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UNIFAB INTERNATIONAL INC
Form 10-Q
November 14, 2003

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 For the Period Ended September 30, 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 or
incorporation or organization)

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

5007 Port Road
New Iberia, LA

70560

(Address of principal executive offices)

(Zip Code)

(337) 367-8291

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year,
if changed since last report)

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 periods that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Securities and Exchange Act of 1934)
Yes No

Common Stock, \$0.01 Par Value ---- 8,201,899 shares outstanding as of November

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7, 2003.

UNIFAB INTERNATIONAL, INC.

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UNIFAB INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

SEPTEMBER 30
2003

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(IN THOUSANDS)

ASSETS

Current assets:

| | |
|---|--------|
| Cash and cash equivalents | \$ 226 |
| Accounts receivable, net of allowance for doubtful accounts of \$297 and \$763, respectively | 11,004 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 2,142 |
| Income tax receivable | 147 |
| Prepaid expenses and other assets | 532 |

Total current assets 14,051

| | |
|------------------------------------|--------|
| Property, plant and equipment, net | 25,753 |
| Other assets | 810 |

Total assets \$ 40,614

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

| | |
|---|----------|
| Accounts payable | \$ 4,558 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 2,385 |
| Accrued liabilities | 2,011 |
| Contract loss reserves | 1,594 |
| Current maturities of long-term debt | 7,944 |

Total current liabilities 18,492

| | |
|---|-------|
| Long-term debt, less current maturities | -- |
| Secured, subordinated notes payable | 6,848 |
| Secured, subordinated, convertible debenture, net of unamortized discount of \$3,061 and \$3,452, respectively | 7,591 |

Total liabilities 32,931

Commitments and contingencies (Note 7)

Shareholders' equity:

| | |
|---|----------|
| Preferred stock, no par value, 5,000 shares authorized, no shares outstanding at September 30, 2003, 738 shares outstanding at December 31, 2002, each share has voting rights equivalent to and is convertible into 10,000 shares of common stock on a post-reverse split basis | -- |
| Common stock, \$0.01 par value, 150,000,000 shares authorized, 8,201,899 shares outstanding at September 30, 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 | (54,475) |
| Accumulated other comprehensive loss | -- |

Total shareholders' equity 7,683

Total liabilities and shareholders' equity \$ 40,614

See accompanying notes.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | THREE MONTHS ENDED SEPTEMBER 30 | | NINE MONTHS ENDED |
|--|--------------------------------------|------------|-------------------|
| | 2003 | 2002 | 2003 |
| | (In thousands except per share data) | | |
| Revenue | \$ 15,855 | \$ 5,837 | \$ 39,861 |
| Cost of revenue | 18,038 | 7,447 | 41,341 |
| Gross profit (loss) | (2,183) | (1,610) | (1,480) |
| Loss on disposal of equipment and closure of facilities | -- | -- | -- |
| Selling, general and administrative expense | 974 | 1,432 | 3,338 |
| Loss from operations | (3,157) | (3,042) | (4,818) |
| Other income (expense): | | | |
| Interest expense | (489) | (488) | (1,454) |
| Interest income | 4 | 5 | 9 |
| Loss before income taxes | (3,642) | (3,525) | (6,263) |
| Income tax benefit | -- | -- | -- |
| Net loss | \$ (3,642) | \$ (3,525) | \$ (6,263) |
| | ===== | ===== | ===== |
| Basic and diluted loss per share (a) | \$ (0.44) | \$ (0.74) | \$ (0.76) |
| | ===== | ===== | ===== |
| Basic and diluted weighted average shares outstanding (a) | 8,193 | 4,750 | 8,193 |
| | ===== | ===== | ===== |

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

See accompanying notes.

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UNIFAB INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| NINE MONTHS ENDED SEPTEMBER 30 | |
|-----------------------------------|------|
| 2003 | 2002 |
| (IN THOUSANDS) | |

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| | | |
|---|------------|------------|
| Net cash provided by (used in) operating activities | \$ (3,668) | \$ 1,757 |
| Investing activities: | | |
| Proceeds from sale of equipment | -- | 139 |
| Purchases of equipment | (1,244) | (46) |
| Collections on notes receivable | 54 | -- |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (1,190) | 93 |
| | ----- | ----- |
| Financing activities: | | |
| Net change in short term borrowings from Midland | -- | -- |
| Net change in other borrowings | 5,004 | (2,636) |
| Loans from Midland | -- | 2,815 |
| | ----- | ----- |
| Net cash provided by financing activities | 5,004 | 179 |
| | ----- | ----- |
| Net change in cash and cash equivalents | 146 | 2,029 |
| Cash and cash equivalents at beginning of period | 80 | 754 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 226 | \$ 2,783 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Income taxes (refunded), net | \$ (200) | \$ (3,436) |
| | ===== | ===== |
| Interest paid, net of capitalized interest | \$ 765 | \$ 968 |
| | ===== | ===== |

See accompanying notes.

