CONRAD INDUSTRIES, INC.

Quarterly Financial Report

March 31, 2013

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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FORWARD-LOOKING-STATEMENTS

In this report and in the normal course of business, we, in an effort to help keep our stockholders and the public informed about our operations, may from time to time issue or make certain statements, either in writing or orally, that are or contain forward looking statements. All statements contained herein, other than statements of historical fact, are forward looking statements. When used in this report, the words “anticipate,” “believe,” “estimate” and “expect” and similar expressions are intended to identify forward looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including our reliance on cyclical industries, our reliance on principal customers and government contracts, the outcome of the claims process for economic damages under the Deepwater Horizon Court-Supervised Settlement Program, our ability to perform contracts at costs consistent with estimated costs utilized in bidding for the projects covered by such contracts, variations in quarterly revenues and earnings resulting from the percentage of completion accounting method, the possible termination of contracts included in our backlog at the option of customers, operating risks, competition for marine vessel contracts, our ability to retain key management personnel and to continue to attract and retain skilled workers, state and federal regulations, the availability and cost of capital, and general industry and economic conditions. These and other risks and assumptions are discussed in more detail in our 2012 Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We do not intend to update these forward looking statements. Although we believe that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove correct.

An Important Note About This Report

Effective March 31, 2005, Conrad Industries, Inc. is no longer subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Act”). Accordingly, this report is not filed with the Securities and Exchange Commission, is not available on the SEC’s EDGAR system, and does not purport to meet the requirements for companies that are subject to the Act’s reporting requirements. The Company does intend in this report to provide accurate financial and other information of interest to investors.

Our Annual Report and other periodic reports to shareholders are available on the Company’s website, www.ConradIndustries.Com, and at www.otcmarkets.com. Interested persons may also request copies directly from the Company; please direct requests and inquiries to Chief Financial Officer, Conrad Industries Inc., P. O. Box 790, Morgan City, LA, 70381, telephone (985) 702-0195. In particular, you should read this Quarterly Report along with our 2012 Annual Report.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

ASSETS	March 31, 2013	December 31, 2012
CURRENT ASSETS:		
Cash and cash equivalents	$ 55,969	$ 55,609
Accounts receivable, net	10,367	13,312
Costs and estimated earnings, net in excess of billings on uncompleted contracts	25,084	18,994
Inventories	1,796	2,106
Other receivables	1,584	674
Other current assets	3,384	3,580
Total current assets	98,184	94,275
PROPERTY, PLANT AND EQUIPMENT, net	52,121	49,650
OTHER ASSETS	25	25
TOTAL ASSETS	$ 150,330	$ 143,950
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 11,699	$ 9,807
Accrued employee costs	2,519	4,558
Accrued expenses	10,072	6,878
Current maturities of long-term debt	267	267
Billings in excess of costs and estimated earnings, net on uncompleted contracts	9,106	11,449
Total current liabilities	33,663	32,959
LONG-TERM DEBT, less current maturities	1,154	1,220
DEFERRED INCOME TAXES	8,317	8,490
Total liabilities	43,134	42,669
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, $0.01 par value 20,000,000 shares authorized, 7,290,837 in 2013 and in 2012	73	73
Additional paid-in capital	29,039	29,039
Treasury stock at cost, 1,352,550 in 2013 and in 2012	(16,730)	(16,730)
Retained earnings	94,814	88,899
Total shareholders' equity	107,196	101,281
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 150,330	$ 143,950

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	March 31, 2013	March 31, 2012
REVENUE	$ 61,542	$ 51,920
COST OF REVENUE	51,784	45,745
GROSS PROFIT	9,758	6,175
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,677	1,346
INCOME FROM OPERATIONS	8,081	4,829
INTEREST EXPENSE	(8)	(10)
OTHER INCOME, NET	760	78
INCOME BEFORE INCOME TAXES	8,833	4,897
PROVISION FOR INCOME TAXES	2,918	1,726
NET INCOME	$ 5,915	$ 3,171
Income Per Share		
Basic	$ 1.00	$ 0.52
Diluted	$ 0.99	$ 0.52
Weighted Average Common Shares Outstanding		
Basic	5,938	6,099
Diluted	5,959	6,121

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,915	$ 3,171
Adjustments to reconcile net income to cash provided by/ (used for) operating activities:		
Depreciation and amortization	1,097	954
Loss on sale of assets	-	10
Deferred income tax provision/(benefit)	(426)	(545)
Changes in assets and liabilities:		
Accounts receivable	2,945	6,913
Net change in billings related to cost and estimated earnings on uncompleted contracts	(8,433)	(2,787)
Inventory and other assets	(152)	(592)
Accounts payable, accrued expenses and other liabilities	3,047	(14,142)
Net cash provided by/(used in) operating activities	3,993	(7,018)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for plant and equipment	(3,567)	(3,607)
Net cash used in investing activities	(3,567)	(3,607)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of debt	(66)	(67)
Purchase of treasury stock	-	(900)
Net cash used in financing activities	(66)	(967)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	360	(11,592)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	55,609	43,650
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 55,969	$ 32,058
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	$ 8	$ 10
Taxes paid	$ 411	$ -

