Section I

Conrad Industries, Inc.

2011 Annual Report

TABLE OF CONTENTS

REPORT TO OUR FELLOW SHAREHOLDERS ... 3
An Important Note About This Report ... 4
Business Overview ... 5
General ... 5
Operations ... 8
Customers ... 9
Contract Procedure, Structure and Pricing ... 10
Bonding and Guarantee Requirements ... 10
Engineering ... 11
Materials and Supplies ... 11
Vessel Construction Process ... 11
Competition ... 11
Employees ... 12
Insurance ... 12
Regulation ... 12
Risk Factors ... 13
Properties ... 20
Morgan City Shipyard ... 20
Amelia Shipyards ... 20
Orange Shipyard ... 21
Legal Proceedings ... 21
Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities ... 21
Selected Financial Data ... 23
Overview ... 25
Results of Operations ... 28
Liquidity and Capital Resources ... 30
Directors and Executive Officers ... 31
Executive Compensation ... 33
Option Grants During 2011 ... 33
Directors' Compensation ... 33
Agreements with Directors and Executive Officers ... 33
Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters ... 35
Certain Relationships and Related Transactions ... 35
Annual Incentive Plan ... 35
Financial Statements ... 36
2011 Quarterly Results of Operations ... 37
Consolidated Financial Report ... 39

FORWARD-LOOKING-STATEMENTS

In this Annual 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 Annual 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, 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.

REPORT TO OUR FELLOW SHAREHOLDERS

In 2011, we achieved revenues of $246.5 million, net income of $19.2 million, EBITDA of $33.6 million and earnings per diluted share of $3.01. Our new construction segment accounted for 80.6% of our total revenue and our repair and conversion segment accounted for 19.4% of our total revenue.

Vessel construction hours, revenue and gross profit were the highest in the company's history and exceeded 2010 amounts by 86%, 115.2% and 151.8%, respectively. Vessel construction hours, revenue and gross profit for 2011 also exceeded 2008, previously the highest performance in Company history, by 41.2%, 65.5% and 17.3%, respectively.

Although, repair segment hours, revenue and gross profit were down 39.0%, 32.6% and 64.5%, respectively, compared to the peak year of 2008, hours and revenue were not materially different from years since 2008. Repair and conversion segment gross profit was 33.9% lower than 2010, primarily due to losses on a fixed-price contract for the refurbishment of 3 sister vessels.

Our success is directly attributed to the hard work and ingenuity of our superb employees. During the second quarter of 2011 we were affected by rising water levels along the Mississippi and Atchafalaya Rivers. Due to the extraordinary planning and execution efforts of our people we were able to minimize the impact of the imminent flooding and decrease the amount of down time, which resulted in no property and equipment damage and also allowed us to return to full operation months sooner than anticipated.

Our customers comprise a very diverse group that crosses a wide range of businesses including the energy sector, dredging, construction, towing and bunkering markets, as well as the US Army Corps of Engineers, US Coast Guard and various state and local governmental agencies. During 2011 we derived our revenue from 171 customers compared to 188 in 2010.

For 2011, 7.0% of total revenue was energy related, 75.7% was other commercial and 17.3% was government. This compares to 10.4% energy, 75.5% other commercial and 14.1% government in 2010.

During 2011 we delivered 47 vessel construction jobs comprised of 2 crane barges, 2 ferries, 9 LPG barges, 2 tow boats, 9 deck barges, a spud barge, 9 30,000 bbl. tank barges, 2 10,000 tank barges, 5 hopper barges, 3 striker barges, a push boat and 2 docking barges.

During the year, we added $144.2 million of backlog to our new construction segment all of which is from other commercial contracts. This compares to total contract signings of $139.0 million during 2010.

Our Board of Directors approved the construction of stock vessels from time to time, to cover temporary gaps in our production schedules, which helped maintain cost efficiencies and retain our valuable employees. At December 31, 2011 we had eight stock barges and two tow boats under construction which are included in our inventory at a cost of $1.0 million. At December 31, 2010 we had seven stock barges under construction which are included in our inventory at a cost of $9.5 million.

Our backlog was $47.1 million at December 31, 2011 as compared to $89.5 million at December 31, 2010. At December 31, 2011, 91.2% of our vessel construction backlog was from other commercial contracts, 7.5% was from government contracts and 1.3% was from energy contracts. This compares to backlog at December 31, 2010 of 58.9% other commercial and 41.1% government. Subsequent to year end, we signed contracts totaling $61.8 million which includes the sales of six of the stock barges in progress at December 31, 2011. Our estimated backlog at March 31, 2012 is $68.7 million.

During the past eleven years, we have made, in the aggregate, approximately $49.0 million of capital expenditures to add capacity and improve the efficiency of our shipyards. This includes $4.3 million in 2011 which was primarily capital additions at our four locations to increase capacity and operational efficiencies, and to replace leased equipment with Company owned equipment. Our Board of Directors has approved a $20.8 million capital expenditure program for 2012 which includes a contract we entered into July 2011 to purchase 50 acres of property

adjoining our Conrad Deepwater facility for approximately $5.5 million which is subject to customary closing conditions.

During 2011 and 2012, we repurchased 314,920 shares of our Company's stock for a total of $4.5 million which leaves 6,088,287 shares outstanding as of March 31, 2012.

Net working capital increased from $52.9 million at December 31, 2010 to $67.1 million at December 31, 2011 and we reduced our debt balance from $3.0 million at December 31, 2010 to $1.8 million at December 31, 2011. Shareholders' equity increased from $79.9 million at December 31, 2010 to $95.5 million at December 31, 2011.

We will continue to execute on our proven business strategy in our effort to maximize earnings in constantly changing markets. Over the past years we have continued to reinvest our earnings in expanding capacity, maintaining the shipyards excellent condition and upgrading equipment and facilities to improve efficiencies. We will continue to evolve and change with the demand of our customers and product mix in order to continue to prosper.

Although we are optimistic about the long-term prospects of our business, and market conditions continue to improve, there still remains some uncertainty about our shorter-term demand and margins. The increase in sales in our vessel construction segment gives us more confidence but the continuing uncertainty in the Gulf of Mexico oil and gas activity hampers the visibility in our repair segment. This leads us to continued caution about our shorter-term demand and profitability.

We continue to be confident that because of our people, experience, strong balance sheet and diversified customer base we will be responsive to changing market conditions and look for ways to continue to enhance shareholder value.

Yours truly,

/s/ *J. Parker Conrad*	*/s/ John P. Conrad, Jr.*	*/s/ Terry T. Frickey*	*/s/ Cecil A. Hernandez*
J. Parker Conrad	John P. Conrad, Jr.	Terry T. Frickey	Cecil A. Hernandez
Founder and Co-Chairman of the Board	President, Chief Executive Officer and Co-Chairman of the Board	Vice President and Chief Operating Officer	Executive Vice President and Chief Financial Officer

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 Annual 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 Annual Report and other reports to provide accurate financial and other information of interest to investors. Information in this Annual Report has not been reviewed or audited by our independent certified public accountants, except for the audited financial statements included in Section II.

This 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.

Business Overview

General

We specialize in the construction, conversion and repair of a wide variety of steel and aluminum marine vessels for commercial and governmental customers. Through our subsidiaries, we operate four shipyards: one in Morgan City, Louisiana, two in Amelia, Louisiana and one in Orange, Texas. During 2003, we expanded into the aluminum marine fabrication and repair business after transforming one of our existing repair yards in Amelia, Louisiana into a facility specifically designed to handle aluminum marine fabrication and repair ("Conrad Aluminum"). In addition, in February 2003, we significantly expanded our repair capabilities when we opened our second facility in Amelia ("Conrad Deepwater"). We now have the all of our six drydocks at that facility. In January 2005, we commenced the development of a new construction area at our Deepwater facility. This development was completed in March 2005 and enables us to efficiently construct larger vessels than we were able to work on at our existing facilities.

Our new construction segment accounted for 80.6%, 66.5%, and 65.7% of our total revenue for 2011, 2010 and 2009, respectively. Vessels we construct include barges, tug boats, tow boats, ferries, lift boats and aluminum crew/supply vessels. Substantially all of our new construction is performed indoors, which we consider to be a significant strategic advantage. Our facilities allow us to construct vessels up to 350 feet in length.

Our repair and conversion segment accounted for 19.4%, 33.5%, and 34.3% of our total revenue for 2011, 2010 and 2009, respectively. We repair a wide variety of marine vessels. Our conversion projects are included in our repair segment and 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.

We serve a variety of customers and markets, including the Gulf of Mexico oil and gas industry, other commercial markets, various local and state governments and the U.S. government. We believe that our ability to provide products and services to a variety of customers is a competitive strength. 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.

During the second quarter of 2011 we were affected by rising water levels along the Mississippi and Atchafalaya Rivers. The primary adverse impact was the temporary suspension of operations at our Morgan City shipyard which is located on the Atchafalaya River outside the protection of the levee system. In order to minimize the impact of the imminent flooding and decrease the amount of down time, we constructed our own levee system to protect our Morgan City shipyard. This resulted in no property and equipment damage and also allowed us to return to full operation with minimal clean-up, months sooner than otherwise. We relocated all of our production and support personnel and many of our projects to our other shipyards and continued operations at a minimally reduced level for approximately forty-five days. We resumed limited operations at our Morgan City shipyard during middle of June and were fully operational at this yard by July. All of our other yards remained fully operational. Due to the efforts of our people to plan for protection and move projects to other facilities, there was only a minimal impact on our profitability and no material adverse effect on our Company. Additionally, we were able to keep our people working and we were able to meet the delivery deadlines committed to customers.

In April 2010, the Deepwater Horizon rig, which was engaged in deepwater drilling operations in the Gulf of Mexico, sank after an explosion and fire, resulting in the discharge of substantial amounts of oil. On May 28, 2010, the Department of Interior imposed a six-month moratorium on offshore deepwater drilling operations, the enforcement of which was preliminarily enjoined, and on July 12, 2010, the Department of Interior imposed another similar moratorium that was set to expire November 30, 2010. As a result, deepwater drilling operations in the Gulf of Mexico were suspended. On October 12, 2010, the Department of Interior lifted the moratorium on deepwater drilling, but due to new regulatory and permitting issues, drilling has not yet returned to levels reached prior to the incident. As a result of regulatory actions by the Department of Interior, permit approvals for shallow water drilling were slowed for well over a year after the Macondo incident. In the past six months, however, the pace of shallow water permit approvals has markedly improved. We believe that the Deepwater Horizon incident is likely to result in increased exploration and production costs, increased regulation of offshore drilling operations and greater difficulty in obtaining drilling permits. These factors have caused some of our customers to decrease or eliminate

drilling and drilling support activities in the Gulf of Mexico and to relocate their assets to other part of the world. The ultimate extent of any sustained long-term decrease in activity in the Gulf of Mexico cannot be predicted, and could have a material adverse effect on our business.

A significant portion of our historical revenues has been derived from customers in the Gulf of Mexico oil and gas industry. Accordingly, demand for our products and services were adversely impacted beginning the latter part of 2002 by decreased activity in that industry. This decreased demand adversely affected our revenues, margins and profits until the latter part of 2005. Through the fall of 2008, oil and gas prices were relatively high, and there were increases in exploration, drilling and production activity in the Gulf of Mexico. That along with demand for our products and services due to the impact of Hurricanes Katrina and Rita, followed by Hurricanes Gustav and Ike in 2008, resulted in a positive impact on our business beginning in the fourth quarter of 2005 through 2008. Beginning in the fall of 2008 oil and gas prices declined significantly from all-time highs along with the overall decline in the economy. Oil prices began a steady increase during the second quarter of 2009 and have increased significantly during latter part of 2010 and all of 2011. Currently there continues to be uncertainty as to the short term prospect of business from oil and gas related customers due to uncertainties surrounding the timing of issuance of drilling permits by the Department of the Interior and new regulations related to drilling operations, although conditions appear to be improved compared to last year.

In previous years when there was a decline in new construction opportunities in the Gulf of Mexico oil and gas industry, we were successful in securing work from government sources and other commercial customers. We have seen in 2009, 2010 and 2011 a major increase in projects for other commercial customers as well as government projects. Other commercial contracts accounted for approximately 91.2%, 58.9%, and 22.2% of our backlog at December 31, 2011, 2010 and 2009 respectively. Government contracts accounted for approximately 7.5%, 41.1%, and 77.8% of our backlog at December 31, 2011, 2010 and 2009, respectively. Energy contracts accounted for approximately 1.3%, 0.0%, and 0.0% of our backlog at December 31, 2011, 2010 and 2009, respectively.

During 2011, we added $144.2 million of backlog to our new construction segment, all of which is related to other commercial contracts. Our backlog was $47.1 million at December 31, 2011 as compared to $89.5 million at December 31, 2010.

Because a large percentage of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment. There was an increase in revenue and gross profit in the repair and conversion segment starting in the fourth quarter of 2005 and continuing for 2006, 2007 and 2008 related to increased oil and gas activities in the Gulf of Mexico and the impacts of Hurricanes Katrina, Rita, Gustav and Ike. Although we had strong activity in our repair segment during the first quarter of 2009, we experienced lower repair gross profits in 2009, 2010 and 2011, as a result of a significant decrease in demand and profitability primarily due to decreased customer activity in the Gulf of Mexico. For 2011, 2010 and 2009, we received approximately 7.0%, 10.4%, and 19.6%, respectively, of our total revenues from customers in the offshore oil and gas industry, 17.3%, 14.1%, and 18.7% from government customers and 75.7%, 75.5%, and 61.7% from other commercial customers.

