the Lake Charles facility. Since that time negotiations with possible joint venture partners that would operate the facility have been continuing. In the event the Company is unable to complete an arrangement whereby the facility can be operated, the Company may sell the facility. In evaluating the recoverability of the investment in the Lake Charles facility, the Company estimated net undiscounted cash flows under both operating alternatives and disposal scenarios, and concluded the carrying value of the facility was impaired. The Company then estimated the fair value of the facility based on the related discounted estimated cash flows and based on this analysis recorded an impairment loss of \$5.1 million. The impairment loss reduced the recorded net value of the facility to its estimated fair value of \$5.4 million.

Other operating expenses also include \$477,000 related to the transfer of ownership of the buildings and other leasehold improvements on the Company's drilling rig repair facilities at the Port of Iberia in exchange for termination of the leases and cancellation of all amounts owed under those leases. These losses were offset in part by a \$126,000 gain recorded on the sale of assets used to provide maintenance and construction services to the chemical plant industry in the Lake Charles area.

In the year ended December 31, 2001 other operating expenses included the recording of \$14.8 million impairment charge on goodwill, \$4.8 million loss on the disposal of equipment and the shut down of the Company's barge repair facility in New Iberia, and the recording of \$700,000 of commitment fees associated with the Waiver and Amendment to the Company's Secured Credit Agreement, which was executed April 2, 2001. These monthly fees were incurred as a result of the Company being out of compliance with the terms of the Waiver and Amendment.

Selling, general and administrative expense decreased to \$7.2 million in the year ended December 31, 2002 compared to \$7.4 million in the year ended December 31, 2001. This decrease is mainly due to reduced general and administrative expenses associated with closing the barge repair facilities in New Iberia and the suspension of operations at the Lake Charles facility. These cost reductions are offset in part with increased legal and other professional services due to the negotiations and documentation of the Midland transaction and related regulatory issues. In addition, the Company has had to defend several lawsuits brought by unsecured creditors for amounts past due. Included in selling, general and administrative expenses for the year ended December 31, 2002 is

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

\$150,000 related to the termination and settlement of the employment contracts of two former executive officers of the Company. The Company's selling, general and administrative expense as a percentage of revenue increased to 21.8% in the year ended December 31, 2002 from 9.1% in 2001, due mainly to the significant decrease in revenue levels relative to those periods.

Interest expense for the year ended December 31, 2002 was lower than in 2001 due to reduced effective interest rates. Additionally, \$10.0 million outstanding under the Company's previous senior secured credit agreement was exchanged for preferred stock under the terms of the Midland agreement, reducing the principal bearing interest. This was offset in part by amortizing the discount recorded on the secured, subordinated debenture recorded on the Midland transaction. The Company has recorded a \$3.7 million discount on the face value of the convertible debenture, which represents the intrinsic value of the beneficial conversion feature of the debenture and equals the difference between \$0.35, the conversion price per share, and \$0.47, the closing price per share of Unifab International, Inc. common stock on August 13, 2002, the date of issuance of the convertible debenture. This discount is being amortized as interest expense from August 13, 2002 to August 13, 2010, the maturity date of the debenture. In the year ended December 31, 2002, the Company recorded \$200,000 interest expense related to amortization of this discount.

No income tax expense was recognized in the year ended December 31, 2002 compared to income tax expense of \$1.3 million in the year ended December 31, 2001. In accordance with FAS 109, the Company considered that it had a cumulative pre-tax loss for recent years, to be carried forward and used to offset future taxable income. The ability of the Company to utilize net operating loss carryforwards is also limited on an annual basis because the transaction with Midland described above results in a change in control under the current tax regulations. The Company has recorded a valuation allowance to fully offset deferred tax assets in excess of deferred tax liabilities, including fully reserving the deferred tax asset related to operating loss carryforwards. The valuation allowance reflects the Company's judgment that it is more likely than not that a portion of the deferred tax assets will not be realized. The Company believes that the remaining deferred tax assets at December 31, 2002 are realizable. Management will continue to assess the adequacy of the valuation allowance.

SEGMENT INFORMATION

The following discusses the results of operations for the Company's reportable segments.

PLATFORM FABRICATION SEGMENT

Revenue for the platform fabrication segment decreased 53%, or \$19.3 million, to \$17.4 million in the year ended December 31, 2002 from \$36.7 million in the year ended December 31, 2001. Segment income decreased to a loss of \$1.9 million for the year ended December 31, 2002 from segment income of \$1.9 million in 2001. Segment income was reduced by \$441,000 in 2002 due to loss reserves on two structural fabrication contracts signed in December 2002, and \$194,000 on a fixed price contract to fabricate components for a power plant, described above. Direct manhours in the year ended December 31, 2002 decreased to 50% of the direct manhours in 2001. This decrease in manhours and the low profitability in the Company's platform fabrication contracts resulted in the Company being unable to cover fixed costs at the fabrication facility in the 2002 period, which increased the segment loss.

PROCESS SYSTEMS SEGMENT

Revenue for the process systems segment was \$12.1 million for the year ended December 31, 2002, a decrease of \$14.2 million or 54% from the year ended

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

December 31, 2001. Segment loss increased from

27

\$4.1 million in the year ended December 31, 2001 to \$4.2 million in the year ended December 31, 2002. Segment loss increased in the year ended December 31, 2002 from contract losses of \$772,000 on contracts to provide process equipment overseas. Direct manhours decreased in the year ended December 31, 2002 to 51% of the direct manhours in 2001. This decrease in manhours and the low profitability in the Company's process systems contracts resulted in the Company being unable to cover fixed costs at the fabrication facility in the 2002 period, which increased the segment loss. In the year ended December 31, 2001, the process system segment loss increased due to an impairment charge on goodwill of \$3.1 million.

DRILLING RIG FABRICATION SEGMENT

Revenue for the drilling rig fabrication segment decreased to \$498,000 in the year ended December 31, 2002 from \$5.3 million in 2001. The decrease in segment revenue was due to the Company suspending operations in this segment prior to the Midland investment and recapitalization transaction. Segment loss increased to a loss of \$7.4 million for the year ended December 31, 2002 from a loss of \$5.1 million in 2001. Segment loss in the year ended December 31, 2002 increased from an impairment loss of \$5.1 million on the Lake Charles facility, described above, and from \$578,000 depreciation expense related to the closed facility in Lake Charles. In the year ended December 31, 2001, the drilling rig fabrication segment loss increased due to an impairment charge on goodwill of \$5.6 million. The Company is currently developing plans to reenter this market.

LIQUIDITY AND CAPITAL RESOURCES

Historically the Company has funded its business activities through funds generated from operations, short-term borrowings on its revolving credit facilities for working capital needs and individual financing arrangements for equipment, facilities improvements, insurance premiums, and long-term needs. During the year ended December 31, 2003, the Company's available funds and \$11.8 million generated from financing activities together funded cash used in operations of \$10.6 million and investing activities of \$1.2 million, primarily capital expenditures.

Under an informal arrangement with the Company, Midland has agreed to provide financial support and funding for working capital or other needs at Midland's discretion, from time to time. During the year ended December 31, 2003, Midland advanced \$5.9 million, which the Company used for working capital during the period. At December 31, 2003 these advances were outstanding. The liquidity afforded by these advances from Midland was necessary for the Company to meet its obligations and fund operations. However, the Company has no control over whether Midland will provide additional funding in the future and does not know whether such additional funding will be available from Midland as the Company requires it. If Midland does not provide such additional funding in the future as the Company requires it, the Company could be unable to meet its obligations, including obligations under the Credit Agreement, in the ordinary course of business. The Company requires the continued support from Midland until such time as it has sustained profitable operations and its financial condition is stable and no longer requires this support

On November 18, 2002, the Company entered into a Commercial Business Loan with Whitney National Bank (the "Credit Agreement"), guaranteed by Nassau Holding Company, an affiliate of Midland, the subsidiaries of Unifab, and the principle members of Midland and secured by all of the assets of the Company,

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

which provides for up to \$8.0 million in borrowings for working capital purposes, including up to \$2.0 million in letters of credit under a revolving credit facility. At December 31, 2003, the Company had \$7.9 million in borrowings and \$3,000 letters of credit outstanding under the revolving credit facility. Borrowings under the Credit Agreement bear interest at Libor plus 1.75% or the Prime rate (2.9% at December 31, 2003), at the Company's discretion. The Credit Agreement matures January 31, 2005. At December 31, 2003, the Company had other letters of credit outstanding totaling \$110,000, which were secured by cash deposits totaling \$115,000.

The table below sets out the cash contractual obligations of the Company. The operating leases are not recorded as liabilities on the balance sheet, but payments are treated as an expense as incurred. Each contractual obligation included in the table contains various terms, conditions, and covenants which, if violated, accelerate the payment of that obligation. The operating lease obligations primarily relate to the

28

Company's operating facilities:

	Payment due by year						B
	Total	2004	2005	2006	2007	2008	
	(In thousands)						
Operating lease obligations	\$ 9,981	\$ 692	\$ 692	\$ 692	\$ 692	\$ 692	\$
Long-term debt	14,731	6,829	7,902	--	--	--	
Secured, subordinated notes payable	6,848	--	2,139	4,709	--	--	
Secured, subordinated, convertible debenture	10,652	--	--	--	2,130	2,130	
	\$ 42,212	\$ 7,521	\$ 10,733	\$ 5,401	\$ 2,822	\$ 2,822	\$
	=====	=====	=====	=====	=====	=====	==

Capital expenditures for the year ended December 31, 2003 included \$677,000 related to machinery, equipment and other assets used at the fabrication yard in Lake Charles, which was reopened in June 2003, \$297,000 related to compressors being fabricated by the Company, which will be leased upon completion. The remaining capital expenditures related to facility improvements, yard equipment and computer equipment.

In the normal course of its business activities, the Company is required to provide letters of credit to secure performance. At December 31, 2003, cash deposits totaling \$115,000 secured outstanding letters of credit totaling \$110,000. In addition, at December 31, 2003 the Company had letters of credit totaling \$3,000 outstanding, which were issued under its Credit Agreement.