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Conrad Industries, Inc. and its wholly-owned subsidiaries (the "Company") which are primarily engaged in the construction, conversion and repair of a variety of marine vessels for commercial and government customers. The Company was incorporated in March 1998 to serve as the holding company for Conrad Shipyard, L.L.C. ("Conrad") and Conrad Orange Shipyard, Inc. ("Conrad Orange"). On June 29, 2012 Orange Shipbuilding Company, Inc.'s name was changed to Conrad Orange Shipyard, Inc. In addition, during the second quarter of 2003, Conrad Aluminum, L.L.C., a wholly owned subsidiary of Conrad, was organized as a vehicle to accommodate the Company's expansion into aluminum marine fabrication, repair and conversion services. New construction work and some repair work are performed on a fixed-price basis. The Company performs the majority of repair work under cost-plus-fee agreements. All significant intercompany transactions have been eliminated. In the opinion of the management of the Company, the interim consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (such adjustments consisting only of a normal recurring nature) considered necessary for a fair presentation, have been included in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company's audited 2012 consolidated financial statements and related notes. The results of operations for the three-month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

2. TRADE RECEIVABLES

Receivables consisted of the following at March 31, 2013 and December 31, 2012 (in thousands):

	March 2013	December 2012
U.S. Government:		
Amounts billed	$ -	$ -
Unbilled costs and estimated earnings on uncompleted contracts	-	-
	-	-
Commercial:		
Amounts billed	10,367	13,312
Unbilled costs and estimated earnings on uncompleted contracts	25,084	18,994
Total	$ 35,451	$ 32,306

Included above in amounts billed is an allowance for doubtful accounts of $488,000 for March 31, 2013 and December 31, 2012. Unbilled costs and estimated earnings on uncompleted contracts were not billable to customers at the balance sheet dates under terms of the respective contracts. Of the unbilled costs and estimated earnings at March 31, 2013, the majority is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of March 31, 2013 and December 31, 2012 is as follows (in thousands):

	March 2013	December 2012
Costs incurred on uncompleted contracts	$ 62,524	$ 81,866
Estimated earnings, net	3,768	10,104
	66,292	91,970
Less billings to date	(50,314)	(84,425)
	$ 15,978	$ 7,545

The above amounts are included in the accompanying balance sheets under the following captions (in thousands):

	March 2013	December 2012
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$ 25,084	$ 18,994
Billings in excess of cost and estimated earnings, net on uncompleted contracts	(9,106)	(11,449)
Total	$ 15,978	$ 7,545

Pursuant to SOP 81-1, Paragraph 85-89 (ASC 605-35), when the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract should be made in the period it became evident. The provision for the loss should be recorded as an additional contract cost in the income statement. The offsetting liability can be recorded on the balance sheet where related contract costs are accumulated on the balance sheet, in which case the provision may be deducted from the related accumulated costs. The Company recorded total charges of $0 for the quarter ended March 31, 2013 ($627,000 for year ended December 31, 2012) in cost of revenues to reflect revised estimates related to anticipated losses on certain uncompleted vessels in progress. The offsetting credit was recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of March 31, 2013 and December 31, 2012, approximately $80,575 of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. INVENTORIES

At March 31, 2013, inventories consisted of a stock barge, a recovery vessel and a tow boat, steel plate and structurals, and excess job related materials and supplies. At December 31, 2012, inventories consisted of three stock barges, a recovery vessel and four tow boats, steel plate and structurals, and excess job related materials and supplies.

4. OTHER RECEIVABLES

Other receivables consisted of the following at March 31, 2013 and December 31, 2012 (in thousands):

	March 2013	December 2012
Quality Jobs Program Rebate	$ 244	$ 244
MARAD grant reimbursement	1,117	418
Other	223	12
Total	$ 1,584	$ 674

Substantially all of these amounts at March 31, 2013 are expected to be collected within the next twelve months.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at March 31, 2013 and December 31, 2012 (in thousands):

	March 2013	December 2012
Land	$ 11,784	$ 11,707
Buildings and improvements	37,081	36,947
Machinery and equipment	24,480	24,306
Drydocks and bulkheads	11,960	11,953
Barges and boats	883	883
Office and automotive	3,319	3,214
Construction in progress	6,100	3,030
	95,607	92,040
Less accumulated depreciation	(43,486)	(42,390)
	$ 52,121	$ 49,650

Depreciation is provided on property, plant and equipment based on the following estimates of useful lives:

	Useful Lives
Land	N/A
Buildings and improvements	5-40 years
Machinery and equipment	5-12 years
Drydocks and bulkheads	5-30 years
Barges and boats	15 years
Office and automotive	3-12 years
Construction in progress	N/A

Building and improvements include buildings (40 year useful life), fencing, roadways, parking lots, concrete work areas, material storage racks and shelving, launch systems, and storage lockers (5 year useful life).