Internal Expansion

During 2011, we purchased real estate at our Orange location, made improvements to the yard, as well as replaced rental equipment with Company owned equipment. At our Deepwater location we refurbished one of our drydocks, and replaced rental equipment with Company owned equipment. In total these additions amounted to $2.6 million of our total $4.3 million of capital expenditures for 2011. In addition, a total of $1.2 million was spent on the purchase of property, buildings improvements and plant improvements at all locations.

During 2010, we extended our bulkhead and extended our drydock at our Conrad Deepwater location. At our Orange facility we replaced a crane and made improvements to the yard. In total these additions amounted to $2.4 million of our total $2.9 million of capital expenditures for 2010.

During 2009, we purchased real estate at our Morgan City location, as well as replaced rental equipment with Company owned equipment. At our Conrad Aluminum facility, we also added several pieces of material handling equipment to replace rental equipment, and we extended the bulkheads. At the Conrad Deepwater facility we began the extension of bulkheads and a launching system. At our Orange Facility, we purchased three parcels of real estate

and mooring barges, and added processing equipment for increased capacity and operational efficiencies. In total these additions amounted to $4.0 million of our total $4.6 million of capital expenditures for 2009.

During 2008, we completed a new slip at our Conrad Deepwater facility and installed the related infrastructure so that we could increase our capacity to perform additional topside work at the facility. At our Orange facility, we purchased three parcels of real estate and added several large pieces of material handling and processing equipment to give us increased capacity and operational efficiencies, as well as replace rental equipment with Company owned equipment. At our Conrad Aluminum facility, we also added several pieces of material handling equipment to replace rental equipment. In addition, at this facility, we stabilized additional ground space and added the necessary infrastructure to increase our capacity and operational efficiencies. At our Morgan City shipyard we made improvements to our launching system and added several pieces of equipment to increase capacity and efficiency. In total, these additions amounted to $4.9 million of our total $5.9 million of capital expenditures for 2008.

We expanded our new construction capabilities at Conrad Deepwater during the first quarter of 2005. This development of an uncovered work area and associated equipment cost approximately $550,000.

In the fourth quarter of 2003, we opened our Conrad Aluminum yard in Amelia, Louisiana and announced our first new construction contract at that facility, an aluminum crew/supply boat. We purchased the yard for approximately $1.0 million in 1996 and commenced steel conversion and repair operations there in 1998. In 2003, we obtained approximately $5.5 million in funding to convert the yard into an aluminum marine fabrication and repair facility capable of serving both commercial and government customers.

In the first quarter of 2003, we opened a new steel marine vessel repair and conversion yard at another location in Amelia, Louisiana, which is located within one mile of Conrad Aluminum. We refer to this facility as “Conrad Deepwater.” The facility is located on a 52-acre previously undeveloped site that we purchased in 2000 for $1.3 million. During 2002 and 2003, we invested approximately $7.0 million developing approximately 14 acres of the site into the new facility. The facility allows us to handle vessels with deeper drafts than we have historically been able to service at our other facilities. We currently have all of our six drydocks at Conrad Deepwater.

During 2002, we completed an extension of one of our fabrication buildings at our Morgan City shipyard at a cost of approximately $800,000. The extension increased our enclosed building space by approximately 15,000 square feet and increased our efficiencies in making pre-fabricated components and in using modular construction techniques.

In the first quarter of 2001, we placed into operation a new American Bureau of Shipping-classed, state-of-the-art drydock that we constructed ourselves, beginning in May 2000. The 280’ long by 160’ wide drydock has a lifting capacity of 10,000 tons, which is 7,000 tons greater than the 3,000 ton lifting capacity of our next largest drydock. The cost was $5.7 million.

History

Our company was founded in 1948 by J. Parker Conrad, Co-Chairman of our Board of Directors, and began operations at our shipyard in Morgan City, Louisiana. In December 1997, we paid approximately $22.8 million in cash (net of cash acquired) to purchase all of the stock of Orange Shipbuilding Company, Inc., which owns our shipyard in Orange, Texas. The acquisition expanded our new construction capacity and expanded our product capabilities into additional types of marine vessels, including vessels for the U.S. government and modular components for offshore drilling rigs and floating, production, storage and offloading vessels. Orange Shipbuilding has been engaged in shipbuilding since 1974. Our parent company Conrad Industries, Inc. was incorporated in March 1998 to serve as the holding company for our wholly-owned subsidiaries, currently Conrad Shipyard, L.L.C., Orange Shipbuilding Company, Inc. and Conrad Aluminum, L.L.C. We completed our initial public offering in June 1998 by issuing 2.1 million shares of common stock. On March 30, 2005 we voluntarily delisted our common stock from Nasdaq and, simultaneously with delisting, filed a Form 15 with the Securities and Exchange Commission (the "SEC") to voluntarily deregister our common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and to suspend our obligation to file reports under Section 15(d) of the Exchange Act. We were eligible to deregister by filing a Form 15 because we had fewer than 300 holders of record of common stock. At the time of filing, our obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K, immediately ceased.

Operations

Our principal operations consist of the construction, conversion and repair of a wide variety of steel and aluminum marine vessels for commercial and governmental customers.

Backlog

Our backlog as of December 31, 2011 consisted of 27 vessels: six LPG barges, seven tank barges, seven deck barges, two push boats, a passenger ferry, a large crane barge, a mid-body extension, a recovery vessel and a dredge. Our backlog (including remaining contract revenue for projects currently in progress) as of December 31, 2011 was approximately $47.1 million compared to $89.5 million as of December 31, 2010. We anticipate that all of the aggregate remaining revenue from firm contracts as of December 31, 2011 will be realized during fiscal 2012.

Construction of Vessels

We manufacture a variety of small and medium sized vessels for commercial and governmental customers. This activity accounted for 80.6%, 66.5% and 65.7% of our total revenue for 2011, 2010 and 2009, respectively. Substantially all of our new vessel construction is done indoors in well-lighted space specifically designed to accommodate construction of marine vessels up to 350 feet in length. As a result, marine vessel construction is not hampered by weather conditions, and we are able to more effectively utilize our workforce and equipment.

The following is a description of the main types of vessels we manufacture:

Offshore and Inland Barges. We build a variety of offshore barges, including tank, container, double-skinned tank barges, pressurized tank barges, and deck barges for commercial customers and YCs (yard carrier barges) and YONs (yard oiler Navy barges) for the U.S. Navy. We also build a variety of inland barges, including deck, crane, and tank barges. We have constructed a variety of barges used in the offshore oil and gas industry, including shale barges, pipe laying barges, oil and gas drilling barges, and oil and gas production barges. Our barges are also used in marine construction and are used by operators to carry liquid cargoes such as petroleum and drilling fluids, dry bulk cargoes such as aggregate, coal and wood products, deck cargoes such as machinery and equipment, and other large item cargoes such as containers and rail cars. Other barges function as cement unloaders and split-hull dump scows. We have built barges ranging from 50 feet to 400 feet in length, with as many cargo tanks, decks and support systems as necessary for the intended functions of the barges.

Lift Boats. Lift boats are used primarily to furnish a stable work platform for drilling rigs, to house personnel, equipment and supplies for such operations and to support construction and ongoing operation of offshore oil and gas production platforms. Lift boats are self-propelled, self-elevating and self-contained vessels that can efficiently assist offshore platform construction and well servicing tasks that traditionally have required the use of larger, more expensive mobile offshore drilling units or derrick barges. Lift boats have different water depth capacities and have legs, ranging from 65 to 250 feet, which are used to elevate the deck of the boat in order to perform required procedures on a platform at different heights above the water.

Tug Boats/Push Boats/Tow Boats. We build boats for towing and pushing, anchor handling, mooring and positioning, dredging assistance, tanker escort, port management, shipping, piloting, fire fighting and salvage.

Other Offshore Support Vessels. In addition to lift boats and tug boats, we build other types of offshore support vessels that serve exploration and production facilities and support offshore construction and maintenance activities. These offshore support vessels include supply vessels, utility vessels and anchor handling vessels.

Ferries. We build aluminum and steel ferries for State agencies that transport passengers and vehicles.

Aluminum Crew/Supply Vessels. Aluminum crew boats are used to transport crews to offshore facilities at a higher speed than their traditional steel counterparts. These vessels may also transport supplies.

Aluminum Fire/Patrol Vessels. These high speed aluminum vessels are used by governmental customers to fight fires and patrol rivers and other waterways.

Drydocks. Drydocks are used to lift marine vessels from the water in order to facilitate the inspection and/or repair of the vessels' underwater areas. A drydock is composed of a floodable pontoon with wing walls and its designated capacity identifies the number of tons it is capable of safely lifting from the water. The drydock is submerged by opening valves to flood compartments; the vessel is then placed over the submerged deck of the drydock; and the vessel is lifted from the water by closing the valves and pumping the water out of the flooded compartments.

Conversion and Repair Services

Conversion and repair services accounted for 19.4%, 33.5%%, and 34.3% of our total revenue for 2011, 2010 and 2009, respectively. We have six drydocks, a 300 ton travel lift and dockside space capable of accommodating vessels and barges up to 500 feet long. Our marine repair activities include shot blasting, painting, electrical system and piping repairs, propeller and shaft reconditioning and American Bureau of Shipping certified welding. 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. All U.S. Coast Guard inspected vessels and ABS classed vessels are required to undergo periodic inspections and surveys which require regular drydock examination. Non-U.S. flag vessels are subject to similar regulations. The inspection of vessels generally results in repair work being required in order to pass inspection. In addition, vessel owners often elect to make other repairs or modifications to vessels while in drydock undergoing required repairs. While we are not aware of any proposals to reduce the frequency or scope of such inspections, any such reduction could adversely affect our results of operations.

Our conversion and repair business tends to be seasonal, with increases in the colder months in the Gulf of Mexico during the latter part of our fourth quarter and beginning of our first quarter. During this time, vessel owners and operators tend to repair or modify their vessels as a result of or in anticipation of work during the warmer months in the Gulf of Mexico.

Customers

We service a wide variety of customers. Customers include marine service companies, offshore support companies, rig fabricators, offshore and inland barge and support vessel operators, offshore construction and drilling contractors, diving companies, energy companies, the U.S. Army, U.S. Army Corps of Engineers, U.S. Navy, U.S. Coast Guard and various state and local governmental agencies, many of whom have been our customers on a recurring and long-term basis. We have also provided and continue to provide repair and conversion services to many of the major offshore support vessel companies and barge operators. Our principal customers may differ substantially on a year-to-year basis due to the size and limited number of new construction projects performed each year. All of our customers for the last three years have been domiciled in the United States, Puerto Rico and Columbia, but we are currently pursuing projects with foreign governments and businesses.

During 2011, we derived 7% of our revenue from the U.S. Army Corps of Engineers for construction of a large dredge and 10% from another customer for which we constructed 9 vessels. The remaining 83% of the revenue was attributable to 169 other customers.

During 2010, we derived 6% of our revenue from the U.S. Army for construction of a large crane barge and 14% from another customer for which we constructed 5 vessels. The remaining 80% of the revenue was attributable to 186 other customers.

During 2009, we derived 12% of our revenue from the U.S. Army for construction of a large crane barge and 12% from another customer for which we constructed 7 vessels. The remaining 76% of the revenue was attributable to 197 other customers.

Contract Procedure, Structure and Pricing

Our contracts for new commercial construction projects generally are obtained through a competitive bidding process. In addition, contracts for the construction and conversion of vessels for the U.S. government are generally subject to competitive bidding. We submit a large number of bids to commercial customers. However, because the bidding process for U.S. government contracts is significantly more detailed and costly, we tend to be more selective regarding the government projects on which we bid.

Most of the construction contracts we enter into, whether commercial or government, are fixed-price contracts under which we retain all cost savings on completed contracts but are liable for all cost overruns.

Contracts with the U.S. government are subject to termination by the government either for its convenience or upon our default. If the termination is for the government's convenience, the contracts provide for payment upon termination for items delivered to and accepted by the government, payment of our costs incurred through the termination date, and the costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit.

Although varying contract terms may be negotiated on a case-by-case basis, our commercial and government contracts ordinarily provide for a down payment, progress payments at specified stages of construction and a final payment upon delivery. Final payment under certain contracts may be subject to deductions if the vessel fails to meet certain performance specifications based on tests we conduct prior to delivery.

Under commercial contracts, we generally provide a six-month to twelve-month warranty with respect to workmanship and materials we furnish. In the majority of commercial contracts, we pass through the respective suppliers' warranties to the customer and do not warrant materials acquired from our suppliers. Our government contracts typically contain warranties up to two years covering both materials and workmanship. Historically, our expenses to fulfill such warranty obligations have not been material in the aggregate.

The work performed on vessels is subject to acceptance by the U.S. Coast Guard and, in some cases, by the American Bureau of Shipping or other classification societies. In addition, the work and the finished vessel are subject to acceptance by the customer based on the contract plans and specifications. If we fail to meet the regulatory or customer requirements additional work could be required which could increase the cost of the job. Although there are instances where some rework is required, typically, these situations have had only a minor impact on the progress of the job and the amount of revenue recognized. We monitor our progress on our contracts, including whether we are meeting the regulatory and customer requirements, and take that into account when calculating our estimates at completion.

