UNIFAB INTERNATIONAL INC
Form 8-K
July 18, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

JULY 18, 2003
Date of Report (Date of earliest event reported)

UNIFAB INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

LOUISIANA	0-29416	72-1382998
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

5007 PORT ROAD
NEW IBERIA, LOUISIANA 70560
(Address of principal executive offices) (Zip Code)

(337) 367-8291
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name or former address, if changed since last report)

ITEM 5.

I. SEGMENT DISCLOSURE

Effective January 1, 2003, as a result of the Midland Recapitalization and Investment transaction, management has evaluated the changed organizational and reporting structure of the Company and has concluded that the Company operates three reportable segments: platform fabrication, process systems and drilling rig fabrication. The Company's Quarterly Report on Form 10-Q for the three-month period ended March 31, 2003 included disclosure of these reportable segments. This Form 8-K amends the financial statements for Unifab International, Inc. as filed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 to include segment disclosure in Note 16. Industry Segments, and amends Management's Discussion and Analysis for the related segment disclosure. The amended financial statements are to be distributed with the Company's proxy materials related to the 2003 annual meeting of the shareholders.

II. Shut down of Allen Process Systems Limited

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

PART IV

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

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

(i) Financial Statements

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INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana
March 28, 2003
(July 3, 2003 as to Note 16)

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Report of Independent Auditors

The Board of Directors and Shareholders
UNIFAB International, Inc.

We have audited the accompanying consolidated balance sheet of UNIFAB International, Inc. as of December 31, 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2001 and the nine-month period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UNIFAB International, Inc. at December 31, 2001, and the consolidated results of its operations and its cash flows for the year ended December 31, 2001 and the nine-month period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

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

/s/ Ernst & Young LLP

New Orleans, Louisiana
April 9, 2002, except for Note 16, as to which the date is July 3, 2003

UNIFAB International, Inc.

Consolidated Balance Sheets

	DECEM
	2002
	(In t
ASSETS	
Current assets:	
Cash and cash equivalents	$ 80
Accounts receivable, net	7,517
Costs and estimated earnings in excess of billings on uncompleted contracts	2,297
Income tax receivable	305
Prepaid expenses and other assets	1,873
Total current assets	12,072
Property, plant and equipment, net	26,221
Goodwill, net	260
Other assets	726
Total assets	$ 39,279
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 5,056
Billings in excess of costs and estimated earnings on uncompleted contracts	14
Accrued liabilities	2,163
Contract loss reserves	1,148
Current maturities of long-term debt	850
Total current liabilities	9,231
Long-term debt, less current maturities	2,090
Secured, subordinated notes payable	6,848
Secured, subordinated convertible debenture, net of unamortized discount of $3,452 in 2002	7,200
Total liabilities	25,369
Commitments and contingencies (Note 14)	
Shareholders' equity:	
Preferred stock, no par value, 5,000 shares authorized, 738 shares outstanding in 2002, each share has voting rights equivalent to and is convertible into 100,000 shares of common stock	--
Common stock, $0.01 par value, 20,000,000 shares authorized, 8,189,972 and 8,127,283 shares outstanding in 2002 and 2001, respectively	82
Additional paid-in capital	62,076
Accumulated deficit	(48,212)
Accumulated other comprehensive loss	(36)
Total shareholders' equity	13,910
Total liabilities and shareholders' equity	$ 39,279

See accompanying notes.

UNIFAB International, Inc.

Consolidated Statements of Operations

	YEAR ENDED DECEMBER 31, 2002	2001	NI
	(In thousands, except per shar		
Revenue	$ 33,286	$ 81,733	
Cost of revenue	39,260	79,244	
Gross profit (loss)	(5,974)	2,489	
Impairment of Lake Charles facility	5,074	--	
Impairment of goodwill	--	14,786	
Loss on disposal of equipment and closure of facilities	351	4,790	
Commitment fees	--	700	
Selling, general and administrative expense	7,242	7,417	
Loss from operations	(18,641)	(25,204)	
Other income (expense):			
Interest expense	(1,894)	(2,794)	
Interest income	18	33	
Loss before income taxes	(20,517)	(27,965)	
Income tax provision (benefit)	--	1,316	
Net loss	$ (20,517)	$ (29,281)	
Basic and diluted loss per share	$ (0.56)	$ (3.60)	
Basic and diluted weighted average shares outstanding	36,699	8,142	

See accompanying notes.

UNIFAB International, Inc.

Consolidated Statements of Shareholders' Equity

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PREFERRED STOCK SHARES	PREFERRED STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUM OTH COMPRE INCOME
					(In thousands)		
Balance at March 31, 2000	6,820	$ 68	--	$ --	$35,395	$ 8,852	$
Stock issued:							
Stock awards	6	--	--	--	36	--	
Private placement of stock	1,300	13	--	--	11,272	--	
Stock options exercised	1	--	--	--	10	--	
Net loss	--	--	--	--	--	(7,266)	
Currency translation adjustment	--	--	--	--	--	--	
Comprehensive loss	--	--	--	--	--	--	
Balance at December 31, 2000	8,127	81	--	--	46,713	1,586	
Stock issued:							
Stock awards	56	1	--	--	66	--	
Stock options exercised	7	--	--	--	51	--	
Net loss	--	--	--	--	--	(29,281)	
Currency translation adjustment	--	--	--	--	--	--	
Comprehensive loss	--	--	--	--	--	--	
Balance at December 31, 2001	8,190	82	--	--	46,830	(27,695)	
Midland investment transaction: (see Note 2)							
Issuance of convertible, preferred stock	--	--	1	--	10,000	--	
Discount on secured, subordinated debenture for beneficial conversion feature	--	--	--	--	3,652	--	
Forgiveness of accrued penalties	--	--	--	--	680	--	
Forgiveness of unsecured creditor claims	--	--	--	--	914	--	
Net loss	--	--	--	--	--	(20,517)	
Currency translation adjustment	--	--	--	--	--	--	
Comprehensive loss	--	--	--	--	--	--	
Balance at December 31, 2002	8,190	$ 82	1	$ --	$62,076	$ (48,212)	$

See accompanying notes.