Management believes that additional funds available from Midland under the informal arrangement described above are necessary to fund its working capital needs and planned capital expenditures for the next 12 months. However, Management has no control over whether Midland will provide additional funding in the future and does not know whether such additional funding will be

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

available from Midland as the Company requires it. If Midland does not provide such additional funding in the future as the Company requires it, the Company could be unable to meet its obligations, including obligations under the Credit Agreement, in the ordinary course of business.

NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," requires the recording of liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. These liabilities are required to be recorded at their fair values (which are likely to be the present values of the estimated future cash flows) in the period in which they are incurred. SFAS No. 143 requires the associated asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset. The asset retirement obligation will be accreted each year through a charge to expense. The amounts added to the carrying amounts of the assets will be depreciated over the useful lives of the assets. The implementation of SFAS No. 143 did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred rather than at the date a plan is committed to. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The implementation of SFAS No. 146 did not have a material impact on the Company's consolidated financial position or results of operations.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46

29

applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The adoption of FIN 46 did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. The adoption of FAS No. 149 did not have a significant effect on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also addresses questions about the classification of certain financial instruments that embody obligations to issue equity shares. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003. The adoption of FAS No. 150 did not have a significant

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

effect on the Company's consolidated financial position or results of operations.

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employers' Disclosures About Pension and Other Postretirement Benefits." SFAS No. 132 replaces the original SFAS No. 132 and revises employers' disclosure about pension plans and other postretirement benefit plans to require more information about the economic resources and obligations of such plans. SFAS No. 132 (Revised 2003) is effective for financial statements of public companies for fiscal years ending after December 15, 2003. The Company does not expect the adoption of SFAS No. 132 (Revised 2003) will have a material impact on its consolidated financial position or results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition and long-lived assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue from construction contracts, which are typically of short duration, are recognized on the percentage-of-completion method, measured by relating actual labor hours for work performed to date to the estimated total labor hours of the respective contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, and repairs. Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are determined. Significant changes in cost estimates due to adverse market conditions or poor contract performance could affect estimated gross profit, possibly resulting in a contract loss.

The Company's customers are principally major and large independent oil and gas companies and drilling companies. These concentrations of customers may impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic or other conditions. Reserves for uncollectible accounts receivable are evaluated periodically against specific accounts that are known to be uncollectible. Increases in the reserves for uncollectible accounts are charged

30

to operating results in the period they are identified. Receivables are generally not collateralized. Significant adverse changes in the economic environment of the oil and gas industry could result in materially lower collectibility of recorded receivables and could require a charge for uncollectible accounts in the future.

Long-lived assets held and used by the Company are reviewed for impairment

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of long-lived assets by determining whether the carrying values can be recovered through projected net cash flows undiscounted, based on expected operating results over their remaining lives. If impairment is indicated, the asset is written down to its fair market value, or if fair market value is not readily determinable, to its estimated discounted net cash flows. Future adverse market conditions or poor operating results could result in the inability to recover the current carrying value of the long-lived asset, thereby possibly requiring an impairment charge in the future.

Income taxes have been provided using the liability method. Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The amount of future income tax assets recognized is limited to the amount of benefit that is more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, the likelihood of future taxable income and tax planning strategies when making this assessment. Based on this assessment, the Company records a valuation allowance against deferred tax assets that are more likely than not unrealizable. The amount of the deferred tax asset considered realizable, however, could be reduced in the future if taxable income is not available to allow for the deduction of the deferred tax assets.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the risk of changing interest rates and foreign currency exchange rate risks. The Company does not use derivative financial instruments to hedge the interest or currency risks. Interest on approximately \$29.3 million, substantially all of the Company's debt, was variable, based on short-term interest rates. A general increase of 1.0% short-term market interest rates would result in additional interest cost of \$293,000 per year if the Company were to maintain the same debt level and structure.

The Company has a subsidiary located in the United Kingdom for which the functional currency is the British Pound. The subsidiary is being liquidated, and therefore there are no operations at December 31, 2003. However, the liquidation proceeds are held in British Pounds pending the resolution of the liquidation and final distribution of the proceeds, if any. The Company typically does not hedge its foreign currency exposure. Historically, fluctuations in British Pound/US Dollar exchange rates have not had a material effect on the Company. Future changes in the exchange rate of the US Dollar to the British Pound may positively or negatively impact the final amount distributed; however, the Company does not anticipate its exposure to foreign currency rate fluctuations to be material in 2003.

While the Company does not currently use derivative financial instruments, it may use them in the future if deemed appropriate.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

In this report, the consolidated financial statements and supplementary data of the Company appear on pages F-1 through F-28 and are incorporated herein by reference. See Index to Consolidated Financial Statements on Page 33.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

31

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision of and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and implementation of its disclosure controls and procedures. Based on and as of the date of that 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 Act of 1934.

There have been no significant changes in the Company's internal control over financial reporting or in other factors during the fourth quarter of fiscal year 2003 that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain information concerning the Company's directors and executive officers in response to Item 10 will be included in the Company's definitive Proxy Statement for its 2004 annual meeting of shareholders and is incorporated herein by reference. For additional information regarding executive officers of the Company, see "Executive Officers of the Registrant" in Part I of this report. For additional information regarding executive officers of the Company, see "Executive Officers of the Registrant" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION.

Information concerning executive compensation of the Company in response to Item 11 will be included in the Company's definitive Proxy Statement for its 2004 annual meeting of shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information concerning security ownership of certain beneficial owners and management in response to Item 12 will be included in the Company's definitive Proxy Statement for its 2004 annual meeting of shareholders and is incorporated herein by reference. For equity compensation plan information, see Item 5 of this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information concerning certain relationships and related transactions in response to Item 13 will be included in the Company's definitive Proxy Statement for its 2004 annual meeting of shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Information concerning principal accountant fees and services in response to Item 14 will be included in the Company's definitive Proxy Statement for its 2004 annual meeting of shareholders and is incorporated herein by reference.

32

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

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

(i) Financial Statements

	PAGE

Reports of Independent Auditors	F-1
Consolidated Balance Sheets as of December 31, 2003 and 2002	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002 and 2001	F-4
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2003, 2002 and 2001	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001	F-6
Notes to Consolidated Financial Statements	F-7

(ii) Financial Statements

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

(iii) Exhibits

The Exhibit Index on page E-1 is incorporated herein. The Company will furnish to any eligible shareholder, upon written request, a copy of any exhibit listed upon payment of a reasonable fee equal to the Company's expenses in furnishing such exhibit. Such requests should be addressed to Mr. Martin Bech, UNIFAB International, Inc., P.O. Box 11308, New Iberia, LA 70562.

(b) Reports on Form 8-K.

On March 4, 2004, we filed a current report on Form 8-K dated March 3, 2004. The report included Item 5 and was filed regarding the trading activity in the Company's common stock.

33

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
UNIFAB International, Inc.
New Iberia, Louisiana

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

We have audited the accompanying consolidated balance sheets of UNIFAB International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of UNIFAB International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations. The Company's recurring losses from operations, negative working capital position, and difficulties in meeting its financial obligations and funding its operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" in 2002.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana
March 29, 2004

F-1

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
UNIFAB International, Inc.

We have audited the consolidated statements of operations, shareholders' equity and cash flows of UNIFAB International, Inc. for the year ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of its operations and its cash flows for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming UNIFAB International, Inc. will continue as a going concern. As more fully described in Note 2, the Company has incurred recurring operating losses and has a working capital deficiency. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

New Orleans, Louisiana

April 9, 2002, except for Note 16, as to which the date is July 3, 2003, and
except for Note 7, as to which the date is August 3, 2003

F-2

UNIFAB INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 2003 ----- (In thous
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 10
Accounts receivable, net	11,411
Costs and estimated earnings in excess of billings on uncompleted contracts	1,287
Income tax receivable	147
Prepaid expenses and other assets	1,441

Total current assets	14,296
Property, plant and equipment, net	25,223
Other assets	700

Total assets	\$ 40,219 =====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Accounts payable	\$ 4,782
Billings in excess of costs and estimated earnings on uncompleted contracts	875
Accrued liabilities	2,454
Contract loss reserves	697
Notes payable to Midland	5,900
Current maturities of long-term debt	929

Total current liabilities	15,637
Long-term debt, less current maturities	7,902
Secured, subordinated notes payable	6,848
Secured, subordinated convertible debenture, net of unamortized discount of \$2,931 and \$3,452 in 2003 and 2002, respectively	7,721

Total liabilities	38,108
Commitments and contingencies (Note 13)	
Shareholders' equity:	
Preferred stock, no par value, 5,000 shares authorized, no shares outstanding in 2003, 738 shares outstanding in 2002, each share has voting rights equivalent to and is convertible into 100,000 shares of common stock	--
Common stock, \$0.01 par value, 150,000,000 shares authorized, 8,201,899 shares outstanding at December 31, 2003 and 20,000,000 shares authorized and 8,189,972 shares outstanding at December 31, 2002	82
Additional paid-in capital	62,076
Accumulated deficit	(60,047)
Accumulated other comprehensive loss	--

Total shareholders' equity	2,111

Total liabilities and shareholders' equity	\$ 40,219
	=====

See accompanying notes.

F-3

UNIFAB INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
	-----	-----	-----
Revenue	\$ 55,774	\$ 33,286	\$ 81,733
Cost of revenue	60,618	39,260	79,244
	-----	-----	-----
Gross profit (loss)	(4,844)	(5,974)	2,489
Impairment of Lake Charles facility	-	5,074	-
Impairment of goodwill	-	-	14,786
Loss on disposal of equipment and closure of facilities	-	351	4,790
Commitment fees	-	-	700
Selling, general and administrative expense	5,051	7,242	7,417
	-----	-----	-----
Loss from operations	(9,985)	(18,641)	(25,204)
Other income (expense):			

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Interest expense	(1,951)	(1,894)	(2,794)
Interest income	11	18	33
	-----	-----	-----
Loss before income taxes	(11,835)	(20,517)	(27,965)
Income tax provision	-	-	1,316
	-----	-----	-----
Net loss	\$ (11,835)	\$ (20,517)	\$ (29,281)
	=====	=====	=====
Basic and diluted loss per share (a)	\$ (1.44)	\$ (5.59)	\$ (36.02)
	=====	=====	=====
Basic and diluted weighted average shares outstanding (a)	8,200	3,670	814
	=====	=====	=====

(a) All earnings (loss) per share and weighted average number of shares outstanding have been restated to give effect to a one-for-ten reverse stock split on August 3, 2003.

