

GULF ISLAND FABRICATION INC  
Form DEF 14A  
March 16, 2012

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934 (Amendment No. \_\_)**

Filed by the Registrant x

Filed by a Party other than the Registrant "

Check the appropriate box:

- Preliminary Proxy Statement
- CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

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**GULF ISLAND FABRICATION, INC.**

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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**GULF ISLAND FABRICATION, INC.**

**567 THOMPSON ROAD**

**HOUMA, LOUISIANA 70363**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD APRIL 26, 2012**

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TO THE SHAREHOLDERS OF GULF ISLAND FABRICATION, INC.:

The annual meeting of shareholders of Gulf Island Fabrication, Inc. (the Company) will be held at 10:00 a.m., local time, on Thursday, April 26, 2012, at the Company's headquarters located at 567 Thompson Road, Houma, Louisiana, for the following purposes, more fully described in the accompanying proxy statement:

1. To elect two Class III director nominees;
2. To approve, on an advisory basis, the compensation of our named executive officers;
3. To ratify the appointment of the Company's independent registered public accounting firm; and
4. To transact such other business as may properly come before the meeting and any adjournments thereof.

The Board of Directors has fixed the close of business on March 8, 2012 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting and all adjournments thereof.

Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the annual meeting, **please complete, date and sign the enclosed proxy card and return it promptly in the enclosed stamped envelope.** Furnishing the enclosed proxy will not prevent you from voting in person at the annual meeting should you wish to do so. To obtain directions to attend the annual meeting and vote in person, please contact Deborah Kern-Knoblock at (985) 872-2100.

By Order of the Board of Directors  
DEBORAH KERN-KNOBLOCK

Houma, Louisiana

March 16, 2012

**IMPORTANT NOTICE REGARDING THE AVAILABILITY  
OF THE PROXY MATERIALS FOR THE SHAREHOLDER  
MEETING TO BE HELD ON APRIL 26, 2012.**

This proxy statement and the 2011 annual report are available at [www.gulfisland.com/eproxy](http://www.gulfisland.com/eproxy)

**GULF ISLAND FABRICATION, INC.**

**567 THOMPSON ROAD**

**HOUMA, LOUISIANA 70363**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD APRIL 26, 2012**

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING**

**Q: Why am I receiving this proxy statement?**

**A:** Gulf Island Fabrication, Inc.'s Board of Directors is soliciting your proxy to vote at the 2012 annual meeting of shareholders and at any adjournment thereof because you owned shares of our common stock at the close of business on March 8, 2012, the record date for determining shareholders entitled to vote at the annual meeting. The proxy statement, along with a proxy card or a voting instruction card, is being mailed to shareholders on or about March 16, 2012. We have also made these materials available to you on the internet. This proxy statement summarizes the information you need to know to vote at the annual meeting. You do not need to attend the annual meeting to vote your shares.

**Q: When and where will the annual meeting be held?**

**A:** The annual meeting will be held at 10:00 a.m., local time, on Thursday, April 26, 2012, at our headquarters located at 567 Thompson Road, Houma, Louisiana 70363.

**Q: Who is soliciting my proxy?**

**A:** Our Board of Directors is soliciting your vote on all matters scheduled to come before the 2012 annual meeting of shareholders, whether or not you attend in person. By completing and returning the proxy card or voting instruction card, you are authorizing the proxy holder to vote your shares at our annual meeting as you have instructed.

**Q: On what matters will I be voting? How does the Board of Directors recommend that I cast my vote?**

**A:** At the annual meeting, our shareholders will be asked to elect two Class III directors, approve, on an advisory basis, the compensation of our named executive officers, ratify the appointment of our independent registered public accounting firm and consider any other matter that properly comes before the annual meeting.

Our Board of Directors unanimously recommends that you vote:

**FOR** the election of the two Class III director nominees;

**FOR** the approval, on an advisory basis, of the compensation of our named executive officers; and

**FOR** the ratification of the appointment of our independent registered public accounting firm.

**Q: How many votes may I cast?**

**A:** You may cast one vote for every share of our common stock that you owned on March 8, 2012, the record date.



**Q: How many shares are eligible to be voted?**

**A:** As of the record date, we had 14,385,039 shares of our common stock outstanding, each of which is entitled to one vote.

**Q: How many shares must be present to hold the annual meeting?**

**A:** Under Louisiana law and our By-laws, the presence, in person or by proxy, of a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the annual meeting. As of the record date, 7,192,520 shares constitute a majority of our outstanding stock entitled to vote at the annual meeting. The inspector of elections will determine whether a quorum is present. If you are a beneficial owner (as defined below) of shares of our common stock and you do not instruct your broker, bank or other nominee how to vote your shares on any of the proposals, your shares will be counted as present at the annual meeting for purposes of determining whether a quorum exists. In addition, votes of shareholders of record who are present at the annual meeting in person or by proxy will be counted as present at the annual meeting for purposes of determining whether a quorum exists, whether or not such holder abstains from voting on any or all of the proposals.

**Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?**

**A:** If your shares are registered directly in your name with our transfer agent, American Stock Transfer and Trust Company, you are considered, with respect to those shares, the shareholder of record. The proxy materials have been mailed to you by us.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name. The proxy materials have been forwarded to you by the organization that holds your shares, which is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to instruct your broker, bank or other nominee how to vote your shares by signing and returning the voting instruction card included in the mailing or by following their instructions for voting by telephone or Internet if offered by the broker, bank or other nominee.

**Q: What happens if I don't vote for a proposal? What is discretionary voting? What is a broker non-vote?**

**A:** If you properly execute and return a proxy or voting instruction card, your shares will be voted as you specify.

***Shareholder of Record***

If you are a shareholder of record and you complete and return your proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by our Board on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the annual meeting.

***Beneficial Owners of the Shares Held in Street Name***

If you are a beneficial owner of shares held in street name and do not provide the broker, bank or other nominee that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares has discretion to vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, such organization will inform the inspector of elections that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a broker non-vote.

**Q: Which proposals are considered routine and which are considered non-routine ?**

**A:** Under the applicable rules, the proposal relating to the ratification of our independent registered public accounting firm is the only routine matter being considered at the annual meeting. The proposals relating to the election of directors and the approval, on an advisory basis, of the compensation of our named executive officers

are non-routine matters. A broker, bank or other nominee cannot vote without instruction on non-routine matters, and therefore there may be broker non-votes on these proposals. Shares subject to broker non-votes will not be counted as votes for or against and will not be included in calculating the number of votes necessary for approval of such matters to be presented at the annual meeting; however, such shares will be considered present at the annual meeting for purposes of determining the existence of a quorum.

**Q: What vote is required to approve each item?**

**A:** The election of directors will be decided by plurality vote, that is, the two nominees receiving the highest number of affirmative votes will be elected. The approval, on an advisory basis, of the compensation of our named executive officers and the ratification of the appointment of our independent registered public accounting firm will be decided by a majority of votes actually cast. All other matters properly brought before the annual meeting for a vote of shareholders will be decided by a majority of the votes actually cast.

Abstentions and broker non-votes will have no effect on the voting calculations for any of the proposals.

**Q: How do I vote?**

**A:** You may vote using any of the following methods:

*Proxy card or voting instruction card:* Be sure to complete, sign and date your proxy card or voting instruction card and return it in the prepaid envelope provided.

*By telephone or Internet:* The availability of telephone and Internet voting for beneficial owners will depend on the voting processes of your broker, bank or other nominee. Therefore, we recommend that you follow the voting instructions in the materials you receive.

*In person at the annual meeting:* All shareholders may vote in person at the annual meeting. You may also be represented by another person at the annual meeting by executing a proper proxy designating that person. If you are a beneficial owner of shares, you must obtain a legal proxy from your broker, bank or other nominee and present it to the inspectors of election with your ballot when you vote at the annual meeting.

**Q: Can I revoke or change my vote after I deliver my proxy?**

**A:** Yes. Your proxy may be revoked or changed at any time before it is exercised by filing with our Secretary an instrument revoking it or a duly executed proxy bearing a later date, or by attending the annual meeting and voting in person.

**Q: Who pays for soliciting proxies?**

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**A:** We pay all expenses incurred in connection with the solicitation of proxies for the annual meeting. We will also request banks, brokers, and other nominees holding shares of our common stock beneficially owned by others to send these documents to, and obtain proxies from, the beneficial owners and will reimburse such holders for their reasonable expenses in so doing. Solicitation of proxies by mail may be supplemented by telephone, email and other electronic means, advertisements and personal solicitation by our directors, officers and employees. No additional compensation will be paid to directors, officers or employees for such solicitation efforts.

**Q: Could other matters be decided at the annual meeting?**

**A:** Our Board does not expect to bring any other matter before the annual meeting, and it is not aware of any other matter that may be considered at the annual meeting. Management has not received any notice that a shareholder desires to present any matter for action by shareholders at the annual meeting and is unaware of any matter for action by shareholders at the annual meeting other than the matters described in the accompanying

notice. The enclosed proxy will, however, confer discretionary authority with respect to any other matter that may properly come before the annual meeting or any adjournment thereof. It is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment on any such matter.

**Q: What happens if the annual meeting is postponed or adjourned?**

**A:** Unless a new record date is fixed, your proxy will be valid and may be voted at the annual meeting, whether postponed or adjourned. You will still be able to change or revoke your proxy until it is voted.