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UNIFAB International Inc.

Consolidated Statements of Cash Flows

	YEAR ENDED DECEMBER	
	2002	20
		(In thou
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (20,517)	$ (
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,700	
Amortization	--	
Provision for doubtful accounts	913	
Impairment charge on Lake Charles facility	5,074	
Impairment charge on goodwill	--	
Loss on disposal of equipment and closure of facilities	351	
Deferred income taxes	--	
Changes in operating assets and liabilities:		
Accounts receivable	6,169	
Net costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings on uncompleted contracts	2,143	
Prepaid expenses and other assets	5,164	
Accounts payable and accrued liabilities	(4,673)	
Net cash used in operating activities	(2,676)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(1,194)	
Proceeds from sale of equipment	130	
Collections on notes receivable	27	
Net cash used in investing activities	(1,037)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advances from Midland	2,815	
Net change in short-term borrowings	224	
Exercise of stock options	--	
Proceeds from issuance of common stock	--	
Net cash provided by financing activities	3,039	
Net change in cash and cash equivalents	(674)	
Cash and cash equivalents at beginning of year	754	
Cash and cash equivalents at end of year	$ 80	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid (received) during the year for:		
Income taxes	$ (3,766)	$

Interest	$ 1,668	$
Non cash activities:		
Midland Recapitalization and Investment Transaction (Note 2)		

See accompanying notes.

UNIFAB International Inc.

Notes to Consolidated Financial Statements

December 31, 2002

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

UNIFAB International, Inc. (the Company) fabricates and assembles jackets, decks, topside facilities, quarters buildings, drilling rigs and equipment for installation and use offshore in the production, processing and storage of oil and gas. Through a wholly owned subsidiary, Allen Process Systems, LLC, the Company designs and manufactures specialized process systems such as oil and gas separation systems, gas dehydration and treatment systems, and oil dehydration and desalting systems, and other production equipment related to the development and production of oil and gas reserves. Compression Engineering Services, Inc. (CESI), a division of Allen Process Systems, LLC, provides compressor project engineering from inception through commissioning, including project studies and performance evaluation of new and existing systems, on-site supervision of package installation, and equipment sourcing and inspection. The Company's main fabrication facilities are located at the Port of Iberia in New Iberia, Louisiana. Through a wholly owned subsidiary, Allen Process Systems, Ltd., headquartered in London, England, the Company provides engineering and project management services primarily in Europe and the Middle East and the Far East.

The Company, as of December 31, 2002, operates in the facilities obtained with the acquisition of each operating subsidiary. These facilities are similar in nature and provide the physical environment necessary for the Company to provide its custom fabrication services to the oil and gas industry. Management has concluded that the operating facilities are operating segments that qualify to be aggregated under SFAS 131 in these financial statements. Management has considered that that nature of the products and services provided by the Company and the nature of the production processes are similar for each operating segment. The types or class of customers, and our methods of distributing our products and providing our services are similar for all operating segments. (See Note 16 Industry Segments). The tables below summarize revenues from external customers for our products.

NINE-MONTHS

	YEAR ENDED DECEMBER 31, 2002	2001	ENDED DECEMBER 31, 2000
Decks, jackets and module fabrication	$ 16,490	$ 34,023	$ 25,655
Production process systems	9,570	20,679	14,209
Drilling rig fabrication	340	13,487	11,005
Other	6,886	13,544	9,516
Total revenue	$ 33,286	$ 81,733	$ 60,385

The operating cycle of the Company's contracts is typically less than one year, although some large contracts may exceed one year's duration. Assets and liabilities have been classified as current and noncurrent under the operating cycle concept, whereby all contract-related items are regarded as current regardless of whether cash will be received within a 12-month period. At December 31, 2002 and 2001, it was anticipated that substantially all contracts in progress, and receivables associated therewith, would be completed and collected within a 12-month period.

THE MIDLAND RECAPITALIZATION AND INVESTMENT TRANSACTION

As more fully described in Note 2, below, on August 13, 2002 the Company and Midland Fabricators and Process Systems, LLC ("Midland") closed a transaction under which Midland exchanged $24.1 million outstanding under the Company's Senior Secured Credit Agreement and $5.6 million in acquired claims of unsecured creditors for 738 shares of our preferred stock, a secured subordinated convertible debenture in the amount of $10.7 million and two secured

subordinated notes which total in the aggregate $6.8 million. The debenture is convertible into the Company's common stock at a price of $0.35 per share. Midland's 738 shares of preferred stock will be convertible into a total of 73,800,000 shares of the Company's common stock as soon as the shareholders authorize additional shares of common stock. The Company also recorded additional paid in capital on the transaction of $3.7 million resulting from the discount recorded on the secured subordinated convertible debenture, and capital contributions of $680,000 resulting from forgiveness by Midland of penalties accrued under the Senior Secured Credit Agreement and $914,000 resulting from partial forgiveness of the unsecured creditor claims acquired by Midland. Further, $675,000 of the amount the Company owed Midland under the Company's Senior Secured Credit Agreement was cancelled in exchange for the assignment to Midland of certain accounts receivable. On November 18, 2002, the Company entered into a commercial business loan with the Whitney National Bank, as more fully described in Note 5 to the financial statements. This loan is guaranteed by Nassau Holding Company, an affiliate of Midland, the subsidiaries of Unifab, and the principle members of Midland, in accordance with the terms of the Midland transaction.

PRINCIPLES OF CONSOLIDATION

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

FISCAL YEAR

Effective December 31, 2000, the Company changed its fiscal year-end to December 31 of each year. The consolidated statements of operations, shareholders' equity and cash flows for the period from April 1, 2000 to December 31, 2000 represent a transition period of nine months, which is referred to as the nine months ended December 31, 2000.