Drydocks and bulkheads include drydocks (30 year useful life), bulkheads, pontoons, and blocking systems (5 year useful life).

6. ACCRUED EXPENSE

At March 31, 2013 and December 31, 2012, Accrued Expenses included $877,000 payable to a customer for payments made by the customer on vessel construction contracts that were cancelled in February 2012 by mutual agreement and the sale of the remaining vessels in the first half of 2012. As a result of contract provisions that allow us to recover from the defaulting customer the difference between the contract price and what we sell the barges for, progress payments already made by the defaulting customer and favorable market conditions for these vessels, we did not have any material adverse financial consequences due to the default.

7. LONG-TERM DEBT

Long-term debt consisted of the following at March 31, 2013 and December 31, 2012 (in thousands):

	March 2013	December 2012
Industrial revenue bonds - St. Mary Parish, variable interest rate (2.209% at March 31, 2013), due August 1, 2018	$ 1,421	$ 1,487
Less current maturities	(267)	(267)
	$ 1,154	$ 1,220

We have a Loan Agreement that governs our Revolving Credit Facility. Our Revolving Credit Facility permits us to borrow up to $10 million and matures April 30, 2014. The interest rate is JPMorgan Chase prime rate or LIBOR plus two percent at our option. No amounts were outstanding on our Revolving Credit Facility as of March 31, 2013 and December 31, 2012. The Loan Agreement is secured by substantially all of our assets, contains customary restrictive covenants and requires the maintenance of certain financial ratios that could limit our use of available capacity under the Revolving Credit Facility. In addition, the Loan Agreement prohibits us from paying dividends without the consent of the lender and restricts our ability to incur additional indebtedness. The bank granted a waiver that allowed us to pay a special dividend on December 31, 2012. At March 31, 2013 and December 31, 2012, we were in compliance with all covenants. At March 31, 2013 and December 31, 2012 we had letters of credit totaling $389,000.

In July 2003, we completed the financing for our expansion into the aluminum marine fabrication, repair and construction business. The financing included a $1.5 million grant by the State of Louisiana through the Economic Development Award Program (EDAP) and $4.0 million of industrial revenue bonds issued by the St. Mary Parish Industrial Development Board. In connection with the issuance of the bonds, Conrad's subsidiary, Conrad Aluminum, L.L.C. contributed to the Industrial Development Board the land and buildings at the Conrad Aluminum yard and is leasing them back along with the items to be purchased with the bond proceeds. The transaction is being accounted for as a financing and thus the original cost of the property less accumulated depreciation remains reflected in our property, plant and equipment.

The lease payments are essentially equal to, and are used to pay, the principal and interest on the bonds. The lease terminates upon payment in full of the bonds on the contractual maturity date of August 1, 2018 or earlier if we elect to prepay them. In connection with the payment in full of the bonds, we have the option to purchase the leased facilities for $1,000. Alternatively, we and the lessor may choose to extend the lease upon mutually satisfactory terms. Conrad and its subsidiaries have guaranteed the industrial revenue bonds. The bonds have a 15 year term and monthly principal payments of $22,222 plus interest. Interest accrues, at our option, at either the JPMorgan Chase prime rate or the higher of (a) 30, 60 or 90-day LIBOR plus two percent or (b) the prime rate minus one percent.

The $1.5 million EDAP grant required us to achieve specified job creation benchmarks and sustain them through December 31, 2012. The EDAP agreement states that if we fail to meet the job creation objectives, the State may choose to recover an amount of the grant commensurate with the scope of the unmet performance objectives.

We met the job creation requirement at December 31, 2004 but not in subsequent years. We have been in discussions with the State of Louisiana. In our discussions, it was agreed that, regardless of meeting the job creation and payroll requirements, we would earn a pro-rata portion of the grant based on the composite percentage of actual jobs and actual payroll to required jobs and required payrolls for the years 2004 through 2012. No amounts were amortized into income for the years 2004 through 2010.

As a result of our discussion with the State, we amortized $600,000 into income for 2011 and the liability was reduced to $900,000 and included in "Other Non-Current Liabilities" at December 31, 2011. In the fourth quarter of 2012 an additional $190,000 was amortized into income using the ratio of monthly payroll targets achieved over the total payroll targets of the grant. At December 31, 2012 and at March 31, 2013, the remaining liability of $710,000 is included under the caption "Accrued Expenses". We have received indications from the State that any unearned amounts due under the grant must be repaid in 2013. We believe the State has not properly considered the benefits gained by the State from the project financed by the grant, and believe that no amounts are due. We are in negotiations with the State regarding the amount due, if any.