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UNIFAB INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SEPTEMBER 30, 2003

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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 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,

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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 September 30, 2003, it was anticipated that substantially all contracts in progress, and receivables associated therewith, would be completed and collected within a 12-month period.

The accompanying unaudited condensed 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.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

These financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2002 included in the Company's Annual Report on Form 10-K.

Certain amounts previously reported have been reclassified to conform to the presentation at September 30, 2003.

2. MIDLAND RECAPITALIZATION AND INVESTMENT TRANSACTION

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 7,380,000 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

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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.

3. CURRENT MATTERS

At September 30, 2003 the Company has negative working capital of \$4.4 million resulting from the classification as a current liability of the \$7.8 million outstanding under the Company's Credit Agreement due to its maturity on May 26, 2004. Prior to and since the initiation of the Midland Recapitalization and Investment Transaction in April 2002, 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 three-month period ended September 30, 2003, the Company incurred a net loss of \$3.5 million, including \$855,000 related to drilling rig fabrication start up operations at Rig Port Services, LLC in Lake Charles, Louisiana, \$1.4 million related to a contract to fabricate buoyancy cans, and \$262,000 related to the Company's process systems fabrication facility which is underutilized. In the nine-month period ended September 30, 2003, the Company incurred a net loss of \$6.1 million, including \$956,000 related to drilling rig fabrication start up operations in Lake Charles, \$1.0 million related to a contract to fabricate buoyancy cans, \$466,000 related to the winding down of non core operations, and \$229,000 related to the Company's process systems fabrication facility which is underutilized. Also included in the net losses for the three and nine-month periods ended September 30, 2003 are selling, general and administrative expenses of \$1.0 million and \$3.3 million, respectively, and interest expense of \$489,000 and \$1.5 million, respectively. 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 in either period.

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 November 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.

Negotiations to renew the Credit Agreement will begin shortly and the Company expects to renew the Credit Agreement, with Midland's continuing guarantee, and extend the maturity so that the liability again can be classified as noncurrent. 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 three-month period ended September 30, 2003, Midland advanced \$2,300,000 to the Company for working capital. At September 30, 2003 these advances had been repaid in full. Management believes that its available funds, cash generated by operating activities and funds available from Midland and under the Credit Agreement will be sufficient to fund its working capital needs and planned capital expenditures for the next 12 months. However, 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

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4. CONTRACTS IN PROGRESS

Information pertaining to contracts in progress at September 30, 2003 and December 31, 2002 consisted of the following:

| | SEPTEMBER 30, 2003 ----- | DECEMBER 31, 2002 ----- |
|---|--------------------------------|-------------------------------|
| | (In thousands) | |
| Costs incurred on uncompleted contracts | \$ 36,915 | \$ 10,919 |
| Estimated earnings | 1,267 | 50 |
| | ----- | ----- |
| | 38,182 | 10,969 |
| Less billings to date | (38,425) | (8,686) |
| | ----- | ----- |
| | \$ (243) | \$ 2,283 |
| | ===== | ===== |
| Included in the accompanying balance sheets under the following captions: | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 2,142 | \$ 2,297 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (2,385) | (14) |
| | ----- | ----- |
| | \$ (243) | \$ 2,283 |
| | ===== | ===== |

Accounts receivable includes retainages and unbilled receivables, respectively, of \$10,000 and \$238,000 at September 30, 2003, and of \$775,000 and \$36,000 at December 31, 2002. Unbilled receivables relate primarily to time and material contracts.

The Company had contract loss reserves of \$1,594,000 at September 30, 2003 and \$1,148,000 at December 31, 2002. Included in contract loss reserves at September 30, 2003 is \$1.2 million related to six fixed price contracts for platform fabrication, substantially all of which was recorded in the September 2003 quarter. These contract loss reserves were recorded to recognize increased estimated costs at completion on 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 Company expects to complete the fixed price platform fabrication contracts in the fourth quarter of 2003. The contract to fabricate buoyancy cans was approximately sixty percent complete at September 30, 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 if the Company does not deliver the completed buoyancy cans by February 17, 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

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incur the liquidated damages called for in the contract.

The remaining \$356,000 contract loss reserve at September 30, 2003 relates to contracts to provide process equipment. The reserves on these contracts were increased \$297,000 in the September 2003 quarter. 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 and \$707,000 on three contracts to manufacture process equipment overseas. As more fully described in Note 12 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.

