GULF ISLAND FABRICATION INC
Form 10-Q
November 09, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from to

Commission File Number 001-34279

GULF ISLAND FABRICATION, INC.
(Exact name of registrant as specified in its charter)

LOUISIANA	72-1147390
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
16225 PARK TEN PLACE, SUITE 300 HOUSTON, TEXAS	77084
(Address of principal executive offices)	(Zip Code)

(713) 714-6100
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company.” See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging Growth Company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of the registrant’s common stock, no par value per share, outstanding as of November 8, 2018, was 15,083,221.

GULF ISLAND FABRICATION, INC.
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GLOSSARY OF TERMS

As used in this Report for the quarter ended September 30, 2018, the following abbreviations and terms have the meanings as listed below. Additionally, the terms “Gulf Island,” “the Company,” “we,” “us” and “our” refer to Gulf Island Fabrication, Inc. and its consolidated subsidiaries, unless the context clearly indicates otherwise. Unless and as otherwise stated, any references in this Report to any agreement means such agreement and all schedules, exhibits and attachments in each case as amended, restated, supplemented or otherwise modified to the date of filing this Report.

2017 Annual Report:	Our annual report for the year ended December 31, 2017, filed with the SEC on Form 10-K on March 9, 2018.
ASC:	FASB Accounting Standards Codification.
ASU:	Accounting Standards Update.
Company:	Gulf Island Fabrication, Inc. and its consolidated subsidiaries.
Credit Agreement:	The Company's $40.0 million revolving credit facility with Hancock Whitney Bank maturing June 9, 2020, as amended.
deck:	The component of a platform on which development drilling, production, separating, gathering, piping, compression, well support, crew quartering and other functions related to offshore oil and gas development are conducted.
direct labor hours:	Hours worked by employees directly involved in the production of the Company’s products. These hours do not include support personnel hours such as maintenance, warehousing and drafting.
EPC:	Engineering, procurement and construction phases of a complex project; EPC typically refers to a contract that requires the project management and coordination of these significant activities.
Exchange Act:	Securities Exchange Act of 1934, as amended.
FASB:	Financial Accounting Standards Board.
FPSO:	Floating Production Storage and Offloading vessel. A floating vessel used by the offshore oil and gas industry for the production and processing of hydrocarbons and for the storage of oil.
GAAP:	Generally accepted accounting principles in the U.S.
GOM:	Gulf of Mexico.
inland or inshore:	Inside coastlines, typically in bays, lakes and marshy areas.
jacket:	A component of a fixed platform consisting of a tubular steel, braced structure extending from the mudline of the seabed to a point above the water surface. The jacket is anchored with tubular steel pilings driven into the seabed. The jacket supports the deck structure located above the water.
LIBOR:	London Inter-Bank Offered Rate.

MinDOC:	Minimum Deepwater Operating Concept. A floating production platform designed for stability and dynamic positioning response to waves consisting of three vertical columns arranged in a triangular shape connected to upper and lower pontoon sections.