The equipment purchased with the grant proceeds is owned by St. Mary Parish and is being leased to us for a term that expired December 31, 2012, primarily in consideration of the economic development benefits provided to the Parish and our obligation to pay expenses required to operate and maintain the equipment. On December 28, 2012, the company exercised its option to purchase all the equipment leased under the lease. The purchase price is equal to the amount owed under the EDAP agreement; however, this amount is in discussion, and has not yet been determined. The transaction is being accounted for as a financing and therefore the assets are included in our property, plant and equipment.

8. SHAREHOLDERS' EQUITY

Income per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. The number of weighted average shares outstanding for "basic" income per share was 5,938,287 and 6,099,162 for the three months ended March 31, 2013 and 2012, respectively. The number of weighted average shares outstanding for "diluted" income per share was 5,959,244 and 6,121,182 for the three months ended March 31, 2013 and 2012, respectively.

Stockholders' Rights Plan

During May 2002, we adopted a rights plan, which was amended in May 2012. The rights plan is intended to protect stockholder interests in the event we become the subject of a takeover initiative that our board of directors believes could deny our stockholders the full value of their investment. The adoption of the rights plan was intended as a means to guard against abusive takeover tactics and was not in response to any particular proposal. The plan does not prohibit the board from considering any offer that it considers advantageous to stockholders.

Under the plan, we declared and paid a dividend on June 18, 2002 of one right for each share of common stock held by stockholders of record on June 11, 2002. As amended, each right initially entitles our stockholders to purchase one one-thousandth of a share of our preferred stock for $70 per one one-thousandth, subject to adjustment. However, if a person acquires, or commences a tender offer that would result in ownership of, 15 percent or more of our outstanding common stock while the plan remains in place, then, unless we redeem the rights for $0.001 per right, the rights will become exercisable by all rights holders except the acquiring person or group for shares of common stock or of the acquiring person having a market value of twice the purchase price of the rights.

As amended, the rights will expire on May 23, 2022, unless redeemed or exchanged at an earlier date. The rights trade with shares of our common stock and have no impact on the way in which our shares are traded. There are currently no separate certificates evidencing the rights, and there is no market for the rights.

Special Cash Dividend

The Company paid a $2.00 per share special dividend on its common stock on December 31, 2012 to shareholders of recond on December 24, 2012, totaling $11.9 million.

9. SEGMENT AND RELATED INFORMATION

Our President and Chief Executive Officer makes operating decisions and measures performance of our business primarily by viewing our two separate lines of business or products and services, which we consider to be building of new vessels and the repair and conversion of existing vessels.

Accordingly, we classify our business into two segments: (1) vessel construction and (2) repair and conversions. Our vessel construction segment involves the building of a new vessel, often including engineering and design, whereas our repair and conversions segment involves work on an existing vessel. Vessel construction jobs are typically of longer duration and have a much larger material component than repair and conversion jobs. Additionally, vessel construction activities are primarily performed in shore-based buildings and dedicated work areas, whereas repair activities primarily occur on floating drydocks or on the vessel itself while afloat. Our vessel construction activities are almost always performed under fixed-price contracts accounted for under the percentage-of-completion method of accounting, whereas our repair activities are primarily performed under cost-plus-fee arrangements.

Our product offerings in vessel construction have changed over time to meet market demands and currently include large and small deck barges, single and double hull tank barges, lift boats, ferries, push boats, offshore tug boats and offshore support vessels including aluminum crew boats. Our repair work involves maintenance and repair of existing vessels, which is often required as a result of periodic inspections required by the U.S. Coast Guard, the American Bureau of Shipping and other regulatory agencies. Our conversion projects primarily consist of lengthening the midbodies of vessels, modifying vessels to permit their use for a different type of activity and other modifications to increase the capacity or functionality of a vessel. Our aluminum new construction and repair/conversion business is not considered a separate operating segment but rather an expansion of our current vessel construction and repair and conversion products and services. Our Conrad Aluminum yard has been specifically designed to handle aluminum work; however, we can also perform steel new construction and repair at the yard and have also performed aluminum work at other of our yards.

We evaluate the performance of our segments based upon gross profit. Selling, general and administrative expenses, executive compensation expense, interest expense, other income, net and income taxes are not allocated to the segments. Accounting policies are the same as those described in Note 1, "Summary of Significant Accounting Policies" in our audited 2012 consolidated financial statements. Intersegment sales and transfers are not significant.Selected information as to our operations by segment is as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenue		
Vessel construction	$ 49,832	$ 42,387
Repair and conversions	11,710	9,533
Total revenue	61,542	51,920
Cost of revenue		
Vessel construction	42,785	37,837
Repair and conversions	8,999	7,908
Total cost of revenue	51,784	45,745
Gross profit		
Vessel construction	7,047	4,550
Repair and conversions	2,711	1,625
Total gross profit	9,758	6,175
S G & A expenses	1,677	1,346
Income from operations	8,081	4,829
Interest expense	(8)	(10)
Other income/(expense), net	760	78
Income before income taxes	8,833	4,897
Provision for Income tax	2,918	1,726
Net income	$ 5,915	$ 3,171