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5. CREDIT AGREEMENT

On November 18, 2002, the Company entered into a Commercial Business Loan Agreement 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. The Credit Agreement is guaranteed by Nassau Holding Company (an affiliate of Midland), the subsidiaries of Unifab, and the principle members of Midland, and is secured by the assets of Universal Fabricators, LLC and Allen Process Systems, LLC, both wholly-owned subsidiaries of the Company. At September 30, 2003, the Company had \$7.8 million in borrowings and no letters of credit outstanding under the Credit Agreement. Borrowings under the Credit Agreement bear interest at Libor plus 1.75% or the Prime rate (2.9% at September 30, 2003), at the Company's discretion. The Credit Agreement matures May 26, 2004. The Company intends to renew the terms of the Credit Agreement and to extend the maturity date for one year. The last such extension was made in May 2003 and extended the maturity to May 26, 2004. The Company anticipates the next request for renewal and extension of the Credit Agreement will take place before the end of the first quarter of 2004. The Company expects that the continuing guarantee by Nassau Holding Company will be required to be successful in obtaining a renewal and extension of the Credit Agreement. Management believes that its available funds, cash generated by operating activities and funds available from Midland and under the Credit Agreement will be sufficient to fund its working capital needs and planned capital expenditures for the next 12 months. However, 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.

6. INCOME TAXES

The Company provides for income taxes using the liability method in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. As of September 30, 2003, the Company recorded deferred tax assets of \$18.3 million, including \$14.3 million related to net operating loss carryforwards which, if not used, expire in years 2020 through 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 of \$15.7 million to offset the deferred tax asset related to the net

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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.

7. SHAREHOLDERS' EQUITY

EARNINGS (LOSS) 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.

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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 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:

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| | THREE MONTHS ENDED SEPTEMBER 30 | THREE MONTHS ENDED SEPTEMBER 30 | NINE MONTHS ENDED SEPTEMBER 30 |
|--|---------------------------------------|---------------------------------|--------------------------------|
| | 2003 | 2002 | 2003 |
| | (In thousands, except per share data) | | |
| Numerator: | | | |
| Net loss | \$ (3,642) | \$ (3,525) | \$ (6,263) |
| Denominator: | | | |
| Weighted average shares of common stock outstanding | 8,193 | 819 | 813 |
| Effect of issuance of convertible preferred stock on weighted average shares of common stock | -- | 3,931 | 7,380 |
| Denominator for basic and diluted earnings per share -- weighted average shares | 8,193 | 4,750 | 8,193 |
| Basic and diluted loss per share | \$ (0.44) | \$ (0.74) | \$ (0.76) |

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 period ended September 30, 2003, 133,500 options and 6,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company. During the period ended September 30, 2002, 83,500 options and 6,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company.

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 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 giving effect to the one-for-ten reverse stock split (in thousands, except per share data):

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| | THREE MONTHS ENDED SEPTEMBER 30 | | NINE MONTHS SEPTEMBER 30 |
|---|---------------------------------------|------------|-----------------------------|
| | 2003 | 2002 | 2003 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| Net loss, as reported | \$ (3,642) | \$ (3,525) | \$ (6,263) |
| 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 | (4) | (139) | (18) |
| Pro forma net loss | \$ (3,646) | \$ (3,664) | \$ (6,281) |
| Loss per share | | | |
| Basic and diluted, as reported | \$ (0.44) | \$ (0.74) | \$ (0.76) |
| Basic and diluted, pro forma | \$ (0.45) | \$ (0.77) | \$ (0.77) |
| Weighted average fair value of grants | \$ -- | \$ -- | \$ 0.16 |

Black-Scholes option pricing model assumptions:

| | NINE MONTHS ENDED SEPTEMBER 30, | |
|--|---------------------------------|------|
| | 2003 | 2002 |
| Risk-free interest rate | 1.82% | N/A |
| Volatility factor of the expected market price of UNIFAB stock | 1.072 | N/A |
| Weighted average expected life of the option | 2 years | N/A |
| Expected dividend yield | -- | N/A |

There were no option grants in the three-month periods ended September 30, 2003 and 2002.