Bonding and Guarantee Requirements

Although we generally meet financial criteria that exempt us from bonding and guarantee requirements for most contracts, certain contracts with federal, state or local governments require contract performance bonds, and foreign government contracts generally require bank letters of credit or similar obligations. Commercial contracts also may require contract bid and performance bonds if requested by the customer. As of December 31, 2011, outstanding letters of credit and bonds amounted to $60.5 million. 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.

Engineering

We generally build vessels based on our customers' drawings and specifications. We also develop in-house custom designs for customers' special requirements using our computer-aided design (CAD) capabilities and outside engineering services. We have designed and built numerous barges, tow boats, tug boats and other vessels. This library of projects allows us to respond quickly to customers' needs. The process of computer drafting, preparation of construction drawings and development of cut tapes for numerically controlled plasma cutting of steel with the latest 3-D software programs allows us to minimize engineering mistakes and costly rework.

Materials and Supplies

The principal materials we use are standard steel shapes, steel plate and paint. Other materials used in large quantities include aluminum, steel pipe, electrical cable and fittings. We also purchase component parts such as propulsion systems, hydraulic systems, generators, auxiliary machinery and electronic equipment. All these materials and parts are currently available in adequate supply from domestic and foreign sources. However, in late 2003, the price of steel and steel delivery times began to increase substantially and we were experiencing challenges in finding certain steel sizes. Steel prices increased significantly during most of 2008 before declining in the latter part of 2008 and the first quarter of 2009. Prices did not fluctuate significantly in 2009. We experienced significant increases in the price of steel during 2010. Steel prices increased during 2011 approximately 10 percent. All of our shipyards obtain materials and supplies by truck or rail. The effect of the steel price increase and availability constraints on our business is discussed in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

Vessel Construction Process

Once a contract has been awarded to us, a project manager is assigned to supervise all aspects of the project, from the date the contract is signed through delivery of the vessel. The project manager oversees the engineering liaison's completion of the vessel's drawings and supervises the planning of the vessel's construction. The project manager also oversees the purchasing of all supplies and equipment needed to construct the vessel, as well as the actual construction of the vessel.

We construct each vessel from raw materials, which are fabricated by shipyard workers into the necessary shapes to construct the hull and vessel superstructure. We purchase component parts, such as propulsion systems, hydraulic systems and generators, auxiliary machinery and electronic equipment, separately and install them or have them installed in the vessel. We use job scheduling and costing systems to track progress of the construction of the vessel, allowing ourselves and the customer to remain apprised of the status of the vessel's construction.

With the assistance of computers, construction drawings and bills of materials are prepared for each module to be fabricated. Modules are built separately, and penetrations for piping, electrical and ventilation systems for each module are positioned and cut during the plasma cutting operation. Piping, raceways and ducting are also installed prior to the final assembly of modules. After the modules are assembled to form the vessel, piping, electrical, ventilation and other systems, as well as machinery, are installed prior to launching, testing and final outfitting and delivery of the vessel.

Competition

U.S. shipbuilders are generally classified into two categories: (1) the two largest shipbuilders, which are capable of building large scale vessels such as aircraft carriers and battleships for the U.S. Navy and oceangoing cargo vessels for commercial customers; and (2) other shipbuilders that build small to medium-sized vessels for government and commercial markets. We compete in the second of these categories. We compete for U.S. government contracts to build small to medium-sized vessels principally with four to six U.S. shipbuilders, which may include one or more of the two largest shipbuilders. We compete for domestic commercial shipbuilding contracts principally with approximately ten to fifteen U.S. shipyards. The number and identity of competitors on particular projects vary greatly depending on the type of vessel and size of the project, but we generally compete with only three or four companies with respect to a particular project. We compete with approximately ten shipyards in our conversion and

repair business. Competition is based primarily on price, available capacity, service, quality, and geographic proximity.

Employees

At December 31, 2011, we had 492 employees of which 74 were salaried and 418 were hourly. At December 31, 2010, we had 442 employees, of which 67 were salaried and 375 were hourly. At December 31, 2009, we had 454 employees, of which 69 were salaried and 385 were hourly. In addition, we use subcontract employees to fill openings that are short-term in nature or when we cannot find people to hire. These totaled 418, 234, and 215 at December 31, 2011, 2010, and 2009, respectively. We are not a party to any collective bargaining agreements.

Insurance

We maintain insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction to our facilities and equipment. The insurance currently excludes acts of terrorism as we have determined that this coverage is not available at a reasonable cost. We also maintain commercial general liability insurance, including builders' risk coverage, employment practices, professional (design), and directors and officer's liability. We currently maintain excess and umbrella policies. Other coverages currently in place include workers compensation, water pollution, automobile, and hull/property and indemnity. All policies are subject to deductibles and other coverage limitations. Due to the impact of Hurricanes Katrina and Rita in the Gulf Coast region our property insurance costs and deductibles increased significantly during 2007and 2008. Rates have stabilized since 2009.

Regulation

Environmental Regulation

We are subject to extensive and changing federal, state and local laws (including common law) and regulations designed to protect the environment, including laws and regulations that relate to air and water quality, impose limitations on the discharge of pollutants into the environment and establish standards for the treatment, storage and disposal of toxic and hazardous wastes (''Environmental Laws''). Because industrial operations have been conducted at some of our properties by previous owners and operators and by us for many years, various materials from these operations might have been disposed of at such properties. This could result in obligations under Environmental Laws, such as requirements to remediate environmental impacts.

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 has 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 confirms that the fill is appropriately classified as not hazardous, the LDEQ will proceed to delist the fill through a rule-making process, which, when and if completed, should make the Company's disposal costs less expensive than if the fill were required to be disposed of as hazardous waste. The Company anticipates LDEQ will proceed with a rulemaking on the delisting by the second

quarter of 2012. 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.

Health and Safety Matters

Our facilities and operations are governed by laws and regulations, including the federal Occupational Safety and Health Act, relating to worker health and workplace safety. We believe that appropriate precautions are taken to protect employees and others from workplace injuries and harmful exposure to materials handled and managed at our facilities. While we do not anticipate that we will be required in the near future to expend material amounts by reason of such health and safety laws and regulations, we are unable to predict the ultimate cost of compliance with these changing regulations.

Jones Act

Section 27 of the Merchant Marine Act of 1920 (the "Jones Act") requires that all vessels transporting products between U.S. ports must be constructed in U.S. shipyards, owned and crewed by U.S. citizens and registered under U.S. law, thereby eliminating competition from foreign shipbuilders with respect to vessels to be constructed for the U.S. coastwise trade. Many customers elect to have vessels constructed at U.S. shipyards, even if such vessels are intended for international use, in order to maintain flexibility to use such vessels in the U.S. coastwise trade in the future.

OPA90

Demand for double-hull carriers has been created by the Oil Pollution Act of 1990 ("OPA90"), which generally requires U.S. and foreign tank vessels carrying oil and certain other hazardous cargos and entering U.S. ports to have double-hulls by 2015. OPA90 establishes a phase-out schedule that began January 1, 1995 for all existing single-hull tank vessels based on the vessel's age and gross tonnage. OPA90's single-hull phase-out requirements do not apply to most offshore supply vessels.

Risk Factors

The following discussion identifies important factors that could cause our actual results to differ materially from those in our forward-looking statements.

Risks Related to our Business

Current global economic conditions could continue to have an adverse impact on our business.

The current adverse global economic conditions have contributed to a reduction in demand and selling prices for our products and services and the delay in signing contracts by potential customers. The prices that we charge for our products and services are based on a number of factors, including the cost of material, labor cost, the cost of other components, our overhead and the demand for our products compared to the capacity of our competitors. Due to the demand and supply dynamics, since 2005 through the fourth quarter of 2008, our prices and volume had increased and contributed to increased revenue and profit. However, in the current economic climate, demand, prices, margins and profits decreased in 2009, 2010, in our repair segment for 2011 and could continue to decrease in 2012.

Because a significant portion of our revenues comes from customers in the Gulf of Mexico oil and gas industry, decreases in offshore oil and gas activities tend to reduce demand for our products and services and negatively

impact our revenues and profits. The level of offshore oil and gas activities can be affected by prevailing oil and gas prices, which historically have fluctuated significantly.

The Gulf of Mexico oil and gas industry can be affected by prevailing oil and gas prices, which historically have fluctuated significantly. Low oil or gas prices or a decline in demand for oil or gas can depress offshore exploration, development and production activity and result in decreased spending by our Gulf of Mexico oil and gas industry customers. This can result in a decline in the demand for our products and services and can have a substantial negative effect on our revenues and profits.

In April 2010, the Deepwater Horizon rig, which was engaged in deepwater drilling operations in the Gulf of Mexico, sank after an explosion and fire, resulting in the discharge of substantial amounts of oil. On May 28, 2010, the Department of Interior imposed a six-month moratorium on offshore deepwater drilling operations, the enforcement of which was preliminarily enjoined, and on July 12, 2010, the Department of Interior imposed another similar moratorium that was set to expire November 30, 2010. As a result, deepwater drilling operations in the Gulf of Mexico were suspended. On October 12, 2010, the Department of Interior lifted the moratorium on deepwater drilling, but due to new regulatory and permitting issues, drilling has not yet returned to levels reached prior to the incident. As a result of regulatory actions by the Department of Interior, permit approvals for shallow water drilling were slowed for well over a year after the Macondo incident. In the past six months, however, the pace of shallow water permit approvals has markedly improved. We believe that the Deepwater Horizon incident is likely to result in increased exploration and production costs, increased regulation of offshore drilling operations and greater difficulty in obtaining drilling permits. These factors have caused some of our customers to decrease or eliminate drilling and drilling support activities in the Gulf of Mexico and to relocate their assets to other parts of the world. The ultimate extent of any sustained long-term decrease in activity in the Gulf of Mexico cannot be predicted, and could have a material adverse effect on our business.

A significant portion of our historical revenues has been derived from customers in the Gulf of Mexico oil and gas industry. Accordingly, demand for our products and services were adversely impacted beginning the latter part of 2002 by decreased activity in that industry. This decreased demand adversely affected our revenues, margins and profits until the latter part of 2005. Through the fall of 2008, oil and gas prices were relatively high, and there were increases in exploration, drilling and production activity in the Gulf of Mexico. That along with demand for our products and services due to the impact of Hurricanes Katrina and Rita, followed by Hurricanes Gustav and Ike in 2008, resulted in a positive impact on our business beginning in the fourth quarter of 2005 through 2008. Beginning in the fall of 2008 oil and gas prices declined significantly from all-time highs along with the overall decline in the economy. Oil prices began a steady increase during the second quarter of 2009 and have increased significantly during latter part of 2010 and all of 2011. Currently there continues to be uncertainty as to the short term prospect of business from oil and gas related customers due to uncertainties surrounding the timing of issuance of drilling permits by the Department of the Interior and new regulations related to drilling operations, although conditions appear to be improved compared to last year.

For 2011, 2010 and 2009, we received approximately 7.0%, 10.4%, and 19.6%, respectively, of our revenues from customers in the Gulf of Mexico oil and gas industry, 17.3%, 14.1%, and 18.7% from government customers and 75.7%, 75.5%, and 61.7% from other commercial customers.

To fill in gaps in our construction schedules, we construct stock vessels from time to time.

From time to time we have experienced gaps in our construction schedules and have begun 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. At December 31, 2009, we had eight stock barges under construction with approximately $8.2 million of costs. At December 31, 2010, we had seven stock barges under construction with approximately $9.5 million of costs. At December 31, 2011, we had eight stock barges and two tow boats under construction with approximately $1.0 million of costs. Subsequent to year end 2011, we signed contracts totaling $61.8 million which includes the sale of six of the stock barges in progress at December 31, 2011. Our board has approved construction of up to $10 million in stock barges and vessels. If we are not able to sell the stock vessels for at least cost, it could result in a loss on the project. Additionally, this strategy has resulted in a reduction in working capital available for other purposes until the stock vessels are sold.

Our repair business has high fixed costs, which can adversely affect our margins and profits.

Our repair business has high fixed costs primarily associated with the depreciation of facilities, floating drydocks and the marine travel lift. As a result, our margins and profits are adversely affected when the volume of our work declines.

Measures we may take to respond to a slowdown in new construction or repair projects due to a deterioration in general economic conditions or in our customers' industries may not be sufficient to prevent a decline in earnings.

Reductions in activities in our business may cause us to reevaluate our operations. We may respond to these conditions by reducing our prices and anticipated profit margins in order to attempt to maintain activity levels in our yards and thereby maintain our workforce. Price and profit margin reductions may lead to decreased profitability, particularly over the short term. In addition, we may respond by beginning construction of historically marketable vessels before obtaining a customer contract in order to preserve our workforce. We may also respond by cutting costs, including through employee attrition or layoffs. Decreases in costs may not be adequate to offset losses in revenues, particularly over the short term. We may also seek new customers or different types of projects, which may increase our marketing and other costs. These measures, among others we may take, may not be sufficient to prevent a decline in our earnings.

A decline in general economic conditions or a deterioration in the financial condition of a particular customer or that customer's industry can increase our customer credit risk, which may adversely affect our profits.