Certain other financial information by segment is as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Depreciation and amortization expense:		
Vessel construction	$ 594	$ 477
Repair and conversions	462	440
Included in selling, general and administrative expenses	41	37
Total depreciation and amortization expense	$ 1,097	$ 954

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
Capital expenditures:				
Vessel construction	$	743	$	3,315
Repair and conversions		2,744		193
Other		80		99
Total capital expenditures	$	3,567	$	3,607

Total assets by segment are as follows as of March 31, 2013 and December 31, 2012 (in thousands):

Total assets:				
Vessel construction	$	43,547	$	66,194
Repair and conversions		43,763		33,980
Other		63,020		38,186
Total assets	$	150,330	$	138,360

Certain assets, including cash and cash equivalents, and capital expenditures are allocated to corporate and are included in the "Other" caption.

Revenues included in our consolidated financial statements are derived exclusively from customers domiciled in the United States, Puerto Rico and Columbia. All of our assets are located in the United States.

10. COMMITMENTS AND CONTINGENCIES

***Legal Matters*—** We are a party to various routine legal proceedings primarily involving commercial claims and workers' compensation claims. While the outcome of these routine claims and legal proceedings cannot be predicted with certainty, management believes that the outcome of such proceedings in the aggregate, even if determined adversely, would not have a material adverse effect on our consolidated financial position, results of operation or liquidity.

***Environmental Matters*—** In 2006, the Company reported to the Louisiana Department of Environmental Quality (the "LDEQ") that the deposit of fill material in 1986 in one of its slips at Morgan City, Louisiana, may have constituted the unauthorized disposal of solid and/or hazardous waste. The source of the fill was Marine Shale Processors, which federal courts later found to be a sham recycler. The Company did not know until 2006 that the fill material could be something other than a non-regulated aggregate product. On December 7, 2006, the LDEQ agreed to accept the Company's plan with respect to the proper classification, delisting and removal of the fill material. The Company submitted its plan to delist the fill as a hazardous waste to the LDEQ on May 31, 2007. LDEQ issued a demand letter to the Company on July 23, 2007, asking for a remedial investigation and remedial action, and allowing 60 days for the Company to negotiate a cleanup plan and agreement with the LDEQ. The Company submitted its comments on the LDEQ draft cooperative agreement to LDEQ on August 24, 2007. On December 18, 2008, the LDEQ approved the Company's delisting petition with its sampling and analysis plan. The Company implemented the approved sampling and analysis plan in early 2010. The Company had to prepare two assessment reports on the data. The Company submitted a risk assessment report to LDEQ on April 20, 2010. LDEQ on September 7, 2010, approved the risk assessment on the former slip area and asked for a corrective action plan. The Company had asked for an extension of time in submitting the corrective action plan until after final delisting of the fill by LDEQ as other than hazardous waste, and LDEQ concurred on November 9, 2010. A separate hazardous waste assessment report was submitted to LDEQ on November 8, 2010. Since the data confirmed that the fill was appropriately classified as not hazardous, the LDEQ proceeded to delist the fill through a rule-making process, which, when and if completed, should make the Company's disposal (or other corrective action) costs less expensive than if the fill were required to be disposed of as hazardous waste. LDEQ recommended approvals of the delisting petition for rulemaking on May 2, 2012. LDEQ published the delisting as a proposed rule in the Louisiana Register on November 20, 2012, and held a public hearing on the proposed rule on December 27, 2012. The Company provided LDEQ with favorable comments, and there were no adverse comments submitted by others. It is anticipated that LDEQ will forward the final rule to the State Legislature for review by later in 2013. The complete rulemaking process may take more time. The Company has made provisions in its financial statements based on management's estimate of the range of potential cost to resolve this matter; and such estimates may change as more information becomes known. Depending on further developments and information about expected costs, the Company may seek a CERCLA and/or state cost recovery action from other responsible parties.

Although no assurances can be given, except as noted above, we believe that our operations are in compliance in all material respects with all environmental laws. However, stricter interpretations and enforcement of environmental laws and compliance with potentially more stringent future environmental laws could materially and adversely affect our operations.

Employment Agreements— We have employment agreements with certain of our executive officers which provide for employment of the officers through March 31, 2014, and which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of March 31, 2013, the minimum annual total compensation under these agreements was $886,300.

Construction Commitments – During the first quarter of 2012 the Company received a grant from The U.S. Maritime Administration to construct a new section to extend Dry Dock #6. This grant is a portion of a $10 million appropriation by Congress for capital improvements and for maritime training programs at small shipyards. The grant funds must be spent in 2 years or less, and the company must adhere to various recordkeeping and filing requirements. The Company must maintain title to the purchased equipment for a minimum of 2 years, and "Buy American" as much as practical. The total cost of the project is $2.482 million of which the Federal share for reimbursement is $1.117 million, and the "required portion" by the Company is $1.365 million. The Company must expend the required portion before any portion of the Federal share is distributed. At December 31, 2012, the Company has spent $1.7 million on the construction of the dry dock section. The Company has elected to receive the reimbursement at the completion of the project; therefore, $1.1 million and $418,000 is included in "Other Receivables" at March 31, 2013 and December 31, 2012, respectively.