8. 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 and the Jones Act. 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 it is not reasonably possible that they will

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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 allege 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 plaintiffs more specifically claim that 1) the accounts receivable and cash in the

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bank at the time of the asset acquisition were not conveyed as part of the transaction, 2) certain accounting adjustments should have resulted in a credit to Mr. Spano, 3) the Company failed to timely deliver shares of common stock to Mr. Spano as required by the sale documents, 4) the Company failed to pay a bonus of \$1,000,000 to Mr. Spano, 5) the Company allowed the maintenance work in the petrochemical plants to deteriorate under Mr. Spano's post transaction management, 6) the Company defamed the Plaintiffs, 7) the Company wrongfully commingled funds belonging to the Plaintiffs that resulted in seizure of taxes, interest and penalties, and 8) the Company failed to pay certain debts on assets included in the transaction. Total damages claimed by the Plaintiffs are approximately \$5,000,000. The Company intends to vigorously defend the lawsuit. The Company has filed a counterclaim for recovery of approximately \$2,775,000 paid on behalf of Professional Industrial Maintenance, LLC and Mr. Spano as a result of the transaction. This matter is scheduled to go to trial during the first quarter of 2004. While the outcome of this litigation cannot be predicted with certainty, management believes that it is not reasonably possible that the outcome of this proceeding will have a material adverse effect on the Company's consolidated financial statements and the Company has recorded no reserve with respect to this lawsuit.

On March 14, 2003, the Lake Charles Harbor and Terminal District (the "Port") sent a letter to the Company alleging that the Company was not in compliance with certain environmental and workforce provisions of the lease agreement (the "Lease") by and between the Company and the Port for the Lake Charles facility. The Company engaged a qualified environmental inspection company to perform a phase one study of the premises, which was completed in the first week of April 2003 and did not result in any material findings. The Company met with Port officials in July 2003 and resolved the allegations of non compliance without any further implications to the Company.

LETTERS OF CREDIT

In the normal course of its business activities, the Company is required to provide letters of credit to secure performance. At September 30, 2003, cash deposits totaling \$115,000 secured outstanding letters of credit totaling \$110,000.

EMPLOYMENT AGREEMENT

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.

LEASES

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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. At September 30, 2003, the Company had approximately \$10.0 million in aggregate lease commitments under operating leases, of which \$0.6 million is payable during the next twelve months.

9. RELATED PARTY TRANSACTIONS

The Company provides health care benefits to its employees under a plan that covers the employees of companies owned by Nassau Holding Company, an affiliate of Midland ("Nassau"), including the employees of Nassau. This insurance coverage began on November 1, 2002. In the three and nine-month periods ended September 30, 2003, the Company incurred costs of approximately \$512,000 and \$1,319,000, respectively, 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 three and nine-month periods ended

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September 30, 2003 is \$45,000 and \$135,000, respectively, related to these services, which had been paid in full at September 30, 2003.

At September 30, 2003, accrued and unpaid interest owed to Midland related to the secured, subordinated notes payable and convertible debenture was \$297,000. At December 31, 2002, there was no accrued and unpaid interest owed to Midland.

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, 2002, 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 September 30, 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 three-month period ended September 30, 2003, Midland advanced \$2,300,000 to the Company for working capital. At September 30, 2003 these advances had been repaid in full.

In the nine-month period ended September 30, 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 million, which were substantially complete at September 30, 2003. In the three and nine-month periods ended September 30, 2003, \$1,716,000 and \$6,872,000, respectively, in revenue, and \$278,000 and \$920,000, respectively, in gross profit was recognized related to these contracts. At September 30, 2003, the Company had \$579,000 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

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were completed in May 2003.

10. INDUSTRY SEGMENT INFORMATION

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 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 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.

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The following tables show information about the revenue, profit or loss and segment assets of each of the Company's reportable segments for the three and nine-month periods ending September 30, 2003 and 2002. 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.

| | THREE MONTHS ENDED SEPTEMBER 30 | | NINE MONTHS END SEPTEMBER 30 | |
|---------------------------|------------------------------------|----------|---------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (IN THOUSANDS) | | | |
| Segment revenue: | | | | |
| Platform fabrication | \$ 10,312 | \$ 4,522 | \$ 27,101 | \$ 27,101 |
| Process systems | 3,068 | 1,168 | 10,018 | 10,018 |
| Drilling rig fabrication | 2,475 | 62 | 2,742 | 2,742 |
| Other (a) | -- | 85 | -- | 85 |
| Intersegment eliminations | -- | -- | -- | -- |

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| | | | | |
|--------------------------------|------------|------------|------------|-------|
| | \$ 15,855 | \$ 5,837 | \$ 39,861 | \$ |
| | ===== | ===== | ===== | ===== |
| Segment income (loss): | | | | |
| Platform fabrication | \$ (1,207) | \$ (412) | \$ (820) | \$ |
| Process systems | (351) | (883) | (763) | |
| Drilling rig fabrication | (1,004) | (411) | (1,326) | |
| Other (a) | -- | (580) | -- | |
| | ----- | ----- | ----- | |
| | (2,562) | (2,286) | (2,909) | |
| Interest expense | (489) | (487) | (1,454) | |
| Unallocated corporate overhead | (591) | (752) | (1,900) | |
| | ----- | ----- | ----- | |
| Loss before income tax | \$ (3,642) | \$ (3,525) | \$ (6,263) | \$ |
| | ===== | ===== | ===== | ===== |

(a) Revenue and segment loss from operations related to derrick fabrication and plant maintenance are included in Other. There are no operations related to these products in 2003.