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modules	Fabricated structures that include structural steel, piping, valves, fittings, storage vessels and other equipment that are incorporated into a petrochemical or industrial system. These modules are pre-fabricated at our facilities and then transported to the customer's location for final integration.
MPSV	Multi-Purpose Service Vessel.
NOL(s)	Net operating loss(es) that are available to offset future taxable income, subject to certain limitations.
offshore	In unprotected waters outside coastlines.
onshore	Inside the coastline on land.
OSV	Offshore Support Vessel.
piles	Rigid tubular pipes that are driven into the seabed to support platforms.
platform	A structure from which offshore oil and gas development drilling and production are conducted.
pressure vessel	A metal container generally cylindrical or spheroid, capable of withstanding various internal pressure loads.
SeaOne	SeaOne Caribbean, LLC.
SeaOne Project	The engineering, procurement, construction, installation, commissioning and start-up work for SeaOne's Compressed Gas Liquids Caribbean Fuels Supply Project. This project will include execution of engineering, construction and installation of modules for an export facility in Gulfport, Mississippi, and import facilities in the Caribbean and South America.
SEC	U.S. Securities and Exchange Commission.
skid unit	Packaged equipment usually consisting of major production, utility or compression equipment with associated piping and control system.
South Texas Properties	Historically, our Texas North Yard and Texas South Yard properties, improvements and equipment located in Aransas Pass and Ingleside, Texas, respectively. The Texas South Yard property, together with improvements and related machinery and equipment was sold on April 20, 2018. The Texas North Yard, together with improvements and related machinery and equipment is held for sale.
SPAR	Single Point Anchor Reservoir. A floating vessel with a circular cross-section that sits vertically in the water and is used for infield flow lines and associated subsea infrastructure. The SPAR connects subsea production and injection wells for oil and gas production in deepwater environments.
subsea templates	Tubular frames which are placed on the seabed and anchored with piles. Usually a series of oil and gas wells are drilled through these underwater structures.
Surety	A financial institution that issues bonds to customers on behalf of the Company for the purpose of providing third-party financial assurance related to our performance of construction contracts.
T&M	Work performed and billed to the customer generally at contracted time and material rates, cost plus or other variable fee arrangements which can include a mark-up.

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Texas North Yard	Our Texas North Yard consists of our fabrication yard located in Aransas Pass, Texas, along the U.S. Intracoastal Waterway approximately three miles north of the Corpus Christi Ship Channel. This property is situated on approximately 196 acres. Our Texas North Yard, together with its improvements and related machinery and equipment is held for sale.
Texas South Yard	Historically, our Texas South Yard consisted of our fabrication yard located in Ingleside, Texas on the northwest corner of the Corpus Christi Ship Channel at the intersection of the Corpus Christi Ship Channel and the U.S. Intracoastal Waterway. This property was sold on April 20, 2018.
this Report	This quarterly report filed on Form 10-Q for the quarter ended September 30, 2018.
TLP	Tension Leg Platform. A floating hull and deck anchored by vertical tensioned cables or pipes connected to pilings driven into the seabed. A tension leg platform is typically used in water depths exceeding 1,200 feet.
U.S.	The United States of America.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
GULF ISLAND FABRICATION, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,020	$ 8,983
Short-term investments	9,494	—
Contracts receivable and retainage, net	28,933	28,466
Contracts in progress	40,187	28,373
Inventory	6,568	4,933
Prepaid expenses and other assets	3,456	3,833
Assets held for sale	42,670	104,576
Total current assets	176,328	179,164
Property, plant and equipment, net	80,707	88,899
Other noncurrent assets	5,922	2,777
Total assets	$ 262,957	$ 270,840
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 20,166	$ 18,375
Advance billings on contracts	14,930	5,136
Deferred revenue	829	4,676
Accrued contract losses	6,033	7,618
Accrued expenses and other liabilities	10,339	12,860
Total current liabilities	52,297	48,665
Deferred revenue, noncurrent	2,489	769
Other noncurrent liabilities	3,035	1,913
Total liabilities	57,821	51,347
Shareholders’ equity:		
Preferred stock, no par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, no par value, 20,000 shares authorized, 15,044 shares issued and outstanding at September 30, 2018 and 14,910 at December 31, 2017	10,957	10,823
Additional paid-in capital	101,661	100,456
Retained earnings	92,518	108,214
Total shareholders’ equity	205,136	219,493
Total liabilities and shareholders’ equity	$ 262,957	$ 270,840

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$49,712	$49,884	$161,016	$133,745
Cost of revenue	52,924	50,378	164,248	150,755
Gross loss	(3,212)	(494)	(3,232)	(17,010)
General and administrative expenses	7,672	4,370	17,473	12,940
Asset impairments	—	—	1,360	389
Operating loss	(10,884)	(4,864)	(22,065)	(30,339)
Interest income (expense), net	72	(45)	(166)	(262)
Other income (expense), net	140	38	6,954	(209)
Net loss before income taxes	(10,672)	(4,871)	(15,277)	(30,810)
Income tax expense (benefit)	277	(1,761)	419	(10,322)
Net loss	$(10,949)	$(3,110)	$(15,696)	$(20,488)
Per share data:				
Basic and diluted loss per common share	$(0.73)	$(0.21)	$(1.05)	$(1.38)
Cash dividends per common share	$—	$0.01	$—	$0.03

