CONRAD INDUSTRIES, INC.

Quarterly Financial Report

March 31, 2014

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

Table of Contents

	Page
Financial Statements (Unaudited)	
Consolidated Balance Sheets, March 31, 2014 and December 31, 2013	3
Consolidated Statements of Income, Three Months Ended March 31, 2014 and 2013	4
Consolidated Statements of Cash Flows, Three Months Ended March 31, 2014 and 2013	5
Notes to the Consolidated Financial Statements	6
Management's Discussion and Analysis of Financial Condition and Results of Operations	15

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 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 2013 Annual Report.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

ASSETS	March 31, 2014	December 31, 2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 67,862	$ 54,891
Accounts receivable, net	18,978	28,931
Costs and estimated earnings, net in excess of billings on uncompleted contracts	27,000	28,677
Inventories	2,953	2,994
Other receivables	1,286	1,225
Other current assets	2,499	3,088
Total current assets	120,578	119,806
PROPERTY, PLANT AND EQUIPMENT, net	58,055	57,279
OTHER ASSETS	20	21
TOTAL ASSETS	$ 178,653	$ 177,106
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 14,348	$ 17,828
Accrued employee costs	2,912	5,887
Accrued expenses	8,794	5,766
Current maturities of long-term debt	267	267
Billings in excess of costs and estimated earnings, net on uncompleted contracts	18,008	19,254
Total current liabilities	44,329	49,002
LONG-TERM DEBT, less current maturities	887	954
DEFERRED INCOME TAXES	8,929	9,063
Total liabilities	54,145	59,019
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, 7,313,837 in 2014 and 7,290,837 in 2013	73	73
Additional paid-in capital	29,102	29,102
Treasury stock at cost, 1,352,550 in 2014 and in 2013	(16,730)	(16,730)
Retained earnings	112,063	105,642
Total shareholders' equity	124,508	118,087
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 178,653	$ 177,106

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, 2014	March 31, 2013
REVENUE	$ 73,350	$ 61,542
COST OF REVENUE	61,970	51,784
GROSS PROFIT	11,380	9,758
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,854	1,677
INCOME FROM OPERATIONS	9,526	8,081
INTEREST EXPENSE	(6)	(8)
OTHER INCOME, NET	292	760
INCOME BEFORE INCOME TAXES	9,812	8,833
PROVISION FOR INCOME TAXES	3,391	2,918
NET INCOME	$ 6,421	$ 5,915
Income Per Share		
Basic	$ 1.08	$ 1.00
Diluted	$ 1.08	$ 0.99
Weighted Average Common Shares Outstanding		
Basic	5,961	5,938
Diluted	5,962	5,959

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, 2014	Three Months Ended March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,421	$ 5,915
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,333	1,097
Deferred income tax benefit	(107)	(426)
Changes in assets and liabilities:		
Accounts receivable	9,953	2,945
Net change in billings related to cost and estimated earnings on uncompleted contracts	431	(8,433)
Inventory and other assets	542	(152)
Accounts payable, accrued expenses and other liabilities	(3,427)	3,047
Net cash provided by operating activities	15,146	3,993
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for plant and equipment	(2,108)	(3,567)
Net cash used in investing activities	(2,108)	(3,567)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of debt	(67)	(66)
Net cash used in financing activities	(67)	(66)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,971	360
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	54,891	55,609
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 67,862	$ 55,969
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	$ 6	$ 8
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 2013 consolidated financial statements and related notes. The results of operations for the three-month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

2. TRADE RECEIVABLES

Receivables consisted of the following at March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
U.S. Government:		
Amounts billed	$ -	$ 194
Unbilled costs and estimated earnings on uncompleted contracts	138	138
	138	332
Commercial:		
Amounts billed	18,978	28,737
Unbilled costs and estimated earnings on uncompleted contracts	26,862	28,539
Total	$ 45,978	$ 57,608

Included above in amounts billed is an allowance for doubtful accounts of $300,000 for March 31, 2014 and December 31, 2013. 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, 2014, the majority is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of March 31, 2014 and December 31, 2013 is as follows (in thousands):

	March 31, 2014	December 31, 2013
Costs incurred on uncompleted contracts	$ 83,809	$ 65,312
Estimated earnings, net	9,329	8,769
	93,138	74,081
Less billings to date	(84,146)	(64,658)
	$ 8,992	$ 9,423