Total assets of the Company by segment is as follows as of September 30, 2003 and December 31, 2002:

| | SEPTEMBER 30, 2003 | DECEMBER 31, 2002 |
|----------------------------------|-----------------------|----------------------|
| | ----- | ----- |
| | (IN THOUSANDS) | |
| Segment assets at end of period: | | |
| Platform fabrication | \$22,355 | \$21,589 |
| Process systems | 7,490 | 10,020 |
| Drilling rig fabrication | 9,416 | 6,303 |
| | ----- | ----- |
| | 39,261 | 37,912 |
| Corporate | 1,353 | 1,367 |
| | ----- | ----- |
| | \$40,614 | \$39,279 |
| | ===== | ===== |

11. COMPREHENSIVE INCOME (LOSS)

The following is a summary of the Company's comprehensive income (loss) for the three and nine months ended September 30, 2003 and 2002.

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| | THREE MONTHS ENDED SEPTEMBER 30 | | NINE MONTHS ENDED SEPTEMBER 30 | |
|---------------------------------|------------------------------------|------------|-----------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (IN THOUSANDS) | | | |
| Net loss | \$ (3,642) | \$ (3,525) | \$ (6,263) | \$ (9,788) |
| Currency translation adjustment | (5) | (8) | 36 | 36 |
| | ----- | ----- | ----- | ----- |
| | \$ (3,647) | \$ (3,533) | \$ (6,227) | \$ (9,752) |
| | ===== | ===== | ===== | ===== |

12. 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 Tony Freeman & 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.

13. 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 Company implemented SFAS No. 143 on January 1, 2003, as required, and it did not have a material effect on our consolidated financial position or results of operations.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS no. 145 eliminates SFAS No. 4 and as a result, gains and losses from extinguishments of debt should be classified as extraordinary items only if they meet the criteria of APB Opinion No. 30. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases" to eliminate an inconsistency between the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also updates and amends existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company implemented SFAS No. 145 on January 1, 2003, as required, and it did not have a material impact on our 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

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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 Company will implement the provisions of this statement on a prospective basis.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45

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elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required, the Company adopted the disclosure requirements of FIN 45 as of December 31, 2002. The Company adopted the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002.

In January 2003, the 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. FIN 46 is effective in the first interim period ending after December 15, 2003. The Company does not expect the implementation of this standard to have a material impact on its consolidated financial position or results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related disclosures included elsewhere herein and Management's Discussion and Analysis of Financial Condition and Results of Operations included as part of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

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.

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MIDLAND SUPPORT

Since the Midland Transaction, Midland has provided financial, operational, 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 September 30, 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 three-month period ended September 30, 2003, Midland advanced \$2,300,000 to the Company for working capital. At September 30, 2003 these advances had been repaid in full. 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 three and nine-month periods ended September 30, 2003 is \$45,000 and \$135,000, respectively, 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.

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RESULTS OF OPERATIONS

Revenue for the three months ended September 30, 2003 increased 174% to \$15.9 million from \$5.8 million for the three months ended September 30, 2002. For the nine months ended September 30, 2003, revenue increased 66% to \$39.9 million from \$24.1 million for the nine months ended September 30, 2002. Revenue increased for the Company's platform fabrication segment, process system segment and drilling rig fabrication segment in both the three and nine-month periods ended September 30, 2003 compared to the same periods last year. 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 \$14.3 million and \$22.5 million at September 30, 2003 and December 31, 2002, respectively. At the present time, the level of bidding activity is approximately 60% of the level experienced at the end of 2002. 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. The Company does not expect bidding activity to increase before the beginning of 2004, at the earliest.

Total direct labor hours worked through September 30, 2003 increased 41% overall from the levels experienced in the same period last year. Direct labor hours worked at the Company's platform fabrication and process system facilities increased by nearly 72% from the same period last year. This increase was offset by a reduction of approximately 84,000 direct labor hours incurred in the nine-month period ended September 30, 2002 on plant maintenance, derrick fabrication and drilling rig repair. There were no labor hours incurred associated with these types of projects in the nine-month period ended September 30, 2003.