Although varying contract terms may be negotiated on a case-by-case basis, our commercial and government construction contracts ordinarily provide for a down payment, with progress payments at specified stages of construction and a final payment upon delivery. Conversely, repair and conversion customers are typically billed upon completion of the work performed. The decline in the economy has adversely affected some of our customers' ability to pay. During 2009, we experienced an increase in bad debt write-offs, and also experienced an increase in our allowance of doubtful accounts primarily due to the bankruptcy of two customers. If we are unable to collect any account receivable in the amount we have estimated to be collectible, we must recognize a charge to earnings that is in effect a reversal of previously recorded profits.

We could incur losses under our fixed-price contracts as a result of cost overruns or delays in delivery.

Most of our contracts for marine vessel construction, including government contracts, are fixed-price contracts. Under fixed-price contracts, we retain all cost savings on completed contracts but are liable for the full amount of all cost overruns. We attempt to anticipate increases in costs of labor and materials in our bids on fixed-price contracts. However, the costs and gross profits realized on a fixed-price contract may vary from our estimates due to factors such as:

- unanticipated variations in labor and equipment productivity over the term of a contract;
- unanticipated increases in costs of materials, labor and indirect expenses; and
- errors in estimates and bidding.

Depending on the size of the project, variations from estimated contract performance could significantly reduce our earnings, and could result in losses, during any fiscal quarter or year. In addition, some of our fixed-price contracts provide for incentive payments for early delivery and liquidated damages for late delivery. If we miss a specified delivery deadline under one of those contracts, we may be subject to liquidated damages.

From time to time, we bid on fixed-price contracts to construct vessels that we have not constructed in the past. We believe we have sufficient related experience to perform these contracts profitably. However, the risks of cost overruns or delays in delivery on those contracts are greater than for contracts for vessels that we have built in the past.

Estimates we may make in applying percentage-of-completion accounting could result in a reduction of previously reported profits and have a significant impact on quarter-to-quarter operating results.

We use the percentage-of-completion method to account for our construction contracts in process. Under this method, revenue and expenses are based on the percentage of labor hours incurred as compared to estimated total labor hours for each contract. As a result, the timing of recognition of revenue and expenses we report may differ materially from the timing of actual contract payments received and expenses paid. We make provisions for estimated losses on uncompleted contracts in the period in which the losses are determined. To the extent that those provisions result in a reduction of previously reported profits on a project, we must recognize a charge against current earnings. These charges may significantly reduce our earnings, depending on the size of the contract and the adjustment. In addition, because many of these contracts are completed over a period of several months, the timing of the recognition of related revenue and expense could have a significant impact on quarter-to-quarter operating results.

We perform a significant amount of our work under U.S. and other government contracts. Reductions in government spending on the types of products and services we offer or our inability to secure new government contracts could have a substantial negative impact on our revenues and profits.

We have built vessels for the U.S. Army, U.S. Navy, U.S. Coast Guard and U.S. Army Corp of Engineers. We have also built vessels and performed conversion or repair services for local and state governments, either directly or as a subcontractor. Revenue derived from all government customers accounted for approximately 17.3%, 14.1%, and 18.7% of our total revenue in 2011, 2010 and 2009, respectively. Revenue derived from U.S. government customers accounted for approximately 6.7%, 7.5%, and 12.0% of our total revenue in 2011, 2010 and 2009, respectively. Government contracts accounted for approximately 7.52%, 41.1%, and 77.8% of our backlog at December 31, 2011, 2010 and 2009, respectively. Government contracts are generally subject to strict competitive bidding requirements. In addition, the number of vessels that are purchased by governments varies with their budgets and the appropriation of government funds. We cannot predict whether we will be able to secure new government contracts.

The loss of a significant customer could result in a substantial loss of revenue.

A relatively small number of customers have historically generated a large portion of our revenue, although not necessarily the same customers from year to year. For the years ended December 31, 2011, 2010 and 2009, our ten largest customers collectively accounted for 67.8%, 62.1% and 52.2% of our revenues, respectively. The loss of a significant customer could result in a substantial loss of revenue and significantly reduce our earnings. See "Business – Customers."

If our customers terminate projects, our reported backlog could decrease, which could substantially reduce our revenues and earnings.

Our backlog is based on unearned revenue attributable to projects for which a customer has authorized us to begin work or purchase materials. Our contracts with commercial customers generally do not permit the customer to terminate the contract. However, some of our government projects included in our backlog are subject to change or termination at the option of the customer. In the case of a termination, the government is generally required to pay us for work performed and materials purchased through the date of termination and, in some cases, pay us termination fees. Either the change or terminations of government contracts could substantially change the amount of backlog currently reported and could substantially decrease our revenue and earnings.

During the third quarter of 2011, a customer advised that it was defaulting on contracts for the construction of five-LPG tank barges, four-30,000 bbl. tank barges, two-tow boats, four-7,500 bbl. tank barges and two-10,000 bbl tank barges. Except as noted below, all vessels subject to the default were sold to other customers prior to yearend with no adverse financial impact to the Company. The two tow boats and two of the 7,500 bbl. tank barges were in the early stages of construction, the contracts were cancelled, and the material for these has been included in our inventory. The two remaining 7,500 bbl. tank barges have not been sold and the contracts have not been cancelled. 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 do not expect any material adverse financial consequences due to the default of these remaining two barges. At December 31, 2011, Accrued Expenses includes $18.5 million payable to a customer for payments made by the customer on vessel construction contracts that were ultimately cancelled by mutual agreement. The customer was paid in February 2012, net of an outstanding amount of $2.3 million receivable due on a remaining contract.

Our backlog of $47.1 million at December 31, 2011 was attributable to 27 projects, of which 7.5% was attributable to two government projects. Our backlog at December 31, 2010 was $89.5 million, and was attributable to 25 projects, of which 41.1% was attributable to seven government projects.

We are subject to the possibility of significant physical damage and business interruption caused by hurricanes or flooding.

Due to the proximity of our shipyards to the Gulf of Mexico and locations along rivers in flood plains, our work in progress and facilities are subject to the possibility of significant physical damage and business interruption caused by hurricanes or flooding. Although we maintain insurance protection as we consider economically prudent, there can be no assurance that such insurance will be sufficient in coverage or effective under all circumstances or against all hazards to which we may be subject. If we sustain major damage that is not covered by insurance it could have a material adverse effect on the Company.

During the second quarter of 2011 we were affected by rising water levels along the Mississippi and Atchafalaya Rivers. The primary adverse impact was the temporary suspension of operations at our Morgan City shipyard which is located on the Atchafalaya River outside the protection of the levee system. In order to minimize the impact of the imminent flooding and decrease the amount of down time, we constructed our own levee system to protect our Morgan City shipyard. This resulted in no property and equipment damage and also allowed us to return to full operation with minimal clean-up, months sooner than otherwise. We relocated all of our production and support personnel and many of our projects to our other shipyards and continued operations at a minimally reduced level for approximately forty-five days. We resumed limited operations at our Morgan City shipyard during middle of June and were fully operational at this yard by July. All of our other yards remained fully operational. Due to the efforts of our people to plan for protection and move projects to other facilities, there was only a minimal impact on our profitability and no material adverse effect on our Company. Additionally, we were able to keep our people working and we were able to meet the delivery deadlines committed to customers.

From time to time, we may not be able to hire sufficient numbers of trained shipyard workers. Any labor shortage may increase our cost of labor, limit our production capacity and materially decrease our earnings.

Shipyards along the Gulf Coast have experienced shortages of skilled labor from time to time as a result of low unemployment in the economy in general and/or increased demand for skilled labor in the offshore oil and gas and related industries in particular. We along with other shipyards along the Gulf coast experienced labor shortages since 2005 through much of 2008 due to the high demand in our industry for new construction and repair and conversion services. Currently, while we are not experiencing trouble finding skilled labor, market conditions appear to be improving which could lead to shortages of skilled labor in the near future. These labor shortages increase our cost of labor, could limit our production capacity, and materially decrease our earnings.

We rely on key personnel.

We are dependent on the continuing efforts of our executive officers and key operating personnel. The loss of the services of any of these persons could result in inefficiencies in our operations, lost business opportunities and the loss of one or more customers. We generally do not have employment agreements with our employees other than our executive officers and we do not carry key person life insurance.

We are exposed to the risk of changing interest rates. Interest on all of our long-term debt is variable and based on short-term market rates. An increase in market rates may adversely affect our profits.

Our long-term debt (including current maturities) totaled $1.8 million at December 31, 2011, and interest is variable based on short-term market rates. As a result, an increase in short-term interest rates could adversely affect our

profits. For example, a general increase of 1.0% in short-term market interest rates would result in additional interest cost of $18,000 per year if we were to maintain the same debt level and structure.

Our principal stockholders may control the outcome of stockholder voting.

J. Parker Conrad, John P. Conrad, Jr. and Katherine Conrad Court own or control through trusts 2,860,996 shares of our common stock, or 47.0% of the outstanding shares of our common stock, and members of their immediate families own approximately 258,400 additional shares, which together total more than 51.2% of our outstanding common stock as of March 23, 2012. In addition, our executive officers and directors and their affiliates as a group, which includes J. Parker Conrad and John P. Conrad, beneficially own approximately 2,228,306 shares or 36.6% of our common stock. If they act in concert, these holders could be able to exercise effective control over our affairs, elect our entire board of directors, and control substantially all matters submitted to a vote of our stockholders. The interests of these holders may differ from the interests of our minority stockholders, and they may vote their shares in a manner adverse to our minority stockholders.

Sales, or the availability for sale, of substantial amounts of our common stock in the over-the-counter market could adversely affect the market price of our common stock.

Of the 6,088,287 shares of our common stock currently outstanding, approximately 3.2 million shares are freely tradable. The remaining outstanding shares may be resold publicly only following their registration under the Securities Act of 1933, as amended, or under an available exemption.

In addition, the average daily trading volume in our common stock for 2011 was 5,395 shares. The availability of a large block of stock for sale in relation to our normal trading volume can result in a decline in the market price of our common stock.

We are not a public company.

On March 30, 2005 we voluntarily delisted our common stock from Nasdaq and filed a Form 15 with the Securities and Exchange Commission (the "SEC") to voluntarily deregister our common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and to suspend our obligation to file reports under Section 15(d) of the Exchange Act.

We were eligible to deregister by filing a Form 15 because we had fewer than 300 holders of record of common stock. At the time of filing, our obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K, immediately ceased.

On March 31, 2005 our common stock began trading in the over-the-counter market through the Pink Sheets Electronic Quotation Service. Quotes are available over the internet at www.otcmarkets.com as well as through other services.

We cannot control whether trading in the stock will continue on the “Pink Sheets” or elsewhere.

Some provisions of our corporate documents and Delaware law may discourage a takeover.

Our Amended and Restated Certificate of Incorporation (the “Charter”) and Delaware law could make it more difficult for a third party to acquire us, even if a change in control would be beneficial to our stockholders. Specifically, our Charter:

- authorizes the issuance of “blank check” preferred stock;
- divides our board into three classes, the members of which serve three-year terms;
- provides that directors may only be removed for cause and then only by the vote of the holders of a majority of our outstanding capital stock;

- establishes advance notice requirements for director nominations and stockholder proposals to be considered at annual meetings;

- prohibits stockholder action by written consent; and

- prohibits stockholders from calling special meetings of stockholders.

In addition, Delaware law restricts specified mergers and other business combinations between us and any holder of 15% or more of our common stock. Delaware law also permits the adoption of a shareholder rights plan without stockholder approval, and during May 2002, we adopted a rights plan. 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.

We also have employment agreements with our executive officers that provide for benefits in specified circumstances if there is a change of control of our company. These provisions might hinder, delay or prevent a change of control of our company. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

We do not intend to pay dividends in the near future.

We currently intend to retain any earnings to meet our working capital needs and to finance the growth of our business. In addition, our loan agreement prohibits us from paying dividends. Accordingly, an investor in our common stock should not expect to receive periodic income from an investment in our common stock.

Risks Related to our Industry

- *Our business is highly competitive. As a result, we may lose business and employees to our competitors or may experience lower profit margins than we would in the absence of competition.*

- *The price of steel increased substantially during some years, which has adversely affected our profits and caused potential customers to delay new construction projects. In addition, during the mid part of 2008 we experienced supply constraints for certain steel sizes and components. Beginning in the fourth quarter of 2008, steel prices declined significantly leading potential customers to delay new construction projects waiting for the bottom. Prices did not fluctuate significantly in 2009. We experienced significant increases in the price of steel during 2010. Steel prices increased during 2011 approximately 10 percent.*

- *Excess capacity in our industry between 2002 and 2005 and at the current time has placed downward pressure on pricing and profit margins.*

- *Our customers may require us to post bid bonds and performance bonds, which may be difficult to obtain for reasons primarily related to industry conditions or our financial condition.*

- *Federal law favoring U.S. shipyards over foreign shipyards may be modified or rescinded, resulting in greater competition from foreign shipyards that operate with lower costs.*

- *New regulations or modifications to existing regulations affecting our significant customers could decrease demand for our products and services and result in significantly lower revenues and earnings.*

- *Compliance with environmental laws and other government regulations may increase our cost of doing business.*

- *Our business involves operating hazards and risks of liability and lawsuits, and our insurance coverage may be insufficient to cover all losses that we experience.*

Properties

We conduct our operations at four shipyards, one in Morgan City, Louisiana, two in Amelia, Louisiana, and one in Orange, Texas. Substantially all of our new vessel construction is done indoors in well-lighted space specifically designed to accommodate construction of marine vessels up to 350 feet in length. During the past eleven years, we have made, in the aggregate, approximately $49.0 million of capital expenditures to add capacity and improve the efficiency of our shipyards.