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

	March 31, 2014	December 31, 2013
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$ 27,000	$ 28,677
Billings in excess of cost and estimated earnings, net on uncompleted contracts	(18,008)	(19,254)
Total	$ 8,992	$ 9,423

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, 2014 ($0 for year ended December 31, 2013) in cost of revenues to reflect revised estimates related to anticipated losses on certain uncompleted vessels in progress. If there were charges the offsetting credit would be recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of March 31, 2014 and December 31, 2013, approximately $0 of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. INVENTORIES

At March 31, 2014, inventories consisted of two stock barges and a recovery vessel under construction, steel plate and structurals, and excess job related materials and supplies. At December 31, 2013, inventories consisted of two stock barges and a recovery vessel under construction, steel plate and structurals, and excess job related materials and supplies.

4. OTHER RECEIVABLES

Other receivables consisted of the following at March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Quality Jobs Program Rebate	$ 244	$ 244
MARAD grant reimbursement	81	-
Insurance claims receivable	961	978
Other	-	3
Total	$ 1,286	$ 1,225

Substantially all of these amounts at March 31, 2014 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, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Land	$ 11,807	$ 11,784
Buildings and improvements	40,723	39,710
Machinery and equipment	28,202	27,966
Drydocks and bulkheads	14,626	14,626
Barges and boats	883	883
Office and automotive	3,045	3,585
Construction in progress	6,106	5,883
	105,392	104,437
Less accumulated depreciation	(47,337)	(47,158)
	$ 58,055	$ 57,279

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. LONG-TERM DEBT

Long-term debt consisted of the following at March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014	December 31, 2013
Industrial revenue bonds - St. Mary Parish, variable interest rate (2.1555% at March 31, 2014), due August 1, 2018	$ 1,154	$ 1,221
Less current maturities	(267)	(267)
	$ 887	$ 954

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, 2016. 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, 2014 and December 31, 2013. The Lender has agreed to release all collateral for the Loan Agreement except accounts receivable, accounts, documents and chattel paper delivered to the lender and proceeds of the foregoing. The Loan Agreement 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 17, 2013 and December 31, 2012. At March 31, 2014 and December 31, 2013, we were in compliance with all covenants. At March 31, 2014 and December 31, 2013 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 stated that if we failed to meet the job creation objectives, the State could 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. Through our discussions with the State of Louisiana, 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 $190,000 in 2012 using the ratio of monthly payroll targets achieved over the total targets of the grant. At December 31, 2013, the remaining liability of $710,000 was included under the caption "Accrued Expenses". In December 31, 2103 the Company submitted a letter to the Louisiana Department of Economic Development (LED) offering $549,187 to settle the amount owed on the contract. In March 2014, LED accepted the Company's proposed settlement and the Company finalized the settlement in March 2014. In March 2014, $160,813 was amortized into other income.

The equipment purchased with the grant proceeds was leased to us by St. Mary Parish 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 for the purchase price equal to the amount owed under the EDAP agreement. Now that the amount owed under the EDAP agreement has been settled, the Company expects to complete the acquisition of the equipment in the near future. The transaction is being accounted for as a financing and therefore the assets are included in our property, plant and equipment.

7. 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 5,961,287 and 5,938,287 for the three months ended March 31, 2014 and 2013, respectively. The number of weighted average shares outstanding for "diluted" income per share was 5,962,229 and 5,959,244 for the three months ended March 31, 2014 and 2013, 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 17, 2013 to shareholders of record on December 3, 2013, totaling $11.9 million. The Company paid a $2.00 per share special dividend on its common stock on December 31, 2012 to shareholders of record on December 24, 2012, totaling $11.9 million.

8. 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 2013 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,	
	2014	2013
Revenue		
Vessel construction	$ 59,985	$ 49,832
Repair and conversions	13,365	11,710
Total revenue	73,350	61,542
Cost of revenue		
Vessel construction	50,364	42,785
Repair and conversions	11,606	8,999
Total cost of revenue	61,970	51,784
Gross profit		
Vessel construction	9,621	7,047
Repair and conversions	1,759	2,711
Total gross profit	11,380	9,758
S G & A expenses	1,854	1,677
Income from operations	9,526	8,081
Interest expense	(6)	(8)
Other income/(expense), net	292	760
Income before income taxes	9,812	8,833
Provision for Income tax	3,391	2,918
Net income	$ 6,421	$ 5,915