Cost of revenue exceeded revenue by \$2.2 million for the three months ended

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September 30, 2003, compared to \$1.6 million for the same period last year. For the nine-month period ended September 30, 2003, cost of revenue exceeded revenue by \$1.5 million compared to \$2.7 million for the nine-month period ended September 30, 2002. 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 specifically allocated to projects (such as supervisory labor, utilities, welding supplies and equipment costs). Increased reserves on loss contracts recorded in the September 2003 quarter resulted in costs of revenue exceeding revenue in these periods. 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.

Gross profit (loss) for the three months ended September 30, 2003 decreased to a loss of \$2.2 million from a loss of \$1.6 million for the same period last year. For the nine months ended September 30, 2003, gross profit (loss) was \$1.5 million compared to a loss of \$2.7 million in the same period last year.

Selling, general and administrative expense decreased to \$974,000 in the three months ended September 30, 2003, compared to \$1.4 million in the three months ended September 30, 2002. In the nine months ended September 30, 2003, selling, general and administrative expense decreased to \$3.3 million from \$4.7 million in the same period last year. This decrease is mainly due to reduced general and administrative expenses associated with closing underutilized facilities and overall reductions in administrative overhead and employees. The Company's selling, general and administrative expense as a percentage of revenue decreased to 6% in the three months ended September 30, 2003 from 25% in the same period last year, and to 8% for the nine month period ended September 30, 2003 from 19% in the same period last year.

Interest expense for the three months ended September 30, 2003 includes amortization of the discount on the secured, subordinated debenture issued to Midland, which is being recorded as interest expense, and was approximately the same as the same period in 2002, which is the result of lower effective interest rates on the amounts outstanding under the Company's revolving credit facility over the three months ended September 30, 2003. For the nine-month period ended September 30, 2003, interest expense was higher than in the same period in 2002 due to amortization of the discount described above. This increase was offset by lower overall debt and effective interest rates in the nine-month period ended September 30, 2003 compared to the same period in 2002. In the three and nine months ended September 30, 2003, the Company recorded \$130,000 and \$390,000 interest expense, respectively, related to amortization of the discount on the secured subordinated debenture.

No net income tax benefit was recognized on the net loss recorded in the three and nine month periods ended September 30, 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 September 30, 2003, the Company has deferred tax assets of \$18.3 million, including \$14.3 million related to net operating loss carryforwards, which, if not used expire in years 2020 through 2023. The Company has recorded a valuation allowance of \$15.7 million to offset the deferred tax asset related to the net operating loss carryforward and other deferred tax assets that exceed net deferred tax liabilities of the Company at September 30, 2003. The valuation allowance

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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 during the three and nine-month periods ended September 30, 2003 and 2002.

PLATFORM FABRICATION SEGMENT

Revenue for the platform fabrication segment increased \$5.8 million to \$10.3 million in the quarter ended September 30, 2003 from \$4.5 million in the same quarter in 2002. In the nine-month period ended September 30, 2003, revenue for the platform fabrication segment was \$27.1 million, an increase of \$14.9 million over the same period in 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 three and nine-month periods ended September 2003 increased 98% and 87%, respectively, over the same periods last year. Segment loss was \$1,207,000 in the three-month period ended September 30, 2003 compared to a loss of \$412,000 in the September quarter last year. In the September 2003 quarter contract loss reserves increased \$1,358,000 related to expected cost overruns primarily on a contract to fabricate buoyancy cans, which is expected to be completed in the first quarter of 2004, and on five fixed-price platform fabrication contracts, all of which are expected to be completed in the fourth quarter of 2003. In the nine-month period ended September 30, 2003, segment loss was \$820,000 compared to a loss of \$496,000 over the same period last year. Contracts to fabricate two similar platforms were performed back to back, and the Company gained efficiencies in construction. These efficiencies resulted in the Company revising estimated loss reserves on the contracts and a net increase in segment income in the nine-month period ended September 30, 2003 of \$274,000. In the nine month period ended September 30, 2003, segment loss was increased \$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 three and nine-month periods ended September 30, 2003 over the same periods in 2002.