**Q: I share an address with another shareholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?**

**A:** Some banks, brokers and nominees are householding our proxy materials for their customers. This means that only one copy of our proxy materials may have been sent to multiple shareholders in your household. We will promptly deliver a separate copy of any of these documents to you if you call us at (985) 872-2100 or write to us at: Gulf Island Fabrication, Inc. 567 Thompson Road, Houma, Louisiana 70363.

If you would like to receive separate copies of the annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker, or other nominee or you may contact us at the above address and telephone number.

**Shareholder Proposals and Nominations for 2013 annual meeting**

Any shareholder who wishes to bring a matter, other than shareholder nominations of directors, before the 2013 annual meeting must notify our Secretary, in writing at the address shown on the first page of this proxy statement, no later than January 30, 2013. However, if the date of the 2013 annual meeting is changed by more than 30 calendar days from the date of the anniversary of the 2012 annual meeting, the notice must be received by our Secretary at least 45 days prior to the date we intend to distribute our proxy materials with respect to the 2013 annual meeting.

If a shareholder does not provide such notice timely, the chairman of the 2013 annual meeting may exclude the matter and, if the chairman so elects, the matter will not be acted upon at the meeting. If the chairman does not exclude the matter, proxies solicited on behalf of our Board of Directors for the 2013 annual meeting will confer discretionary authority to vote with respect to any such matter, as permitted by the proxy rules of the Securities and Exchange Commission (SEC).

Shareholders intending to nominate a director at the 2013 annual meeting of shareholders may do so if they comply with our Amended and Restated Articles of Incorporation by furnishing timely written notice containing specified information concerning, among other things, information about the nominee and the shareholder making the nomination. See Corporate Governance Consideration of Director Nominees for more information.

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Any shareholder who desires to present a proposal for inclusion in our proxy materials for the 2013 annual meeting must forward the proposal in writing to our Secretary at the address shown on the first page of this proxy statement in time to arrive no later than November 16, 2012, and the proposal must comply with applicable federal proxy rules.

## CORPORATE GOVERNANCE

### **Ethics and Business Conduct Policies**

We have adopted a Code of Ethics for our Chief Executive Officer and senior financial officers and a Code of Business Conduct and Ethics, which applies to all employees and directors, including our Chief Executive Officer and senior financial officers. These codes are posted on our website at [www.gulfisland.com](http://www.gulfisland.com). Any substantive amendments to the Code of Ethics or any waivers granted under the Code of Ethics will be disclosed as required by applicable SEC rules and the listing standards of The Nasdaq Stock Market LLC (Nasdaq).

### **Board Structure and Committee Composition**

Our Board of Directors met five times during 2011. Our Board has established two standing committees: an Audit Committee and a Compensation Committee. Each committee operates under a written charter adopted by our Board, and such charters are available on our website at [www.gulfisland.com](http://www.gulfisland.com). The composition of Board committees is reviewed each year at the initial meeting of our Board after the annual meeting of shareholders. During 2011, each of our incumbent directors attended at least 75% of the aggregate of the total number of meetings of our Board and the total number of meetings held by all committees of our Board on which he served during the periods of his Board membership and committee service.

#### *Audit Committee*

During 2011, the Audit Committee consisted of the following four directors: Gregory J. Cotter (Chairman), Ken C. Tamblyn, John P. Laborde and Michael A. Flick. Each of these directors is independent as such term is defined in Nasdaq's listing standards, and also satisfies the additional requirements applicable to an audit committee member under the Nasdaq listing standards. Our Board has determined that Mr. Ken C. Tamblyn is an audit committee financial expert as such term is defined in the applicable rules of the SEC.

The Audit Committee met five times during 2011. The Audit Committee's primary function is to assist our Board in fulfilling its oversight responsibilities by monitoring (i) the continued development and performance of our system of financial reporting, auditing, disclosure controls and procedures and internal control over financial reporting, (ii) the operation and integrity of our financial reporting system, (iii) the performance and qualifications of our independent registered public accounting firm (external) and internal auditors, (iv) the independence of our independent registered public accounting firm, and (v) risk assessment.

#### *Compensation Committee*

The Compensation Committee consists of the following four directors: Gregory J. Cotter, Alden J. (Doc) Laborde (Chairman), John P. Laborde, and Christopher M. Harding. Each of these directors is independent as such term is defined in Nasdaq's listing standards. The Compensation Committee met one time during 2011. The Compensation Committee (i) reviews, approves and recommends to our Board goals and objectives relating to the compensation of our officers and the compensation of the president of each of our subsidiaries (including the specific relationship of corporate performance to such officers' compensation), (ii) evaluates at least annually the performance of our officers and the performance of the president of each of our subsidiaries in light of these goals and objectives, (iii) recommends to our Board the compensation of our officers and the compensation of the president of each of our subsidiaries based on such evaluations, (iv) grants awards under our incentive

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compensation plans and programs, (v) otherwise administers our incentive compensation plans and programs, and (vi) performs such other functions as may be prescribed by our Board.

The committee seeks the input of our Chief Executive Officer in connection with performance evaluations and compensation decisions for our other executive officers; however, our Chief Executive Officer is not present when the committee meets to evaluate his performance nor when our Board determines his compensation. The terms of our stock incentive plans permit the committee to delegate to appropriate personnel its authority to make awards to employees other than those subject to Section 16 of the Exchange Act. The committee has not delegated this authority to any individual.



### **Board Independence**

Our Board has determined that eight of our current nine directors are independent as such term is defined in Nasdaq's listing standards. In making this determination, our Board evaluated responses to a questionnaire completed by each director regarding relationships and possible conflicts of interest between each director, us and management. In its review of director independence, our Board considered all commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships any director may have with us or management. Mr. Kerry J. Chauvin, the Chairman of our Board and Chief Executive Officer, is not independent as defined by Nasdaq.

### **Board Leadership Structure**

Our Board of Directors believes that Mr. Chauvin's service as both Chairman of our Board and Chief Executive Officer is in the best interest of the Company and our shareholders. Mr. Chauvin possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing us and our businesses and is thus best positioned to develop agendas that ensure that our Board's time and attention are focused on the most critical matters. His combined role enables decisive leadership, ensures clear accountability, and enhances our ability to communicate our message and strategy clearly and consistently to our shareholders, employees, customers and suppliers, particularly during times of turbulent economic and industry conditions.

Each of the directors other than Mr. Chauvin is independent and our Board believes that the independent directors provide effective oversight of management. Moreover, in addition to feedback provided during the course of Board meetings, the independent directors are given the opportunity to meet in executive session at each regular board meeting or more frequently, as needed. The chairperson, or presiding director, for each of these executive sessions is chosen by the independent directors, by majority vote, immediately prior to the meeting. We believe that this approach effectively encourages full engagement of all directors in executive sessions, while avoiding unnecessary hierarchy and complements the combined CEO/Chairman structure. Following an executive session of independent directors, the presiding director acts as a liaison between the independent directors and the Chairman regarding any specific feedback or issues, provides the Chairman with input regarding agenda items for Board and Committee meetings, and coordinates with the Chairman regarding information to be provided to the independent directors in performing their duties. In addition, our two standing committees are composed entirely of independent directors, and have the power and authority to engage legal, financial and other advisors as they may deem necessary, without consulting or obtaining the approval of the full Board or management.

### **Board's Role in Risk Oversight**

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic, environmental and regulatory risks, as well as risks associated with the impact of competition and weather conditions. Management is responsible for the day-to-day management of risks we face, while our Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

The Board conducts certain risk oversight activities through its committees, which oversee specific areas and provide reports to the full Board regarding the committee's considerations and actions. The Audit Committee reviews and considers financial, accounting, internal controls and regulatory compliance risks, including those that could arise from our accounting and financial reporting processes. The Audit Committee also reviews and monitors risks through various reports presented by internal and external auditors. The Compensation Committee reviews and considers risks related to the Company's compensation policies, including incentive plans, to determine whether those plans subject the Company to excessive risks. Senior management attends the quarterly Board meetings and is available to address any questions or concerns raised by our Board on risk management-related and any other matters.



### Consideration of Director Nominees

Our Board of Directors has elected not to have a separate nominating committee. Our Board made this determination after considering its nomination process and concluding that as many directors as possible should participate in that process. As stated above, our Board has determined that all of its current directors are independent under Nasdaq's listing standards other than Mr. Chauvin, who is not considered independent because he is an officer of the Company. Accordingly, our Board has decided that nominations of directors and related matters will be considered and voted upon by all of the independent directors while meeting in executive session. In this manner, should the proposed slate of directors be elected, all but one of the directors will be involved in the nominations process.

In evaluating the suitability of nominees for membership on our Board, the independent directors consider many factors, including personal and professional integrity, general understanding of and particular operational experience in the construction and oil and gas industries, finance and other elements relevant to the success of a publicly-traded company in today's business environment, educational and professional background, independence and an ability and willingness to work cooperatively with other members of our Board and with our senior management. The independent directors evaluate each individual in the context of our Board as a whole, with the objective of nominating persons for election to our Board who can best perpetuate the success of our business, be an effective director in conjunction with the full Board, and represent shareholder interests through the exercise of sound judgment.