See accompanying notes.

F-4

UNIFAB INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK (a)		PREFERRED STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	AC CO IN
	SHARES	AMOUNT	SHARES	AMOUNT			
	(In thousands)						
Balance at December 31, 2000	814	\$ 8	-	\$ -	\$ 46,713	\$ 1,586	
Stock issued:							
Stock awards	4	-	-	-	66	-	
Stock options exercised	1	-	-	-	51	-	
Net loss	-	-	-	-	-	(29,281)	
Currency translation adjustment	-	-	-	-	-	-	
Comprehensive loss	-	-	-	-	-	-	
	-----	-----	-----	-----	-----	-----	
Balance at December 31, 2001	819	8	-	-	46,830	(27,695)	
Midland investment transaction: (see Note 2)							
Issuance of convertible, preferred stock	-	-	1	-	10,000	-	
Discount on secured, subordinated debenture for beneficial conversion feature	-	-	-	-	3,652	-	
Forgiveness of accrued penalties	-	-	-	-	680	-	
Forgiveness of unsecured							

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

creditor claims	-	-	-	-	914	-
Net loss	-	-	-	-	-	(20,517)
Currency translation adjustment	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-
Balance at December 31, 2002	819	8	1	-	62,076	(48,212)
Conversion of preferred stock	7,380	74	(1)	-	-	-
One-for-ten reverse stock split	1	-	-	-	-	-
Net loss	-	-	-	-	-	(11,835)
Currency translation adjustment	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-
	8,200	\$ 82	-	\$ -	\$ 62,076	\$ (60,047)

(a) All amounts related to common stock outstanding have been restated to give effect to a one-for-ten reverse stock split on August 3, 2003.

See accompanying notes.

F-5

UNIFAB INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER	
	2003	2002
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (11,835)	\$ (20,517)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,214	2,700
Amortization of goodwill	-	-
Provision for doubtful accounts	-	913
Amortization of discount on secured, subordinated convertible debenture	521	200
Impairment charge on Lake Charles facility	-	5,074
Impairment charge on goodwill	-	-
Loss on disposal of equipment and closure of facilities	-	351
Deferred income taxes	-	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,894)	6,169
Net costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings on uncompleted contracts	1,871	2,143
Prepaid expenses and other assets	932	5,164
Accounts payable and accrued liabilities	(434)	(4,873)

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Net cash used in operating activities	(10,625)	(2,676)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(1,306)	(1,194)
Proceeds from sale of equipment	-	130
Collections on notes receivable	70	27
Net cash used in investing activities	(1,236)	(1,037)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable to Midland	11,800	2,815
Payments of notes payable to Midland	(5,900)	
Proceeds from advances on long-term debt	16,588	
Payments of advances on long-term debt	(10,776)	
Net change in other short-term borrowings	79	224
Exercise of stock options	-	-
Net cash provided by financing activities	11,791	3,039
Net change in cash and cash equivalents	(70)	(674)
Cash and cash equivalents at beginning of year	80	754
Cash and cash equivalents at end of year	\$ 10	\$ 80
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid (received) during the year for:		
Income taxes	\$ (158)	\$ (3,766)
Interest	\$ 1,110	\$ 1,668

Non cash activities:

Midland Recapitalization and Investment Transaction (Note 2)

See accompanying notes.

F-6

UNIFAB INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

UNIFAB International, Inc. (the Company) fabricates and assembles jackets, decks, topside facilities, quarters buildings, drilling rigs and equipment for installation and use offshore in the production, processing and storage of oil and gas. Through a wholly owned subsidiary, Allen Process Systems, LLC, the Company designs and manufactures specialized process systems such as oil and gas separation systems, gas dehydration and treatment systems, and oil dehydration and desalting systems, and other production equipment related to the development and production of oil and gas reserves. Compression Engineering Services, Inc. (CESI), a division of Allen Process Systems, LLC, provides compressor project engineering from inception through commissioning, including project studies and

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

performance evaluation of new and existing systems, on-site supervision of package installation, and equipment sourcing and inspection. The Company's main fabrication facilities are located at the Port of Iberia in New Iberia, Louisiana. Through a newly-formed, wholly-owned subsidiary, Rig Port Services, LLC, the Company provides repair, refurbishment and conversion services for oil and gas drilling rigs at its deep-water facility in Lake Charles, Louisiana.

The operating cycle of the Company's contracts is typically less than one year, although some large contracts may exceed one year's duration. Assets and liabilities have been classified as current and noncurrent under the operating cycle concept, whereby all contract-related items are regarded as current regardless of whether cash will be received within a 12-month period. At December 31, 2003 and 2002, it was anticipated that substantially all contracts in progress, and receivables associated therewith, would be completed and collected within a 12-month period.

THE MIDLAND RECAPITALIZATION AND INVESTMENT TRANSACTION

As more fully described in Note 2, below, on August 13, 2002 the Company and Midland Fabricators and Process Systems, LLC ("Midland") closed a transaction under which Midland exchanged \$24.1 million outstanding under the Company's Senior Secured Credit Agreement and \$5.6 million in acquired claims of unsecured creditors for 738 shares of our preferred stock, a secured subordinated convertible debenture in the amount of \$10.7 million and two secured subordinated notes which total in the aggregate \$6.8 million. The debenture is convertible into the Company's common stock at a price of \$3.50 per share on a post reverse split basis. Midland's 738 shares of preferred stock was converted into a total of 7,380,000 shares of the Company's common stock on August 3, 2003. The Company also recorded additional paid in capital on the transaction of \$3.7 million resulting from the discount recorded on the secured subordinated convertible debenture, and capital contributions of \$680,000 resulting from forgiveness by Midland of penalties accrued under the Senior Secured Credit Agreement and \$914,000 resulting from partial forgiveness of the unsecured creditor claims acquired by Midland. Further, \$675,000 of the amount the Company owed Midland under the Company's Senior Secured Credit Agreement was cancelled in exchange for the assignment to Midland of certain accounts receivable. On November 18, 2002, the Company entered into a commercial business loan with the Whitney National Bank, as more fully described in Note 5 to the financial statements. This loan is guaranteed by Nassau Holding Company, an affiliate of Midland, the subsidiaries of Unifab, and the principle members of Midland, in accordance with the terms of the Midland transaction.

F-7

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

REVENUE AND COST RECOGNITION

Revenue from fixed-price contracts is recognized on the percentage-of-completion method. In the case of long-term contracts extending over one or more fiscal years, revisions of the cost and profit estimated during the course of the work are reflected in the accounting period in which the facts that require revision become known. At the time a loss on a contract becomes known, the entire amount of the ultimate loss is accrued. Variations from estimated contract performance could result in a material adjustment to operating results for any fiscal year. Revenue from time and material contracts and cost-plus-fee contracts are recognized on the basis of costs incurred during

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

the period plus mark up or fees earned.

The Company measures progress toward completion on fixed price contracts by comparing labor hours to date against total estimated labor hours. The Company believes this measure accurately reflects physical progress on contracts and is an appropriate, objective measure of progress on contracts.

Contract costs include direct labor, material, subcontract costs and allocated indirect costs related to contract performance. General and administrative costs are charged to expense as incurred.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost. Depreciation is computed principally by the straight-line method over the estimated lives of the assets, which range from 19 to 31 years for building and bulkhead and 3 to 12 years for yard and other equipment, for financial statement purposes and by accelerated methods for income tax purposes.

Amortization of leasehold improvements is provided using the straight-line method over the estimated useful lives of the assets or over the terms of the lease, whichever is shorter.

GOODWILL

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS ") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. In accordance with SFAS No. 142, the Company discontinued the amortization of goodwill upon the adoption of this statement on January 1, 2002. A reconciliation of previously reported net loss and loss per share to the amounts adjusted for the exclusion of goodwill amortization net of tax follows:

F-8

	Year ended December 31,		
	2003	2002	2001
	-----	-----	-----
Reported net loss	\$(11,835)	\$(20,517)	\$(29,281)
Add: Goodwill amortization, net of tax	-	-	437
	-----	-----	-----
Adjusted net loss	\$(11,835)	\$(20,517)	\$(28,844)
	=====	=====	=====

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Reported net loss per share, basic and diluted	\$ (1.44)	\$ (5.59)	\$ (36.02)
Add Goodwill amortization net of tax, per basic and diluted share	-	-	0.54
	-----	-----	-----
Adjusted loss per share, basic and diluted	\$ (1.44)	\$ (5.59)	\$ (35.48)
	=====	=====	=====
Basic and diluted weighted average shares outstanding	8,200	3,670	814
	=====	=====	=====

Prior to adopting SFAS 142, the Company assessed goodwill for impairment in accordance with Financial Accounting Standards Board (FASB) Statement No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (SFAS 121). Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the carrying amounts of those assets may not be recoverable. Under this approach, the carrying value of goodwill would be reduced if it is probable that management's best estimate of future operating income before amortization would be less than the carrying amount of goodwill over the remaining amortization period. In the September 2001 quarter, the Company recorded a charge of \$14.8 million recognizing the impairment of substantially all of the goodwill on the acquisitions of OBI, Unifab International West and Allen Process Systems Limited. Due to the economic conditions in the oil and gas services industry, the delay in the expected recovery to profitable operations and the decision to close the Company's barge repair facility in New Iberia, the Company evaluated the likelihood that goodwill would be recovered. Based on this evaluation, the Company determined that goodwill was impaired and recorded an impairment charge of \$14.8 million. The Company's evaluation of the recovery of goodwill was based on estimated future cash flows related to the associated businesses. The write down was to fair value of the related businesses based on discounted cash flows or the estimated fair value of certain facilities.

The carrying amount of goodwill, which is entirely attributable to the Company's June 24, 1999 acquisition of Compression Engineering Services, Inc., is approximately \$260,000 as of December 31, 2003 and 2002, and is included in Other Assets on the balance sheet.

INCOME TAXES

Income taxes are accounted for using the asset and liability method. Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements at the enacted statutory rate to be in effect when the taxes are paid.