PROCESS SYSTEMS SEGMENT

Revenue for the process systems segment increased to \$3.1 million in the three-month period ended September 30, 2003 from \$1.2 million in the same period last year. In the nine-month period ended September 30, 2003 revenue was \$10.0 million, an increase of \$1.8 million from the same period in 2002. In the quarter ended September 30, 2003, direct manhours increased 44% over the September 2002 quarter. Segment loss decreased in the September 30, 2003 quarter to \$351,000 from a loss of \$883,000 in the same quarter in 2002. In the nine-month period ended September 30, 2003 segment loss decreased to \$763,000 from \$1.6 million in the same period in 2002. The Company has encountered delays in completion of fabrication and commissioning of contracts to provide process equipment that are being manufactured overseas, which have resulted in cost overruns. Included in segment loss for the nine-month period ended September 30, 2003, are contract loss reserves of \$545,000, including \$117,000 recorded on these overseas contracts. Savings from the reduction of administrative staff and the consolidation of general and administrative functions increased segment income in the three and nine-month periods ended September 30, 2003 over the same periods in 2002.

DRILLING RIG FABRICATION SEGMENT

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The Company suspended operations in this segment prior to the Midland investment and recapitalization transaction, and is currently reentering this market. Revenue for the drilling rig fabrication segment was

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\$2,475,000 in the quarter ended September 30, 2003 and was \$62,000 in the same quarter last year. In the nine-month period ended September 30, 2003, revenue for the drilling rig segment was \$2,742,000 and was \$397,000 in the same period in 2002. Segment loss was \$1,004,000 for the quarter ended September 30, 2003 and was \$411,000 in the same quarter last year. In the nine-month period ended September 30, 2003, segment loss was \$1,326,000 and was \$1,196,000 million in the same period last year.

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 and advances from Midland for working capital needs and individual financing arrangements for equipment, facilities, insurance premiums and long-term needs. During the nine months ended September 30, 2003, the Company's available funds and \$5.0 million generated from financing activities together funded cash used in operations and investing activities of \$4.9 million. Investing activities consisted mainly of capital expenditures of \$1,244,000.

Capital expenditures for the nine-month period ended September 30, 2003 included \$ 372,000 related to compressors being fabricated by the Company, which will be leased upon completion. The remaining capital expenditures related to facilities, yard equipment and computer software and equipment.

On November 18, 2002, the Company entered into a Commercial Business Loan Agreement 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. The Credit Agreement is guaranteed by Nassau Holding Company (an affiliate of Midland), the subsidiaries of Unifab, and the principle members of Midland and is secured by the assets of the Universal Fabricators, LLC and Allen Process Systems, LLC, both wholly-owned subsidiaries of the Company. At September 30, 2003, the Company had \$7.8 million in borrowings and no letters of credit outstanding under the Credit Agreement. Borrowings under the Credit Agreement bear interest at Libor plus 1.75% or the Prime rate (2.9% at September 30, 2003), at the Company's discretion. The Credit Agreement matures May 26, 2004. The Company intends to renew the terms of the Credit Agreement and to extend the maturity date for one year. The last such extension was made in May 2003 and extended the maturity to May 26, 2004. The Company anticipates the next request for renewal and extension of the Credit Agreement will take place before the end of the first quarter of 2004. The Company expects that the continuing guarantee by Nassau Holding Company will be required to be successful in obtaining a renewal and extension of the Credit Agreement.

Management believes that its available funds, cash generated by operating activities and funds available from Midland and under the Credit Agreement will be sufficient to fund its working capital needs and planned capital expenditures for the next 12 months. 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 three months ended September 30, 2003, Midland advanced \$2.3 million, which the Company used for working capital during the period. At September 30, 2003 these advances had been repaid in full to Midland. The liquidity afforded by these advances from Midland were necessary for the Company to meet its obligations and fund operations. If

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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.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Certain statements included in this report and in oral statements made from time to time by management of the Company that are not statements of historical fact are forward-looking statements. In this report, forward-looking statements are included primarily in the sections entitled "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

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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, contingencies and uncertainties described immediately below:

- o general economic and business conditions and industry trends;
- o the economic strength of our customers and potential customers;
- o decisions about offshore developments to be made by oil and gas companies;
- o the highly competitive nature of our businesses;
- o our future financial performance, including availability, terms and deployment of capital;
- o the continued availability of qualified personnel;
- o changes in, or our failure or inability to comply with, government regulations and adverse outcomes from legal and regulatory proceedings;
- o changes in existing environmental regulatory matters;
- o rapid technological changes;
- o realization of deferred tax assets;
- o consequences of significant changes in interest rates and currency exchange rates;
- o difficulties we may encounter in obtaining regulatory or other necessary approvals of any strategic transactions;

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- o social, political and economic situations in foreign countries where we do business, including among others, countries in the Middle East;
- o effects of asserted and unasserted claims;
- o our ability to obtain surety bonds and letters of credit; and
- o our ability to maintain builder's risk, liability and property insurance in amounts we consider adequate at rates that we consider economical, particularly after the impact on the insurance industry of the September 11, 2001 terrorist attacks.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 \$22.4 million, including 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 \$224,000 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 Company currently does not hedge its foreign currency exposure. However, the Company may use derivative financial instruments in the future, if deemed appropriate to hedge such risk 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 earnings; however, due to the size of its operations in the United Kingdom, the Company does not anticipate its exposure to foreign currency rate fluctuations to be material for the remainder of 2003.