In 2012, we purchased 50 acres of property adjoining our Conrad Deepwater facility for $5.6 million. Our current plans are to add one new construction site and upgrade the existing building for manufacturing. The expansion was approved by the board and is currently in progress. We plan to start operations at this site in June 2013.

Letters of Credit and Bonds – In the normal course of our business, we are required to provide letters of credit to secure the payment of workers' compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations. Outstanding letters of credit and bonds relating to these business activities amounted to $7.9 and $8.6 million at March 31, 2013 and December 31, 2012, respectively.

BP Claim – In December 2012 and February 2013, the Company submitted claims totaling $22.6 million to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program. The Program was approved by the court on December 21, 2012. Certain of our businesses are located within the economic zones included in the class settlement and we believe that the damage calculations have been made in accordance with the guidelines established for the BP Settlement Fund; however, the claims are subject to review by the professionals responsible for processing the claims and determining the amount to be awarded for each claim. Accordingly, the amounts awarded to us may be less than the amounts we submitted and some or all of our claims may be rejected. Any award we receive will be subject to income taxes. Based on the current pace of the review process, the Company anticipates a response in the second or third quarter of 2013. No amounts related to the claims have been recorded in our financial statements at December 31, 2012 or March 31, 2013.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes to consolidated financial statements included elsewhere in this report, and should be read in conjunction with our 2012 Annual Report.

Overview

We specialize in the construction, conversion and repair of a wide variety of steel and aluminum marine vessels for commercial and government customers. These vessels include tugboats, ferries, liftboats, barges, aluminum crew/supply vessels and other offshore support vessels. We operate four shipyards: one in Morgan City, Louisiana, two in Amelia, Louisiana and one in Orange, Texas. For the three months ended March 31, 2013 our new construction segment accounted for 81.0% of our total revenue and our repair and conversion segment accounted for 19.0% of our total revenue. For the year ended December 31, 2012, our new construction segment accounted for 79.6% of our total revenue and our repair and conversion segment accounted for 20.4% of our total revenue. Most of our new construction is done indoors.

In December 2012 and February 2013, the Company submitted claims totaling $22.6 million to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program. The Program was approved by the court on December 21, 2012. Certain of our businesses are located within the economic zones included in the class settlement and we believe that the damage calculations have been made in accordance with the guidelines established for the BP Settlement Fund; however, the claims are subject to review by the professionals responsible for processing the claims and determining the amount to be awarded for each claim. Accordingly, the amounts awarded to us may be less than the amounts we submitted and some or all of our claims may be rejected. Any award we receive will be subject to income taxes. Based on the current pace of the review process, the Company anticipates a response in the second or third quarter of 2013. No amounts related to the claims have been recorded in our financial statements at December 31, 2012 or March 31, 2013.

In August 2010, the Company's Board of Directors authorized management to repurchase up to $5.0 million of its outstanding common stock. The stock repurchase plan did not obligate management to acquire any particular amount of common stock, did not have an expiration date and could be amended or terminated at any time without prior notice. Pursuant to the plan, during the third quarter of 2010 the Company purchased 38,075 shares for a total of $266,525. During March 2011, our board authorized a 10b5-1 stock purchase plan, in an attempt to increase the amount of stock we repurchase pursuant to the share repurchase program. During the second quarter of 2011, we purchased 16,209 shares at an average price of $13 per share. During the third quarter of 2011, we purchased 81,386 shares at an average price of $13 per share. During the fourth quarter of 2011, we purchase 157,444 shares at an average price of $15 per share. During the first quarter of 2012, we purchased 59,881 shares at an average price of $15 per share. During the third quarter of 2012, we purchased 150,000 shares at an average price of $15 per share. During February 2013, the board approved an increase in the stock repurchase program of $10 million. As of March 31, 2013, $13 million remained available under the program. The shares will be held as treasury stock.

The demand for our products and services is dependent upon a number of factors, including the economic condition of our customers and markets, the age and state of repair of the vessels operated by our customers and the relative cost to construct a new vessel as compared with repairing an older vessel. Because a large portion of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment. For the first quarter of 2013, we had a slight increase in revenue, gross profit and manhours for our repair segment. During the first quarter of 2013 and for the year ended December 31, 2012, we received approximately 27.6% and 16.2%, respectively, of our total revenues from customers in the offshore oil and gas industry, 0.4% and 7.7% from government customers and 72.0% and 76.1% from other commercial customers.