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

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at January 1, 2018	14,910	$10,823	$100,456	$108,214	$ 219,493
Net loss	—	—	—	(15,696)	(15,696)
Restricted stock vesting	134	(79)	(716)	—	(795)
Stock based compensation expense	—	213	1,921	—	2,134
Balance at September 30, 2018	15,044	$10,957	$101,661	$92,518	$ 205,136

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

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

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$ (15,696)	$ (20,488)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	2,776	19
Depreciation and amortization	7,834	10,141
Amortization of deferred revenue	(504)	(2,397)
Asset impairments	1,360	389
(Gain) loss on sale of assets, net	(3,496)	224
Gain on insurance recoveries, net	(3,342)	—
Deferred income taxes	—	(10,235)
Stock based compensation expense	2,134	2,636
Changes in operating assets and liabilities:		
Contracts receivable and retainage, net	(6,211)	(5,363)
Contracts in progress	(11,814)	(15,981)
Prepaid expenses, inventory, and other assets	(2,519)	(26)
Accounts payable	1,791	12,436
Advance billings on contracts	9,795	390
Deferred revenue	(1,621)	(5,825)
Accrued contract losses	(1,585)	1,595
Accrued expenses and other liabilities	2,432	2,926
Net cash used in operating activities	(18,666)	(29,559)
Cash flows from investing activities:		
Capital expenditures	(2,362)	(4,515)
Purchase of short-term	(9,174)	—

investments				
Proceeds from sale of property, plant and equipment	57,716		2,120	
Recoveries from insurance claims	9,362		—	
Net cash provided by (used in) investing activities	55,542		(2,395	)
Cash flows from financing activities:				
Tax payments made on behalf of employees from vested stock withholdings	(795	)	(885	)
Payment of financing cost	(44	)	(88	)
Payments of dividends on common stock	—		(448	)
Proceeds from borrowings under Credit Agreement	15,000		2,000	
Repayment of borrowings under Credit Agreement	(15,000	)	(2,000	)
Net cash used in financing activities	(839	)	(1,421	)
Net change in cash and cash equivalents	36,037		(33,375	)
Cash and cash equivalents, beginning of period	8,983		51,167	
Cash and cash equivalents, end of period	$ 45,020		$ 17,792	

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

GULF ISLAND FABRICATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(Unaudited)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
We are a leading fabricator of complex steel structures, modules and marine vessels used in energy extraction and production, petrochemical and industrial facilities, power generation, alternative energy and shipping and marine transportation operations. We also provide related project management for EPC projects along with installation, hookup, commissioning and repair and maintenance services. In addition, we perform civil, drainage and other work for state and local governments. We operate and manage our business through four operating divisions: Fabrication, Shipyard, Services and EPC. Our corporate headquarters is located in Houston, Texas, with fabrication facilities located in Houma, Jennings and Lake Charles, Louisiana.

We recently completed the fabrication of complex modules for the construction of a new petrochemical facility and the newbuild construction and delivery of a technologically-advanced OSV. Current significant projects include the construction of ten harbor tug vessels, two offshore regional class marine research vessels, an ice-breaker tug, and the expansion of a paddle wheel riverboat. We were also recently awarded a contract for the construction of a towing, salvage and rescue ship for the U.S. Navy with options for seven additional vessels. Previous projects include the fabrication of wind turbine pedestals for the first offshore wind power project in the U.S., and construction of one of the largest liftboats servicing the GOM, one of the deepest production jackets in the GOM, and the first SPAR hull fabricated in the U.S. Our customers include U.S. and, to a lesser extent, international energy producers, petrochemical, industrial, power, and marine operators, EPC companies and certain agencies of the U.S. government.