STOCK BASED COMPENSATION

The Company uses the intrinsic value method of accounting for employee-based compensation prescribed by Accounting Principles Board ("APB") Opinion No. 25 and, accordingly, follows the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 encourages the use of fair value based method of accounting for compensation expense associated with stock option and similar plans. However, SFAS No. 123 permits the continued use of the intrinsic value based method prescribed by Opinion No. 25 but requires additional disclosures, including pro forma calculations of net

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

F-9

earnings and earnings per share as if the fair value method of accounting prescribed by SFAS No. 123 had been applied.

Had compensation cost for the Company's stock plans been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, the Company's net income and net income per share amounts would have approximated the following pro forma amounts (in thousands, except per share data):

	YEAR ENDED DECEMBER 31		
	2003	2002	2001
Net loss, as reported	\$ (11,835)	\$ (20,517)	\$ (29,281)
Add: Total stock-based employee compensation expense included in reported net loss, net of related tax effects	-	-	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(22)	(302)	(586)
Pro forma net loss	\$ (11,857)	\$ (20,819)	\$ (29,867)
Loss per share			
Basic and diluted, as reported	\$ (1.45)	\$ (5.59)	\$ (36.02)
Basic and diluted, pro forma	\$ (1.45)	\$ (5.67)	\$ (36.74)
Weighted average fair value of grants	\$ 2.05	\$ 2.10	\$ 8.22

Black-Scholes option pricing model assumptions:

	Year Ended December 31		
	2003	2002	2001
Risk-free interest rate	1.50% to 1.82%	2.22%	2.77% to 3.00%
Volatility factor of the expected market price of UNIFAB stock	1.042-1.747	1.042	1.042 to 1.747
Weighted average expected life of the option	2 years	2 years	2 years
Expected dividend yield	-	-	-

LONG-LIVED ASSETS

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 promulgates standards for measuring and recording impairments of

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

long-lived assets. Additionally, this standard establishes requirements for classifying an asset as held for sale, changes existing accounting and reporting standards for discontinued operations and exchanges for long-lived assets. The Company implemented SFAS No. 144 on January 1, 2002, as required.

During 2002 the Company recorded an impairment loss of \$5.1 million on the Lake Charles facility. Operating losses incurred at the facility and the outlook of that business resulted in the Company actively seeking alternative sources of capital to sustain development and operations at the facility. By closing the Midland transaction in August 2002, the Company was able to stabilize its overall financial condition and add experienced management to evaluate alternatives with respect to the Lake Charles facility. In evaluating the recoverability of the investment in the Lake Charles facility, the Company estimated net undiscounted cash flows under both operating alternatives and disposal scenarios, and concluded the carrying value of the facility was impaired. The Company then estimated the fair value of the facility based on the related discounted estimated cash flows and, based on this analysis, recorded an

F-10

impairment loss of \$5.1 million. The impairment loss reduced the recorded net value of the facility to its estimated fair value of \$5.4 million. During 2003 the facility was reopened and operated. Through December 31, 2003, operations at the facility had not generated a gross profit. Additionally, at December 31, 2003, the Company did not have a project to place at the facility when the current project has been completed, and expects to close the facility upon completion of the project. In the event the company is unable to operate the facility profitably, the Company may again close the facility, sell the facility, or seek a partner to operate the facility.

EARNINGS PER SHARE

Basic net income (loss) per share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per share uses the weighted average number of common shares outstanding adjusted for the incremental shares attributed to dilutive outstanding options and warrants to purchase common stock and securities convertible into shares of common stock.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, including cash, receivables and payables approximate fair market value due to their short-term nature. The Company's long-term debt at December 31, 2003 and 2002 consists principally of a revolving credit agreement, secured subordinated notes payable, and a secured subordinated convertible debenture. The terms of each of these instruments were negotiated during the latter part of 2002 in arm's length transactions and provide for variable interest rates. In addition the Company's credit worthiness and common stock price have not changed significantly since the instruments were issued. Accordingly, the carrying value of the Company's long-term debt is considered to approximate fair value at December 31, 2003 and 2002.

NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," requires the recording of liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. These liabilities are required to be recorded at their fair values (which are likely to be the present values of the estimated future cash flows) in the period in which they are incurred. SFAS No. 143 requires the associated asset retirement costs to be capitalized as

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

part of the carrying amount of the long-lived asset. The asset retirement obligation will be accreted each year through a charge to expense. The amounts added to the carrying amounts of the assets will be depreciated over the useful lives of the assets. The implementation of SFAS No. 143 did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred rather than at the date a plan is committed to. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The implementation of SFAS No. 146 did not have a material impact on the Company's consolidated financial position or results of operations.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46 applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The adoption of FIN 46 did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. The adoption of FAS No. 149 did not have a significant effect on the Company's consolidated financial position or results of

F-11

operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 also addresses questions about the classification of certain financial instruments that embody obligations to issue equity shares. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003. The adoption of FAS No. 150 did not have a significant effect on the Company's consolidated financial position or results of operations.

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employers' Disclosures About Pension and Other Postretirement Benefits." SFAS No. 132 replaces the original SFAS No. 132 and revises employers' disclosure about pension plans and other postretirement benefit plans to require more information about the economic resources and obligations of such plans. SFAS No. 132 (Revised 2003) is effective for financial statements of public companies for fiscal years ending after December 15, 2003. The Company does not expect the adoption of SFAS No. 132 (Revised 2003) will have a material impact on its consolidated financial position or results of operations.

RECLASSIFICATIONS

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Certain amounts previously reported have been reclassified to conform with the presentation at December 31, 2003.

2. CURRENT MATTERS AND THE MIDLAND TRANSACTION

CURRENT MATTERS

Prior to and since the initiation of the Midland Recapitalization and Investment Transaction in April 2002, described more fully below, the Company has been incurring losses from operations. In response to this situation, the Company has eliminated noncore businesses and excess facilities, reduced overhead and restructured its management team and operations in an effort to return to profitability. In the year ended December 31, 2003, the Company incurred a net loss of \$11.8 million, including \$2.2 million related to drilling rig fabrication start up operations in Lake Charles, \$2.2 million related to a contract to fabricate buoyancy cans, \$270,000 related to the winding down of non core operations, and \$605,000 related to the Company's process systems fabrication facility which was underutilized. Also included in the net loss for the year ended December 31, 2003 are selling, general and administrative expenses of \$5.1 million and interest expense of \$2.0 million. Current pricing for the Company's services and the level of utilization of the Company's main fabrication facilities have not resulted in operating profits sufficient to cover these costs.

The Company continues to bid and win contracts and invest capital in facilities and equipment. In June 2003 the Company added new management at its drilling rig fabrication facility. In October 2003, the Company changed management at its platform fabrication and process systems facilities, and organized them both under one president. These new managers are restructuring the project management processes and controls throughout the Company and are revising the responsibility and reporting channels. The Company continues to review operations, facilities, costs and business opportunities in an attempt to return to profitability.

The Company has renewed the Credit Agreement, with Midland's continuing guarantee, and has extended the maturity to January 31, 2005. As a result, the liability has been classified as noncurrent at December 31, 2003. Under an informal arrangement with the Company, Midland has agreed from time to time to provide financial support and funding for working capital or other needs at Midland's discretion. During the year ended December 31, 2003, Midland advanced \$5.9 million to the Company for working capital, which is classified as a current liability at December 31, 2003. As a result of classifying these advances from Midland as a current liability, the Company has a working capital deficit of \$1,341,000 at December 31, 2003. The liquidity afforded by these advances from Midland was necessary for the Company to meet its obligations and fund operations. Management believes that additional funds available from Midland under the informal arrangement described above are necessary to fund its working capital needs and planned capital expenditures for the next 12 months. However, the Company has no control over whether Midland will provide additional funding in the future and does not know whether such additional funding will be available from Midland as the Company requires it.

F-12

If Midland does not make available such additional funding to the Company when needed in the future, the Company could be unable to satisfy its working capital requirements and meet its obligations, including obligations under the Credit Agreement, in the ordinary course of business. The Company requires the continued support from Midland until such time as it has sustained profitable operations and its financial condition is stable and no longer requires this

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

support.

If the Company is unsuccessful in its efforts to return to profitability or obtain necessary capital from Midland as needed, it may not be able to meet its obligations in the ordinary course of business. The Company must experience a marked improvement in 2004 in order to remain a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

MIDLAND RECAPITALIZATION AND INVESTMENT TRANSACTION

During 2001, the Company's results of operation and financial condition deteriorated dramatically. In significant ways, the Company's declining financial condition impacted its ability to compete for contracts and labor, two important ingredients in the Company's historic profitability. At December 31, 2001, the Company had a working capital deficit caused by the reclassification of \$22.6 million outstanding under the Company's Senior Secured Credit Facility to current liabilities, which was caused by the Company's inability to make the scheduled payments without raising capital. As a result, management developed plans to seek additional capital and improve liquidity.

In April 2002, the Company entered into a preferred stock purchase, debt exchange and modification agreement with Midland. William A. Hines, who is now the chairman of the board of directors of the Company, is a manager of, and the owner of a 45.5% membership interest in, Midland. The remaining membership interest in Midland is owned by members of Mr. Hines' family and his former spouse. The terms of the Midland agreement were determined by arm's length negotiation between the Company's senior management team and its representatives, and Mr. Hines and his representatives. Mr. Hines had been the principal shareholder of Allen Tank, Inc., which was acquired by the Company in 1998. From the time of that acquisition in 1998 until March 2001, Mr. Hines served as a director of the Company. At the time of negotiating and entering into the Midland agreement, Mr. Hines held no position with the Company. Upon consummating the Midland agreement in August 2002, Mr. Hines became Chairman of the Board of Directors.

Pursuant to the Midland agreement and prior to its consummation on August 13, 2002:

- The Company consented to Midland's acquisition of the rights of the lenders under the Company's credit agreement dated November 30, 1999, as amended, with Bank One, Louisiana, N.A. and three other commercial banks. On May 1, 2002, Midland acquired the rights of those lenders under the credit agreement for \$13.9 million in cash, the source of which was capital contributions from its members. On that date, the total amount of principal, accrued interest and penalties owing under the credit agreement was \$21.3 million. Thereafter, and prior to the consummation of the Midland agreement, Midland advanced the Company \$2.8 million for working capital needs and to establish a cash collateral account with Bank One to secure outstanding letters of credit.
- Midland acquired unsecured creditor claims in the amount of \$5.6 million. Midland's acquisition cost for these claims was an aggregate of \$2.9 million, including payments made to the unsecured creditors, fees paid to a collection agent and attorneys' fees. Midland's source of these payments was capital contributions from its members.
- Midland agreed to guarantee a line of credit. On November 18, 2002 the Company established an \$8.0 million line of credit with a commercial bank. Nassau Holding Company, an affiliate of Midland, the subsidiaries

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

of Unifab, and the principle members of Midland guarantee the Company's obligations under it.