During the first three months of 2013, we added $51.4 million of backlog to our new construction segment, as compared to $65.6 million added in the first quarter of 2012, which includes double-skinned tank barges, LPG barges, deck barges and towboats. Our backlog was $125.5 million at March 31, 2013, $120.7 million at December

31, 2012 and $70.8 million at March 31, 2012. Our backlog revenue at March 31, 2013 was 77.2% more than our backlog at March 31, 2012, and our backlog man-hours were 98.0% more than March 31, 2012.

We can experience significant changes in the price of steel due to the global demand. For additional information about steel prices, see our 2012 Annual Report.

From time to time we have experienced gaps in our construction schedules and began construction on projects that were not under contract and that we believed we could convert to contracts in a relatively short period of time within starting construction or within completion of the project. The primary goal of this strategy is to maintain operational efficiencies and revenue volume between contracted projects. More recently, we have also constructed stock vessels for strategic business and marketing reasons. At December 31, 2012, we had three stock barges, a recovery vessel and four tow boats under construction with approximately $653,000 of costs in inventory. At March 31, 2013 we have a tow boats, a recovery vessel and a stock barge under construction with approximately $454,000 of cost in inventory. Our board has approved up to $10 million in inventory costs for stock barges and vessels.

We delisted our common stock on March 30, 2005 and filed a Form 15 to deregister our common stock under Section 12 of the Securities Exchange Act of 1934 and cease filing reports pursuant to Section 15 (d) of that Act primarily to reduce expenses.

Our new construction projects generally range from one month to twelve months in duration. We use the percentage-of-completion method of accounting and therefore take into account the estimated costs, estimated earnings and revenue to date on fixed-price contracts not yet completed. The amount of revenue recognized is based on the portion of the total contract price that the labor hours incurred to date bears to the estimated total labor hours, based on current estimates to complete the project. This method is used because management considers expended labor hours to be the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of cost incurred during the period plus the fee earned.

Most of the contracts we enter into for new vessel construction, and some of our contracts for conversion and repair, whether commercial or governmental, are fixed-price contracts under which we retain all cost savings on completed contracts but are liable for all cost overruns. We develop our bids for a fixed price project by estimating the amount of labor hours and the cost of materials necessary to complete the project and then bid the projects in order to achieve a sufficient profit margin to justify the allocation of our resources to such project. Our revenues therefore may fluctuate from period to period based on, among other things, the aggregate amount of materials used in projects during a period and whether the customer provides materials and equipment. We perform many of our conversion and repair services on a time and materials basis pursuant to which the customer pays a negotiated labor rate for labor hours spent on the project as well as the cost of materials plus a margin on materials purchased. Repair projects may take a few days to a few weeks, although some extend for a longer period.

Results of Operations

The following table sets forth certain of our historical data and percentage of revenues for the periods presented (in thousands):

	Three Months Ended March 31,			
	2013		2012	
Financial Data:				
Revenue				
Vessel construction	$ 49,832	81.0%	$ 42,387	81.6%
Repair and conversions	11,710	19.0%	9,533	18.4%
Total revenue	61,542	100.0%	51,920	100.0%
Cost of revenue				
Vessel construction	42,785	85.9%	37,837	89.3%
Repair and conversions	8,999	76.8%	7,908	83.0%
Total cost of revenue	51,784	84.1%	45,745	88.1%
Gross profit				
Vessel construction	7,047	14.1%	4,550	10.7%
Repair and conversions	2,711	23.2%	1,625	17.0%
Total gross profit	9,758	15.9%	6,175	11.9%
S G & A expenses	1,677	2.7%	1,346	2.6%
Income from operations	8,081	13.1%	4,829	9.3%
Interest expense	(8)	0.0%	(10)	0.0%
Other income/(expense), net	760	1.2%	78	0.2%
Income before income taxes	8,833	14.4%	4,897	9.4%
Income tax provision	2,918	4.7%	1,726	3.3%
Net income	$ 5,915	9.6%	$ 3,171	6.1%
EBITDA (1)	$ 9,938	16.1%	$ 5,861	11.3%
Net cash provided by operating activities	$ 3,993		$ (7,018)	
Net cash used in investing activities	$ (3,567)		$ (3,607)	
Net cash used in financing activities	$ (66)		$ (967)	

(1) Represents earnings before deduction of interest, taxes, depreciation and amortization. EBITDA is not a measure of cash flow, operating results or liquidity as determined by generally accepted accounting principles. We have included information concerning EBITDA as supplemental disclosure because management believes that EBITDA provides meaningful information regarding a company's historical ability to incur and service debt. EBITDA as defined and measured by us may not be comparable to similarly titled measures reported by other companies. EBITDA should not be considered in isolation or as an alternative to, or more meaningful than, net income or cash flow provided by operations as determined in accordance with generally accepted accounting principles as an indicator of our profitability or liquidity.