In June 2002, we moved our principal executive offices to approximately 8,700 square feet of leased office space in Morgan City, Louisiana. The current lease term extends through June 2012.

Morgan City Shipyard

We have owned and operated our Morgan City, Louisiana shipyard since 1948. The yard is located on the Atchafalaya River approximately 30 miles from the Gulf of Mexico on approximately 11 acres. The shipyard has 14 buildings containing approximately 125,000 square feet of enclosed building area and ten overhead cranes. In addition, the shipyard has one submersible launch barge, 1,700 linear feet of steel bulkhead, five rolling cranes and a slip. During the fourth quarter of 2011 we began filling our second slip to increase our land area for material lay down and fabrication. This project will be completed in the first quarter of 2012. The buildings include offices for management and support personnel as well as three large fabrication warehouses specifically designed to accommodate marine vessel construction. During 2002, we completed an extension of one of our fabrication buildings at our Morgan City shipyard at a cost of approximately $800,000. The extension increased our enclosed building space by approximately 15,000 square feet and increased our efficiencies in making pre-fabricated components and in using modular construction techniques.

Amelia Shipyards

We have two facilities in Amelia, Louisiana, which is approximately five miles from Morgan City, Louisiana: Conrad Aluminum and Conrad Deepwater. Conrad Aluminum is located on the Bayou Boeuf/Intracoastal Waterway approximately 30 miles from the Gulf of Mexico on approximately 16 acres. We purchased the yard for approximately $1.0 million in 1996 and commenced marine steel repair and conversion operations there during February 1998. In 2003, we obtained approximately $5.5 million in financing to convert the yard into an aluminum marine fabrication and repair facility capable of serving both commercial and government customers, and commenced our aluminum operations at the facility in the fourth quarter of 2003. The funding was primarily used to construct a 37,500 square foot two-bay building, to purchase a 300 ton travel lift, six overhead cranes and other tools and equipment, and to make improvements to the docks. The facility has a total of seven buildings containing approximately 67,500 square feet of enclosed building area. The site has 2,100 linear feet of bulkhead and two slips. As part of the financing of the expansion, we contributed the facility to the St. Mary Parish Industrial Development Board and have entered into a 15-year lease with an option to extend or repurchase. During 2007 and 2009 we further developed our repair and new construction areas at Conrad Aluminum to give us additional capacity and improved production efficiencies.

Conrad Deepwater is located on the Bayou Boeuf/Intracoastal Waterway approximately 30 miles from the Gulf of Mexico and is within one mile of Conrad Aluminum. The facility is located on a 52-acre previously undeveloped site that we purchased in 2000 for $1.3 million. During 2002 and 2003, we invested approximately $7.0 million developing approximately 14 acres of the site into the new facility. We commenced steel repair and conversion operations at the facility in February 2003. This facility has one building containing approximately 5,400 square feet comprising a stock room and maintenance shop. The site also has 1,100 linear feet of bulkhead and one slip. The facility allows us to handle vessels with deeper drafts than we have historically been able to service at our other

facilities. In addition, the infrastructure improvements allow for the potential future additional development of the facility to accommodate vessel construction should the market so dictate. We expanded our new construction capabilities at Conrad Deepwater during the first quarter of 2005. During 2007, we purchased a heavy lift crane and installed a crane foundation at our Deepwater facility to enable us to remove and replace lift boat legs that needed repair. This heavy lift crane has also been used by our new construction operations to install legs on liftboats. In the past we had to bring the liftboats, at an additional cost, to a third party facility to accomplish this task. During 2008, we completed development of a slip at the facility and added infrastructure to increase our capabilities for topside work.

We currently have six drydocks at Conrad Deepwater. The drydocks consist of two 120-foot by 52-foot drydock with lifting capacity of 900 tons, two 200-foot by 70-foot drydocks with lifting capacities of 2,400 tons, one 200-foot by 95-foot drydock with a lifting capacity of 4,000 tons and one 280-foot by 160-foot drydock with a lifting capacity of 10,000 tons. We constructed the largest drydock ourselves in 2000 and 2001 for approximately $5.7 million. This allowed us to (1) increase our repair and conversion capacity; (2) lift and compete to repair larger vessels such as derrick and pipe laying barges and the large offshore service vessels recently built for the deep water drilling activities in the Gulf of Mexico; and (3) launch larger new vessel construction projects more competitively. During 2010, we put into service an extension to our second largest drydock that increased the lifting capacity to 4,000 tons from 3,000 tons. In July 2011, we entered into a contract to purchase 50 acres of property adjoining our Conrad Deepwater facility for approximately $5.5 million which is subject to customary closing conditions. The purchase of this property is still pending.

Orange Shipyard

Our Orange, Texas shipyard is located on the Sabine River approximately 37 miles from the Gulf of Mexico on approximately 18 acres. The shipyard has six construction bays under approximately 110,000 square feet of enclosed building area with 14 overhead cranes. The site also has 150 feet of steel bulkhead and one slip. Our Orange shipyard equipment includes a Wheelabrator, a “gantry” type NC (“Numerical Control”) plasma burner with a 21-foot by 90-foot table, over 60 automatic and semi-automatic welding machines, two rolling cranes, 600, 800 and 1,600-ton transfer/load-out systems and a marine railway with side transfer system. We acquired our Orange shipyard in 1997. During 2007 we added a second repair dolly to allow us to repair a greater number of vessels and we improved our railway system.

Legal Proceedings

For a discussion of legal proceedings, see Note 13 to our financial statements included with this report.

Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

On March 30, 2005 we voluntarily delisted our common stock from Nasdaq and, simultaneously with delisting, filed a Form 15 with the Securities and Exchange Commission (the "SEC") to voluntarily deregister our common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and to suspend our obligation to file reports under Section 15(d) of the Exchange Act.

On March 31, 2005 our common stock began trading in the over-the-counter market through the OTC Markets Electronic Quotation Service. Quotes are available over the internet at www.otcmarkets.com as well as through other services.

Prior to this time our stock was traded on the NASDAQ National Market System under the symbol “CNRD.” As of January 11, 2012, there were 129 record holders of our common stock.

The following table sets forth the high and low bid prices per share of the Common Stock, as reported by the OTC Markets for each fiscal quarter during the last two fiscal years.

Fiscal Year 2011	High	Low
First Quarter	$14.25	$ 9.90
Second Quarter	14.25	12.60
Third Quarter	13.70	12.50
Fourth Quarter	15.25	13.20

Fiscal Year 2010	High	Low
First Quarter	$ 8.53	$ 6.80
Second Quarter	8.35	6.50
Third Quarter	8.40	6.50
Fourth Quarter	10.35	8.14

We currently intend to retain all of our earnings, if any, to meet our working capital requirements and to finance the expansion of our business. Accordingly, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. In addition, our loan agreement prohibits us from paying dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

During 2007, our company retained Stephens, Inc. as financial advisor to our board to assist our board in its evaluation of strategic initiatives. Following completion of that process, our board concluded that the best course of action at that time was a share repurchase program. During April 2008, our board authorized the Company to repurchase up to $10 million of common stock using our cash on hand or generated from operations, in open market or privately negotiated transactions. We believed this approach enhanced shareholder value and provided us with flexibility to respond to potential future business opportunities and risks. The stock repurchase plan did not obligate us 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. On August 12, 2008 our board authorized a 10b5-1 stock purchase plan which we expected would increase the amount of stock we repurchased pursuant to our share repurchase program. In November 2008, our board terminated the stock repurchase program due to uncertainties in the business environment and a desire to conserve cash. Pursuant to the plan, during the second quarter of 2008 we purchased 70,000 shares for a total of $770,000, during the third quarter 513,000 shares for a total of $6.3 million and subsequent to September 30, 2008 until the termination of the plan we purchased 226,000 shares for a total of $2.4 million. During August 2010, our board authorized the Company to repurchase up to $5 million of common stock using our cash on hand or generated from operations, in the open market or privately negotiated transactions. We purchased 38,075 shares during the third quarter of 2010 at an average price of $7 per share. 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. There is currently $205,000 available under the program. On January 17, 2012 our Board authorized an additional $5 million to purchase shares of our common stock under the program.

Selected Financial Data

The following table sets forth our selected historical consolidated financial data as of the dates and for the periods indicated. The historical financial data for each year in the five-year period ended December 31, 2011 are derived from our historical audited financial statements. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report and our consolidated financial statements and notes thereto included as an attachment to this report.

	Year Ended December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
	(In thousands, except per share data)				
Statement of Operations Data					
Revenues	$ 246,454	$ 138,841	$ 144,192	$ 191,054	$ 168,535
Cost of revenue	211,918	118,092	119,017	149,231	133,282
Gross profit	34,536	20,749	25,175	41,823	35,253
Selling, general and administrative expenses	5,416	4,780	6,250	5,480	4,791
Income from operations	29,120	15,969	18,925	36,343	30,462
Interest and other income (expense), net	817	252	612	(311)	(336)
Income before income taxes	29,937	16,221	19,537	36,032	30,126
Provision for income taxes	10,770	5,936	6,688	13,023	10,917
Net income	$ 19,167	$ 10,285	$ 12,849	$ 23,009	$ 19,209
Net Income Per Common Share					
Basic	$ 3.02	$ 1.60	$ 2.00	$ 3.31	$ 2.65
Diluted	$ 3.01	$ 1.60	$ 1.99	$ 3.29	$ 2.63
Weighted Average Common Shares Oustanding					
Basic	6,345	6,426	6,439	6,949	7,236
Diluted	6,368	6,448	6,460	6,987	7,304
Statement of Cash Flows Data					
Cash provided by operating activities	$ 29,591	$ 11,410	$ 5,643	$ 30,929	$ 7,455
Cash used in investing activities	$ (4,196)	$ (2,890)	$ (4,676)	$ (5,859)	$ (5,082)
Cash used in financing activities	$ (4,910)	$ (2,050)	$ (1,789)	$ (11,227)	$ (1,789)
Other Financial Data					
Depreciation & amortization	$ 3,619	$ 3,459	$ 3,324	$ 3,020	$ 2,485
Capital expenditures	$ 4,302	$ 2,901	$ 4,676	$ 5,892	$ 5,098
EBITDA (1) (2)	$ 33,606	$ 19,776	$ 23,020	$ 39,536	$ 33,387
EBITDA margin (3)	13.6%	14.2%	16.0%	20.7%	19.8%
Operating profit margin (4)	11.8%	11.5%	13.1%	19.0%	18.1%

	As of December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
	(In thousands)				
Balance Sheet Data					
Working capital	$ 67,079	$ 52,888	$ 43,248	$ 33,503	$ 23,484
Property, plant & equipment, net	$ 38,438	$ 37,760	$ 38,318	$ 36,948	$ 34,093
Total assets	$ 148,313	$ 114,832	$ 102,113	$ 101,158	$ 85,140
Long term debt, including current portion	$ 1,754	$ 3,035	$ 4,823	$ 6,612	$ 8,400
Shareholders' equity	$ 95,466	$ 79,928	$ 69,905	$ 57,056	$ 43,486

(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.

(2) Represents EBITDA as a percentage of revenues.

(3) Represents income from operations as a percentage of revenues.

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

	2011	**2010**	**2009**	**2008**	**2007**
Net cash provided by operating activities	$ 29,591	$ 11,410	$ 5,643	$ 30,929	$ 7,455
Interest expense	50	96	159	484	776
Provision for income taxes	10,770	5,936	6,891	13,023	10,917
Deferred income tax provision (benefit)	(1,572)	1,175	(648)	(1,340)	(343)
Other	(94)	(1)	-	(2)	9
Changes in operating assets and liabilities	(5,139)	1,160	10,975	(3,558)	14,573
EBITDA	$ 33,606	$ 19,776	$ 23,020	$ 39,536	$ 33,387

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 as an attachment to this 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 2011, our new construction segment accounted for 80.6% of our total revenue and our repair and conversion segment accounted for 19.4% of our total revenue. Most of our new construction is performed indoors.

During the second quarter of 2011 we were affected by rising water levels along the Mississippi and Atchafalaya Rivers. The primary adverse impact was the temporary suspension of operations at our Morgan City shipyard which is located on the Atchafalaya River outside the protection of the levee system. In order to minimize the impact of the imminent flooding and decrease the amount of down time, we constructed our own levee system to protect our Morgan City shipyard. This resulted in no property and equipment damage and also allowed us to return to full operation with minimal clean-up, months sooner than otherwise. We relocated all of our production and support personnel and many of our projects to our other shipyards and continued operations at a minimally reduced level for approximately forty-five days. We resumed limited operations at our Morgan City shipyard during middle of June and were fully operational at this yard by July. All of our other yards remained fully operational. Due to the efforts of our people to plan for protection and move projects to other facilities, there was only a minimal impact on our profitability and no material adverse effect on our Company. Additionally, we were able to keep our people working and we were able to meet the delivery deadlines committed to customers.