The following is a comparative summary of the operating and cash flow results for the nine-month periods ended December 31, 2000 and December 31, 1999:

	NINE MONTHS ENDED DECEMBER 31	
	2000	1999
		(Unaudited)
	(In Thousands, Except Per-Share Amounts)	
Revenue	$ 60,385	$ 55,817
Cost of revenue	63,387	48,942
Gross profit (loss)	(3,002)	6,875
Selling, general and administrative expense	6,685	6,141
Income (loss) from operations	(9,687)	734
Other income (expense):		
Interest expense	(1,807)	(908)
Interest income	180	63
Loss before income taxes	(11,314)	(111)
Income tax provision (benefit)	(4,048)	97
Net loss	$ (7,266)	$ (208)
Basic and diluted loss per share	$ (1.00)	$ (0.03)
Basic weighted average shares outstanding	7,270	6,697
Diluted weighted average shares outstanding	7,270	6,697

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (7,266)	$ (208
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,727	1,535
Amortization	631	601
Provision for doubtful accounts	886	65
Deferred income taxes	(3,252)	645
Changes in operating assets and liabilities, net of effects from acquisition of business:		
Accounts receivable	1,807	5,353
Net costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings on uncompleted contracts	3,577	(1,634
Prepaid expenses and other assets	(2,524)	(2,483
Accounts payable and accrued liabilities	2,471	(3,395
Net cash provided by (used in) operating activities	(1,943)	479
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business, net of cash acquired	--	233
Purchases of equipment	(4,688)	(5,144
Proceeds from sale of equipment	178	--
Net cash used in investing activities	(4,510)	(4,911
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings	5,173	2,929
Proceeds from notes payable	--	10,000
Payments on note payable	(9,600)	(7,891
Exercise of stock options	10	--
Proceeds from issuance of common stock	11,685	--
Net cash provided by financing activities	7,268	5,038
Net change in cash and cash equivalents	815	606
Cash and cash equivalents at beginning of period	189	1,125
Cash and cash equivalents at end of year	$ 1,004	$ 1,731
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ --	$ --
Interest	$ 1,944	$ 1,103

REVENUE AND COST RECOGNITION

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

The Company measures progress toward completion on fixed price contracts in a manner that we believe most accurately reflects the physical progress on the contracts. Contracts to construct platforms are measured by comparing labor and subcontract costs to date against total estimated labor and subcontract costs. Contracts to design and to manufacture processing equipment, which include a significant number of man-hours to design and to manufacture the equipment, are measured by comparing labor hours to date against total estimated labor hours. The Company believes this measure accurately represents progress on these contracts. Both platform fabrication and process equipment design and manufacture contracts typically include significant material costs at the start of the contract, such as for steel and valves. The Company does not include materials purchased pursuant to such contracts as a measure of completion because it believes that would distort the reported progress on the contracts.

Contracts to manufacture drilling rigs are measured by comparing total costs to date against total estimated costs. These contracts generally do require steel purchases as man-hours are applied and physical completion is performed. The Company does not believe a significant distortion in the reported progress on these contracts results when material costs are included in the measure of progress.

As described above, these measures of progress are used consistently for contracts that have similar characteristics. The Company believes that the use of these measurements of progress results in an appropriate, objective measure of progress on contracts.

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

USE OF ESTIMATES

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

CASH EQUIVALENTS

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

PROPERTY, PLANT AND EQUIPMENT

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

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

GOODWILL

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

	Year ended December 31, 2002	Year ended December 31, 2001	Nine-months ended December 31, 2000
Reported net loss	$ (20,517)	$ (29,281)	$ (7,266)
Add: Goodwill amortization, net of tax	--	437	413
Adjusted net loss	$ (20,517)	$ (28,844)	$ (6,853)
Reported net loss per share, basic and diluted	$ (0.56)	$ (3.60)	$ (1.00)
Add Goodwill amortization net of tax, per basic and diluted share	--	0.05	0.06
Adjusted loss per share, basic and diluted	$ (0.56)	$ (3.55)	$ (0.94)
Basic and diluted weighted average shares outstanding	36,699	8,142	7,270

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

The carrying amount of goodwill as of December 31, 2002 and 2001, is approximately $260,000 and is entirely attributable to the Company's June 24, 1999 acquisition of Compression Engineering Services, Inc.

INTEREST CAPITALIZATION

Interest costs for the construction of certain long-lived assets are capitalized and amortized over the related assets' estimated useful lives. During the nine months ended December 31, 2000 interest cost of $396,000 was capitalized. No interest costs were capitalized during the years ended December 31, 2002 and 2001.

INCOME TAXES

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

STOCK BASED COMPENSATION

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

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

	YEAR ENDED DECEMBER 31	NINE MONTHS ENDED DECEMBER 31

	2002	2001	2000
Net loss, as reported	$ (20,517)	$ (29,281)	$ (7,26
Add: Total stock-based employee compensation expense included in reported net loss, net of related tax effects	--	--	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(302)	(586)	(54
Pro forma net loss	$ (20,819)	$ (29,867)	$ (7,81
Loss per share			
Basic and diluted, as reported	$ (0.56)	$ (3.60)	$ (1.0
Basic and diluted, pro forma	$ (0.57)	$ (3.67)	$ (1.0
Weighted average fair value of grants	$ 0.21	$ 0.82	$ 3.1

Black-Scholes option pricing model assumptions:

	YEAR ENDED DECEMBER 31		NINE DE
	2002	2001	
Risk-free interest rate	1.82% to 2.22%	2.77% to 6.28%	4.69
Volatility factor of the expected market price of UNIFAB stock	1.042-1.073	.722-.907	.
Weighted average expected life of the option	2 years	2 years	
Expected dividend yield	--	--	

LONG-LIVED ASSETS

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 promulgates standards for measuring and recording impairments of long-lived assets. Additionally, this standard establishes requirements for classifying an asset as held for sale, changes existing accounting and reporting standards for discontinued operations and exchanges for long-lived assets. The Company implemented SFAS No. 144 on January 1, 2002, as required.