The accompanying unaudited Consolidated Financial Statements include the accounts of Gulf Island Fabrication, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Consolidated Financial Statements have been prepared in accordance with GAAP for interim financial statements, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The Consolidated Balance Sheet at December 31, 2017, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain balances at December 31, 2017 have been reclassified within our Consolidated Balance Sheet to conform to our September 30, 2018 presentation. For further information, refer to the Consolidated Financial Statements and notes thereto included in our 2017 Annual Report.

Business Outlook

We continue to strategically position the Company to participate in the fabrication of petrochemical and industrial facilities, pursue offshore wind opportunities, enter the EPC industry, and diversify our customer base within all of our operating divisions. In addition, we continue to focus on maintaining liquidity and securing meaningful new contract awards and backlog in the near-term, and generating operating income and cash flow from operations in the longer-term. We have made significant progress in our efforts to improve our liquidity, including reductions in costs (including reducing our workforce and reducing the cash compensation paid to our directors and the salaries of our executive officers) and the divestiture of underutilized assets.

During the second quarter 2018, we completed the sale our Texas South Yard for $55.0 million, less selling costs of $1.5 million, for total net proceeds during the nine months ended September 30, 2018 of $53.5 million and a gain of approximately $3.9 million. In addition, on September 26, 2018, we entered into an agreement to sell our Texas North Yard and certain associated equipment for $28.0 million. We received $0.5 million during the third quarter 2018 as a deposit on the property, which is refundable under certain circumstances. The sale is anticipated to close in the fourth quarter 2018 and is subject to customary closing conditions, including the purchaser's right to conduct inspections of the property related to confirmation of title, surveys, environmental conditions, easements and access rights, and third-party consents. See Note 2 for further discussion of the sale of our Texas South Yard and the anticipated sale of our Texas North Yard.

We believe that our cash, cash equivalents and short-term investments at September 30, 2018, and availability under our Credit Agreement, will be sufficient to enable us to fund our operating expenses, meet our working capital and capital expenditure requirements, and satisfy any debt service obligations or other funding requirements, for at least twelve months from the date of this Report.

Cash and cash equivalents

We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Short-term investments

Short-term investments include U.S. Treasuries and other investment-grade commercial paper with maturities of six months or less. We intend to hold these investments until maturity and have stated them at amortized cost. Due to their near-term maturities, amortized cost approximates fair value. All of our short-term investments are traded on active markets with quoted prices and represent level 1 fair value measurements. See Note 4 for further discussion of our fair value measurements.

Income Taxes

At December 31, 2017, we had gross federal NOL carryforwards to offset future taxable income of $62.8 million, of which $4.0 million will expire on December 31, 2035. Our remaining federal NOL carryforwards will expire December 31, 2037. We have provided a valuation allowance against our deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. At September 30, 2018 and December 31, 2017, our net deferred tax assets were fully reserved with a valuation allowance.

During the fourth quarter 2018, we filed our 2017 federal tax return which did not result in any material adjustment to the provisional tax amounts we recorded under Staff Accounting Bulletin 118 at December 31, 2017, related to our evaluation of the Tax Cuts and Jobs Act of 2017. Our overall evaluation of the Tax Cuts and Jobs Act of 2017 is not complete as we expect to file certain remaining state tax returns during the fourth quarter 2018; however, adjustments to our remaining state returns, if any, are not expected to be material.

Revenue Recognition

Revenue for our fixed-price and unit-rate contracts is recognized under the percentage-of-completion method, computed by the significant inputs method, which measures the percentage of labor hours incurred to date as compared to estimated total labor hours for each contract. Revenue for our T&M contracts is recognized at contracted rates when the work is performed, the costs are incurred and collection is reasonably assured. See Note 3 for further discussion of our revenue recognition policy and related accounting for our contracts.