For 2011 we recorded revenues of $246.5 million and net income of $19.2 million. Factors contributing to our success included a favorable backlog of existing jobs going into the year, a diversified customer and project base, improved production processes and cost management. We have also had a significant increase in demand from customers involved in inland waterway transportation and from government customers for the construction of ferries and crane barges. Over the past ten years, we have reinvested in our business and increased our production capacity and efficiencies and our product mix, which enabled us to take advantage of these market opportunities. For additional information about our internal expansion, see "Business Overview – General – Internal Expansion."

In April 2010, the Deepwater Horizon rig, which was engaged in deepwater drilling operations in the Gulf of Mexico, sank after an explosion and fire, resulting in the discharge of substantial amounts of oil. On May 28, 2010, the Department of Interior imposed a six-month moratorium on offshore deepwater drilling operations, the enforcement of which was preliminarily enjoined, and on July 12, 2010, the Department of Interior imposed another similar moratorium that was set to expire November 30, 2010. As a result, deepwater drilling operations in the Gulf of Mexico were suspended. On October 12, 2010, the Department of Interior lifted the moratorium on deepwater drilling, but due to new regulatory and permitting issues, drilling has not yet returned to levels reached prior to the incident. As a result of regulatory actions by the Department of Interior, permit approvals for shallow water drilling were slowed for well over a year after the Macondo incident. In the past six months, however, the pace of shallow water permit approvals has markedly improved We believe that the Deepwater Horizon incident is likely to result in increased exploration and production costs, increased regulation of offshore drilling operations and greater difficulty in obtaining drilling permits. These factors have caused some of our customers to decrease or eliminate drilling and drilling support activities in the Gulf of Mexico and to relocate their assets to other parts of the world. The ultimate extent of any sustained long-term decrease in activity in the Gulf of Mexico cannot be predicted, and could have a material adverse effect on our business.

During August 2010, our board authorized the Company to repurchase up to $5 million of common stock using our cash on hand or generated from operations, in the open market or privately negotiated transactions. We believe this approach enhances shareholder value and provides us with flexibility to respond to potential future business opportunities and risks. The stock repurchase plan does not obligate us to acquire any particular amount of common stock, does not have an expiration date and could be amended or terminated at any time without prior notice. We

purchased 38,075 shares during the third quarter of 2010 at an average price of $7 per share. During March 2011, our board authorized a 10b5-1 stock purchase plan, in an attempt to increase the 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. There is currently $205,000 available under the program. On January 17, 2012 our Board authorized an additional $5 million to purchase shares of our common stock under the program.

Although we are optimistic about the long-term prospects of our business, we also take note of near-term risks. During our 64 years in business, we have endured many business cycles. Although current economic and market conditions are much improved compared to last year, there still remain much uncertainty in general economic conditions, credit markets, oil and gas prices, the impact of the Deepwater Horizon rig oil spill and the resulting regulatory and permitting issues for the offshore drilling operations in the U.S. Gulf, and fluctuating steel and machinery pricing. This leads us to continued uncertainty about our shorter-term demand and margins. Demand has declined beginning in late 2008 and we continue to see pricing pressure from our customers and potential customers. In 2011, we saw an increase in activity in our new construction segment. Generally, our new construction contracts in 2009 and 2010 had substantially lower expected profit margins than our 2008 contracts. We have experienced a slight increase in our profit margin for our new construction segment for 2011. Although bid activity has been good and we have signed new contracts recently, many new construction customers continue to delay projects.

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. A significant portion of our historical revenues has been derived from customers in the Gulf of Mexico oil and gas industry. Accordingly, demand for our products and services were adversely impacted beginning the latter part of 2002 by decreased activity in that industry. This decreased demand adversely affected our revenues, margins and profits until the latter part of 2005. Through the fall of 2008, oil and gas prices were relatively high, and there were increases in exploration, drilling and production activity in the Gulf of Mexico. That along with demand for our products and services due to the impact of Hurricanes Katrina and Rita, followed by Hurricanes Gustav and Ike in 2008, resulted in a positive impact on our business beginning in the fourth quarter of 2005 through 2008. Beginning in the fall of 2008 oil and gas prices declined significantly from all-time highs along with the overall decline in the economy. Oil prices began a steady increase during the second quarter of 2009 and have increased significantly during latter part of 2010 and for all of 2011. Currently there continues to be uncertainty as to the short term prospect of business from oil and gas related customers due to uncertainties surrounding the timing of issuance of drilling permits by the Department of the Interior and new regulations related to drilling operations, although conditions appear to be improved compared to last year.

In previous years when there was a decline in new construction opportunities in the Gulf of Mexico oil and gas industry, we were successful in securing work from government sources and other commercial customers. We have seen in 2009, 2010 and 2011 an increase in projects for other commercial customers as well as government projects. Other commercial contracts accounted for approximately 91.2%, 58.9%, and 22.2% of our backlog at December 31, 2011, 2010 and 2009 respectively. Government contracts accounted for approximately 7.5%, 41.1%, and 77.8% of our backlog at December 31, 2011, 2010 and 2009, respectively. Energy contracts accounted for approximately 1.3%, 0.0%, and 0.0% of our backlog at December 31, 2011, 2010 and 2009, respectively.

During 2011, we added $144.2 million of backlog to our new construction segment, all of which was other commercial contracts. Our backlog was $47.1 million at December 31, 2011 as compared to $89.5 million at December 31, 2010. Subsequent to year end, we signed contracts totaling $61.8 million which includes the sales of six of the stock barges in progress at December 31, 2011. Our estimated backlog at March 31, 2012 is $68.7 million.

During the third quarter of 2011, a customer advised that it was defaulting on contracts for the construction of five-LPG tank barges, four-30,000 bbl. tank barges, two-tow boats, four-7,500 bbl. tank barges and two-10,000 bbl tank barges. Except as noted below, all vessels subject to the default were sold to other customers prior to yearend with no adverse financial impact to the Company. The two tow boats and two of the 7,500 bbl. tank barges were in the early stages of construction, the contracts were cancelled, and the material for these has been included in our inventory. The two remaining 7,500 bbl. tank barges have not been sold and the contracts have not been cancelled.

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 do not expect any material adverse financial consequences due to the default of these remaining two barges. At December 31, 2011, Accrued Expenses includes $18.5 million payable to a customer for payments made by the customer on vessel construction contracts that were ultimately cancelled by mutual agreement. The customer was paid in February 2012, net of an outstanding amount of $2.3 million receivable due on a remaining contract.

Our construction and fabrication projects in progress as of December 31, 2011 consisted of 27 vessels: six LPG tank barges, seven deck barges, seven tank barges, two push boats, a passenger ferry, a large crane barges, a recovery vessel, a mid-body extension and a dredge. Our customers comprise a very diverse group that crosses a wide range of businesses including the energy sector, dredging, construction, towing, and bunkering markets, as well as the US Army Corps of Engineers.

Because a large percentage of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment. There was an increase in revenue and gross profit in the repair and conversion segment starting in the fourth quarter of 2005 and continuing for 2006, 2007 and 2008 related to increased oil and gas activities in the Gulf of Mexico and the impacts of Hurricanes Katrina, Rita, Gustav and Ike. Although we had strong activity in our repair segment during the first quarter of 2009, we experienced lower repair gross profits in 2009, 2010 and 2011, as a result of decreased customer activity in the Gulf of Mexico, primarily as a result of the Deepwater Horizon incident. For 2011, our segment gross profit showed a decrease of $3.2 million as compared to 2010. For 2011, 2010 and 2009, we received approximately 7.0%, 10.4%, and 19.6%, respectively, of our total revenues from customers in the offshore oil and gas industry, 17.3%, 14.1%, and 18.7% from government customers and 75.7%, 75.5%, and 61.7% from other commercial customers.

Steel is a major component of our vessel construction projects. Steel prices have been extremely volatile and increased significantly during most of 2008 before declining in the latter part of 2008 and the first quarter of 2009. Prices did not fluctuated significantly in 2009. We experienced significant increases in the price of steel during 2010 and a 10% increase during 2011. We attempted to negotiate steel escalation clauses in all of our new construction contracts. Our steel price escalation clauses protect us in the event of an increase in the price of steel, but they allocate the benefit of a decline in the price of steel to the customer. During the past several years we have been successful in negotiating steel escalation clauses in our contracts or receiving a sufficient initial payment at contract signing that enabled us to immediately purchase the steel and mitigate the impact of potential steel price increases. We cannot predict whether we will be successful in negotiating steel price escalation clauses in our contracts and we cannot predict steel prices. In the past we have not carried a significant steel inventory, but due to the increase in steel prices and difficulty in purchasing certain steel sizes, during the first eight months of 2008 we increased the amount of steel inventory that we maintain. Subsequently with the stabilization in steel prices and improved availability, we reduced our steel inventory during 2009. We have not engaged, and currently do not intend to engage, in hedging transactions for our steel purchase requirements.

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. At December 31, 2008, we had four stock barges under construction with approximately $3.0 million of costs. At December 31, 2009, we had eight stock barges under construction with approximately $8.2 million of costs. At December 31, 2010, we had seven stock barges under construction with approximately $9.5 million of costs. At December 31, 2011, we had eight stock barges and two tow boats under construction with approximately $1.0 million of costs. Our board has approved construction of up to $10 million in 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, 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

	Years Ended December 31,					
	2011		2010		2009	
Financial Data:						
Revenue						
Vessel construction	$ 198,586	80.6%	$ 92,291	66.5%	$ 94,667	65.7%
Repair and conversions	47,868	19.4%	46,550	33.5%	49,525	34.3%
Total revenue	246,454	100.0%	138,841	100.0%	144,192	100.0%
Cost of revenue						
Vessel construction	170,352	85.8%	81,077	87.8%	79,481	84.0%
Repair and conversions	41,566	86.8%	37,015	79.5%	39,536	79.8%
Total cost of revenue	211,918	86.0%	118,092	85.1%	119,017	82.5%
Gross profit						
Vessel construction	28,234	14.2%	11,214	12.2%	15,186	16.0%
Repair and conversions	6,302	13.2%	9,535	20.5%	9,989	20.2%
Total gross profit	34,536	14.0%	20,749	14.9%	25,175	17.5%
S G & A expenses	5,416	2.2%	4,780	3.4%	6,250	4.3%
Income from operations	29,120	11.8%	15,969	11.5%	18,925	13.1%
Interest expense	50	0.0%	96	0.1%	159	0.1%
Other income, net	(867)	-0.4%	(348)	-0.3%	(771)	-0.5%
Income before income taxes	29,937	12.1%	16,221	11.7%	19,537	13.5%
Income tax provision	10,770	4.4%	5,936	4.3%	6,688	4.6%
Net income	$ 19,167	7.8%	$ 10,285	7.4%	$ 12,849	8.9%
EBITDA (1)	$ 33,606	13.6%	$ 19,776	14.2%	$ 23,020	16.0%
Net cash provided by operating activities	$ 29,591		$ 11,410		$ 5,643	
Net cash used in investing activities	$ (4,196)		$ (2,890)		$ (4,676)	
Net cash used in financing activities	$ (4,910)		$ (2,050)		$ (1,789)	

(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 operating activities to EBITDA for the periods presented (in thousands):

	2011	2010	2009
Net cash provided by operating activities	$ 29,591	$ 11,410	$ 5,643
Interest expense	50	96	159
Provision for income taxes	10,770	5,936	6,891
Deferred income tax provision (benefit)	(1,572)	1,175	(648)
Other	(94)	(1)	-
Changes in operating assets and liabilities	(5,139)	1,160	10,975
EBITDA	$ 33,606	$ 19,776	$ 23,020

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

During the year ended December 31, 2011, we generated revenue of $246.5 million, an increase of approximately $107.6 million, or 77.5%, compared to $138.8 million generated for 2010. The increase was due to a $106 million 115.2% increase in vessel construction revenue to $198.6 million for 2011 compared to $92.3 million for 2010 and an increase of $1.3 million 2.8% in repair and conversion revenue to $47.9 million for 2011 compared to $46.6 million for 2010. The increase in revenue for the current year is primarily a result of an increase in production hours associated with new construction, more profitable new construction contracts, and new construction contracts having a larger material component than in 2010. Vessel construction hours increased 112.8% compared to 2010 and repair and conversion hours decreased by 4.5% compared to 2010. Vessel construction revenue was 80.6% of total revenue compared to 66.5% for 2010 and repair and conversion revenue was 19.4% of total revenue compared to 33.5% in 2010. For 2011, 17.3% of revenue was government related, 7.0% was energy and 75.7% was other commercial. This compares to 14.1% government, 10.4% energy and 75.5% other commercial in 2010.

Gross profit was $34.5 million (14.0% of revenue) for 2011 as compared to gross profit of $20.7 million (14.9% of revenue) for 2010. Vessel construction gross profit increased $17.0 million for 2011 to a gross profit of $28.2 million compared to gross profit of $11.2 million for 2010. Repair and conversion gross profit decreased $3.2 million for 2011 to $6.3 million compared to $9.5 million for 2010.

Vessel construction gross profit margins increased to 14.2% for 2011, compared to gross profit margins of 12.2% for 2010. Vessel construction gross profit has increased primarily as a result of increased production hours and increased profit margins for contracts performed during 2011.