The independent directors will regularly assess the appropriate size of our Board, and whether any vacancies on our Board are expected due to retirement or otherwise. In the event that any vacancies are anticipated, or otherwise arise, the independent directors will consider various potential candidates for director who may come to the attention of our Board through current board members, professional search firms, shareholders or other persons. Each candidate brought to the attention of our Board is considered on the basis of the criteria set forth above.

As set forth in our Corporate Governance Guidelines, our Board is open to suggestions from our shareholders on candidates for election to our Board. Any shareholder may suggest a nominee by sending the following information to our Board: (i) the proposing shareholder's name, address and telephone number, (ii) the number of shares of our common stock beneficially owned by the proposing shareholder and the suggested nominee, (iii) the suggested nominee's name, age, business and residential addresses and telephone number, (iv) a statement whether the suggested nominee knows that his or her name is being suggested by the proposing shareholder, and whether he or she has consented to being suggested and is willing to serve, (v) the suggested nominee's résumé or other description of his or her background and experience, and (vi) the proposing shareholder's reasons for suggesting that the individual be considered. The information should be sent to our Board addressed as follows: Secretary of Gulf Island Fabrication, Inc., 567 Thompson Road, Houma, Louisiana 70363, and our Secretary will forward the information to the independent directors. In addition, pursuant to an agreement with Aransas Partners (Aransas) entered into as part of our acquisition from Aransas on January 31, 2006, Aransas may recommend a candidate for nomination to our Board of Directors provided it and its affiliates continue to hold at least 5% of our common stock, and subject to our Board's ultimate determination of the candidate's suitability for nomination.

Our Amended and Restated Articles of Incorporation also permit shareholders to directly nominate directors for consideration at an annual shareholder meeting. In general, to be timely, a shareholder's notice must be in writing, must include certain specified information about the nominee and the shareholder making the nomination, and must be received by our Secretary at our principal executive offices no less than 45 days or more than 90 days prior to the shareholder meeting.

### **Communications with our Board; Meeting Attendance**

Any shareholder may communicate with our Board (or with any individual director) by sending a letter by mail addressed to the Chairman of our Board of Gulf Island Fabrication, Inc., 567 Thompson Road, Houma, Louisiana 70363. The Chairman of our Board will forward the shareholder's communication directly to the appropriate director or directors.

Our Board has adopted a policy that recommends that all directors personally attend each annual and special meeting of our shareholders. At the last annual meeting of shareholders held on April 28, 2011, all of the directors were in attendance.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% shareholders are required by the regulations of the SEC to furnish us with copies of all Section 16(a) reports they file. Based solely on its review of copies of such reports and written representations from certain persons that no other reports were required for those persons, we believe that all of our officers, directors and greater than 10% shareholders complied with the filing requirements applicable to such persons for the fiscal year ended December 31, 2011.

### **Compensation Committee Interlocks and Insider Participation**

During the last fiscal year, none of Messrs. Alden J. Laborde (Chairman), Gregory J. Cotter, John P. Laborde, or Christopher M. Harding, who comprised the Compensation Committee, were officers or employees of the Company or any of its subsidiaries. Alden J. Laborde was our Chief Executive Officer from 1986 to 1990. No other member of the Compensation Committee is a former officer of the Company.

In connection with the initial public offering of our common stock, we entered into a registration rights agreement with Alden J. Laborde. If we propose to register any of our common stock under the Securities Act in connection with a public offering, Mr. Laborde may require us to include all or a portion of the shares of our common stock held by him. We have agreed under the registration rights agreement to pay all the expenses of registration, other than underwriting discounts and commissions.

## **DIRECTOR COMPENSATION**

For 2011, each non-employee director, except Messrs. Cotter and Tamblin, received an annual fee of \$22,000 for his services as a director. Mr. Cotter, as Chairman of the Audit Committee, and Mr. Tamblin, as the Audit Committee Financial Expert, each received an annual fee of \$24,000. In addition, each non-employee director received an attendance fee of \$2,000 for each Board or committee meeting attended in person and \$1,000 for each meeting attended via telephone conference call. All directors are reimbursed for reasonable out-of-pocket expenses incurred in attending Board and committee meetings.



The table below summarizes the compensation paid to each person serving as a director during 2011, with the exception of Mr. Chauvin. Mr. Chauvin did not receive any compensation as a director and his compensation as an executive of the Company is fully reflected in the 2011 Summary Compensation Table on page 21. Pursuant to an agreement between Mr. Wishart and his past employer, G.L. Noble Denton, \$20,000 of compensation earned by Mr. Wishart as a director of the Company during 2011 was paid directly to G.L. Noble Denton. Mr. Wishart is no longer employed with G.L. Noble Denton and now receives compensation directly.

**2011 Director Compensation**

Name	Fees Earned or Paid in	
	Cash (\$)	Total (\$)
Mr. Cotter	41,500	41,500
Mr. Dumas (1)	4,667	4,667
Mr. Flick	39,500	39,500
Mr. Harding	30,500	30,500
Mr. A. Laborde (2)	32,500	32,500
Mr. J. Laborde	39,500	39,500
Mr. Tamblyn	39,500	39,500
Mr. Wishart	28,500	28,500

- (1) Mr. Dumas was appointed to the Board of Directors effective August 1, 2011.
- (2) As previously announced, Mr. A. Laborde will not stand for re-election at the 2012 annual meeting of shareholders.

**PROPOSAL 1: ELECTION OF DIRECTORS**

Our Amended and Restated Articles of Incorporation provide for a Board of Directors consisting of three classes, with the number of directors to be set forth in our By-laws. With Mr. A. Laborde's announcement that he will retire from the Board of Directors effective at the 2012 annual meeting, we intend to amend our By-laws and adopt resolutions to provide that the number of directors shall be reduced to eight effective at the annual meeting. The term of office of the Class III directors will expire at the annual meeting, and, in accordance with the recommendations of the independent directors, our Board has nominated the two persons listed as the Class III nominees in the table below for election to our Board of Directors for a term expiring in 2015.

Proxies cannot be voted for more than two candidates. In the absence of contrary instructions, the proxy holders will vote for the election of the two nominees listed below. In the unanticipated event that any nominee is unavailable as a candidate for director, the persons named in the accompanying proxy will vote for a substitute candidate nominated by our Board of Directors.

Under our By-Laws, directors are elected by a plurality vote, with the two Class III director nominees who receive the most votes being elected.

**Our Board of Directors recommends that shareholders vote FOR the election of the nominees.**



**Information about the Directors and Executive Officers**

The following table sets forth, as of March 8, 2012, for each nominee, each other director of the Company whose term will continue after the annual meeting and each of our executive officers, the age, positions with us, and principal occupations and employment during the past five years, any family relationships among such persons, and, if a nominee or a director, each person's directorships in other public corporations during the past five years and the year that he was first elected a director of us or our predecessor. We have also included information about each director and nominee's specific experience, qualifications, attributes, or skills that led our Board to conclude that he or she should serve as one of our directors at the time we file our proxy statement, in light of our business and structure. All executive officers serve at the pleasure of our Board of Directors.

Name and Age	Positions with the Company, Principal Occupations, Directorships in Other Public Companies, and Family Relationships	Director Since
<b>Nominees for Election as Class III Directors (term expires in 2015)</b>		
Kerry J. Chauvin, 64	Chairman of our Board since April 2001. Chief Executive Officer of the Company since January 1990. President of the Company from our inception in 1985 to January 2009.  Mr. Chauvin's experience in the energy and construction industries provided him with knowledge of operations and managing and overseeing the expansion of businesses making him highly qualified to serve as a member of our Board of Directors.	1985
Jerry D. Dumas, Sr., 76	Chairman of the Board of W3 Media Group. Chairman of the Board, President and Chief Executive Officer from 1998 to 2009 and non-executive Chairman of the Board from 2009 to 2010 of Flotek Industries. Vice President of Corporate and Executive Services of Merrill Lynch from 1988 to 1998. Served in various capacities, including Group Division President of Hughes Tool Company (now Baker Hughes Incorporated), a position responsible for the offshore division and the drilling fluids and chemical group, from 1968 to 1985.  Mr. Dumas's extensive career in the financial and oil and gas industries as well as his experience managing a publicly traded company provided him with knowledge of risk management, finance and operations and makes him a valued member of our Board of Directors.	2011