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

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ITEM 4. CONTROLS AND PROCEDURES

Within the 90-day period immediately preceding the filing of this report, an evaluation was carried out under the supervision and with the participation of our management, including our Principal Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act). Based upon that evaluation, the Principal Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were sufficient to ensure that material information relating to the Company and its consolidated subsidiaries was made known to management, including the Principal Executive Officer and Chief Financial Officer, during the period in which this quarterly report was being prepared, in a timely manner that allowed these officers to make appropriate decisions regarding required disclosure in this Quarterly Report. Based upon this evaluation, the Company has adopted a formal disclosure control policy. The new policy incorporates the Company's previous informal policies, but with the significant change that a formal Disclosure Committee has been formed to begin operations as of the second fiscal quarter of 2003, and each person responsible for one of the operating

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subsidiaries of the Company will participate as an active member of the Disclosure Committee. The Committee is charged with determining when events, developments or other facts involving the Company are material in nature and require disclosure to the public. Beginning in the second fiscal quarter of 2003, each member of the Committee will also review all of the Company's public filings to determine whether events or facts related to his or her area of operations should be disclosed.

PART II

ITEM 1. 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 and the Jones Act. 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 it is not reasonably possible that they will result in 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 allege 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 plaintiffs more specifically claim that 1) the accounts receivable and cash in the bank at the time of the asset acquisition were not conveyed as part of the transaction, 2) certain accounting adjustments should have resulted in a credit to Mr. Spano, 3) the Company failed to timely deliver shares of common stock to Mr. Spano as required by the sale documents, 4) the Company failed to pay a bonus of \$1,000,000 to Mr. Spano, 5) the Company allowed the maintenance work in the petrochemical plants to deteriorate under Mr. Spano's post transaction management, 6) the Company defamed the plaintiffs, 7) the Company wrongfully commingled funds belonging to the plaintiffs that resulted in seizure of taxes, interest and penalties, and 7) the Company failed to pay certain debts on assets included in the transaction. Total damages claimed by the plaintiffs are approximately \$5,000,000. The Company intends to vigorously defend the lawsuit. The Company has filed a counterclaim for recovery of approximately \$2,775,000 paid on behalf of Professional Industrial Maintenance, LLC and Mr. Spano as a result of the transaction. This matter is scheduled to go to trial during the first quarter of 2004. While the outcome of this litigation cannot be predicted with certainty, management believes that it is not reasonably possible that the outcome of this proceeding will have a material adverse effect on the Company's consolidated financial statements and the Company has recorded no reserve with respect to this lawsuit.

On March 14, 2003, the Lake Charles Harbor and Terminal District (the "Port") sent a letter to the Company alleging that the Company was not in compliance with certain environmental and workforce provisions of the lease agreement (the "Lease") by and between the Company and the Port for the Lake Charles facility. The Company engaged a qualified environmental inspection company to perform a phase one study of the premises,

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which was completed in the first week of April 2003 and did not result in any material findings. The Company met with Port officials in July 2003 and resolved the allegations of non-compliance without any further implications to the Company.

ITEM 5. OTHER INFORMATION

This report on Form 10-Q is accompanied by a statement of the Principal Executive Officer and the Chief Financial Officer of the registrant making certain certifications as to the contents hereof, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| 31.1 | Certificate pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 -Principle Executive Officer |
| 31.2 | Certificate pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 -Chief Financial Officer |
| 32.1 | Certificate pursuant to 18 U.S.C., Section 1350 as adopted pursuant to section 906 of Sarbanes-Oxley Act of 2002-Principle Executive Officer |
| 32.2 | Certificate pursuant to 18 U.S.C., Section 1350 as adopted pursuant to section 906 of Sarbanes-Oxley Act of 2002-Chief Financial Officer |
| 99.1 | Press release issued by the Company on September 3, 2003 announcing that it has satisfied the \$1.00 per share minimum bid price requirement for continued listing on the Nasdaq SmallCap Market |
| 99.2 | Press Release issued by the Company on September 11, 2003 announcing the appointment of Larry Verzwylt as president of Universal Fabricators, LLC |

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

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registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIFAB International, Inc.

Date November 12, 2003

/s/ Peter J. Roman

Peter J. Roman
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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| Exhibit Number ----- | Description ----- |
|----------------------------|--|
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