Repair and conversion gross profits margins were 13.2% for 2011, compared to gross profit margins of 20.5% for 2010. Repair and conversion gross profit has decreased as a result of a decrease in production hours, less profitable jobs and a few loss jobs.

Selling, general and administrative expenses (“SG&A”) increased $636,000, or 13.3%, to $5.4 million (2.2% of revenue) for 2011, as compared to $4.8 million (3.4% of revenue) for 2010. This increase in SG&A expenses was due to increases in employee related expenses, advertising, computer license agreements, directors fees, professional fees offset by a reduction in taxes and licenses.

Interest expense decreased $46,000 to $50,000 for 2011 as compared to interest expense of $96,000 for 2010. The decrease is primarily the result of a repayment of the Term Loan and a reduction in the outstanding balance of the Industrial Revenue Bonds. We expect interest expense in 2012 to be lower than 2011 due to the decrease in outstanding balances.

We had income tax expense of $10.8 million for 2011, compared to income tax expense of $5.9 million for 2010. 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 operations was $29.6 million, $11.4 million and $5.6 million for 2011, 2010, and 2009 respectively. The increase in 2011 was primarily the result of an increase in net income, decrease in accounts receivable, a decrease in inventory a decrease in other receivables, and an increase in accounts payable, accrued employee expense and accrued expenses offset by an increase in cost and estimated earnings in excess of billings. The increase in 2010 was primarily the result of a decrease in accounts receivable, a decrease in other receivables, and an increase in accounts payable offset by an increase in inventory and other assets and a decrease in net income and accrued expenses. We had a net decrease in debt of $1.3 million for 2011 and of $1.8 million in 2010 and 2009. Our working capital position was $67.1 million and $52.9 million at December 31, 2011 and 2010, respectively. The increase in working capital in 2011 was primarily the result of net income earned during the year. Management is currently engaged in a detailed business planning process to identify potential uses of the Company's cash.

During the third quarter of 2011, a customer advised that it was defaulting on contracts for the construction of five-LPG tank barges, four-30,000 bbl. tank barges, two-tow boats, four-7,500 bbl. tank barges and two-10,000 bbl tank barges. Except as noted below, all vessels subject to the default were sold to other customers prior to yearend with no adverse financial impact to the Company. The two tow boats and two of the 7,500 bbl. tank barges were in the early stages of construction, the contracts were cancelled, and the material for these has been included in our inventory. The two remaining 7,500 bbl. tank barges have not been sold and the contracts have not been cancelled. 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 do not expect any material adverse financial consequences due to the default of these remaining two barges. At December 31, 2011, Accrued Expenses includes $18.5 million payable to a customer for payments made by the customer on vessel construction contracts that were ultimately cancelled by mutual agreement. The customer was paid in February 2012, net of an outstanding amount of $2.3 million receivable due on a remaining contract.

Our net cash used in investing activities of $4.3 million in 2011 was primarily capital additions and improvements to facilities and equipment at our four locations to meet the increased demand for our services and to replace leased equipment with Company owned equipment. Our net cash used in investing activities of $2.9 million in 2010 was primarily capital additions and improvements at our four locations to increase capacity and operational efficiencies and to for improvements to facilities and equipment. Our net cash used in investing activities of $4.7 million in 2009 was primarily capital additions at our four locations to increased capacity and operational efficiencies and to replace leased equipment with Company owned equipment. For additional information on our internal expansion activities, see Business -- Overview -- Internal Expansion.

For 2012, the Board of Directors approved approximately $20.8 million in capital expenditures which includes a contract we entered into July 2011 to purchase 50 acres of property adjoining our Conrad Deepwater facility for approximately $5.5 million which is subject to customary closing conditions and is still pending. Other significant approved capital expenditures include bulkheading, upgrade to launch system and purchase of various cranes. 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. The board has indicated to management their desire to be prudent and if conditions are not favorable to postpone the less important expenditures.

In March of 2012, the Company learned that it was selected to receive a grant from The U.S. Maritime Administration in the amount of $1.1 million to construct a 2500 ton drydock extension. This grant is a portion of a $10 million appropriation by Congress for capital improvements and maritime training programs that will foster efficiency, competitive operations, and quality ship construction, repair and reconfiguration; and foster improved employee skills and enhanced productivity. The grant funds must be spent in 2 years or less; and in addition to various recordkeeping and reporting requirements, the grant requires the Company to spend $1.4 million in matching funds which is included in the 2012 approved capital expenditure program.

To fill in gaps in our construction schedules, we construct stock vessels from time to time. At December 31, 2009, we had eight stock barges under construction, which were included in our inventory at a cost of $8.2 million. At December 31, 2010, we had seven stock barges under construction, which were included in our inventory at a cost of $9.5 million. At December 31, 2011, we had eight stock barges and two tow boats, which were included in our inventory at a cost of $1.0 million. Our board has approved construction of up to $10 million in stock barges to the extent management deems appropriate to fill in gaps in our construction schedules and maintain operational efficiencies.

Net cash used by financing activities was $4.9 million for 2011, which included $1.3 million for the repayments of debt and $3.6 million for the purchase of treasury stock under the stock buyback program. Net cash used by financing activities was $2.1 million for 2010 which included $1.8 for the repayment of debt and $266,000 for the purchase of treasury stock under the stock buyback program.

Our long term debt is described in Note 6 to our financial statements included as an attachment to this report. We have outstanding letters of credit totaling $389,000.

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. At December 31, 2011, outstanding letters of credit and bonds amounted to $60.5 million. 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.

Our backlog was $47.1 million at December 31, 2011 as compared to $89.5 million at December 31, 2010 and $38.3 million at December 31, 2009. Subsequent to year end, we signed contracts totaling $61.8 million which includes the sales of six of the stock barges in progress at December 31, 2011. Our estimated backlog at March 31, 2012 is $68.7 million.

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 2012. We further believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2013.

Directors and Executive Officers

INFORMATION ABOUT THE DIRECTORS

Name	Age	Position	Year First Became a Director
J. Parker Conrad	96	Co-Chairman of the Board of Directors (Class III)	1998
John P. Conrad, Jr.	69	Co-Chairman of the Board of Directors, President and Chief Executive Officer (Class III)	1998
Cecil A. Hernandez	55	Director (Class I)	1998
Michael J. Harris	62	Director (Class II)	1998
Ogden U. Thomas, Jr.	66	Director (Class II)	2004

J. Parker Conrad founded our company and has served as Chairman of the Board from its inception in 1948 and as President from 1948 until 1994. Since March 1998, Mr. Conrad has served as Co-Chairman of the Board of Conrad Industries, Inc., our holding company formed at that time in connection with our initial public offering. Mr. Conrad is the father of John P. Conrad, Jr.

John P. Conrad, Jr. has been with our company since 1962, serving as Vice President since 1982, as Co-Chairman of the Board of Conrad Industries, Inc. since March 1998, and as President and Chief Executive Officer since April

2004. Mr. Conrad founded Johnny's Propeller Shop, Inc., a marine-related service company, in 1963 and is Chairman of the Board and Chief Executive Officer of this company. In 2000, Mr. Conrad and members of his immediate family founded Summit Management Group, L.L.C., which currently owns, among other investments, all of the outstanding ownership interests in Johnny's Propeller Shop and Bay Star Communications. Mr. Conrad is currently the Operating Manager of Summit Management Group.

Michael J. Harris has been a director of Conrad Industries since the consummation of the initial public offering in June 1998. Since May of 2005, Mr. Harris has been the President of Hope Christian Community Foundation, a charitable organization in Memphis, Tennessee. Previously, Mr. Harris was a Managing Director of Morgan Keegan & Company, Inc., where he was employed since 1986. Morgan Keegan was the lead managing underwriter of our initial public offering.

Cecil A. Hernandez has been a director of Conrad Industries since March 1998. Mr. Hernandez joined Conrad Industries in January 1998 and served as Vice President-Finance and Administration and Chief Financial Officer of Conrad Industries from 1998 until 2002. During August 2004, Mr. Hernandez returned to Conrad and served as Chief Operating Office and interim CFO until February 2005, at which time, he assumed the position of Executive Vice-President and Chief Financial Officer. From October 2002 to August 2004, Mr. Hernandez served as the President of Summit Management Group, L.L.C., a company formed by John P. Conrad, Jr. and his immediate family. Mr. Hernandez founded Hernandez & Blackwell CPAs in 1983 and served as its Managing Partner until December 1997. Hernandez & Blackwell CPAs merged with Darnall Sikes & Frederick CPAs in 1996. Additionally, Mr. Hernandez provided accounting and consulting services for Conrad Industries as the outside Certified Public Accountant from 1993 until 1997. From 1982 to 1983, Mr. Hernandez served as Assistant Controller for Oceaneering International, a publicly traded diving company. Mr. Hernandez was employed by the international accounting firm Deloitte Haskins & Sells (now Deloitte & Touche LLP) from 1979 to 1982.

Ogden U. Thomas, Jr. has been a director of Conrad Industries since April 2004. Mr. Thomas serves on the Board of Directors of Cross Group, Inc., a privately held group of companies servicing the oil and gas, marine services, offshore construction and deepwater services industries and from 2006 to 2011 served as that company's President and Chief Operating Officer. From 1988 to 2003, Mr. Thomas served as the President of the ENSCO Marine Company Division of ENSCO International, a leading offshore drilling contractor. Prior to that time, Mr. Thomas served in various management positions with Seahorse, Inc., a world-wide operator of offshore supply and anchor handling vessels and a subsidiary of Texas Eastern Corporation, and as President of the Drilling Services Division of Texas Eastern Corporation.

Set forth below is certain information concerning our current executive officers, including the business experience of each during the past five years.

Name	Age	Position with Conrad Industries
J. Parker Conrad	96	Co-Chairman of the Board
John P. Conrad, Jr.	69	President, Chief Executive Officer and Co-Chairman of the Board
Cecil A. Hernandez	55	Executive Vice President, Chief Financial Officer and Secretary
Terry T. Frickey	67	Vice President, Chief Operating Officer

Information regarding the business experience of Messrs. Conrad and Conrad, Jr. and Mr. Hernandez is set forth above under the heading "Information about the Directors."

Terry T. Frickey became Vice President and Chief Operating Officer of Conrad Industries in February 2005. Mr. Frickey served as Vice-President and General Manager of the Bollinger Houston shipyard prior to joining Conrad. Between 1999 and 2003 he was Manager of Repair Operations for the LEEVAC Industries Repair Group. Between 1994 and 1998 he served as President of Calcasieu Shipyard. From 1991 to 1994 he was President of Service Marine Industries, Inc. in Morgan City, Louisiana. He served as Chairman of the Shipbuilders Council of America in 2001.

Independent Directors Committee

We have two independent directors, as independence is defined by The NASDAQ Stock Market: Mr. Harris and Mr. Thomas. Messrs. Harris and Thomas serve on our Independent Directors Committee, which has the functions described in the Independent Directors Committee Charter, a copy of which was included with our 2011 proxy statement. These functions include being directly responsible for the appointment, compensation, retention and

oversight of the work of our independent auditors and approving all compensation and benefits provided to, and any employment agreement with, an executive officer of our company.

Executive Compensation

Summary Compensation Table

The following table provides summary information concerning compensation paid or accrued during the last three fiscal years to our Chief Executive Officer and to each of our other executive officers (each, a "Named Executive Officer" and, together, the "Named Executive Officers"). Except as noted below for fiscal years 2009, 2010 and 2011, none of the Named Executive Officers received perquisites, the aggregate value of which exceeded $10,000.

Name and Principal Position	Year	Annual Compensation Salary	Annual Compensation Bonus	All Other Compensation
J. Parker Conrad	2011	$ 121,000	$ 80,600 (1)	—
Co-Chairman of the Board	2010	121,000	51,725	—
	2009	121,000	57,000	—
John P. Conrad, Jr.	2011	330,000	549,300	$ 13,638 (3)
President, Chief Executive Officer and	2010	330,000	330,725	11,915
Co-Chairman of the Board	2009	330,000	388,600	11,919
Cecil A. Hernandez	2011	192,500	320,400	10,323 (3)
Executive Vice President, Chief Financial	2010	192,500	192,900	10,745
Officer and Secretary	2009	192,500	226,700	11,439
Terry T. Frickey (3).	2011	192,500	320,400	18,390 (2)
Vice President and Chief	2010	192,500	192,900	13,107
Operating Officer	2009	192,500	226,700	11,398

(1) Represents bonuses paid in 2011, 2010 and 2009 with respect to fiscal 2010, 2009 and 2008, respectively.
(2) Represents $3,765 paid by us under our 401(k) plan and $14,624 paid by us under our auto allowance program in 2011.
(3) Represents amounts paid by us under our auto allowance program.

Option Grants During 2011

There were no options granted during the fiscal year ended December 31, 2011.

There were 31,200 and 27,200 options outstanding and exercisable with a weighted average exercise price of $2.24 and $2.95 at December 31, 2010 and December 31, 2011, respectively. For additional information, see Note 7 to our financial statements in the attachment.

Directors' Compensation

Our directors who are employees do not receive any compensation for service on our Board of Directors or any committee. Our directors are, however, reimbursed for expenses incurred in connection with attending each Board and committee meeting. Directors who are not our employees receive a fee of $20,400 annually, plus $1,350 for attendance at each Board of Directors meeting and $500 for each committee meeting attended.