Name and Age	Positions with the Company, Principal Occupations, Directorships in Other Public Companies, and Family Relationships	Director Since
<b>Continuing Class I Directors (term expires in 2013)</b>		
Ken C. Tamblyn, 68	<p>Private Investor. Member of the Board of Directors and Chairman of the Audit Committee of the Bristow Group, Inc. Member of the Board of Directors and Chairman of the Audit Committee for Howell Corporation from 2001 until 2002, when it was acquired by Anadarko Petroleum Corporation. Executive Vice President and Chief Financial Officer of Tidewater, Inc. from 1986 until 2000. Audit Partner and Certified Public Accountant with Peat, Marwick, Mitchell &amp; Co., a predecessor of KPMG from 1966 until 1986.</p> <p>Mr. Tamblyn's experience in the finance and insurance industries, specifically related to energy and construction services, provided him with knowledge of international operations, financial reporting, accounting and controls making him highly qualified to serve on the Audit Committee as its financial expert and as a member of our Board of Directors.</p>	2003
John A. Wishart, 53	<p>Energy Director of Lloyd's Register since December 2011. Group Managing Director (Chief Executive Officer) of G.L. Noble Denton from October 2008 to October 2011. President and Chief Executive Officer of Technip USA until October 2008. Employed by Technip USA beginning in 1999 in various executive capacities, including Senior Vice President Engineering &amp; Services for Technip USA, and Senior Vice President Engineering and Vice President, Engineering Operations for Technip Offshore Inc.</p> <p>Mr. Wishart's extensive career in the engineering and construction industries provided him with knowledge of international operations making him a valued member of our Board of Directors.</p>	2006
Michael A. Flick, 64	<p>Private Investor. Member of the Board of Directors, Chairman of the Compensation Committee and Member of the Audit Committee of the Bristow Group, Inc. From 1970 to 1998 employed by First Commerce Corporation and First National Bank of Commerce, its wholly-owned subsidiary, in various executive capacities including Chief Financial Officer and Chief Credit Policy Officer and Executive Vice President and Chief Administrative Officer.</p> <p>Mr. Flick's experience in the banking and financial services industries provided him with extensive knowledge of financial reporting, legal and audit compliance and risk management making him highly qualified to serve as a member of the Audit Committee and our Board of Directors.</p>	2007

Name and Age	Positions with the Company, Principal Occupations, Directorships in Other Public Companies, and Family Relationships	Director Since
<b>Continuing Class II Directors (term expires in 2014)</b>		
Gregory J. Cotter, 63	Financial Consultant since January 2009. Employed by Huey Wilson Interest, Inc. and its affiliates in various executive capacities, including Director, President, Chief Operating Officer and Chief Financial Officer from 1989 through December 2008. Senior Vice-President and Chief Financial Officer of H.J. Wilson Co. Inc. from August 1977 to May 1985.  Mr. Cotter's extensive career in the banking and financial industries provided him with a knowledge of financial reporting, accounting and controls as well as a knowledge of operations making him highly qualified to lead the Audit Committee and serve as a member of the Compensation Committee and our Board of Directors.	1985
John P. (Jack) Laborde, 62	President of Overboard Holdings, L.L.C. (Overboard), a management company engaged in oil and gas exploration and development since January 2002. President since 1997 of All Aboard Development Corporation (All Aboard), an independent oil and gas exploration and production company. All Aboard is currently being managed by Overboard. Employed by the Company from 1992 until 1996 in various capacities, including International Marketing Manager.  Mr. Laborde's knowledge of engineering, construction and oil and gas operations as well as his experience managing and overseeing the expansion of businesses makes him a valued member of our Board of Directors and the Audit and Compensation Committees.	1997
Christopher M. Harding, 60	President, Global Business Streams for G.L. Noble Denton since January 2010 and Regional Managing Director, Americas for G.L. Noble Denton from February 2009 until January 2010. Independent Consultant from 2004 until 2009. President of the engineering division of Technip USA from 1999 to 2004. Founder and President of Genesis Oil & Gas Consultants, a privately-owned consulting and engineering company servicing both independent and major oil and gas companies, from 1988 until acquired by Technip USA in 1998.  Mr. Harding's experience in the engineering and construction industries and in international operations gives him the skills necessary to serve as a member of our Board of Directors and the Compensation Committee.	2007

Name and Age	Positions with the Company, Principal Occupations,	Director
	Directorships in Other Public Companies, and Family Relationships	Since
<b>Current Executive Officers not Serving as Directors</b>		
Kirk J. Meche, 49	President of the Company and Chief Operating Officer since January 2009. Executive Vice President Operations of the Company from 2001 to January 2009. President and Chief Executive Officer of Gulf Marine Fabricators, L.P., a wholly-owned fabrication subsidiary of the Company, from February 2006 to October 2006. President and Chief Executive Officer of Gulf Island, L.L.C., a wholly-owned fabrication subsidiary of the Company, from February 2001 until January 2006.	N/A
Roy F. Breerwood, III, 38	Interim Chief Financial Officer and Treasurer of the Company since February 2012. Controller since October 2007 and Accounting Manager from July 2002 to October 2007.	N/A
William G. Blanchard, 53	President and Chief Executive Officer of Gulf Island, L.L.C. since February 2006. Estimating Department Manager of Gulf Island, L.L.C. from January 2000 until January 2006.	N/A
Francis A. Smith, Jr. 62	President and Chief Executive Officer of Gulf Marine Fabricators, L.P. since March 2009. Independent Consultant from July 2004 to March 2009. Prior to July 2004, Mr. Smith held various positions with J. Ray McDermott and McDermott, Inc.	N/A

## STOCK OWNERSHIP

The following table sets forth, as of February 29, 2012, certain information regarding beneficial ownership of our common stock by (i) each of our directors and director nominees, (ii) each of our named executive officers, (iii) all of our directors and executive officers as a group, and (iv) each other shareholder known by us to be the beneficial owner of more than 5% of our outstanding common stock. Unless otherwise indicated, we believe that the shareholders listed below have sole investment and voting power with respect to their shares based on filings with the SEC and information furnished to us by such shareholders.

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of Outstanding Common Stock(2)
<i>Directors and Executive Officers:</i>		
William G. Blanchard	17,626	*
Kerry J. Chauvin	204,272	1.4%
Gregory J. Cotter	5,000	*
Jerry D. Dumas	2,000	*
Michael A. Flick	1,000	*
Christopher M. Harding	0	*
Alden J. Laborde (3)	1,060,452(4)	7.4%
John P. Laborde	10,000(5)	*
Kirk J. Meche	70,452	*
Robin A. Seibert (6)	23,290	*
Francis A. Smith, Jr.	13,368	*
Ken C. Tamblyn	500	*
John A. Wishart	0	*
All directors and executive officers as a group (13 persons) (7)	1,388,910	9.6%
<i>5% or Greater Shareholders:</i>		
Aransas Partners (8)	789,067(9)	5.5%
BlackRock, Inc. (10)	1,113,358(11)	7.7%
Dimensional Fund Advisors LP (12)	918,116(13)	6.4%
Heartland Advisors, Inc. (14)	1,281,625(15)	8.9%
William J. Nasgovitz		
T. Rowe Price Associates, Inc. (16)	1,797,320(17)	12.5%
T. Rowe Price Small-Cap Stock Fund, Inc.		
The Vanguard Group, Inc. (18)	788,352(19)	5.5%

\* Less than one percent.

- Includes shares that could be acquired within sixty days after February 29, 2012, upon the exercise of options granted pursuant to our stock incentive plans, as follows: Mr. Blanchard, 2,500 shares; Mr. Chauvin, 40,000 shares; Mr. Meche, 30,000; and all directors and executive officers as a group, 72,500 shares.
- Based on 14,384,774 shares of our common stock outstanding as of February 29, 2012.
- The address of Mr. Laborde is 400 Poydras Street, Suite 1560, New Orleans, Louisiana 70130. As previously noted, Mr. A. Laborde will not stand for re-election at the 2012 annual meeting of shareholders.
- Mr. A. Laborde has sole voting and dispositive power with respect to 15,752 shares and shares voting and dispositive power with respect to 1,044,700 shares, of which 924,700 are held by Starboard Enterprises, L.L.C. (Starboard), 20,000 are held by All Aboard Development Corporation (All Aboard) and 100,000 are held by the Almar Foundation, a charitable Louisiana trust of which Mr. A. Laborde serves as a trustee and as to which shares he disclaims beneficial ownership. As a result of the settlement of Mr. A. Laborde's deceased spouse's estate, certain of the shares and interest in the companies mentioned above owned by Mr. and Mrs. A. Laborde were transferred to trusts for the benefit of their descendants. The address of each of Starboard and All Aboard is 400 Poydras Street, Suite 1560, New Orleans, LA 70130.