On January 1, 2018, we adopted ASU No. 2014-09, Topic 606 “Revenue from Contracts with Customers”, which supersedes the revenue recognition requirements in FASB ASC Topic 605, “Revenue Recognition.” Topic 606 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Our adoption of Topic 606 included a detailed review of our significant contracts that were not substantially complete as of January 1, 2018. Based on our review, we concluded that revenue recognition for our fixed-price and unit-rate contracts using the percentage-of-completion method, computed by measuring the percentage of labor hours incurred to date as compared to estimated total labor hours for each contract, is still appropriate. Our review also determined that Topic 606 did not impact the timing of revenue recognition for our T&M contracts. Based on the aforementioned, we concluded that the impact of adoption of Topic 606 as of January 1, 2018, was immaterial to our Consolidated Financial Statements and no adjustment was required. See Note 3 for further discussion of our adoption of Topic 606.

New Accounting Standards

Leases - In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires lessees to record most leases on their balance sheet but recognize expense in a manner similar to current guidance. ASU 2016-02 will be effective for us in the first quarter 2019. The new standard is required to be applied using a modified retrospective approach. Upon adoption, we will record a right of use asset and corresponding liability for our operating leases.We continue to evaluate the effect that ASU 2016-02 will have on our financial position, results of operations and related disclosures. We are currently designing and implementing process changes and evaluating the information requirements necessary to properly account for ASU 2016-02.

Financial instruments - In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments,” which changes the way companies evaluate credit losses for most financial assets and certain other instruments. For trade and other receivables, short-term investments, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model to evaluate impairment, potentially resulting in earlier recognition of allowances for losses. The new standard also requires enhanced disclosures, including the requirement to disclose the information used to track credit quality by year of origination for most financing receivables. ASU 2016-13 will be effective for us in the first quarter 2020. Early adoption of the new standard is permitted; however, we have not elected to early adopt the standard. The new standard is required to be applied using a cumulative-effect transition method. We are currently evaluating the effect that ASU 2016-13 will have on our financial position, results of operations and related disclosures.

NOTE 2 – ASSETS HELD FOR SALE

A summary of assets included in assets held for sale at September 30, 2018, is as follows (in thousands):

Assets	Texas North Yard Assets: Assets Under Agreement For Sale	Texas North Yard Assets: Remaining Assets	Shipyard Division Assets	Consolidated
Land	$2,157	$—	$—	$ 2,157
Buildings and improvements	31,798	189	—	31,987
Machinery and equipment	13,856	27,754	2,187	43,797
Less: accumulated depreciation	(24,176)	(10,797)	(298)	(35,271)
Total assets held for sale	$23,635	$ 17,146	$ 1,889	$ 42,670

South Texas Properties

Texas South Yard - During the second quarter 2018, we completed the sale of our Texas South Yard for $55.0 million, less selling costs of $1.5 million, for total net proceeds during the nine-months ended September 30, 2018 of approximately $53.5 million and a gain of approximately $3.9 million, which is included within other income (expense), net on our Consolidated Statements of Operations.

Texas North Yard - On September 26, 2018, we entered into an agreement to sell our Texas North Yard and certain associated equipment for $28.0 million.We received $0.5 million during the third quarter 2018 as a deposit on the property, which is refundable under certain circumstances, and has been recorded as a liability within accrued expenses and other liabilities on our Consolidated Balance Sheet at September 30, 2018. The sale is anticipated to close in the fourth quarter 2018 and is subject to customary closing conditions, including the purchaser’s right to conduct inspections of the property related to confirmation of title, surveys, environmental conditions, easements and access rights, and third-party consents. Based on the sales price and estimated closing and other costs, we expect to realize a gain on the transaction upon closing. We can provide no assurances that we will successfully close the transaction, that closing will occur under our expected timeline or that we will achieve our estimated net proceeds or a gain on the sale. We continue to actively market the remaining Texas North Yard assets held for sale, which primarily consist of three 660-ton crawler cranes, a barge, a plate bending roll machine, and panel line equipment.