During 2002 the Company recorded an impairment loss of $5.1 million on the Lake Charles facility. Operating losses incurred at the facility and the outlook of that business resulted in the Company actively seeking alternative sources of capital to sustain development and operations at the facility. By closing the

Midland transaction in August 2002, the Company was able to stabilize its overall financial condition and add experienced management to evaluate alternatives with respect to the Lake Charles facility. Since that time negotiations with possible joint venture partners that would operate the facility have been continuing. In the event the Company is unable to complete an arrangement whereby the facility can be operated, the Company may sell the facility. In evaluating the recoverability of the investment in the Lake Charles facility, the Company estimated net undiscounted cash flows under both operating alternatives and disposal scenarios, and concluded the carrying value of the facility was impaired. The Company then estimated the fair value of the facility based on the related discounted estimated cash flows and, based on this analysis, recorded an impairment loss of $5.1 million. The impairment loss reduced the recorded net value of the facility to its estimated fair value of $5.4 million.

EARNINGS PER SHARE

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, including cash, receivables and payables approximate fair market value due to their short-term nature. The Company's long-term debt at December 31, 2002 consists principally of a revolving credit agreement, secured subordinated notes payable, and a secured subordinated convertible debenture. The terms of each of these instruments were negotiated during the latter part of 2002 in arm's length transactions and provide for variable interest rates. In addition the Company's credit worthiness and common stock price have not changed significantly since the instruments were issued. Accordingly, the carrying value of the Company's long-term debt is considered to approximate fair value at December 31, 2002. The carrying value of the Company's financial instruments at December 31, 2001, primarily notes payable, closely approximates fair value.

NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations", requires the recording of liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. These liabilities are required to be recorded at their fair values (which are likely to be the present values of the estimated future cash flows) in the period in which they are incurred. SFAS No. 143 requires the associated asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset. The asset retirement obligation will be accreted each year through a charge to expense. The amounts added to the carrying amounts of the assets will be depreciated over the useful lives of the assets. The Company is required to implement SFAS No. 143 on January 1, 2003, and we have not determined the impact that this statement will have on our consolidated financial position or results of operations.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS no. 145 eliminates SFAS No. 4 and as a result, gains and losses from extinguishments of debt should be classified as extraordinary items only if they meet the criteria of APB Opinion No. 30. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases" to eliminate an inconsistency between the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS

No. 145 also updates and amends existing authoritative pronouncements to make various

technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company does not expect that the adoption of SFAS No. 145 will have a material impact on its consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred rather than at the date a plan is committed to. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company will implement the provisions of this statement on a prospective basis.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation," to provide alternate methods of transition to SFAS No. 123's fair value method of accounting for stock-based compensation. Statement No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25. As allowed by SFAS No. 123, the Company has elected to continue to utilize the accounting method prescribed by APB Opinion No. 25 and has adopted the disclosure requirements of SFAS No. 148 as of December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required, the Company adopted the disclosure requirements of FIN 45 as of December 31, 2002. See Note 13 to the consolidated financial statements. The Company will adopt the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002. The Company has not determined the impact that the adoption of the recognition / measurement provisions will have on its consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN46"). FIN 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46 applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The Company does not expect that the adoption of FIN 46 will have a material impact on its consolidated financial position or results of operations.

RECLASSIFICATIONS

Certain amounts previously reported have been reclassified to conform with the presentation at December 31, 2002.

2. MIDLAND RECAPITALIZATION AND INVESTMENT TRANSACTION

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

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

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

- The Company consented to Midland's acquisition of the rights of the lenders under the Company's credit agreement dated November 30, 1999, as amended, with Bank One, Louisiana, N.A. and three other commercial banks. On May 1, 2002, Midland acquired the rights of those lenders under the credit agreement for $13.9 million in cash, the source of which was capital contributions from its members. On that date, the total amount of principal, accrued interest and penalties owing under the credit agreement was $21.3 million. Thereafter, and prior to the consummation of the Midland agreement, Midland advanced the Company $2.8 million for working capital needs and to establish a cash collateral account with Bank One to secure outstanding letters of credit.

- Midland acquired unsecured creditor claims in the amount of $5.6 million. Midland's acquisition cost for these claims was an aggregate of $2.9 million, including payments made to the unsecured creditors, fees paid to a collection agent and attorneys' fees. Midland's source of these payments was capital contributions from its members.

- Midland agreed to guarantee a line of credit. On November 18, 2002 the Company established an $8.0 million line of credit with a commercial bank. Nassau Holding Company, an affiliate of Midland, the subsidiaries of Unifab, and the principle members of Midland guarantee the Company's obligations under it.

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

- Midland agreed to use its best efforts to continue the listing of the Company's common stock on the Nasdaq Stock Market for a period of at least two years following consummation of the Midland agreement.

- Midland agreed to cause its designees to the board of directors to approve the calling of a meeting of shareholders for the purpose of voting on an increase in the authorized number of shares of the Company's common stock, and to approve a rights offering. Midland also agreed to vote its shares in favor of the proposed increase in the authorized number of the Company's shares.

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

- $10.0 million owed Midland under the credit agreement was cancelled in exchange for 738 shares of the Company's series A preferred stock. Each share of this preferred stock has voting rights equal to 100,000 shares of the Company's common stock, and will convert into 100,000 shares of the Company's common stock when the authorized number of the Company's unissued and unreserved common shares is at least 100 million, as will occur when approved by the Company's shareholders.