5. Mr. J. Laborde has sole voting and dispositive power with respect to 10,000 shares. This amount does not include: (i) 3,150 shares held in trust for his benefit, (ii) his indirect interest in the shares held by Starboard and All Aboard as a result of his ownership interest in those entities, which interests equate to an aggregate of 124,203 shares, of which (a) 120,336 shares are held by Starboard and relate to his interest in Starboard held in trust for his benefit and 1,849 shares are held by Starboard and are attributable to his direct ownership in Starboard and (b) 1,998 shares are held by All Aboard and relate to his interest in All Aboard held in trust for his benefit and 20 shares are held by All Aboard and are attributable to his direct ownership in Overboard Holdings, LLC, the parent company of All Aboard and (iii) 100,000 shares held by the Almar Foundation, a charitable Louisiana trust of which Mr. J. Laborde serves as a trustee and as to which shares he disclaims beneficial ownership.
6. As previously announced, on January 30, 2012, Mr. Seibert stepped down as Vice President Finance, Chief Financial Officer and Treasurer of the Company. Accordingly, the number of shares beneficially owned by Mr. Seibert is not included in the total number of shares beneficially owned by all directors and executive officers of the Company as a group.
7. As previously announced, effective February 2, 2012, the Company appointed Roy F. Buddy Breerwood, III as interim Chief Financial Officer and Treasurer. The number of shares owned by Mr. Breerwood is included in the total number of shares beneficially owned by the directors and executive officers of the Company as a group.
8. The address of Aransas Partners is 11700 Old Katy Road, Houston, Texas 77079.
9. Based on information contained in the Schedule 13G/A filed with the SEC on October 9, 2007, Aransas Partners, a partnership between Technip USA, Inc. and Gulf Deepwater Yards, Inc., owns 789,067 shares and Technip USA, Inc., Gulf Deepwater Yards, Inc., and Technip USA Holdings, Inc. (the parent of each) share voting and investment power over such shares.
10. The address of BlackRock, Inc. is 40 East 52<sup>nd</sup> Street, New York, New York 10022.
11. Based on information contained in the Schedule 13G/A filed with the SEC on February 13, 2012 by BlackRock, Inc.
12. The address of Dimensional Fund Advisors LP is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas, 78746.
13. Based on information contained in the Schedule 13G/A filed with the SEC on February 14, 2012, all of the shares reported are owned by investment advisory clients of Dimensional Fund Advisory LP (Dimensional Fund). To Dimensional Fund's knowledge, no such client has an interest relating to more than 5% of the class of securities to which the Schedule 13G/A relates. As investment advisor, Dimensional Fund has (i) sole voting power with respect to 886,850 shares and (ii) sole dispositive power with respect to 918,116 shares. Dimensional Fund expressly disclaims beneficial ownership.
14. The address of Heartland Advisors, Inc. (Heartland) and William J. Nasgovitz is 789 North Water Street, Milwaukee, Wisconsin 53202.
15. Based on information contained in the Schedule 13G/A jointly filed with the SEC on February 10, 2012, all of the shares reported are owned by investment advisory clients of Heartland Advisors, Inc. To Heartland's knowledge, no such client has an interest relating to more than 5% of the class of securities to which the Schedule 13G/A relates. As investment advisor, the reporting persons have shared investment and dispositive power with respect to all of the 1,281,625 shares reported. Heartland expressly disclaims beneficial ownership.
16. The address of T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Stock Fund, Inc. is 100 E. Pratt Street, Baltimore, Maryland, 21202.
17. Based on information contained in the Schedule 13G/A jointly filed with the SEC on February 10, 2012, all of the shares reported by T. Rowe Price Associates, Inc. (Price Associates) are owned by investment advisory clients of and such clients have the right to receive dividends from and proceeds from the sale of such shares. With respect to the shares reported to be owned by T. Rowe Price Small-Cap Stock Fund, Inc. (T. Rowe Price Fund), a registered investment company sponsored by Price Associates to which it also serves as investment advisor, only State Street Bank and Trust Company, as custodian for T. Rowe Price Fund, has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities. To Price Associates' knowledge, no other advisory client has an interest relating to more than 5% of the

class of securities to which the Schedule 13G/A relates. As investment advisor, Price Associates has (i) sole voting power with respect to 322,720 shares and (ii) sole dispositive power with respect to 1,797,320 shares, and T. Rowe Price Fund has sole voting power over 838,200 shares.

18. The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

19. Based on information contained in the Schedule 13G filed with the SEC on February 8, 2012, The Vanguard Group, Inc. (Vanguard), has sole voting power over 23,632 of the shares and sole dispositive power over 764,720 of the shares and shared dispositive power over 23,632 of the shares. Vanguard Fiduciary Trust Company (VFTC), a wholly-owned subsidiary of Vanguard, is the beneficial owner of 23,632 shares and directs the voting of these shares.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Introduction*

This section of the proxy statement describes and analyzes our executive compensation philosophy and program in the context of the compensation paid during the last fiscal year to our chief executive officer, our chief financial officer, and each of our three other executive officers (our named executive officers). For fiscal 2011, our named executive officers are:

Kerry J. Chauvin, our Chairman of the Board and Chief Executive Officer;

Kirk J. Meche, our President and Chief Operating Officer;

Robin A Seibert, our former Vice President- Finance, Chief Financial Officer and Treasurer;

William G. Blanchard, our President and Chief Executive Officer Gulf Island, L.L.C.; and

Francis A. Smith, Jr., our President and Chief Executive Officer Gulf Marine Fabricators;

In this CD&A, we first provide an *Executive Summary* of our actions and highlights from 2011. We next explain the principles that guide our Compensation Committee's (the committee) executive compensation decisions and the process we follow when setting executive compensation. Finally, we discuss each component of executive compensation, including the actual results yielded for each named executive officer in fiscal 2011. You should read this section of the proxy statement in conjunction with the advisory vote that we are conducting on the compensation of our named executive officers (see proposal 2), as it contains information that is relevant to your voting decision.

#### *Executive Summary*

The committee is committed to and responsible for designing, implementing, and administering a compensation program for executive officers that ensures appropriate linkage among pay, Company performance, and results for shareholders, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. The committee seeks to increase shareholder value by rewarding performance with cost-effective compensation and ensuring that we can attract and retain the best executive talent available. We believe our executive officer compensation program is simple in design and serves the Company well by providing a mix of annual cash compensation, including base salary and performance based annual incentive awards, with long-term awards in the form of restricted stock.

Although our production activity increased in 2011, we experienced a net loss for the fiscal year 2011. In particular, our consolidated loss before taxes for 2011, which is the metric used to determine the annual cash incentives awarded to our named executive officers, was approximately \$2.5 million. As a result and consistent with our pay-for-performance philosophy, none of our named executive officers received an annual cash

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incentive award for 2011, except for Mr. Blanchard, who received a payout based on subsidiary performance. However, as more fully described in Management's Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K, we believe conditions in the oil industry have improved and, with oil prices currently stable at between \$90 and \$100 per barrel, capital outlay and bidding activity by oil and gas producers have increased. During 2012, we will continue to focus on managing the increasing costs of raw materials and maintaining our labor force. Retaining key management remains a high priority, and to further that goal the committee recommended modest increases in the base salaries of our named executive officers during 2011.

All of our employment relationships with our named executive officers, including our Chief Executive Officer, are at-will relationships. Although the committee has considered the use of employment agreements at the executive level in the past, it does not believe such agreements would provide any appreciable retentive or



motivational value. In addition, except for limited benefits available to certain executives in connection with a termination due to a change in control, we do not provide severance or retirement benefits to our executives other than those provided to all of our employees generally.

### *Compensation Decision-Making Process*

Neither the committee nor management has engaged the services of a compensation consultant. Although we have not formally benchmarked our compensation to the compensation paid by our peers and competitors, we have designed our executive compensation program based on our general understanding of the compensation paid in the marine construction industry. Mr. Chauvin, our Chief Executive Officer, attends the committee's meetings, assists in the committee's evaluation of Company and executive officer performance (other than himself), and recommends the specific elements and amounts of compensation to be paid to the other executive officers. Mr. Chauvin is not present or otherwise involved when the committee reviews his performance and develops recommendations regarding his compensation.

The committee typically meets at the end of each fiscal year to review the performance of the Company and its executives. This meeting is generally scheduled approximately one year in advance, and is scheduled to fall within a window period in which directors and officers are permitted to trade following the release of our earnings for the third quarter of the year. At this meeting, all compensation recommendations are made, including recommendations regarding adjustments to the annual base salaries of the executive officers, the adoption of a cash incentive program for the following fiscal year, and whether any equity awards will be made. The committee has not delegated authority to any officer to grant equity awards, and does not typically grant equity awards to new hires or other employees at other times during the year. The Board of Directors typically makes compensation decisions based on the committee's recommendations during its first quarter meeting in February.

### *Consideration of Say-on-Pay Vote Results*

At our 2011 annual meeting, we held our first non-binding shareholder advisory vote on executive compensation (say-on-pay). Our shareholders approved our fiscal 2010 executive compensation, with more than 81% of voting shareholders casting their vote in favor of the say-on-pay resolution. Because most of the significant fiscal 2011 compensation decisions had already been made at the time of the vote, the committee primarily considered the results of the 2011 say-on-pay vote along with other factors when making executive compensation decisions for fiscal 2012. In making executive compensation decisions for fiscal 2012, the committee's main considerations included our shareholders' support for our executive compensation program and the committee's satisfaction with the fiscal 2011 pay mix and levels. The committee will continue to consider our shareholders' views when making executive compensation decisions in the future.

### *Components of Executive Compensation*

Our executive officer compensation program for 2011 included (i) salaries, (ii) annual cash incentive bonuses, and (iii) long-term incentive compensation in the form of restricted stock. The committee reviewed and quantified all components of our named executive officers' compensation, including salary, non-equity and equity incentive plan compensation, accumulated realized and non-realized stock option gains, and the incremental cost to the Company of all perquisites and other benefits for 2011, and determined that such officers' total compensation in the aggregate is reasonable and not excessive.

Salaries. Our philosophy is that base salaries, which provide fixed compensation, should meet the objective of attracting and retaining the executive officers needed to manage our business successfully. The actual salaries of our named executive officers are based on their individual levels of responsibility and the committee's general knowledge of the competitive compensation levels in the marine construction industry. Due to the weak global economy over the last few years, the base salaries of executive officers had remained level, except for limited



adjustments primarily related to promotions or increased job responsibilities. For 2011, the committee approved modest base salary increases for our executive officers amounting to an approximate 8% increase for our corporate executives (Messrs. Chauvin, Meche and Seibert) and a 5% and 13% increase for Messrs. Blanchard and Smith, respectively.