- The Company entered into agreements, effective April 2002, terminating the employment agreement of Dailey J. Berard, who was then a director of the Company and was formerly chairman of the board, president and chief executive officer of the Company, and the consulting agreement of Jerome E.

F-13

Chojnacki, who was then the chairman of the board, president and chief executive officer; in exchange for the termination of their agreements, the Company made one-time cash payments of \$75,000 to each of Messrs. Berard and Chojnacki. Also effective April 2002, the Company obtained the resignation of Mr. Berard as a director, and the resignation of Mr. Chojnacki as Chairman of the Board, President and Chief Executive Officer.

- Midland agreed to use its best efforts to continue the listing of the Company's common stock on the Nasdaq Stock Market for a period of at least two years following consummation of the Midland agreement.
- Midland agreed to cause its designees to the board of directors to approve the calling of a meeting of shareholders for the purpose of voting on an increase in the authorized number of shares of the Company's common stock, and to approve a rights offering. Midland also agreed to vote its shares in favor of the proposed increase in the authorized number of the Company's shares.

Upon consummation of the Midland agreement on August 13, 2002:

- \$10.0 million owed Midland under the credit agreement was cancelled in exchange for 738 shares of the Company's series A preferred stock. Each share of this preferred stock has voting rights equal to 100,000 shares of the Company's common stock, and will convert into 100,000 shares of the Company's common stock when the authorized number of the Company's unissued and unreserved common shares is at least 100 million, as will occur when approved by the Company's shareholders.
- \$12.8 million owed Midland under the credit agreement was converted into the following, which continue to constitute secured indebtedness under the credit agreement: (i) a convertible debenture in the principal amount of \$10.6 million payable in five equal annual installments, bearing interest at Wall Street Journal Prime (that is, the prime rate of interest reported in the Wall Street Journal in its daily table of "Money Rates") plus 2.5 percentage points (6.5% at December 31, 2003) and convertible into shares of the Company's common stock at \$3.50 per share, adjusted for the one-for-ten reverse stock split on August 3, 2003 (the closing price of the Company's common stock on the Nasdaq National Market on March 6, 2002, the date the negotiations on the expected terms of the convertible debenture and the rights were concluded); and (ii) a promissory note in the principal amount of \$2.1 million (the amount of the advances made by Midland to the Company after entering into the Midland agreement), which is payable August 13, 2005 and bears interest at the rate of Wall Street Journal Prime plus 3.0 percentage points (7.0% at December 31, 2003). The Company has recorded \$3.7 million discount on the face value of the convertible debenture, which represents the intrinsic value of the beneficial conversion feature of the debenture and equals the difference between \$3.50, the conversion price per share, and \$4.70, the closing price per share of

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Unifab International, Inc. common stock on August 13, 2002, the date of issuance of the convertible debenture, adjusted for the one-for-ten reverse stock split on August 3, 2003. This discount is being amortized as interest expense from August 13, 2002 and August 13, 2010, the maturity date of the debenture. Included in interest expense for the years ended December 31, 2003 and 2002 is \$521,000 and \$200,000, respectively, related to amortization of this discount.

- Midland transferred to the Company the claims it had acquired from the Company's unsecured creditors in the amount of \$5.6 million. In exchange for these claims, the Company delivered to Midland a promissory note in the principal amount of \$4.7 million, and recorded a contribution to additional paid in capital of \$914,000, which represents claims of unsecured creditors acquired by Midland which were forgiven by Midland. The promissory note is payable August 13, 2006, and bears interest at the rate of Wall Street Journal Prime plus 3.0 percentage points (7.0% at December 31, 2003). This promissory note also constitutes secured indebtedness under the Company's credit agreement with Midland.
- \$675,000 of the amount the Company owed Midland under the credit agreement was cancelled in exchange for the assignment to Midland of certain accounts receivable in the amount of \$1,191,000 against which the Company had established reserves of approximately \$516,000. The Company has recorded a \$675,000 reduction in the indebtedness under the credit agreement.
- \$680,000 of the amount the Company owed Midland under the credit agreement (substantially all of which consisted of penalties accrued under the terms of the amended credit agreement) was forgiven by Midland, resulting in a contribution to additional paid in capital of \$680,000. Midland waived all defaults under the credit agreement.

F-14

- Charles E. Broussard resigned from the Company's board of directors, and the remaining directors, Perry Segura and George C. Yax, appointed Mr. Hines, Frank J. Cangelosi, Jr., William A. Downey, Daniel R. Gaubert, Donald L. Moore and Allen C. Porter, Jr., all designated by Midland, as members of the board.

3. CONTRACTS IN PROGRESS

Information pertaining to contracts in progress at December 31, 2003 and 2002 consisted of the following:

	DECEMBER 31	
	2003	2002
	-----	-----
	(In thousands)	
Costs incurred on uncompleted contracts	\$ 48,876	\$ 10,919
Estimated earnings (losses), net	(2,866)	50
	-----	-----
	46,010	10,969
Less billings to date	(45,598)	(8,686)
	-----	-----
	\$ 412	\$ 2,283
	=====	=====

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Included in the accompanying balance sheets under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 1,287	\$ 2,297
Billings in excess of costs and estimated earnings on uncompleted contracts	(875)	(14)
	-----	-----
	\$ 412	\$ 2,283
	=====	=====

Accounts receivable includes retainages and unbilled receivables, respectively, of \$138,000 and \$10,000 at December 31, 2003 and \$775,000 and \$36,000 at December 31, 2002. The unbilled receivables relate primarily to time and material contracts.

The Company has contract loss reserves of \$697,000 and \$1,148,000 at December 31, 2003 and December 31, 2002, respectively. Included in contract loss reserves at December 31, 2003 is \$688,000 related to three fixed price contracts for platform fabrication. These contract loss reserves were recorded to recognize increased estimated costs at completion on two fixed price platform fabrication contracts and to increase estimated costs on a contract to fabricate buoyancy cans based on the evaluation of productivity and progress to date. The contract loss reserve at December 31, 2002 related to the two fixed price platform fabrication contracts was \$441,000. The platforms have been completed during 2003 and are being stored at the Company's fabrication facility. Substantially all of the reserve related to these two contracts has been realized at December 31, 2003.

The contract to fabricate buoyancy cans was approximately eighty percent complete at December 31, 2003, and the Company expects to complete it in early 2004. The contract to fabricate buoyancy cans provides for liquidated damages of approximately \$38,000 per day up to a maximum of \$1.5 million compensating the customer for his cost of delay if the Company does not deliver the completed buoyancy cans by March 15, 2004. The contract loss reserve recorded on this contract does not include any liquidated damages because the Company has taken steps, including adding fabrication stations and personnel, making certain fabrication procedures more efficient and improving material handling procedures and coordination with the coatings subcontractor, which in the Company's estimation will allow the buoyancy cans to be delivered on schedule. If these steps do not result in delivery of the buoyancy cans on schedule and the Company is unable to get the schedule extended, the Company may incur the liquidated damages called for in the contract.

In the December 2003 quarter, the Company recorded a loss of \$1.4 million related to a fixed price contract to fabricate drilling rig components. Substantially all of this contract loss reserve has been realized at December 31, 2003. This contract is being completed at the Company's deep-water facility in Lake Charles, which was reopened to perform this project. The contract loss reserves were recorded to recognize increased estimated costs at completion caused primarily to inefficiencies related to starting up the facility and low productivity at the facility in performing this initial contract. In December 2003, the Company negotiated a change in the contract terms whereby work

F-15

performed subsequent to December 31, 2003 is to be performed on a time and materials basis. The Company estimates that no loss reserve is necessary for the work performed after December 31, 2003.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

The remaining contract loss reserve at December 31, 2003 relates to contracts to provide process equipment. The reserves on these contracts reflect current competitive market conditions and increased estimated shop overhead costs due to low utilization of the Company's process system fabrication facilities.

At December 31, 2002, contract loss reserves included \$441,000 related to two fixed price platform fabrication contracts, described above, and \$707,000 on three contracts to manufacture process equipment overseas. As more fully described in Note 17 below, the Company is in the process of liquidating and winding up operations of its process systems operations based in London, England, which includes winding up the three contracts to manufacture process equipment overseas referred to above.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2003 and 2002:

	DECEMBER 31,	
	2003	2002
	-----	-----
	(In thousands)	
Land	\$ 2,089	\$ 2,089
Building and bulkhead, including leasehold improvements	12,740	12,540
Yard equipment	25,874	24,412
Vehicles and other equipment	1,632	1,552
Construction in progress	54	730
	-----	-----
	42,389	41,323
Less accumulated depreciation	(17,166)	(15,102)
	-----	-----
	\$ 25,223	\$ 26,221
	=====	=====

F-16

5. LONG-TERM DEBT

Long-term debt at December 31, 2003 and 2002 consisted of the following:

	DECEMBER 31,	
	2003	2002
	-----	-----
	(In thousands)	
Revolving credit agreement with Whitney National Bank, interest payable monthly at variable rates (2.9% at December 31, 2003), maturing January 31, 2005 secured by the assets of the Company, guaranteed by Nassau Holding Company, an affiliate of Midland, the subsidiaries of the Company, and the principle members of Midland	\$ 7,902	\$
Notes payable to Midland, payable on demand at variable rates (2.9%		

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

at December 31, 2003), secured by the assets of the Company	5,900	
Note payable to finance company, payable in monthly installments of \$141,000, including interest at 5.5%, maturing July 2004	826	
Other notes payable	102	

Total long-term debt	14,731	
Less current maturities	(6,829)	

Long-term debt, less current maturities	\$ 7,902	\$
	=====	=====

On November 18, 2002, the Company entered into a Commercial Business Loan with Whitney National Bank (the "Credit Agreement") which provides for up to \$8.0 million in borrowings for working capital purposes, including up to \$2.0 million in letters of credit, under a revolving credit facility. At December 31, 2003, letters of credit totaling \$3,000 were outstanding under the Credit Agreement. At December 31, 2002, the Company had no letters of credit outstanding under the Credit Agreement.