The following table sets forth a reconciliation of net cash provided by (used in) operating activities to EBITDA for the periods presented (in thousands):

	Three months ended March 31, 2013	2012
Net cash provided by (used for) operating activities	$ 3,993	$ (7,018)
Interest expense	8	10
Provision for income taxes	2,918	1,726
Deferred income tax provision	426	545
Other	-	(10)
Changes in operating assets and liabilities	2,593	10,608
EBITDA	$ 9,938	$ 5,861

For the first quarter of 2013, we generated revenue of $61.5 million, an increase of approximately $9.6 million, or 18.5%, compared to $51.9 million generated for the same period in 2012. The increase was a result of a $7.4 million (17.6%) increase in vessel construction revenue to $49.8 million and an increase of $2.2 million (22.8%) in repair and conversion revenue to $11.7 million for the first quarter of 2013 compared to the same period in 2012. The increase in revenue for the quarter ended March 31, 2013 is primarily a result of increased production manhours in the new construction commercial sector. Vessel construction hours for the first quarter of 2013 increased 30.6%, when compared to the same period in 2012 and repair and conversion hours increased 17.4% when compared to the same period in 2012. Vessel construction revenue was 81.0% of total revenue for the first quarter of 2012 compared to 81.6% for the same period in 2012 and repair and conversion revenue was 19.0% of total revenue compared to 18.4% for the same period in 2012. For the first quarter of 2013, .4% of revenue was government related, 27.6% was energy and 72.0% was other commercial. This compares to 8.0% government, 5.2% energy and 86.8% other commercial for the same period in 2012.

Gross profit was $9.8 million (15.9% of revenue) for the first quarter of 2013 as compared to gross profit of $6.2 million (11.9% of revenue) for the same period in 2012. Vessel construction gross profit increased $2.5 million, or 54.9%, for the first quarter of 2013 compared to the same period in 2012. Repair and conversion gross profit increased $1.1 million or 66.8%, for the first quarter of 2013 compared to the same period in 2012.

Vessel construction gross profit margins increased to 14.1% for the first quarter of 2013, compared to gross profit margins of 10.7% for the same period in 2012. Vessel construction gross profit and margins increased primarily as a result of increased production manhours.

Repair and conversion gross profit margins increased to 23.2% for the first quarter of 2013, compared to gross profit margins of 17.0% for the same period in 2012. The increase in repair and conversion gross profit and margins was primarily attributable to the increase in repair and conversion production hours and slight increase in profit margins for jobs performed in the first quarter of 2013.

Selling, general and administrative expenses (“SG&A”) increased to $1.7 million (2.7% of revenue) for the first quarter of 2013, as compared to $1.3 million (2.6% of revenue) for the same period in 2012. The increase in SG&A expenses was due to increases in employee related expenses, computer license agreements, and other technology costs.

Interest expense decreased $2,000 to $8,000 for the first quarter of 2013 as compared to interest expense of $10,000 for the same period in 2012. The decrease is primarily the result of decreases in the average outstanding balances of our long term debt and decreases in interest rates. We expect interest expense in 2013 to be lower than 2012 due to continued decreases in the outstanding balances described in Note 7.

We had income tax expense of $2.9 million for the first quarter of 2013, compared to income tax expense of $1.7 million for the same period in 2012. The increase in tax expense is primarily attributable to the increase in income from operations as discussed above.

Liquidity and Capital Resources

Net cash provided by operating activities was $4.0 million for the three months ended March 31, 2013 compared to net cash used for operating activities of -$7.0 million for the same period in 2012. The increase in cash flow from prior year quarter is primarily due to the negative impact in 2012 in accrued expenses from a customer default Discussed in Note 6. Our working capital position was $64.5 million at March 31, 2013 compared to $61.3 million at December 31, 2012. The increase in working capital during 2013 was primarily a result of an increase in net income in the first quarter of the year. Management continues to engage in a detailed business planning process to identify potential uses of the Company's cash.

Our net cash used in investing activities of $3.6 million for the three months ended March 31, 2013 reflected capital expenditures for facility improvements, equipment and machinery purchases. For 2013, the Board of Directors has approved approximately $22.0 million in capital expenditures which includes an expansion project on the 50 acres of property adjoining our Conrad Deepwater location purchased in 2012. Other significant approved capital expenditures include bulkheading, and improvements to increase capacity and operational efficiencies. The remaining capital expenditures are for the repair and upgrade of existing facilities and purchase of machinery and equipment that will allow us to improve production efficiencies.

Net cash used by financing activities was $66,000 for the three months ended March 31, 2013 which was for the repayment of debt.

Our long term debt is described in Note 7 to our financial statements.

In the normal course of our business, we are required to provide letters of credit as security for our workers compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations. Outstanding letters of credit and bonds relating to these business activities amounted to $7.9 million and $8.6 million at March 31, 2013 and December 31, 2012, respectively. We believe that general industry conditions have led customers to require performance bonds more often than in the past. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so. In addition, the cost of obtaining such bonds, letters of credit and similar obligations has increased and may continue to increase.

We believe that our existing working capital, cash flow from operations and bank commitments will be adequate to meet our working capital needs for operations and capital expenditures through 2013. We further believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2014.