- $12.8 million owed Midland under the credit agreement was converted into the following, which continue to constitute secured indebtedness under the credit agreement: (i) a convertible debenture in the principal amount of $10.7 million payable in five equal annual installments, bearing interest at Wall Street Journal Prime (that is, the prime rate of interest reported in the Wall Street Journal in its daily table of "Money Rates") plus 2.5 percentage points (6.75% at December 31, 2002) and convertible into shares of the Company's common stock at $0.35 per share (the closing price of the Company's common stock on the Nasdaq National Market on March 6, 2002, the date the negotiations on the expected terms of the convertible debenture and the rights were concluded); and (ii) a promissory note in the principal amount of $2.1 million (the amount of the advances made by Midland to the Company after entering into the Midland agreement), which is payable August 13, 2005 and bears interest at the rate of Wall Street Journal Prime plus 3.0 percentage points (7.25% at December 31, 2002). The Company has recorded $3.7 million discount on the face value of the convertible debenture, which represents the intrinsic value of the beneficial conversion feature of the debenture and equals the difference between $0.35, the conversion price per share, and $0.47, the closing price per share of

Unifab International, Inc. common stock on August 13, 2002, the date of issuance of the convertible debenture. This discount is being amortized as interest expense from August 13, 2002 to August 13, 2010, the maturity date of the debenture. In the year ended December 31, 2002, the Company recorded $200,000 interest expense related to amortization of this discount.

- Midland transferred to the Company the claims it had acquired from the Company's unsecured creditors in the amount of $5.6 million. In exchange for these claims, the Company delivered to Midland a promissory note in the principal amount of $4.7 million, and recorded a contribution to additional paid in capital of $914,000, which represents claims of unsecured creditors acquired by Midland which were forgiven by Midland. The promissory note is payable August 13, 2006, and bears interest at the rate of Wall Street Journal Prime plus 3.0 percentage points (7.25% at December 31, 2002). This promissory note also constitutes secured indebtedness under the Company's credit agreement with Midland.

- $675,000 of the amount the Company owed Midland under the credit agreement was cancelled in exchange for the assignment to Midland of certain accounts receivable in the amount of $1,191,000 against which the Company had established reserves of approximately $516,000. The Company has recorded a $675,000 reduction in the indebtedness under the credit agreement.

- $680,000 of the amount the Company owed Midland under the credit agreement (substantially all of which consisted of penalties accrued under the terms of the amended credit agreement) was forgiven by Midland, resulting in a contribution to additional paid in capital of $680,000. Midland waived all defaults under the credit agreement.

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

There is no accrued and unpaid interest owed to Midland at December 31, 2002.

3. CONTRACTS IN PROGRESS

Information pertaining to contracts in progress at December 31, 2002 and 2001 consisted of the following:

	DECEMBER 31 2002	2001
	(In thousands)	
Costs incurred on uncompleted contracts	$ 10,919	$ 26,912

Estimated earnings, net	50	2,738
	10,969	29,650
Less billings to date	(8,686)	(25,224)
	$ 2,283	$ 4,426

Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,297	$ 5,769
Billings in excess of costs and estimated earnings on uncompleted contracts	(14)	(1,343)
	$ 2,283	$ 4,426

Accounts receivable includes retainages and unbilled receivables, respectively, of $775,000 and $36,000 at December 31, 2002 and $641,000 and $2,018,000 at December 31, 2001. The unbilled receivables relate primarily to time and material contracts.

The Company has contract loss reserves of $1,148,000 and $490,000 at December 31, 2002 and December 31, 2001, respectively. Included in contract loss reserves at December 31, 2002 is $441,000 related to two fixed price contracts that were executed in December 31, 2002. The expected delivery date on each of these contracts is March - April, 2003. The remaining contract loss reserve at December 31, 2002 relates to contracts to provide process equipment, which is being fabricated overseas. These contracts have encountered delays in completion of fabrication and commissioning and have resulted in cost overruns to the Company. These contracts are expected to be complete in April 2003. At December 31, 2001, the contract loss reserve relates to a fixed price contract that was completed and delivered in February 2002. This reserve was recorded to increase the estimated cost at completion on the contract and adjusted upward the reserve that was recorded on this contract in the quarter ended September 30, 2001.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2002 and 2001:

	DECEMBER 31, 2002	DECEMBER 31, 2001
	(In thousands)	
Land	$ 2,089	$ 2,089
Building and bulkhead, including leasehold improvements	12,540	18,903
Yard equipment	24,412	25,920
Vehicles and other equipment	1,552	1,977
Construction in progress	730	--
	41,323	48,889
Less accumulated depreciation	(15,102)	(14,764)

	$ 26,221	$ 34,125
	=============	=============

5. LONG-TERM DEBT

Long-term debt at December 31, 2002 and 2001 consisted of the following:

	DECEMBER 31, 2002	
	(In thousands	
Revolving credit agreement with Whitney National Bank, interest payable monthly at variable rates (3.2% at December 31, 2002), maturing May 26, 2004, secured by the assets of the Company, guaranteed by Nassau Holding Company, an affiliate of Midland, the subsidiaries of the Company, and the principle members of Midland	$ 2,090	$
Note payable to finance company, payable in monthly installments of $126,000, including interest at 5.9%, maturing July 2003	749	
Note payable to finance company, payable in monthly installments of $13,000, including interest at 7.75%, maturing March 2003	39	
Revolving credit agreement with a bank group, interest payable monthly at variable rates (7.5% at December 31, 2001), matures January 31, 2003, secured by substantially all of the assets of the Company	--	
Other notes payable	62	
Total long-term debt	2,940	
Less current maturities	(850)	
Long-term debt, less current maturities	$ 2,090	$

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

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

2003	$ 850

2004	2,090
2005	2,139
2006	4,709
2007	2,130
Thereafter	8,522
Total	$ 20,440

6. INCOME TAXES

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2002 and 2001 were as follows:

	DECEMBER 31, 2002	DECEMBER 31, 2001
	(In thousands)	
Deferred tax liabilities:		
Excess book value over tax basis of property, plant and equipment	$ 2,427	$ 4,650
Total deferred tax liabilities	2,427	4,650
Deferred tax assets:		
Reserves not currently deductible	1,317	234
Goodwill	2,846	3,132
Long term construction contracts	15	--
Operating loss carryforward	12,052	8,618
Total deferred tax assets	16,230	11,984
Valuation allowance for deferred tax assets	(13,803)	(7,334)
Deferred tax assets	2,427	4,650
Net deferred tax liabilities	$ --	$ --

At December 31, 2002, the Company has an available net operating loss carryforward of approximately $31.7 million for U.S. Federal income tax purposes, which, if not used will expire between 2020 and 2022. The ability of the Company to utilize net operating loss carryforwards is limited on an annual basis because the Midland transaction results in a change in control under the current tax regulations. The Company has recorded a valuation allowance to offset the deferred tax asset related to the net operating loss carryforward and other deferred tax assets that exceed deferred tax liabilities because the Company believes that it is more likely than not that these deferred tax assets will not be utilized.