Maturities of long-term debt, discussed above, secured subordinated notes payable and the secured subordinated convertible debenture, discussed in Note 2, are as follows (in thousands):

2004	\$	6,829	
2005		10,041	
2006		4,709	
2007		2,130	
2008		2,130	
Thereafter		6,392	

Total	\$	32,231	
		=====	

F-17

6. INCOME TAXES

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2003 and 2002 were as follows:

	DECEMBER 31,	
	2003	2002
	-----	-----
	(In thousands)	
Deferred tax liabilities:		
Excess book value over tax basis of property, plant and equipment	\$ 3,312	\$ 2,427
Long term contracts	7	

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Goodwill	11	
	-----	-----
Total deferred tax liabilities	3,330	2,427
Deferred tax assets:		
Reserves not currently deductible	628	1,317
Goodwill	-	2,846
Long term construction contracts	-	15
Operating loss carryforward	18,960	12,052
	-----	-----
Total deferred tax assets	19,588	16,230
Valuation allowance for deferred tax assets	(16,258)	(13,803)
	-----	-----
Deferred tax assets	3,330	2,427
	-----	-----
Net deferred tax liabilities	\$ -	\$ -
	=====	=====

At December 31, 2003, the Company has an available net operating loss carryforward of approximately \$49.98 million for U.S. Federal income tax purposes, which, if not used will expire between 2020 and 2023. The ability of the Company to utilize net operating loss carryforwards is limited on an annual basis because the Midland transaction resulted in a change in control under the current tax regulations. The Company has recorded a valuation allowance to offset the deferred tax asset related to the net operating loss carryforward and other deferred tax assets that exceed deferred tax liabilities because the Company believes that it is more likely than not that these deferred tax assets will not be utilized.

The income tax provision is comprised of the following:

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
	----	----	----
	(In thousands)		
Current	\$ -	\$-	\$ -
Deferred	-	-	1,316
	----	----	-----
	\$ -	\$-	\$1,316
	=====	=====	=====

F-18

The reconciliation of income tax computed at the federal statutory rates to income tax expense is:

	YEAR ENDED DECEMBER 31		
	2003	2002	2001
	-----	-----	-----
Tax at federal statutory rates	\$ (4,142)	\$ (7,181)	\$ (9,508)
Valuation reserve on deferred tax assets	3,211	6,469	6,942
Non deductible loss on goodwill impairment	-	-	3,174
Other, primarily permanent differences and state income taxes	931	712	708

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

-----	-----	-----
\$ -	\$ -	\$ 1,316
=====	=====	=====

7. SHAREHOLDERS' EQUITY

COMMON STOCK

The Company has authorized 150,000,000 shares of \$0.01 par value common stock.

PREFERRED STOCK

The Company has authorized 5,000 shares of no par value preferred stock. On April 23, 2002, the Board of Directors adopted Articles of Amendment to the Company's Articles of Incorporation which authorized that 750 shares of preferred stock are designated Series A Participating Preferred Stock (the "Series A Shares"). Each Series A Share shall entitle the holder to vote as 100,000 shares of common stock, shall have no preference to the common shares on the payment of dividends or the liquidation or winding up of the Company. If the Company pays a dividend to the holders of its common shares, each Series A Share shall entitle the holder to a dividend equal to 100,000 times the dividend paid on each share of common stock. In any liquidation or winding up of the Company, will entitle the holder to 100,000 times the amount paid on each share of common stock. In all other ways, each series A Share shall be treated like 100,000 shares of common stock. If at any time the Company has authorized at least 100,000,000 shares of common stock that have not been issued or reserved for issuance pursuant to an outstanding obligation of the Company, then each Series A Share will be converted into 100,000 shares of common stock. On August 13, 2002 under the terms of the Midland Transaction, the Company issued 738 Series A Shares. On August 1, 2003, each share of series A preferred stock was converted into 100,000 shares of Unifab common stock, as more fully described below.

EARNINGS PER SHARE

In April 2002, the Company entered into an agreement with Midland Fabricators and Process Systems, LLC ("Midland") as a result of which, among other things, Midland acquired the rights of the Company's lenders under the Company's Senior Secured Credit Agreement. On August 13, 2002, pursuant to the agreement with Midland, Midland exchanged \$24.1 million outstanding under the Company's Senior Secured Credit Agreement and \$5.6 million in acquired claims of unsecured creditors for 738 shares of our preferred stock, a secured subordinated convertible debenture in the amount of \$10.7 million and two secured subordinated notes which total in the aggregate \$6.8 million. The debenture is convertible into the Company's common stock at a price of \$3.50 per share on a post reverse split basis. Midland's 738 shares of preferred stock converted automatically into a total of 73,800,000 shares of the Company's common stock on August 1, 2003, the date the shareholders authorized additional shares of common stock. The Company also recorded additional paid in capital on the transaction of \$3.7 million resulting from the discount recorded on the secured subordinated convertible debenture, and capital contributions of \$680,000 resulting from forgiveness by Midland of penalties accrued under the Senior Secured Credit Agreement and \$914,000 resulting from partial forgiveness of the unsecured creditor claims acquired by Midland. Further, \$675,000 of the amount the Company owed Midland under the Company's Senior Secured Credit Agreement was cancelled in exchange for the assignment to Midland of certain accounts.

On August 1, 2003, the Company's shareholders approved a one-for-ten reverse stock split of the outstanding shares of the Company's common stock, to be effective immediately after the conversion of Midland's Series A preferred

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

shares. Accordingly, on August 3, 2003, each share of series A preferred stock was converted into 100,000

F-19

shares of Unifab common stock and the one-for-ten reverse stock split was effected resulting in Midland holding a total of 7,380,000 common shares after the reverse stock split.

The denominator in the table below includes the common shares related to these Series A Preferred Shares as if they had been converted into shares of common stock on August 13, 2002, the date of the Midland Investment and Recapitalization Transaction. All prior periods weighted average share and option amounts have been restated for the effect of the reverse stock split. Midland's \$10,652,000 convertible debenture is convertible into Unifab common stock at a conversion price of \$3.50 per share on a post reverse split basis, for a total of 3,043,400 shares of common stock. Since the conversion price is "out-of-the-money," these shares are anti-dilutive and are not included in the computation of diluted earnings per share during periods when the Company incurs a loss.

The following table sets forth the computation of basic and diluted earnings per share giving retroactive effect to the assumed conversion of Midland's 738 shares as of August 13, 2002 and giving effect to the one-for-ten reverse stock split:

	YEAR ENDED DECEMBER 31		
	2003	2002	2001
	-----	-----	-----
(In thousands, except per share amounts)			
Numerator:			
Net loss	\$ (11,835)	\$ (20,517)	\$ (29,281)
	-----	-----	-----
Denominator:			
Weighted average shares of common stock outstanding	3,873	813	814
Effect of issuance of convertible preferred stock on weighted average shares of common stock	4,327	2,857	-
	-----	-----	-----
Denominator for basic and diluted earnings per share - weighted average shares	8,200	3,670	814
	-----	-----	-----
Basic and diluted loss per share	\$ (1.44)	\$ (5.59)	\$ (36.02)
	=====	=====	=====

Options with an exercise price greater than the average market price of the Company's common stock for the year and options outstanding during years where the Company incurs a net loss are anti-dilutive and, therefore, not included in the computation of diluted earnings per share. During the year ended December 31, 2003, 50,000 options and 6,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company. During the year ended December 31, 2002, 82,000 options and 6,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company. During the year ended December 31, 2001, 86,000 options and 6,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

8. CONCENTRATION OF CREDIT RISK

The Company's customers are principally major and large independent oil and gas companies and drilling companies. These concentrations of customers may impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic or other conditions. Management believes that the allowance for doubtful accounts is adequate to absorb probable credit losses. Receivables are generally not collateralized.

At December 31, 2003 and 2002, the allowance for doubtful accounts deducted from accounts receivable on the accompanying balance sheets was \$267,000 and \$763,000, respectively.

9. LONG-TERM INCENTIVE PLANS

In July 1997, the Company adopted and its shareholders approved the Long-Term Incentive Plan (the "1997 Plan") to provide long-term incentives to its key employees, including officers and directors who are employees of the Company (the "Eligible Employees"). Under the 1997 Plan, which is administered by the Compensation Committee of the Board of Directors, the Company may grant incentive stock options, nonqualified stock options,

F-20

restricted stock, other stock-based awards or any combination thereof (the "Incentives") to Eligible Employees. The Compensation Committee determines who receives Incentives and establishes the exercise price of any stock options granted under the Incentive Plan, provided that the exercise price may not be less than the fair market value of the Common Stock on the date of grant. At the Company's Annual Meeting of Shareholders held on December 27, 2002, the shareholders approved an amendment to the 1997 Plan to increase the number of shares of common stock subject to issuance under the plan to 2,500,000 from 460,000, and to increase the shares of common stock that can be granted to a single participant in a calendar year through awards under the plan to 250,000 from 200,000.

In June 2000, the Company adopted and the Board of Directors approved the Employee Long-Term Incentive Plan (the "2000 Plan") to provide long-term incentives to its key employees who are not officers or directors of the Company. Under the 2000 Plan, which is administered by the Plan Administrator, the Company may grant incentive stock options, nonqualified stock options, restricted stock, other stock-based awards or any combination thereof to key employees. The Compensation Committee reviews and approves awards made under the 2000 plan and approves the exercise price of any stock options granted under the 2000 Plan. The exercise price may not be less than the fair market value of the Common Stock on the date of grant. A maximum total of 565,000 shares of Common Stock are available for issuance under the 2000 Plan.

All of the options granted under the long-term incentive plans have a 10-year term. The Compensation Committee determines the vesting period of option grants. The optionee will not realize any income for federal income tax purposes, nor will the Company be entitled to any tax deduction, upon the grant of a nonqualified stock option. Upon exercise, the optionee will realize ordinary income measured by the difference between the aggregate fair market value of the shares of Common Stock on the exercise date and the aggregate exercise price, and the Company will be entitled to a tax deduction in the same amount.