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

	Three Months Ended March 31,	
	2014	2013
Depreciation and amortization expense:		
Vessel construction	$ 729	$ 594
Repair and conversions	524	462
Included in selling, general and administrative expenses	80	41
Total depreciation and amortization expense	$ 1,333	$ 1,097

	Three Months Ended March 31,	
	2014	2013
Capital expenditures:		
Vessel construction	$ 1,378	$ 743
Repair and conversions	540	2,744
Other	190	80
Total capital expenditures	$ 2,108	$ 3,567

Total assets by segment are as follows as of March 31, 2014 and December 31, 2013 (in thousands):

	March 2014	December 2013
Total assets:		
Vessel construction	$ 56,769	$ 54,336
Repair and conversions	46,863	60,529
Other	75,021	62,241
Total assets	$ 178,653	$ 177,106

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, and Puerto Rico. All of our assets are located in the United States.

9. 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. The Company implemented the LDEQ approved sampling and analysis plan in early 2010. The data confirmed that the fill was appropriately classified as not hazardous, and 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. The rulemaking process is ongoing and expected to be completed later in 2014. 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 May 31, 2015, and which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of March 31, 2014, the minimum annual total compensation under these agreements was $913,100.

Construction Commitments –In July of 2013 the Company received a grant from the U. S. Maritime Administration to perform electrical upgrades to our Conrad Orange Shipyard. 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 $1.4 million of which the Federal share for reimbursement is $687,000 and the "required portion" by the Company is $687,000. The Company must expend the required portion before any portion of the Federal share is distributed. At December 31, 2013 the Company had just started the project and had not expended its required portion. At March 31, 2014, the Company has expended $768,000. The Company has elected to receive the reimbursement at the completion of the project; therefore $81,000 is included in "Other Receivables" at March 31, 2014.

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 $27.5 million and $19.9 million at March 31, 2014 and December 31, 2013, respectively.

BP Claim – In December 2012 and February 2013, the Company submitted Business Economic Loss claims totaling $22.6 million to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program. 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 amounts awarded to us may be less than the amounts we submitted and some or all of our claims may be rejected. Conrad's claims have been under formal review by the BP Claims Administrator. Since June 2013, these claims have been in moratoria review, which is an automatic secondary review of the claims for certain types of industries (including shipyards) in order to ensure that the losses are related to the BP oil spill and not the federal government's moratorium on offshore drilling that followed the BP oil spill. We believe that the supporting documentation establishes that Conrad's claims are not related to the moratorium.

BP and class counsel have been unable to agree on the criteria to be used to evaluate whether claims are moratoria related. Class counsel has petitioned the court to authorize the Claims Administrator to begin processing moratoria related claims, and BP has opposed these efforts. The court has not yet rendered a decision on this issue.

Additionally, BP has contested a number of issues related to the Settlement Agreement, and many of these issues have been heard by the U.S. Fifth Circuit Court of Appeals. One issue that reached the Fifth Circuit concerns the Claims Administrator's acceptance of accounting calculations that do not involve a matching of revenues and expenses, which BP believes results in damages being paid to claimants whose losses are unrelated to the BP oil spill. However, this accounting issue should not affect Conrad because Conrad's claims are based on an accrual-based method which matches revenues and expenses.

The same Fifth Circuit panel that addressed the claim calculation method also issued a subsequent order on March 3, 2014, wherein the majority found that the Settlement Agreement does not require claimants to submit evidence that a Business Economic Loss claim arose as a result of the oil spill. Therefore, the Fifth Circuit appears to have clarified that claimants need not establish causation in order to recover under the Settlement Agreement.

BP also appealed to the Fifth Circuit the issue of the district court's certification of the plaintiff class. A separate Fifth Circuit panel subsequently ruled that the class certification was valid.

With respect to these Fifth Circuit panel decisions, BP has requested an en banc hearing from the Fifth Circuit, which is a hearing in front of all active Fifth Circuit judges and any senior judges who participated on the underlying panel. As of April 30, 2014, the Fifth Circuit has not decided whether an en banc hearing will be granted with regard to any of the previous rulings. If an en banc hearing is granted, the en banc decision could affirm or reverse a previous panel decision. Consequently, as a result of these pending requests for an en banc hearing, the Fifth Circuit has ruled that the stay on the payment of claims remains in place, though internal processing of claims is allowed to continue.