As a result of the agreement to sell our Texas North Yard, and the separation of such assets from the other remaining Texas North Yard Assets, we reevaluated the fair values of the assets under agreement for sale and the other remaining assets held for sale, giving consideration to previously recorded impairment amounts for such assets.

Based on our assessment, we recaptured previously recorded impairments of the assets under agreement for sale and increased their carrying value. We also reduced the carrying value of the other remaining assets held for sale based upon our estimates of fair value using level 3 inputs, including broker estimates of fair value. Our assessment resulted in the recapture of approximately $5.2 million of previously recorded impairments on the assets under agreement for sale, with a similar amount of impairment on the remaining assets, with no net material change to the carrying value of the Texas North Yard assets held for sale.

During the first half of 2018, we recorded impairments of certain equipment that were classified as held for sale, resulting in a $1.4 million charge during the nine-months ended September 30, 2018, which is included within asset impairments on our Consolidated Statements of Operations. Our impairments were based upon our best estimate of the fair value of the related equipment. During the third quarter 2018, we sold assets that were classified as held for sale for proceeds of $1.1 million, which approximated their carrying values.

Hurricane Harvey Insurance Recoveries - During the third quarter 2017, buildings and equipment located at our South Texas Properties were damaged by Hurricane Harvey. During the second quarter 2018, we agreed to a global settlement with our insurance carriers for total insurance recoveries of $15.4 million, resulting in a net gain on insurance recoveries of $3.6 million during the nine months ended September 30, 2018, which is included within other income (expense), net on our Consolidated Statements of Operations. As of September 30, 2018, all insurance proceeds had been received, including $7.2 million received during the third quarter 2018. In applying the settlement proceeds and determining our net gain for the nine months ended September 30, 2018, we allocated the claim amounts, less agreed upon deductibles, to the respective groups of assets and reimbursement of costs incurred as follows:

- Insurance recoveries of $8.9 million, which offset impairments of damaged assets at our Texas North Yard, resulting in no net gain or loss. Our impairments were based upon our best estimate of the decline in the fair value of the property and related equipment.
- Insurance recoveries of $5.2 million, which offset impairments of two buildings and five damaged cranes that were sold during the second quarter 2018, resulting in the aforementioned net gain on insurance recoveries of $3.6 million.
- Insurance recoveries of $1.3 million, net of deductibles, which offset clean-up and repair related costs incurred directly related to the damage we incurred as a result of Hurricane Harvey.

Other - We do not expect the sale of our South Texas Properties to impact our ability to operate our Fabrication Division. Further, the sale of our Texas South Yard and the Texas North Yard assets held for sale, do not qualify for discontinued operations presentation as we continue to operate our Fabrication Division at our Houma, Louisiana fabrication facility.

Shipyard Division Assets

Our Shipyard Division assets held for sale primarily consist of a 2,500-ton drydock located at our Houma Shipyard. During the nine months ended September 30, 2017, we recorded impairments of $0.4 million for these assets based upon their estimated sales price. During the nine months ended September 30, 2017, we sold two drydocks for proceeds of $2.0 million and recorded a loss of $0.3 million. Our assets held for sale for the Shipyard Division do not qualify for discontinued operations presentation.

NOTE 3 – REVENUE RECOGNITION

Revenue for our fixed-price and unit-rate contracts is recognized using the percentage-of-completion method, computed by the significant inputs method, which measures the percentage of labor hours incurred to date as compared to estimated total labor hours for each contract. Direct materials and subcontract materials and services that represent an insignificant portion of the work to complete a contract or do not reflect an accurate measure of project completion are considered "pass-through costs." Revenue recognized in a period for a contract is the pro rata portion of the contract value (excluding pass-through costs), based upon the labor hour measure of progress, plus pass-through costs incurred during the period. Accordingly, pass-through costs are included in revenue and direct costs of revenue with no impact on gross profit recognized during the period.