The income tax provision (benefit) is comprised of the following:

	YEAR ENDED DECEMBER 31, 2002	YEAR ENDED DECEMBER 31, 2001	NINE MONTHS ENDED DECEMBER 31, 2000
		(In thousands)	
Current	$ --	$ --	$ (796)
Deferred	--	1,316	(3,252)
	$ --	$ 1,316	$ (4,048)

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

	YEAR ENDED DECEMBER 31 2002	YEAR ENDED DECEMBER 31 2001	NINE MONTHS ENDED DECEMBER 3 2000
Tax at federal statutory rates	$ (7,181)	$ (9,508)	$ (3,84
Valuation reserve on deferred tax assets	6,469	6,942	13
Non deductible loss on goodwill impairment	--	3,174	-
Other, primarily permanent differences and state income taxes	712	708	(33
	$ --	$ 1,316	$ (4,04

7. SHAREHOLDERS' EQUITY

COMMON STOCK

The Company has authorized 20,000,000 shares of $0.01 par value common stock.

PREFERRED STOCK

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

EARNINGS PER SHARE

Under the terms of the Midland agreement, the Company issued 738 Series A Shares and a $10,652,000 convertible debenture. Each share of series A preferred stock is convertible into 100,000 shares of Unifab common stock or 73,800,000 total common shares. However, at December 31, 2002, the total number of common shares authorized is 20,000,000, therefore, there are insufficient authorized common shares to effect the conversion of the preferred shares. Until converted, each share of preferred stock enjoys all the rights and privileges of 100,000 shares of common stock, including voting rights. The denominator below gives effect to the conversion of the shares of preferred stock. The $10,652,000 convertible debenture is convertible into Unifab common stock at a conversion price of $0.35 per share, or 30,434,000 shares of common stock. These shares are anti-dilutive and are not included in the computation of diluted earnings per share during periods where the Company incurs a loss.

The following table sets forth the computation of basic and diluted earnings per share giving effect to the conversion by Midland of 738 shares of preferred stock on August 13, 2002:

	YEAR ENDED DECEMBER 31 2002	YEAR ENDED DECEMBER 31 2001	NINE-MONTHS ENDED DECEMBER 31 2000
	(In thousands, except per share amounts)		
Numerator:			
Net loss	$ (20,517)	$ (29,281)	$ (7,266)
Denominator:			
Weighted average shares of common stock outstanding	8,190	8,142	7,270
Effect of issuance of convertible preferred stock on weighted average shares of common stock	28,509	--	--

Denominator for basic and diluted earnings per share - weighted average shares	36,699	8,142	7,270
Basic and diluted loss per share	$ (0.56)	$ (3.60)	$ (1.00)

Options with an exercise price greater than the average market price of the Company's common stock for the year and options outstanding during years where the Company incurs a net loss are anti-dilutive and, therefore, not included in the computation of diluted earnings per share. During the year ended December 31, 2002, 835,000 options and 60,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company. During the year ended December 31, 2001, 862,000 options and 60,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company. During the nine months ended December 31, 2000, 842,000 options and 60,000 warrants outstanding were anti-dilutive due to the net loss incurred by the Company.

8. CONCENTRATION OF CREDIT RISK

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

At December 31, 2002 and 2001, the allowance for doubtful accounts deducted from accounts receivable on the accompanying balance sheets was $763,000 and $528,000, respectively.

9. LONG-TERM INCENTIVE PLANS

In July 1997, the Company adopted and its shareholders approved the Long-Term Incentive Plan (the "1997 Plan") to provide long-term incentives to its key employees, including officers and directors who are employees of the Company (the "Eligible Employees"). Under the 1997 Plan, which is administered by the Compensation Committee of the Board of Directors, the Company may grant incentive stock options, nonqualified stock options, restricted stock, other stock-based awards or any combination thereof (the "Incentives") to Eligible Employees. The Compensation Committee determines who receives Incentives and establishes the exercise price of any stock options granted under the Incentive Plan, provided that the exercise price may not be less than the fair market value of the Common Stock on the date of grant. At the Company's Annual Meeting of Shareholders held on December 27, 2002, the shareholders approved an amendment to the 1997 Plan to increase the number of shares of common stock subject to issuance under the plan to 2,500,000 from 460,000, and to increase the shares of common stock that can be granted to a single participant in a calendar year through awards under the plan to 250,000 from 200,000.