Annual Cash Incentives. We do not have a formal bonus plan, but have adopted an annual incentive compensation program that ties a portion of executive compensation to the annual performance of the Company. Under this program, our executive officers are paid bonuses equal to a specified percentage of our consolidated income before taxes and before deduction of the executive bonuses based on each officer's level of responsibility. The committee believes consolidated income before taxes is an appropriate measure on which to base our annual bonus because the level of income before taxes generated is directly tied to management's efforts to grow our business. Messrs. Blanchard and Smith, as presidents of our two largest operating subsidiaries, may also receive a specified percentage of the operating income before deduction of the executive bonuses and before inter-company consolidating eliminations of the Company generated by their respective subsidiary. In December 2010, the committee set the participation percentage of our named executive officers in this program for 2011. The participation percentages for 2011 are as follows:

Named Executive Officer	% of Consolidated Income Before Taxes	% of Subsidiary Operating Incomes
Mr. Chauvin	1.00%	
Mr. Meche	0.50%	
Mr. Seibert	0.25%	
Mr. Blanchard	0.08%	0.37% (Gulf Island, L.L.C)
Mr. Smith	0.08%	0.34% (Gulf Marine Fabricators)

These percentages were based on each officer's position with the Company, and the committee retains the right to reduce or eliminate these payments prior to payout. Our consolidated loss before taxes for 2011 was approximately \$2.5 million, and as a result no payouts were made under our annual incentive compensation program to any of our named executive officers as a result of the corporate performance, although Mr. Blanchard did receive a \$16,367 payout based on the resulting operating income of Gulf Island, L.L.C for 2011.

Restricted Stock. In November 2011, the committee awarded annual grants of restricted stock. The committee has utilized restricted stock as a long-term incentive vehicle for the past five years. The committee believes use of restricted stock as an equity compensation vehicle is consistent with the grant practices of our competitors and peers in the marine construction industry. The restricted stock grants are intended to reinforce the relationship between compensation and increases in the market price of our common stock and to align the executive officers' financial interests with that of our shareholders. The size of annual awards is based upon the position of each participating officer and was doubled in 2011 for each named executive officer as compared to previous years, except for Mr. Chauvin, in an effort to provide an additional retention incentive for key management. We do not target a particular grant value when making these awards.

These annual awards of restricted stock vest in annual 20% increments, beginning on the first anniversary of the date of grant. In addition, our executive officers have outstanding restricted stock awards granted in June 2009 that will vest 100% on the third anniversary of the date of grant, provided the officer remains employed by us. Dividends will be paid on the restricted stock to the same extent dividends are paid on unrestricted shares of our common stock.

Perquisites. We also provide very limited perquisites and personal benefits to certain of our named executive officers, consisting of automobile related expenses and benefits. However, the aggregate value of these benefits for our named executive officers did not exceed \$10,000 per executive during 2011.



### ***Post-Employment Compensation***

We maintain a retirement plan qualified under Section 401(k) of the Internal Revenue Code that is available to all qualified employees. Our named executive officers participate in this retirement plan under the same terms as eligible employees. In addition, we entered into change of control agreements with certain of our named executive officers, namely, Messrs. Chauvin, Meche and Seibert, in January 2012 to replace the expired change of control agreements, each with terms substantially similar to the expired agreements. We did not elect to enter into such agreements with Messrs. Blanchard and Smith, as their respective roles as president of our two largest operating subsidiaries do not expose them to the same risks our other executive officers may face in a change of control context. We believe that severance protections, when provided in the context of a change of control transaction, can play a valuable role in attracting and retaining key executives. The occurrence, or potential occurrence, of a change of control transaction can create uncertainty regarding the continued employment of our executive officers, in particular those officers whose primary functions relate to management of the parent company. This uncertainty occurs because many change of control transactions result in significant organizational changes, particularly at the senior executive level. In order to encourage our executive officers to remain employed with the Company during a critical time when their prospects for continued employment following the transaction are often uncertain, we have elected to provide severance benefits if their employment is terminated by the Company without cause or, in limited circumstances, by the executive for good reason in connection with a change of control. Because we believe that a termination by the executive for good reason may be conceptually the same as a termination by the Company without cause, and because we believe that in the context of a change of control, potential acquirers would otherwise have an incentive to constructively terminate the executive's employment to avoid paying severance, we believe it is appropriate to provide severance benefits in these circumstances. We do not provide excise tax gross-up protections in change of control arrangements.

The benefits provided to Messrs. Chauvin, Meche and Seibert in connection with a termination following a change of control are described below under Potential Payments upon Termination or Change of Control. We do not believe that our executive officers should be entitled to receive cash severance benefits merely because a change of control transaction occurs. The payment of cash severance benefits is only triggered by an actual or constructive termination of employment following a change of control (*i.e.* a double trigger). Under their respective incentive agreements, however, our executive officers would be entitled to accelerated vesting of their outstanding equity awards (restricted stock and, if applicable, any unvested stock options) automatically upon a change of control of the Company, whether or not the officer's employment is terminated. This treatment of the equity awards in connection with a change of control applies to all award recipients.

### ***Section 162(m)***

Section 162(m) of the Internal Revenue Code limits the tax deduction to \$1 million for compensation paid to certain highly compensated executive officers. Qualified performance-based compensation is excluded from this deduction limitation if certain requirements are met. The committee does not expect the base salary, annual cash incentive or the restricted stock granted to executive officers, as discussed above, to qualify for the exclusion from the deduction limitation under Section 162(m); however, the level of compensation paid to our executive officers does not often implicate the Section 162(m) limit. The committee intends to continue to establish executive officer compensation programs that will maximize our income tax deduction, assuming the committee determines that such actions are consistent with its philosophy and in the best interest of the Company and our shareholders.

### **Compensation Committee Report**

The Compensation Committee of our Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussions, the Compensation Committee recommended to our Board that the Compensation Discussion and Analysis be included in this proxy statement.

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Submitted by the committee on February 24, 2012.

Alden J. Laborde

Gregory J. Cotter

John P. Laborde

Christopher M. Harding

**Executive Compensation Tables**

The table below summarizes the total compensation paid to or earned by our named executive officers. The amounts represented in the **Stock Awards** column reflect the estimated fair value of the stock awards on the grant date and do not necessarily reflect the income that will ultimately be realized by our named executive officers for these awards.

**2011 Summary Compensation Table**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Stock Awards \$(1)</b>	<b>Non- Equity Incentive Plan Compensation \$(2)</b>	<b>All Other Compensation \$(3)</b>	<b>Total (\$)</b>
Kerry J. Chauvin	2011	\$ 540,000	\$ 284,300	\$	\$ 9,555	\$ 833,855
Chairman and	2010	500,000	270,900	218,962	10,941	1,000,803
Chief Executive Officer	2009	500,000	382,924	322,220	11,423	1,216,567
Kirk J. Meche	2011	310,000	193,324		9,555	512,879
President and Chief Operating Officer	2010	285,000	92,106	98,533	10,941	486,580
	2009	285,000	208,228	144,999	11,423	649,650
Robin A. Seibert (4)	2011	216,000	113,720		9,555	339,275
Former Vice President Finance, Chief Financial Officer and Treasurer	2010	200,000	54,180	54,741	10,941	319,862
	2009	200,000	129,560	80,555	11,423	421,538
William G. Blanchard	2011	184,000	113,720	16,367	9,380	323,467
President and Chief Executive Officer Gulf Island, L.L.C.	2010	175,000	54,180	50,894	10,822	290,896
	2009	175,000	129,560	83,011	11,423	398,994
Francis A. Smith, Jr.	2011	170,000	113,720		7,480	291,200
President and Chief Executive Officer Gulf Marine Fabricators	2010	150,000	54,180	17,517	5,544	227,241
	2009	125,000	129,560	46,318	2,628	303,506

- (1) Amounts shown reflect the aggregate grant date fair value of restricted stock granted during the applicable fiscal year. The grant date fair value of restricted stock is the closing price of the Company's common stock on the date of the grant.
- (2) See **Grants of Plan-Based Awards** below for a description of our annual incentive compensation program.
- (3) For 2011, includes (i) matching and profit-sharing contributions to our 401(k) plan and (ii) premium payments under a long-term disability insurance plan, which premium payments are attributable to benefits in excess of those benefits provided generally for other employees, as set forth below:

Name

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	<u>401(k) Plan Contributions</u>	<u>Disability Insurance Premiums</u>
Mr. Chauvin	\$ 8,575	\$ 980
Mr. Meche	8,575	980
Mr. Seibert	8,575	980
Mr. Blanchard	8,478	902
Mr. Smith	6,647	833

- (4) As previously announced, on January 30, 2012, Mr. Seibert stepped down as Vice President Finance, Chief Financial Officer and Treasurer of the Company.