Revenue for our T&M contracts is recognized at contracted rates when the work is performed, the costs are incurred and collection is reasonably assured. Our T&M contracts provide for labor and materials to be billed at rates specified within the contract. The consideration from the customer directly corresponds to the value of our performance completed at the time of invoicing. Accordingly, we have elected the “right to invoice” practical expedient under Topic 606 for the recognition of revenue for our T&M contracts. The practical expedient allows us to recognize revenue in the amount we have the right to invoice (at contracted rates when the work is performed and costs are incurred).
Revenue and gross profit for contracts can be significantly affected by variable consideration, which can be in the form of unapproved change orders, claims, incentives, penalties, and liquidated damages that may not be resolved

until the later stages of the contract or after the contract has been completed and delivery occurs. We estimate variable consideration based on the most likely amount to which we expect to be entitled and include estimated amounts in the transaction price to the extent it is probable that a significant future reversal of cumulative revenue recognized will not occur or when we conclude that any significant uncertainty associated with the variable consideration is resolved. For the three and nine months ended September 30, 2018 and 2017, we had no material amounts in revenue related to unapproved change orders, claims, or incentives. However certain projects in our Shipyard Division reflect a reduction to our estimated contract price of $11.7 million for variable consideration related to liquidated damages. The reductions in contract price were recorded during the fourth quarter 2017.

Revenue and gross profit for contracts accounted for using the percentage-of-completion method can also be significantly affected by changes in estimated cost to complete such contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which could result in material changes to our Consolidated Financial Statements and related disclosures.

Adoption of Topic 606

As discussed in Note 1, on January 1, 2018, we adopted ASU No. 2014-09, Topic 606 "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in FASB ASC Topic 605, "Revenue Recognition." Accordingly, the reported results for the three and nine months ended September 30, 2018, reflect the application of Topic 606 guidance while the comparable reported results for 2017 were prepared under the guidance of Topic 605.

Topic 606 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Our adoption of Topic 606 included a detailed review of our significant contracts that were not substantially complete as of January 1, 2018, to assess if revenue should be recognized "over time" (as the work is performed) or "at a point in time" (upon completion of the work). We determined that ownership and control of the work related to our fixed-price and unit-rate contracts transfer to our customers as the work progresses. Additionally, our customers retain the right and ability to change, modify or discontinue further fabrication or construction at any stage of the project. In the event our customers discontinue work, they are required to compensate us for the work performed to date.

Based on our review, we concluded that revenue recognition for our fixed-price and unit-rate contracts using the percentage-of-completion method, computed by measuring the percentage of labor hours incurred to date as compared to estimated total labor hours for each contract, is still appropriate as it most accurately reflects our primary profit generating activity and best represents our efforts to construct the asset for our customer. However, adoption of Topic 606 did require us to include subcontract labor and certain costs from outside services within our measure of progress and determination of our percentage-of-completion. We previously treated certain of these costs as pass-through costs and excluded such costs from our measure of progress. Our review also determined that Topic 606 did not impact the timing of revenue recognition for our T&M contracts. Based on the aforementioned, we concluded that the impact of the adoption of Topic 606 as of January 1, 2018, was immaterial to our Consolidated Financial Statements and no adjustment was required.

Topic 606 requires additional and enhanced disclosures related to the disaggregation of revenue and the anticipated timing and completion of remaining performance obligations, which are included below.

Disaggregation of Revenue - The following tables summarize revenue for each of our operating segments, disaggregated by contract type and timing of revenue recognition, for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30, 2018					
	Fabrication	Shipyard	Services	EPC	Eliminations	Total
Contract Type						
Fixed-price and unit-rate (1)	$2,311	$23,635	$12,193	$—	$ (779)	$37,360

T&M (2)	—	857	10,424	—	—	11,281
Other (3)	—	—	—	1,071	—	1,071
Total	$2,311	$24,492	$22,617	$1,071	$ (779)	$49,712

	Three Months Ended September 30, 2017					
	Fabrication	Shipyard	Services	EPC	Eliminations	Total
Contract Type						