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

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

A summary of the Company's stock options activity and the related information for the years ended December 31, 2002 and 2001 and for the nine months ended December 31, 2000 is as follows (in thousands, except per share data):

	YEAR ENDED DECEMBER 31, 2002		YEAR ENDED DECEMBER 31, 2001	
	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS
Outstanding - beginning of period	$ 7.21	862	$ 8.62	842
Granted	0.39	500	1.78	198
Exercised	--	--	7.37	(7)
Forfeited	6.67	(537)	7.87	(171)
Options outstanding at end of period	$ 3.42	825	$ 7.21	862
Options exercisable at end of period	$ 3.41	818	$ 8.36	623

The following table summarizes information about stock options outstanding at December 31, 2002:

	OPTIONS OUTSTANDING			OPTION
EXERCISE PRICE RANGE PER SHARE	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE
$18.00	24,500	4.8 years	$18.00	24,500
11.31	10,000	7.8	11.31	10,000
7.12 - 8.75	257,933	6.7	7.41	257,933
4.75 - 5.65	32,500	8.2	5.04	25,833
0.39	500,000	9.7	0.39	500,000

10. EMPLOYEE BENEFIT PLAN

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

In November 2001, the Company suspended its policy of matching employee contributions. Prior to that date, the Company contributed an amount equal to 50% of employee contributions up to 3% of their base compensation. Matching contributions made by the Company were approximately $334,000 and $331,000 in the year ended December 31, 2001 and in the nine months ended December 31, 2000, respectively. The Company made no matching contributions in the year ended December 31, 2002.

11. MAJOR CUSTOMERS

The Company is not dependent on any one customer, and the contract revenue earned from each customer varies from year to year based on the contracts awarded. Contract revenue earned comprising 10% or more of the Company's total contract revenue earned for the year ended December 31, 2002 and 2001 and the nine months ended December 31, 2000 is summarized as follows (in thousands):

	YEAR ENDED DECEMBER 31		NINE MONTHS ENDED DECEMBER 31
	2002	2001	2000
Customer A	$ 5,748	$ --	$ --
Customer B	--	15,858	6,617
Customer C	--	--	6,435

12. INTERNATIONAL SALES

The Company fabricates structures and equipment for use worldwide by U.S. customers operating abroad and by foreign customers. During the years ended December 31, 2002 and 2001 and in the nine months ended December 31, 2000, 24%, 21% and 22%, respectively, of the Company's revenue was derived from projects fabricated for installation in international areas, with the remainder designed for installation in the U.S. Gulf of Mexico. The following table summarizes the Company's revenue by location for the years ended December 31, 2002 and 2001, and for the nine months ended December 31, 2000 (in thousands):

NINE MONTHS
ENDED

	YEAR ENDED DECEMBER 31 2002	2001	DECEMBER 31 2000
Location:			
U.S. Gulf of Mexico	$ 25,387	$ 64,235	$ 47,205
International:			
Africa	1,679	5,767	1,023
Europe	911	508	4,143
Other	5,309	11,233	8,014
Total International	7,899	17,498	13,180
Total	$ 33,286	$ 81,733	$ 60,385

Substantially all of the assets of the Company are located in the United States of America.

13. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

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

In a lawsuit filed against the Company in the 14th Judicial Court in the Parish of Calcasieu, State of Louisiana, Professional Industrial Maintenance, L.L.C., Don E. Spano and Kimberly Spano allege multiple claims for breach of contract, breach of specific performance, a request for injunction, request for damages, and a request for treble damages and

attorney fees for violations of the Louisiana Unfair Trade Practices Act. Mr. Spano was the managing member of Professional Industrial Maintenance, LLC, the company whose assets we acquired in January 1998. The plaintiffs more specifically claim that 1) the accounts receivable and cash in the bank at the time of the asset acquisition were not conveyed as part of the transaction, 2) certain accounting adjustments resulted in a credit to Mr. Spano, 3) the Company failed to timely deliver shares of common stock to Mr. Spano as required by the sale documents, 4) the Company failed to pay a bonus of $1,000,000 to Mr. Spano, 5) the Company allowed the maintenance work in the petrochemical plants to deteriorate under Mr. Spano's post transaction management, 6) the Company defamed the Plaintiffs, 7) the Company wrongfully commingled funds belonging to the Plaintiffs that resulted in seizure of taxes, interest and penalties, and 7) the Company failed to pay certain debts on assets included in the transaction. Total damages claimed by the Plaintiffs are approximately $5,000,000. The Company intends to vigorously defend the lawsuit. The Company has filed a counterclaim for recovery of approximately $400,000 paid on behalf of Professional Industrial Maintenance, LLC and Mr. Spano as a result of the transaction. We anticipate that this matter will go to trial during the second half of 2003. At December 31, 2002 the Company had recorded no reserve with respect to this lawsuit.

On March 14, 2003, the Lake Charles Harbor and Terminal District (the "Port") sent a letter to the Company alleging that the Company was not in compliance with certain environmental and workforce provisions of the lease agreement (the "Lease") by and between the Company and the Port for the Lake Charles facility. The Company has engaged a qualified environmental inspection company to perform a phase one study of the premises, which should be completed in the first week of April 2003. The Company intends to vigorously defend against any attempt to place the Company in breach of the lease

LETTERS OF CREDIT

In the normal course of its business activities, the Company is required to provide letters of credit to secure performance. At December 31, 2002, cash deposits totaling $231,000 secured outstanding letters of credit totaling $433,000.

EMPLOYMENT AGREEMENTS

The Company has employment agreements with two of its officers. These agreements terminate on February 26, 2004 and August 18, 2006, respectively. The minimum annual compensation commitment by the Company under these agreements is $180,000.

LEASES

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

2003	$ 640
2004	640
2005	640
2006	640
2007	640
2008 and after	6,959
	$ 10,159

Rent expense, which includes rent on cancelable equipment leases, during the years ended December 31, 2002 and 2001 and the nine months ended December 31, 2000 was $1,553,000, $2,300,000 and $1,600,000, respectively.

14. RELATED PARTY TRANSACTIONS

The Company provides health care benefits to its employees under a plan that covers the employees of companies owned by Nassau, including the employees of Nassau. This insurance coverage began on November 1, 2002. Through December 31, 2002 the Company incurred monthly costs of approximately $111,000 for coverage under this plan. Prior to participating in this plan, the Company was self insured for health care benefits with an excess insurance policy covering individual claims above $75,000 or claims in the aggregate above $1,125,000. The monthly cost of this policy was $112,000, including administration and claim expense.