## Grants of Plan-Based Awards

in Fiscal Year 2011

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards	All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards
		Target (\$)(1)		
<b>Kerry J. Chauvin</b>				
Annual Cash Incentive		\$ 218,962		
Restricted Stock Grants	11/30/11		10,000	\$ 284,300
<b>Kirk J. Meche</b>				
Annual Cash Incentive		98,533		
Restricted Stock Grants	11/30/11		6,800	193,324
<b>Robin A. Seibert</b>				
Annual Cash Incentive		54,741		
Restricted Stock Grants	11/30/11		4,000	113,720
<b>William G. Blanchard</b>				
Annual Cash Incentive		50,894		
Restricted Stock Grants	11/30/11		4,000	113,720
<b>Francis A. Smith, Jr.</b>				
Annual Cash Incentive		17,517		
Restricted Stock Grants	11/30/11		4,000	113,720

- (1) Under our annual incentive compensation program, our executive officers received awards equal to a specified percentage of our consolidated income before taxes for fiscal year 2011, before deduction of the executive bonuses. There are no threshold or maximum estimates. The estimated possible payouts reflected above represent amounts that would be payable to our named executive officers under our annual incentive compensation program based on fiscal year 2010 performance. As reflected in the Summary Compensation Table, none of the named executive officers received a payout under our annual incentive compensation program for 2011, except for Mr. Blanchard, who received a \$16,367 payout based on the resulting operating income of Gulf Island, L.L.C for 2011.

### Outstanding Equity Awards at December 31, 2011

As of December 31, 2011, our named executive officers had the following outstanding equity awards.

Name	Option Awards(1)				Stock Awards	
	Date of Grant	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Kerry J. Chauvin	12/11/03	20,000	16.69	12/11/2013	37,380	\$ 1,091,870
	12/10/04	20,000	21.85	12/10/2014		
Kirk J. Meche	12/05/02	10,000	15.63	12/05/2012	20,270	592,087
	12/11/03	10,000	16.69	12/11/2013		
	12/10/04	10,000	21.85	12/10/2014		
Robin A. Seibert (3)	12/05/02	1,000	15.63	12/05/2012	12,400	362,204
	12/11/03	3,000	16.69	12/11/2013		
	12/10/04	4,000	21.85	12/10/2014		
William G. Blanchard	12/10/04	2,500	21.85	12/10/2014	12,400	362,204
Francis A. Smith, Jr.					12,000	350,520

- (1) Options vest in 20% increments beginning on the first anniversary of the grant date, and on each of the four subsequent anniversaries thereof.
- (2) The unvested shares of restricted stock held by the named executive offices will vest as set forth below:

Name	Shares of Restricted Stock	Vesting Schedule
Mr. Chauvin	1,340	100% on December 7, 2012
	4,020	33% on February 9, 2012 and on each of the two subsequent anniversaries thereof
	10,000	100% on June 17, 2012
	4,020	33% on December 4, 2012 and on each of the two subsequent anniversaries thereof
	8,000	
	10,000	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof

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		20% on November 30, 2012 and on each of the four subsequent anniversaries thereof
Mr. Meche	670	100% on December 7, 2012
	2,040	33% on February 9, 2012 and on each of the two subsequent anniversaries thereof
	6,000	100% on June 17, 2012
	2,040	33% on December 4, 2012 and on each of the two subsequent anniversaries thereof
	2,720	
	6,800	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof
		20% on November 30, 2012 and on each of the four subsequent anniversaries thereof

Name	Shares of Restricted Stock	Vesting Schedule	
Mr. Seibert	400	100% on December 7, 2012	
	1,200	33% on February 9, 2012 and on each of the two subsequent anniversaries thereof	
	4,000	100% on June 17, 2012	
	1,200	33% on December 4, 2012 and on each of the two subsequent anniversaries thereof	
	1,600	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof	
	4,000	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof	
			20% on November 30, 2012 and on each of the four subsequent anniversaries thereof
Mr. Blanchard	400	100% on December 7, 2012	
	1,200	33% on February 9, 2012 and on each of the two subsequent anniversaries thereof	
	4,000	100% on June 17, 2012	
	1,200	33% on December 4, 2012 and on each of the two subsequent anniversaries thereof	
	1,600	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof	
	4,000	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof	
			20% on November 30, 2012 and on each of the four subsequent anniversaries thereof
Mr. Smith	1,200	33% on March 1, 2012 and on each of the two subsequent anniversaries thereof	
	4,000	100% on June 17, 2012	
	1,200	33% on December 4, 2012 and on each of the two subsequent anniversaries thereof	
	1,600	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof	
	4,000	25% on December 1, 2012 and on each of the three subsequent anniversaries thereof	
			20% on November 30, 2012 and on each of the four subsequent anniversaries thereof

- (3) As previously noted, Mr. Seibert resigned effective January 30, 2012, and as a result of his resignation all outstanding shares of restricted stock were forfeited and he was given thirty days to exercise his outstanding stock options.



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**Option Exercises and Stock Vested**
**During Fiscal Year 2011**

<u>Name</u>	<u>Option Awards</u>		<u>Stock Awards</u>	
	<u>Number of Shares Acquired on Exercise (#)</u>	<u>Value Realized On Exercise (\$)(1)</u>	<u>Number of Shares Acquired on Vesting (#)</u>	<u>Value Realized on Vesting (\$)(1)</u>
Kerry J. Chauvin	0	\$ 0	7,360	\$ 203,045
Kirk J. Meche	0	0	3,380	93,108
Robin A. Seibert	1,000	0	1,930	53,244
William G. Blanchard	2,100	24,801	1,930	53,244
Francis A. Smith, Jr.	0	0	1,200	34,608

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(1) Value Realized is determined by reference to the closing market price of the shares on the exercise date or vesting date, as applicable.

**Potential Payments Upon Termination or Change-of-Control**

Pursuant to the terms of our stock incentive plans and the agreements thereunder, in the event of a change of control, all outstanding stock options will become exercisable and the restrictions on all shares of restricted stock will lapse.

**Change of Control Agreement Mr. Chauvin.** In January 2011, we entered into a change of control agreement with Mr. Chauvin. The agreement entitles Mr. Chauvin to receive additional benefits in the event of the termination of his employment under certain circumstances following a change of control. The agreement provides that if, during the two-year period following a change of control, the Company or its successor terminates Mr. Chauvin other than by reason of death, disability or cause, or the executive voluntarily terminates his employment for good reason, the executive will receive:

any accrued but unpaid salary and a pro-rata bonus for the year in which he was terminated;

a lump-sum cash payment equal to 2 times the sum of (a) Mr. Chauvin's base salary in effect at the time of termination and (b) the highest annual bonus awarded to Mr. Chauvin during the three fiscal years immediately preceding the termination date; and

continuation of insurance and welfare benefits until the earlier of (a) December 31 of the first calendar year following the calendar year of the termination or (b) the date Mr. Chauvin accepts new employment.

**Change of Control Agreement Messrs. Meche and Seibert.** In January 2011, we entered into change of control agreements with Messrs. Meche and Seibert. These agreements entitle each executive to receive additional benefits in the event of the termination of his employment under certain circumstances following a change of control. Each agreement provides that if, during the 18-month period following a change of control, the Company or its successor terminates the executive other than by reason of death, disability or cause, or the executive voluntarily terminates his employment for good reason, the executive will receive:

any accrued but unpaid salary and a pro-rata bonus for the year in which he was terminated;

a lump-sum cash payment equal to 1.5 times the sum of (a) the executive's base salary in effect at the time of termination and (b) the highest annual bonus awarded to the executive during the three fiscal years immediately preceding the termination date; and

continuation of insurance and welfare benefits until the earlier of (a) December 31 of the first calendar year following the calendar year of the termination or (b) the date the executive accepts new employment.

In addition, all of the above described agreements also provide that if the executive terminates his employment during the respective protected period following a change of control by reason of death, disability or retirement, the Company or its successor shall pay to the executive any accrued but unpaid salary and a pro-rata bonus for the year in which he was terminated. The pro-rata bonus shall be calculated based on the average of the annual bonuses received by the executive in the three most recently completed fiscal years prior to the termination date, and multiplying such amount by the fraction obtained by dividing the number of days worked by the executive in the year of termination by 365.

All of the above described change of control agreements expired on December 31, 2011. Effective January 1, 2012, we entered into new change of control agreements with Messrs. Chauvin, Meche and Seibert to replace the expired agreements, each with substantially similar terms to the expired agreements. The benefits provided under the agreements are in addition to the value of any shares of restricted stock, the vesting of

which is accelerated pursuant to the terms of the restricted stock agreement, and any other incentive or similar plan adopted by us. If any part of the payments or benefits received by the executive in connection with a termination following a change of control constitutes an excess parachute payment under Section 4999 of the Internal



Revenue Code, the executive will receive the greater of (1) the amount of such payments and benefits reduced so that none of the amount constitutes an excess parachute payment, net of income taxes, or (2) the amount of such payments and benefits, net of income taxes and net of excise taxes under Section 4999 of the Internal Revenue Code.

As previously mentioned, on January 30, 2012, Robin A. Seibert stepped down as Vice President Finance, Chief Financial Officer and Treasurer of the Company. The Company agreed to pay Mr. Seibert through February 15, 2012 at his current base salary. In addition, as a result of his resignation, all of his outstanding shares of restricted stock were forfeited and he was given thirty days to exercise his outstanding stock options.

The following table quantifies the potential payments to our named executive officers under the contracts, arrangements or plans discussed above, for a change of control or termination of employment of each of our named executive officers, assuming a December 31, 2011 termination date, and where applicable, using the closing price of our common stock of \$29.21 (as reported on the Nasdaq as of December 30, 2011). The table does not include amounts that may be payable under our 401(k) plan, or amounts that are not accelerated as a result of the termination or change of control, such as accrued salary or pro-rata bonus payments.