A summary of the Company's stock options activity and the related

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

information for the years ended December 31, 2003, 2002 and 2001 is as follows (in thousands, except per share data):

	Year Ended December 31, 2003		Year Ended December 31, 2002		Year Ended December 31, 2001	
	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS
Outstanding - beginning of period	\$34.25	82	\$72.07	86	\$86.16	84
Granted	1.65	2	3.90	50	17.74	20
Exercised	-	-	-	-	73.73	(1)
Forfeited	25.22	(34)	66.69	(54)	78.65	(17)
Options outstanding at end of period	\$39.18	50	\$34.25	82	\$72.07	86
Options exercisable at end of period	\$39.18	50	\$34.12	82	\$83.55	62

F-21

The following table summarizes information about stock options outstanding at December 31, 2003:

EXERCISE PRICE RANGE PER SHARE	Options Outstanding			Options Exe	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	EXERCISABL
\$180.00	1,700	3.8 years	\$180.00	1,700	
113.10	500	6.8	113.10	500	
71.20 - 87.50	12,533	5.3	75.07	12,533	
47.50 - 56.50	1,500	7.4	49.17	1,500	
2.50 - 3.90	27,000	8.7	3.73	27,000	

10. EMPLOYEE BENEFIT PLAN

The Company sponsors incentive savings plans covering substantially all of the employees of the Company and its subsidiaries, which allow participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. Under these plans, employees with one year of service with the Company are eligible to participate.

In November 2001, the Company suspended its policy of matching employee contributions. Prior to that date, the Company contributed an amount equal to 50% of employee contributions up to 3% of their base compensation. Matching contributions made by the Company were approximately \$334,000 in the year ended December 31, 2001. The Company made no matching contributions in the years ended December 31, 2003 and 2002.

11. MAJOR CUSTOMERS

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

The Company is not dependent on any one customer, and the contract revenue earned from each customer varies from year to year based on the contracts awarded. Contract revenue earned comprising 10% or more of the Company's total contract revenue earned for the year ended December 31, 2003, 2002 and 2001 is summarized as follows (in thousands):

	YEAR ENDED DECEMBER 31		
	2003	2002	2001
	-----	-----	-----
Customer A	\$ 12,497	\$ -	\$ 15,858
Customer B	8,769	-	-
Customer C	6,872	-	-
Customer D	-	5,748	-

F-22

12. INTERNATIONAL SALES

The Company fabricates structures and equipment for use worldwide by U.S. customers operating abroad and by foreign customers. During the years ended December 31, 2003, 2002 and 2001, 2%, 24% and 21%, respectively, of the Company's revenue was derived from projects fabricated for installation in international areas, with the remainder designed for installation in the U.S. Gulf of Mexico. The following table summarizes the Company's revenue by location for the years ended December 31, 2003, 2002 and 2001 (in thousands):

	Year Ended December 31		
	2003	2002	2001
	-----	-----	-----
Location:			
U.S. Gulf of Mexico	\$54,646	\$25,387	\$64,235
International:			
Africa	296	1,679	5,767
Europe	88	911	508
Other	744	5,309	11,233
Total International	1,128	7,899	17,498
	-----	-----	-----
Total	\$55,774	\$33,286	\$81,733
	=====	=====	=====

All of the assets of the Company are located in the United States of America.

13. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

In addition to the matters described below, the Company is a party to various routine legal proceedings primarily involving commercial claims, workers' compensation claims, and claims for personal injury under the General Maritime Laws of the United States. A number of the Company's vendors have sued

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

the Company to collect amounts of money allegedly due to them. These vendors are, in each case, unsecured creditors of the Company. While the outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty, management believes that the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial statements.

In a lawsuit filed against the Company in the 14th Judicial Court in the Parish of Calcasieu, State of Louisiana, Professional Industrial Maintenance, L.L.C., Don E. Spano and Kimberly Spano alleged multiple claims for breach of contract, breach of specific performance, a request for injunction, request for damages, and a request for treble damages and attorney fees for violations of the Louisiana Unfair Trade Practices Act. Mr. Spano was the managing member of Professional Industrial Maintenance, LLC, the company whose assets we acquired in January 1998. The Company filed a counterclaim for recovery of certain amounts paid on behalf of Professional Industrial Maintenance, LLC and Mr. Spano as a result of the transaction. In January 2004, the parties agreed to settle the disputes subject of the lawsuit with full and final releases for all claims in exchange for a cash payment to the plaintiffs in the amount of \$300,000; however, as of the filing of this report, the details of the settlement agreement and release have not been finalized.

LETTERS OF CREDIT

In the normal course of its business activities, the Company is required to provide letters of credit to secure performance. At December 31, 2003, cash deposits totaling \$115,000 secured outstanding letters of credit totaling \$110,000. In addition, at December 31, 2003 the Company had letters of credit totaling \$3,000 outstanding, which were issued under its Credit Agreement.

EMPLOYMENT AGREEMENTS

The Company has an employment agreement with one of its officers. This agreement terminates on August 18, 2006. The minimum annual compensation commitment by the Company under this agreement is \$60,000.

F-23

LEASES

The Company leases land, upon which portions of its structural fabrication and process equipment fabrication facilities in New Iberia are located, under noncancelable operating leases. The leases expire in 2003 for the structural fabrication facility with two 10-year renewal options and in 2009 for the process equipment facilities with one 10-year renewal option. The Company also leases its facility in Lake Charles under a noncancelable operating lease. The lease expires in 2005 and has two five-year renewal options. Future minimum payments, including option periods, under these leases are as follows (in thousands):

2004	\$	692
2005		692
2006		692
2007		692
2008		692
2009 and after		6,521

	\$	9,981
		=====

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Rent expense, which includes rent on cancelable equipment leases, during the years ended December 31, 2003, 2002 and 2001 was \$1,906,000, \$1,553,000 and \$2,300,000, respectively.

14. RELATED PARTY TRANSACTIONS

Under an informal arrangement with the Company, Midland has agreed to provide financial support and funding for working capital or other needs at Midland's discretion, from time to time. At December 31, 2003, Midland provided a standby letter of credit to a customer of the Company in support of a contract included in the Company's backlog at December 31, 2003. The letter of credit is in the amount of \$3.1 million and expires on March 31, 2004. The Company reimbursed \$12,600 to Midland for the cost of the letter of credit. During the year ended December 31, 2003, Midland advanced amounts to the Company for working capital, which were repaid and readvanced from time to time as needed. At December 31, 2003, \$5,900,000 is outstanding and owed to Midland. The liquidity afforded by these advances from Midland was necessary for the Company to meet its obligations and fund operations. However, the Company has no control over whether Midland will provide additional funding in the future and does not know whether such additional funding will be available from Midland as the Company requires it. If Midland does not make available such additional funding to the Company when needed in the future, the Company could be unable to meet its obligations, including obligations under the Credit Agreement, in the ordinary course of business. The Company requires the continued support from Midland until such time as it has sustained profitable operations and its financial condition is stable and no longer requires this support.

The Company provides health care benefits to its employees under a plan that covers the employees of companies owned by Nassau, including the employees of Nassau. This insurance coverage began on November 1, 2002. In the year ended December 31, 2003, the Company incurred costs of approximately \$1,979,000 for coverage under this plan.

Midland provides accounting information system and reporting services to the Company, including maintaining computer hardware and software to process financial information and produce management reports, processing data associated with those reports, assisting in report design and preparation, processing operating and payroll checks, consulting assistance with the design and implementation of financial reporting systems, and other related services. Included in general and administrative expenses for the year ended December 31, 2003 is \$180,000 related to these services, which had been paid in full at December 31, 2003.

At December 31, 2003, accrued and unpaid interest owed to Midland related to the secured, subordinated notes payable, the convertible debenture and working capital advances was \$310,000. At December 31, 2002, there was no accrued and unpaid interest owed to Midland.

In the year ended December 31, 2003, the Company executed several contracts with Ridgelake Energy, Inc. to fabricate a platform and design and manufacture process equipment. The total value of these contracts is \$6.9

F-24

million, which were complete at December 31, 2003. Included in revenue and gross profit for the year ended December 31, 2003 are \$6,872,000 and \$922,000, respectively, related to these contracts. At December 31, 2003, the Company had \$41,000 receivable from Ridgelake Energy, Inc. related to these contracts. Ridgelake Energy, Inc. is owned and controlled by Mr. William A. Hines, Chairman of our Board of Directors, and his family. Two of the contracts were completed

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

in May 2003.

15. SUPPLEMENTAL SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of quarterly results of operations for the year ended December 31, 2003 and 2002 were as follows (in thousands, except per share data):

	MARCH 31, 2003 -----	JUNE 30, 2003 -----	SEPTEMBER 30, 2003 -----	DECEMBER 31, 2003 -----
Revenue	\$ 9,523	\$ 14,483	\$ 15,855	\$ 15,913
Gross profit (loss)	185	519	(2,183)	(3,365)
Net loss	(1,430)	(1,190)	(3,642)	(5,573)
Basic and diluted loss per share	(0.17)	(0.15)	(0.44)	(0.68)

	MARCH 31, 2002 -----	JUNE 30, 2002 -----	SEPTEMBER 30, 2002 -----	DECEMBER 31, 2002 -----
Revenue	\$ 9,856	\$ 8,379	\$ 5,837	\$ 9,214
Gross profit (loss)	(37)	(1,030)	(1,610)	(3,297)
Net loss	(2,142)	(3,450)	(3,525)	(11,400)
Basic and diluted loss per share	(0.26)	(0.42)	(0.07)	(0.14)

On August 3, 2003, the shareholders authorized a one-for-ten reverse stock split. All earnings (loss) per share and weighted average number of shares outstanding have been restated to effect this one-for-ten reverse stock split.

On August 13, 2002, the Company issued 738 Series A shares of preferred stock. Each share of Series A preferred stock is convertible into 100,000 shares of Unifab common stock, or 73,800,000 total common shares. (See Notes 2 and 7). The weighted average number of shares outstanding used in the basic and diluted earnings per share calculations for the quarters ended September 30, 2002 and December 31, 2002 are calculated giving effect to the conversion of these preferred shares into common shares at August 13, 2002.