We cannot predict the timing of the resolution of this matter or whether Conrad will ultimately receive any award. Any award we receive will be subject to income taxes. No amounts related to the claims have been recorded in our financial statements at March 31, 2014 or December 31, 2013.

10. SUBSEQUENT EVENTS

Subsequent to quarter-end, the Company adopted a long-term incentive compensation program for certain key employees who are not directors, under which a maximum of approximately $3 million in aggregate may be paid by the Company during a three-year period.

On April 30, 2014, we completed the acquisition of the property and buildings of Johnny's Propeller Shop ("JPS") located within our Morgan City shipyard for $1.3 million, and, accordingly, terminated our lease of a portion of the property. We entered into an occupancy agreement with JPS that permits JPS to remain until October 30, 2014 on the portion of the premises not occupied by us, provided JPS continues to pay required utilities, maintenance, repairs and insurance. These transactions were approved by Independent Directors Committee. For additional information, see Note 11 to the financial statements in our 2013 Annual Report.

Our Board has approved an increase in our capital expenditure budget for 2014 for additional improvements to our Conrad Deepwater South yard, resulting in a total capital expenditure budget for 2014 of approximately $12.8 million.

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 2013 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 five shipyards: one in Morgan City, Louisiana, three in Amelia, Louisiana and one in Orange, Texas. For the three months ended March 31, 2014 our new construction segment accounted for 81.8% of our total revenue and our repair and conversion segment accounted for 18.2% of our total revenue. For the year ended December 31, 2013, our new construction segment accounted for 74.1% of our total revenue and our repair and conversion segment accounted for 25.9% of our total revenue.

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. For additional information, see Note 9 in our consolidated financial statements in this report.

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, 2014, $13 million remained available under the program. No shares were purchased in 2013 or in the first quarter of 2014. 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. In recent years, our new construction segment has benefitted from the increase in demand for tank barges to be used to transport petroleum products produced from shale plays.

During the first three months of 2014 and for the year ended December 31, 2013, we received approximately 33.9% and 35.2%, respectively, of our total revenues from customers in the Gulf of Mexico oil and gas industry ("energy"), 0% and .2% from government customers and 66.1% and 64.6% from other commercial customers.

During the first three months of 2014, we added $59.3 million of backlog to our new construction segment, as compared to $51.4 million added in the first quarter of 2013, which includes double-skinned tank barges, anchor barges, a tug and a towboat. Our backlog was $155.8 million at March 31, 2014, $152.9 million at December 31, 2013 and $125.5 million at March 31, 2013. Our backlog revenue at March 31, 2014 was 24.1% more than our backlog at March 31, 2013, and our backlog man-hours were 3.9% more than March 31, 2013. As of March 31, 2014, approximately 15% of backlog revenue related to the repair segment, an increase from prior periods. Since March 31, 2014, as of May 12, 2014, we have added $41.4 million to our backlog.

We can experience significant changes in the price of steel due to the global demand. For additional information about steel prices, see our 2013 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, 2013, we had two stock barges and a recovery vessel under construction with approximately $1.6 million of costs included in inventory. At March 31, 2014 we have a recovery vessel and two stock barges under construction with approximately $1.5 million 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,			
	2014		2013	
Financial Data:				
Revenue				
Vessel construction	$ 59,985	81.8%	$ 49,832	81.0%
Repair and conversions	13,365	18.2%	11,710	19.0%
Total revenue	73,350	100.0%	61,542	100.0%
Cost of revenue				
Vessel construction	50,364	84.0%	42,785	85.9%
Repair and conversions	11,606	86.8%	8,999	76.8%
Total cost of revenue	61,970	84.5%	51,784	84.1%
Gross profit				
Vessel construction	9,621	16.0%	7,047	14.1%
Repair and conversions	1,759	13.2%	2,711	23.2%
Total gross profit	11,380	15.5%	9,758	15.9%
S G & A expenses	1,854	2.5%	1,677	2.7%
Income from operations	9,526	13.0%	8,081	13.1%
Interest expense	(6)	0.0%	(8)	0.0%
Other income/(expense), net	292	0.4%	760	1.2%
Income before income taxes	9,812	13.4%	8,833	14.4%
Income tax provision	3,391	4.6%	2,918	4.7%
Net income	$ 6,421	8.8%	$ 5,915	9.6%
EBITDA (1)	$ 11,151	15.2%	$ 9,938	16.1%
Net cash provided by operating activities	$ 15,146		$ 3,993	
Net cash used in investing activities	$ (2,108)		$ (3,567)	
Net cash used in financing activities	$ (67)		$ (66)	