Name	Lump Sum Severance Payment	Restricted Stock (Unvested and Accelerated)(1)	Health Benefits	Total
<b>Kerry J. Chauvin</b>				
Termination w/o Cause/For Good Reason after				
Change of Control (2)	\$ 1,724,440	\$ 1,091,870	\$ 9,114	\$ 2,825,424
<b>Kirk J. Meche</b>				
Termination w/o Cause/For Good Reason after				
Change of Control (2)	682,499	592,087	9,114	1,283,699
<b>Robin A. Seibert</b>				
Termination w/o Cause/For Good Reason after				
Change of Control (2)	444,833	362,204	9,114	816,151
<b>William G. Blanchard</b>				
Change of Control	N/A	362,204	N/A	362,204
<b>Francis A. Smith</b>				
Change of Control	N/A	350,520	N/A	350,520

- (1) The restricted stock will vest upon a change of control alone regardless of subsequent termination. The value of the restricted stock that would have vested for each of our named executive officer is based on the closing market price on December 30, 2011.
- (2) Pursuant to the terms of the executive's change of control agreement, the total payments may be subject to reduction if such payments result in the imposition of an excise tax under Section 280G of the Internal Revenue Code.

#### Certain Transactions

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In accordance with the provisions of our Audit Committee Charter, any transaction which would require disclosure under Item 404(a) of Regulation S-K of the rules and regulations of the SEC, with respect to a director or executive officer, must be reviewed and approved, or ratified, annually by the Audit Committee of our Board. Any such related party transactions will only be approved or ratified if the Audit Committee determines that such transaction will not impair the involved person's service to, and exercise of judgment on behalf of, us, or otherwise create a conflict of interest that would be detrimental to us.

In connection with the initial public offering of our common stock, we entered into a registration rights agreement with Alden J. Laborde. If we propose to register any of our common stock under the Securities Act in connection with a public offering, Mr. Laborde may require us to include all or a portion of the shares of our common stock held by him. We have agreed under the registration rights agreement to pay all the expenses of registration, other than underwriting discounts and commissions.

## **PROPOSAL 2: ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we provide our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the rules of the SEC. This vote is not intended to address any specific item of compensation but rather the overall compensation of our named executive officers and our compensation philosophy and practices as disclosed under the Executive Compensation section of this proxy statement. This disclosure includes the Compensation Discussion and Analysis and the compensation tables and accompanying narrative disclosures. Shareholders are asked to vote on the following resolution:

**RESOLVED**, that the shareholders of Gulf Island Fabrication, Inc. (the Company) approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the proxy statement for the Company's 2012 annual meeting of shareholders pursuant to Item 402 of Regulation S-K of the rules of the Securities and Exchange Commission.

We understand that executive compensation is an important matter for our shareholders. Our core executive compensation philosophy and practice continue to be based on pay for performance, and we believe that our compensation program is strongly aligned with the long-term interests of our shareholders. In considering how to vote on this proposal, we encourage you to review all the relevant information in this proxy statement our Compensation Discussion and Analysis (including its Executive Summary), the compensation tables, and the rest of the narrative disclosures regarding our executive compensation program.

While this advisory vote, commonly referred to as a say-on-pay vote, is not binding, our Board and the Compensation Committee value the opinion of our shareholders and will consider the outcome of the vote when making future compensation decisions for our named executive officers. Following the recommendation of our stockholders at our 2011 annual meeting, we will hold a say-on-pay vote at each annual meeting until the next required vote of our stockholders regarding the frequency of say-on-pay. We invite shareholders who wish to communicate with our board on executive compensation or any other matters to contact us as provided under Corporate Governance Communication with our Board.

Approval of this proposal requires the affirmative vote of at least a majority of the votes cast at the annual meeting. See Questions and Answers about the Annual Meeting and Voting.

**Our board unanimously recommends that you vote to approve the compensation of our named executive officers as disclosed in this proxy statement by voting FOR this proposal.**

## **AUDIT COMMITTEE REPORT**

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The Audit Committee of the Board of Directors is composed of four directors and operates under a written charter adopted by the Board of Directors, which is posted on the Company's website at [www.gulfisland.com](http://www.gulfisland.com). The current members of the Audit Committee, Gregory J. Cotter (Chairman), John P. Laborde, Michael A. Flick, and Ken C. Tamblyn, are independent as such term is defined under Nasdaq's listing standards.

We review the Company's financial reporting process on behalf of the Board. We are responsible for monitoring this process, but we are not responsible for preparing the Company's financial statements or auditing those financial statements. Those are the responsibilities of management and the Company's independent registered public accounting firm, respectively.

During 2011, management assessed the effectiveness of the Company's system of internal control over financial reporting in connection with the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We reviewed and discussed with management, PricewaterhouseCoopers (the Company's internal auditors) and Ernst & Young (the Company's independent registered public accounting firm) management's report on internal control over financial reporting and Ernst & Young's report on their audit of the Company's internal control over financial reporting, both of which are included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

#### **Appointment of the Company's Independent Registered Public Accounting Firm; Financial Statement Review**

In April 2011, in accordance with the Company's charter, we appointed Ernst & Young LLP as the Company's independent registered public accounting firm for 2011. We have reviewed and discussed the Company's audited financial statements for the year 2011 with management and Ernst & Young. Management represented to us that the audited financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of and for the periods presented in the financial statements in accordance with accounting principles generally accepted in the United States, and Ernst & Young provided an audit opinion to the same effect.

We have received from Ernst & Young the written disclosures and the letter required by Rule 3526 of the Public Company Accounting Oversight Board, *Communication with Audit Committees Concerning Independence* and we have discussed with them their independence from the Company and management. We have also discussed with Ernst & Young the matters required to be discussed by the statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended (AICPA, Professional Standards, Vol 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

In addition, we discussed with Ernst & Young the overall scope and plans for their audit, and we have met with them and management to discuss the results of their examination, their understanding and evaluation of the Company's internal controls as they considered necessary to support their opinion on the financial statements for the year 2011, and various factors affecting the overall quality of accounting principles applied in the Company's financial reporting. Ernst & Young also met with the Audit Committee without management being present to discuss these matters.

In reliance on these reviews and discussions, we recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the audited financial statements referred to above in the Company's annual report on Form 10-K for the year ended December 31, 2011.

#### **Internal Audit**

We also review the Company's outsourced internal audit function, and discuss with the internal auditors the scope of their audit plan, and have met with them to discuss the results of their reviews, their review of management's documentation, testing and evaluation of the Company's system of internal control over financial reporting, any difficulties or disputes with management encountered during the course of their reviews and other matters relating to the internal audit process. The internal auditors also met with the Audit Committee without management being present to discuss these matters.

Dated: February 24, 2012

The Audit Committee:

Gregory J. Cotter, Chairman

John P. Laborde

Michael A. Flick

Ken C. Tamblyn

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**Independent Registered Public Accounting Firm**

**Fees and Related Disclosures for Accounting Services**

The following table discloses fees for services provided by our independent registered public accounting firm, Ernst & Young LLP, for each of the last two fiscal years:

	<u>2011</u>	<u>2010</u>
Audit Fees	\$ 401,200	\$ 317,900
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0

The Audit Committee has considered and determined that the provision of the above services is compatible with maintaining the independence of our independent registered public accounting firm.

*Pre-Approval Policies and Procedures.* The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. The Audit Committee will generally pre-approve a list of specific services and categories of services, including audit, audit-related and tax services, for the upcoming or current fiscal year, subject to a specified cost level. Any service that is not included in the approved list of services must be separately pre-approved by the Audit Committee in increments of \$10,000. In addition, if fees for any service exceed the amount that has been pre-approved, then payment of additional fees for such service must be specifically pre-approved by the Audit Committee.

At each regularly-scheduled Audit Committee meeting, management updates the Audit Committee on the scope and anticipated cost of any service pre-approved by the Audit Committee since the last meeting of the Audit Committee, as well as the projected fees for each service or group of services being provided by our independent registered public accounting firm.

Since the May 6, 2003 effective date of the SEC rules stating that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, each service provided by our independent registered public accounting firm was approved in advance by the Audit Committee, and none of those services required use of the *de minimis* exception to the pre-approval requirement contained in the SEC's rules.

**PROPOSAL 3: RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP has served as our independent registered public accounting firm providing auditing and financial services since their engagement in fiscal 1997. Our Board of Directors has ratified the decision of the Audit Committee to appoint Ernst & Young LLP to serve as our independent registered public accounting firm to audit our financial statements for the year ending December 31, 2012. Although we are not required to seek shareholder approval of this appointment, we have decided to do so. No determination has been made as to what action the Audit Committee and our Board of Directors would take if our shareholders fail to ratify the appointment. Even if the appointment is ratified, the Audit Committee retains discretion to appoint a new independent registered public accounting firm at any time if the Audit Committee concludes such a change would be in the best interests of the Company. We expect that representatives of Ernst & Young LLP will be present at the annual meeting and will have the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

Approval of this proposal requires the affirmative vote of at least a majority of the votes cast at the annual meeting. See Questions and Answers about the Annual Meeting and Voting.

**Our Board unanimously recommends that you vote for the ratification of the appointment of our independent registered public accounting firm.**

By Order of the Board of Directors  
DEBORAH KERN-KNOBLOCK  
*Secretary*

Houma, Louisiana

March 16, 2012