Pretax results for the quarter ended December 31, 2003 include:

- Loss reserves accrued on two fixed price contracts totaling \$2,091,000

Pretax results for the quarter ended December 31, 2002 include:

- Loss on impairment of Lake Charles facility of \$5,074,000
- Loss reserves accrued on four fixed price contracts totaling \$1,213,000

16. INDUSTRY SEGMENTS

Effective January 1, 2003, as a result of the Midland Recapitalization and Investment transaction, management has evaluated the changed organizational and reporting structure and has concluded that the Company operates three reportable segments: the platform fabrication segment, the process systems segment and the drilling rig fabrication segment. The platform fabrication segment fabricates

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

and assembles platforms and platform components for installation and use offshore in the production, processing and storage of oil and gas. The process systems segment designs and manufactures specialized process systems and equipment related to the development and production of oil and gas reserves. The drilling rig fabrication segment provides fabrication services for new construction and repair of drilling rigs. The accounting policies of the segments are the same as those described in the summary of significant accounting policies, except that income taxes are accounted for on a consolidated basis and deferred tax assets are managed as corporate assets and are not recorded in the operating segments. The Company evaluates

F-25

performance based on segment income, which is defined as revenue less cost of revenue and selling, general and administrative expense allocated to the operating segment. The Company does not allocate interest expense to the operating segments. Unallocated overhead consists primarily of corporate general and administrative costs that the Company does not allocate to the operating segments. The Company accounts for intersegment sales at fixed labor rates and at cost for materials and other costs. Intersegment sales are not intended to represent current market prices for the services provided.

The following tables show information about the revenue, profit or loss, depreciation and amortization, assets and expenditures for long-lived assets of each of the Company's reportable segments for the years ended December 31, 2003, 2002 and 2001. Segment assets do not include intersegment receivable balances as the Company believes inclusion of such assets would not be meaningful. Segment assets are determined by their location at period end. Some assets that pertain to the segment operations are recorded on corporate books, such as prepaid insurance. These assets have been allocated to the segment in a manner that is consistent with the methodology used in recording the segment's expense.

F-26

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
	-----	-----	-----
	(in thousands)		
Revenue from external customers:			
Platform fabrication	\$ 34,786	\$ 17,384	\$ 36,717
Process systems	11,794	12,124	26,299
Drilling rig fabrication	9,194	498	5,295
Other (a)	-	3,280	13,937
Intersegment eliminations	-	-	(515)
	-----	-----	-----
	\$ 55,774	\$ 33,286	\$ 81,733
	=====	=====	=====
Segment income (loss):			
Platform fabrication	\$ (2,927)	\$ (1,913)	\$ 1,859
Process systems	(889)	(4,231)	(4,076)
Drilling rig fabrication	(3,028)	(7,354)	(5,097)
Other (a)	-	(1,604)	(15,795)
	-----	-----	-----
	(6,844)	(15,102)	(23,109)
Interest expense	(1,951)	(1,894)	(2,794)
Unallocated corporate expense	(3,040)	(3,521)	(2,062)
	-----	-----	-----

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

Loss before income tax	\$ (11,835)	\$ (20,517)	\$ (27,965)
	=====	=====	=====
Depreciation and amortization:			
Platform fabrication	\$ 1,267	\$ 1,196	\$ 1,220
Process systems	396	465	648
Drilling rig fabrication	515	578	740
Other (a)	-	460	446
	-----	-----	-----
	2,178	2,699	3,054
Corporate	36	1	-
	-----	-----	-----
	\$ 2,214	\$ 2,700	\$ 3,054
	=====	=====	=====
Segment assets at end of period:			
Platform fabrication	\$ 21,846	\$ 21,589	\$ 24,161
Process systems	6,742	10,020	13,909
Drilling rig fabrication	9,229	6,303	13,460
Other (a)	-	-	7,099
	-----	-----	-----
	37,817	37,912	58,629
Corporate	2,402	1,367	4,578
	-----	-----	-----
	\$ 40,219	\$ 39,279	\$ 63,207
	=====	=====	=====
Expenditures for long-lived assets:			
Platform fabrication	\$ 166	\$ 121	\$ 248
Process systems	355	1,050	1,141
Drilling rig fabrication	677	-	729
Other (a)	-	-	175
	-----	-----	-----
	1,198	1,171	2,293
Corporate	108	23	-
	-----	-----	-----
	\$ 1,306	\$ 1,194	\$ 2,293
	=====	=====	=====

(a) Included in Other are the revenue, segment loss, depreciation and amortization, assets and expenditures related to derrick fabrication, waste water treatment, and plant maintenance operations. These operations ceased prior to December 31, 2002.

F-27

17. SHUT DOWN OF ALLEN PROCESS SYSTEMS LIMITED

On June 12, 2003, at a meeting of the creditors of Allen Process Systems Limited, Mr. Tony Freeman of TonyFreeman & Company, New Maxdov House, Manchester, England was appointed as Liquidator of Allen Process Systems Limited ("APS Limited"), located in London, England, for the purposes of ceasing and voluntarily winding up operations of that company. The Company, as the sole shareholder of APS Limited, ratified Mr. Freeman's appointment. APS Limited was acquired by the Company in June 1998 and has provided engineering and project management services for process systems mainly to Europe and the Middle East. Allen Process Systems, LLC, a wholly owned subsidiary of the Company will provide these services in the future. The Company does not expect that ceasing and winding up operations of APS Limited will have a material impact on the consolidated financial statements of the Company.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

F-28

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 29, 2004.

UNIFAB International, Inc.
(Registrant)

By: /s/ William A Hines

William A Hines
Principle Executive Officer

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

SIGNATURE AND DATE -----	TITLE -----
/s/ William A. Hines March 29, 2004 ----- William A. Hines	Chairman of the Board
/s/ Peter J. Roman March 29, 2004 ----- Peter J. Roman	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Frank Cangelosi March 29, 2004 ----- Frank Cangelosi	Director
/s/ Daniel Gaubert March 29, 2004 ----- Daniel Gaubert	Director
/s/ William Downey March 29, 2004 ----- William Downey	Director
/s/ Don Moore March 29, 2004 ----- Don Moore	Director
/s/ Perry Segura March 29, 2004 ----- Perry Segura	Director
/s/ George C. Yax March 29, 2004 ----- George C. Yax	Director

S-1

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

UNIFAB INTERNATIONAL, INC.

EXHIBIT INDEX

Exhibit Number -----	Description of Exhibits -----
3.1	Articles of Incorporation of the Company ***
3.2	By-laws of the Company ***
4.1	See Exhibits 3.1 and 3.2 for provisions of the Company's Articles of Incorporation and By-laws defining the rights of holders of Common Stock ***
4.3	Debenture****
4.2	Specimen Common Stock Certificate *
10.1	Form of Indemnity Agreement by and between the Company and each of its directors and executive officers *
10.2	The Company's Long-Term Incentive Plan (Function)
10.3	The Company's Employee Long Term Incentive Plan (Function)
10.4	Form of Stock Option Agreement under the Company's Long-Term Incentive Plan * (Function)
10.5	Form of Stock Option Agreement under the Company's Employee Long-Term Incentive Plan (Function)
10.6	Employment Agreement between the Company and William A. Downey *** (Function)
10.7	Ground Lease Agreement dated as of September 1, 1998, between PIM, L.L.C. (now UNIFAB International West, L.L.C. and a subsidiary of the Company) and the Lake Charles Harbor & Terminal District **
10.8	Guaranty Agreement made as of September 1, 1998, by the Company in favor of the Lake Charles Harbor & Terminal District **
10.9	Development Agreement among PIM, L.L.C., the Company, the Lake Charles Harbor & Terminal District, and the Calcasieu Parish Police Jury **
10.10	Commercial Business Loan Agreement by and between the Company and Whitney National Bank dated November 18, 2002***
10.11	Preferred Stock Purchase, Debt Exchange and Modification Agreement dated April 26, 2002, by and between Midland Fabricators and Process Systems, LLC and the Company (incorporated herein by reference to the Company's report of Form 8-K filed with the Securities and Exchange Commission on May 13, 2002)
10.12	Amended and Restated Credit Agreement dated as of October 19, 2000, among the Company, Bank One, N.A., IberiaBank, Regions Bank and Whitney National Bank**

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

- 10.13 Waiver and First Amendment to Amended and Restated Credit Agreement dated as of March 31, 2001, among the Company, Bank One, NA, IberiaBank, Regions Bank, and Whitney National Bank (incorporated by reference to the Company's report on Form 10-K/A filed with the Securities and Exchange Commission on June 15, 2001)
- 10.14 Waiver and Second Amendment to Amended and Restated Credit Agreement dated as of March 5, 2002, among the Company, Bank One, Louisiana, N.A., IberiaBank, Regions Bank and Whitney National Bank (incorporated herein by reference to the Company's report of Form 8-K filed with the Securities and Exchange Commission on March 12, 2002)
- 10.15 Act of Acknowledgment, modification, Receipt and Third Amendment to Amended and Restated Credit Agreement dated August 13, 2002*****
- 21.1 Subsidiaries of the Company
- 23.1 Consent of Deloitte & Touche LLP
- 23.2 Consent of Ernst & Young LLP
- 31.1 Certification pursuant to Exchange Act 13a-15 and 15d-15(e) accompanying and furnished with this annual report on Form 10-K for the fiscal year ended December 31, 2003
- 31.2 Certification pursuant to Exchange Act 13a-15 and 15d-15(e) accompanying and furnished with this annual report on Form 10-K for the fiscal year ended December 31, 2003

E-1

- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350, as adopted) accompanying and furnished with this annual report on Form 10-K for the fiscal year ended December 31, 2003
- 32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350, as adopted) accompanying and furnished with this annual report on Form 10-K for the fiscal year ended December 31, 2003
- 99.1 Press release issued by the Company on March 4, 2004 regarding the trading activity in the Company's common stock
- 99.2 Form 8-K filed with the Securities and Exchange Commission on March 3, 2004 (incorporated herein by reference)

* Incorporated herein by reference to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 18, 1997, as amended (Registration No. 333-31609).

** Incorporated herein by reference to the Company's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on October 26, 2000, as amended (Registration No.

Edgar Filing: UNIFAB INTERNATIONAL INC - Form 10-K

333-48710).

*** Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended September 30, 2002, as filed with the Securities and Exchange Commission on February 13, 2003.

**** Incorporated herein by reference to the Company's report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2002.

(Function) Management Contract or Compensatory Plan.

E-2