(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,	
	2014	2013
Net cash provided by operating activities	$ 15,146	$ 3,993
Interest expense	6	8
Provision for income taxes	3,391	2,918
Deferred income tax provision	107	426
Changes in operating assets and liabilities	(7,499)	2,593
EBITDA	$ 11,151	$ 9,938

For the first quarter of 2014, we generated revenue of $73.4 million, an increase of approximately $11.8 million, or 19.2%, compared to $61.5 million generated for the same period in 2013. The increase was a result of a $10.2 million (20.4%) increase in vessel construction revenue to $60.0 million and an increase of $1.7 million (14.1%) in repair and conversion revenue to $13.4 million for the first quarter of 2014 compared to the same period in 2013. The increase in revenue for the quarter ended March 31, 2014 is primarily a result of jobs with higher material component in the new construction commercial sector. Vessel construction hours for the first quarter of 2014 decreased 7.4%, when compared to the same period in 2013 and repair and conversion hours increased 16.6% when compared to the same period in 2013. Vessel construction revenue was 81.8% of total revenue for the first quarter of 2014 compared to 81.0% for the same period in 2013 and repair and conversion revenue was 18.2% of total revenue compared to 19.0% for the same period in 2013. For the first quarter of 2014, 0% of revenue was government related, 33.9% was energy and 66.1% was other commercial. This compares to .4% government, 27.6% energy and 72.0% other commercial for the same period in 2013.

Gross profit was $11.4 million (15.5% of revenue) for the first quarter of 2014 as compared to gross profit of $9.8 million (15.9% of revenue) for the same period in 2013. Vessel construction gross profit increased $2.6 million, or 36.5%, for the first quarter of 2014 compared to the same period in 2013. Repair and conversion gross profit decreased $952,000 or 35.1%, for the first quarter of 2014 compared to the same period in 2013.

Vessel construction gross profit margins increased to 16.0% for the first quarter of 2014, compared to gross profit margins of 14.1% for the same period in 2013. Vessel construction gross profit and margins increased primarily as a result of lower material cost than estimated.

Repair and conversion gross profit margins decreased to 13.2% for the first quarter of 2014, compared to gross profit margins of 23.2% for the same period in 2013. The decrease in repair and conversion gross profit and margins was primarily attributable to some low margin jobs performed in the first quarter of 2014.

Selling, general and administrative expenses (“SG&A”) increased to $1.9 million (2.5% of revenue) for the first quarter of 2014, as compared to $1.7 million (2.7% of revenue) for the same period in 2013. The increase in SG&A expenses was due to increases in information technology upgrade costs and depreciation.

Interest expense decreased $2,000 to $6,000 for the first quarter of 2014 as compared to interest expense of $8,000 for the same period in 2013. The decrease is primarily the result of decreases in the average outstanding balances of our long term debt. We expect interest expense in 2014 to be lower than 2013 due to continued decreases in the outstanding balances described in Note 6.

We had income tax expense of $3.4 million for the first quarter of 2014, compared to income tax expense of $2.9 million for the same period in 2013. 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 $15.1 million for the three months ended March 31, 2014 compared to net cash provided by operating activities of $4.0 million for the same period in 2013. The increase in cash flow from the prior year quarter is primarily due to the decrease in accounts receivable in the first quarter of 2014. Our working capital position was $76.2 million at March 31, 2014 compared to $70.8 million at December 31, 2013. The increase in working capital during 2014 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 $2.1 million for the three months ended March 31, 2014 reflected capital expenditures for facility improvements, equipment and machinery purchases. Other significant approved capital expenditures include improvements to increase capacity and operational efficiencies and computers software and hardware upgrades. 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.

Our Board has approved an increase in our capital expenditure budget for 2014 for additional improvements to our Conrad Deepwater South yard, resulting in a total capital expenditure budget for 2014 of approximately $12.8 million.Net cash used by financing activities was $67,000 for the three months ended March 31, 2014 which was for the repayment of debt. Our long term debt is described in Note 6 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 $27.9 million and $19.9 million at March 31, 2014 and December 31, 2013, 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 2014. We further believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2015.