Under an arrangement with the Company, Midland has agreed to provide financial support and funding for working capital or other needs, as required. At December 31, 2002, Midland provided a standby letter of credit to a customer of the Company in support of a contract included in the Company's backlog at December 31, 2002. The letter of credit is in the amount of $3.1 million and expires on March 31, 2004. The Company reimbursed $12,600 to Midland for the cost of the letter of credit.

15. SUPPLEMENTAL SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of quarterly results of operations for the year ended December 31, 2002 and 2001 were as follows (in thousands, except per share data):

	MARCH 31, 2002	JUNE 30, 2002	SEPTEMBER 30, 2002	DECEMBER 2002
Revenue	$ 9,856	$ 8,379	$ 5,837	$ 9,
Gross profit (loss)	(37)	(1,030)	(1,610)	(3,
Net loss	(2,142)	(3,450)	(3,525)	(11,
Basic and diluted loss per share	(0.26)	(0.42)	(0.07)	(0

	MARCH 31, 2001	JUNE 30, 2001	SEPTEMBER 30, 2001	DECEMBER 2001
Revenue	$ 21,703	$ 22,861	$ 19,957	$ 17,
Gross profit (loss)	128	1,735	1,560	(
Net loss	(1,603)	(591)	(23,034)	(4,
Basic and diluted loss per share	(0.20)	(0.07)	(2.83)	(0

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

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

- Loss on impairment of Lake Charles facility of $5,074,000

- Loss reserves accrued on four fixed price contracts totaling $1,213,000

Pretax results for the quarter ended December 31, 2001 include:

- Loss on the completion of the OBI contracts in progress of $2,039,000

- Recovery of $1,680,000 on an account receivable which had been written off in the September 2001 quarter

16. INDUSTRY SEGMENTS

Effective January 1, 2003, as a result of the Midland Recapitalization and Investment transaction, management has evaluated the changed organizational and reporting structure and has concluded that the Company operates three reportable segments: the platform fabrication segment, the process systems segment and the drilling rig fabrication segment. The platform fabrication segment fabricates and assembles platforms and platform components for installation and use offshore in the production, processing and storage of oil and gas. The process systems segment designs and manufactures specialized process systems and equipment related to the development and production of oil and gas reserves. The drilling rig fabrication segment provides fabrication services for new construction and repair of drilling rigs. The accounting policies of the segments are the same as those described in the summary of significant accounting policies, except that income taxes are accounted for on a consolidated basis and deferred tax assets are managed as corporate assets and are not recorded in the operating segments. The Company evaluates performance based on segment income, which is defined as revenue less cost of revenue and selling, general and administrative expense allocated to the operating segment. The Company does not allocate interest expense to the operating segments. Unallocated overhead consists primarily of corporate general and administrative costs that the Company does not allocate to the operating segments. The Company accounts for intersegment sales at fixed labor rates and at cost for materials and other costs. Intersegment sales are not intended to represent current market prices for the services provided.

The following tables show information about the revenue, profit or loss, depreciation and amortization, assets and expenditures for long-lived assets of each of the Company's reportable segments for the years ended December 31, 2002 and 2001 and for the nine-month period ended December 31, 2000. Segment assets do not include intersegment receivable balances as the Company believes inclusion of such assets would not be meaningful. Segment assets are determined by their location at period end. Some assets that pertain to the segment operations are recorded on corporate books, such as prepaid insurance. These assets have been allocated to the segment in a manner that is consistent with the methodology used in recording the segment's expense.

	YEAR ENDED DECEMBER 31, 2002	YEAR ENDED DECEMBER 31, 2001	NINE-MONTHS ENDED DECEMBER 31, 2000
	(in thousands)		
Revenue from external customers:			
Platform fabrication	$ 17,384	$ 36,717	$ 28,439
Process systems	12,124	26,299	17,001
Drilling rig fabrication	498	5,295	2,556
Other (a)	3,280	13,937	13,078
Intersegment eliminations	--	(515)	(689)
	$ 33,286	$ 81,733	$ 60,385
Segment income (loss):			
Platform fabrication	$ (1,913)	$ 1,859	$ (2,565)
Process systems	(4,231)	(4,076)	(1,817)
Drilling rig fabrication	(7,354)	(5,097)	(240)
Other (a)	(1,604)	(15,795)	(4,207)
	(15,102)	(23,109)	(8,829)
Interest expense	(1,894)	(2,794)	(1,807)
Unallocated corporate expense	(3,521)	(2,062)	(678)
Loss before income tax	$ (20,517)	$ (27,965)	$ (11,314)
Depreciation and amortization:			
Platform fabrication	$ 1,196	$ 1,220	$ 956
Process systems	465	648	554
Drilling rig fabrication	578	740	442
Other (a)	460	446	406
	2,699	3,054	2,358
Corporate	1	--	--
	$ 2,700	$ 3,054	$ 2,358
Segment assets at end of period:			
Platform fabrication	$ 21,589	$ 24,161	$ 25,751
Process systems	10,020	13,909	14,409
Drilling rig fabrication	6,303	13,460	18,158
Other (a)	--	7,099	15,804
	37,912	58,629	74,122
Corporate	1,367	4,578	8,532
	$ 39,279	$ 63,207	$ 82,654
Expenditures for long-lived assets:			
Platform fabrication	$ 121	$ 248	$ 681
Process systems	1,050	1,141	220
Drilling rig fabrication	--	729	3,530
Other (a)	--	175	257

	1,171	2,293	4,688
Corporate	23	--	--
	$ 1,194	$ 2,293	$ 4,688

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

(c) Exhibits.

23.1 Consent of Deloitte & Touche LLP

23.2 Consent of Ernst & Young LLP

99.1 Management's Discussion and Analysis of Financial Condition and Results of Operations

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

By: /s/ William A. Hines

William A. Hines
Principal Executive Officer

Dated: July 18, 2003

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of Ernst & Young LLP
99.1	Management's Discussion and Analysis of Financial Condition and Results of Operations