Agreements with Directors and Executive Officers

We have employment and non-competition agreements with Messrs. Conrad, Conrad, Jr., Hernandez and Frickey. These agreements were extended for one year beginning April 1, 2012 and the base salaries for Messrs. Conrad and Conrad, Jr., Mr. Hernandez and Mr. Frickey remained the same.

The agreements provide that the company will pay base salaries of $121,000 to Mr. Conrad, $330,000 to Mr. Conrad, Jr., $192,500 to Mr. Hernandez and $192,500 to Mr. Frickey. Each of the agreements with Messrs. Conrad, Conrad, Jr., Hernandez and Frickey provide for employment through March 31, 2013 and for annual extensions thereafter, subject to the parties' mutual agreement.

In addition, Messrs. Conrad, Jr., Hernandez and Frickey receive a monthly automobile allowance of $525, automobile insurance, and reimbursement for fuel and maintenance expenses.

The agreements also provide that each executive will be reimbursed for out-of-pocket business expenses and that each executive is eligible to participate in all benefit plans and programs as are maintained from time to time by us. The agreements prohibit the executives from competing with us during the term of their employment and for a period of two years, in the case of Messrs. Conrad and Conrad, Jr. and one year, in the case of Mr. Hernandez and Mr. Frickey, after the termination of their employment. The agreements also prohibit the executives from disclosing our confidential information and trade secrets.

Each agreement is terminable by us for "cause" upon ten days' written notice to the executive, and without "cause" by us upon the approval of a majority of our Board of Directors. Each agreement may also be terminated by the executive for "good reason" and, in the case of Messrs. Conrad and Conrad, Jr., may be terminated by the executive for any reason upon 30 days written notice to us.

In the event the employment of Mr. Conrad or Conrad, Jr. is terminated by us without "cause" or is terminated by Mr. Conrad or Conrad, Jr. for "good reason," Mr. Conrad or Conrad, Jr. (as the case may be) will be entitled to receive his base salary for one year at the rate then in effect, payable in monthly installments during the twelve months following the date of termination. In addition, the time period during which Mr. Conrad or Conrad, Jr. (as the case may be) will be restricted from competing with us will be shortened from two years to one year. In the event the employment of Mr. Hernandez or Mr. Frickey is terminated by us without "cause" or is terminated by Mr. Hernandez or Mr. Frickey for "good reason," Mr. Hernandez or Mr. Frickey, will be entitled to receive a payment equal to their base salary for one year at the rate then in effect, payable in monthly installments during the twelve months following the date of termination.

The agreements also provide that if, within two years following a change in control of the Company, the executive's employment is terminated by us other than for "cause" or by the executive for "good reason," or the executive is terminated by us within six months before a change in control at the request of the acquirer in anticipation of the change in control, the executive will be entitled to receive a lump sum severance amount equal to three years' base salary at the rate then in effect payable no earlier than six months following termination date. In addition, the provisions that restrict the executive's competition with us will no longer apply and, if any payment to an executive is deemed to be subject to the 20% excise tax on excess parachute payments, such executive will be made "whole" on a net after-tax basis.

A "change in control" is generally defined to occur upon (1) the acquisition by any person (other than the Company, a benefit plan of the Company, or a member of the Conrad family) of 30% or more of our total voting power within a 12-month period; (2) the consummation of a merger, recapitalization, reorganization, consolidation or sale of substantially all of our assets; (3) the approval by our stockholders of a liquidation or dissolution of the Company; or (4) a change in a majority of the members of our Board of Directors within a 12-month period. Moreover, a "parachute payment" is generally defined as any payment made by us in the nature of compensation that is contingent on a change in control of the Company and includes the present value of the accelerations of vesting and the payment of options and other deferred compensation amounts upon a change in control. If the aggregate present value of the parachute payments to certain individuals, including executives, equals or exceeds three times that individual's "base amount" (generally, the individual's average annual compensation from the company for the five calendar years ending before the date of the change in control), then all parachute payment amounts in excess of the base amount are "excess" parachute payments. An individual will be subject to a 20% excise tax on excess parachute amounts and we will not be entitled to a tax deduction for such payments.

We have also entered into indemnity agreements with all of our directors and executive officers requiring us to indemnify and advance expenses to them in connection with their service to our company to the fullest extent permitted by law. The agreements also require us to maintain directors' and officers' liability insurance, unless it is

not reasonably available or, in the reasonable business judgment of our directors, there is insufficient benefit to us from the insurance.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table presents certain information, as of March 23, 2012, regarding the beneficial ownership of our common stock (which includes shares that may be acquired upon the exercise of stock options vesting within 60 days) by:

- each person who is known by us to beneficially own more than five percent of our outstanding shares of common stock;
- each of our directors;
- the Named Executive Officers; and
- all of our current directors and executive officers as a group.

Except as described below, each of the persons listed in the table has sole voting and investment power with respect to the shares listed.

Beneficial Owner	Number of Shares	Stock Options	% of Total Outstanding (including options)
J. Parker Conrad(1)	1,138,762	—	18.7%
John P. Conrad, Jr.(2)	1,083,071	—	17.8%
Katherine C. Court(3)	734,658	—	12.1%
Terry T. Frickey	—	—	—
Michael J. Harris	6,000	—	*
Cecil A. Hernandez	93,968	2,000	1.6%
Ogden U. Thomas, Jr.	2,000	—	*
All directors and executive officers as a group(4) (6 persons)	2,228,306	2,000	36.6%

* Less than one percent.

(1) Includes 95,495 shares held by The Conrad Family Foundation, of which Messrs. Conrad and Conrad, Jr. act as co-trustees.

(2) Includes 374,216 shares held by The John P. Conrad, Jr. Trust for which Mr. Conrad, Jr. exercises sole voting and investment control as Trustee for the trust. Also includes 95,495 shares held by The Conrad Family Foundation, of which Messrs. Conrad and Conrad, Jr. act as co-trustees.

(3) Includes 459,161 shares held by The Katherine C. Court Trust and 275,497 shares held by The James P. Court Trust. Ms. Court exercises sole voting and investment control over these shares as Trustee for each of these trusts. The address of Ms. Court is 1501 Front Street, Morgan City, Louisiana, 70381.

(4) Excludes shares beneficially owned by Katherine C. Court, who is the daughter of Mr. Conrad and the sister of Mr. Conrad, Jr.

Certain Relationships and Related Transactions

During 2011, we purchased in the ordinary course of business certain components from Johnny's Propeller Shop, Inc. in the aggregate amount of approximately $2.5 million. Johnny's Propeller Shop is a wholly-owned subsidiary of Summit Management Group, L.L.C., which is owned by John P. Conrad, Jr., our President, Chief Executive Officer and Co-Chairman of the Board, and members of his immediate family. Mr. Conrad is currently the Operating Manager of Summit Management Group. We believe that such transactions were made on a competitive basis at market prices. The transactions have been approved by the Independent Directors Committee.

Annual Incentive Plan

We have established an annual incentive plan under which our key employees may be awarded cash bonuses based upon the achievement of certain performance goals. The payment of any bonuses is at the discretion of the Board.

Financial Statements

Our audited Financial Statements for the year ended December 31, 2011 are included as an attachment to this Annual Report.

2011 Quarterly Results of Operations

	Quarters ended							
	March 31, 2011		**June 30, 2011**		**September 30, 2011**		**December 31, 2011**	
Financial Data:								
Revenue								
Vessel construction	$54,267	86.1%	$45,928	78.1%	$ 48,339	78.1%	$ 50,052	79.8%
Repair and conversions	8,778	13.9%	12,874	21.9%	13,556	21.9%	12,660	20.2%
Total revenue	63,045	100.0%	58,802	100.0%	61,895	100.0%	62,712	100.0%
Cost of revenue								
Vessel construction	47,909	88.3%	38,741	84.4%	42,588	88.1%	41,114	82.1%
Repair and conversions	7,934	90.4%	10,482	81.4%	12,558	92.6%	10,592	83.7%
Total cost of revenue	55,843	88.6%	49,223	83.7%	55,146	89.1%	51,706	82.4%
Gross profit								
Vessel construction	6,358	11.7%	7,187	15.6%	5,751	11.9%	8,938	17.9%
Repair and conversions	844	9.6%	2,392	18.6%	998	7.4%	2,068	16.3%
Total gross profit	7,202	11.4%	9,579	16.3%	6,749	10.9%	11,006	17.6%
S G & A expenses	1,346	2.1%	1,431	2.4%	1,314	2.1%	1,325	2.1%
Income from operations	5,856	9.3%	8,148	13.9%	5,435	8.8%	9,681	15.4%
Interest expense	14	0.0%	14	0.0%	11	0.0%	11	0.0%
Other income/(expense), net	59	0.1%	65	0.1%	(4)	0.0%	747	1.2%
Income before income taxes	5,901	9.4%	8,199	13.9%	5,420	8.8%	10,417	16.6%
Income tax provision	2,181	3.5%	3,003	5.1%	1,965	3.2%	3,621	5.8%
Net income	$ 3,720	5.9%	$ 5,196	8.8%	$ 3,455	5.6%	$ 6,796	10.8%
EBITDA	$ 6,802	10.8%	$ 9,099	15.5%	$ 6,327	10.2%	$ 11,378	18.1%
Net cash provided by (used for) operating activities	$11,635		$ 5,053		$ (9,019)		$ 21,922	
Net cash used in investing	$ (386)		$ (1,004)		$ (1,207)		$ (1,599)	
Net cash used in financing activities	$ (447)		$ (658)		$ (1,414)		$ (2,391)	

SUPPLEMENTAL SELECTED QUARTERLY FINANCIAL DATA

Consolidated operating results for the four quarters of 2011 and 2010 were as follows (in thousands, except per share data):

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Fiscal 2011				
Revenue	$ 63,045	$ 58,802	$ 61,895	$ 62,712
Gross profit	7,202	9,579	6,749	11,006
Net income	3,720	5,196	3,455	6,796
Net income per share:				
Basic	0.58	0.81	0.54	1.09
Diluted	0.58	0.81	0.53	1.09
Fiscal 2010				
Revenue	$ 28,562	$ 37,213	$ 33,687	$ 39,379
Gross profit	4,059	6,864	3,773	6,053
Net income	1,743	3,621	1,645	3,276
Net income per share:				
Basic	0.27	0.56	0.26	0.51
Diluted	0.27	0.56	0.26	0.51

Section II

Consolidated Financial Report

CONRAD INDUSTRIES, INC.

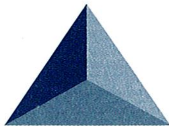
AND SUBSIDIARIES

Consolidated Financial Report

December 31, 2011

TABLE OF CONTENTS

	Page No.
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statements of Shareholders' Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-20



Darnall, Sikes, Gardes & Frederick
(A Corporation of Certified Public Accountants)

Eugene H. Darnall, CPA, Deceased 2009

E. Larry Sikes, CPA/PFS, CVA, CFP®
Danny P. Frederick, CPA
Clayton E. Darnall, CPA, CVA
Eugene H. Darnall, III, CPA
Stephanie M. Higginbotham, CPA
John P. Armato, CPA/PFS
J. Stephen Gardes, CPA, CVA
Jennifer S. Ziegler, CPA, CFP®
Chris A. Miller, CPA, CVA
Stephen R. Dischler, MBA, CPA
Steven G. Moosa, CPA
M. Rebecca Gardes, CPA
Pamela Mayeux Bonin, CPA, CVA
Joan B. Moody, CPA
Erich G. Loewer, III, CPA, M.S.Tax
Lauren V. Hebert, CPA/PFS
Barbara Ann Watts, CPA
Craig C. Babineaux, CPA/PFS, CFP®
Jeremy C. Meaux, CPA

Kathleen T. Darnall, CPA
Dustin B. Baudin, CPA, MBA
Kevin S. Young, CPA
Adam J. Curry, CPA
Chad M. Bailey, CPA
Carol C. Guillory, CPA
Christy S. Dew, CPA
Cecelia A. Hoyt, CPA
Blaine M. Crochet, CPA, M.S.
Rachel W. Ashford, CPA
Veronica L. LeBleu, CPA
Jacob C. Roberie, CPA
S. Luke Sonnier, CPA
Kyle P. Saltzman, CPA
Elise B. Faucheaux, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of Conrad Industries, Inc. and Subsidiaries
Morgan City, Louisiana

We have audited the accompanying consolidated balance sheets of Conrad Industries, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2011, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Conrad Industries, Inc. and Subsidiaries as of December 31, 2011 and 2010 and the results of operations and its cash flows for the years ended December 31, 2011, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

Darnall, Sikes, Gardes & Frederick

Lafayette, Louisiana
March 2, 2012

2000 Kaliste Saloom Rd.
Suite 300
Lafayette, LA 70508
Phone: 337.232.3312
Fax: 337.237.3614

1231 E. Laurel Avenue
Eunice, LA 70535
Phone: 337.457.4146
Fax: 337.457.5060

1201 Brashear Avenue
Suite 301
Morgan City, LA 70380
Phone: 985.384.6264
Fax: 985.384.8140

203 S. Jefferson Street
Abbeville, LA 70510
Phone: 337.893.5470
Fax: 337.893.5470

Member of:
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants
www.dsfcpas.com

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

ASSETS	December 31, 2011	December 31, 2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 43,650	$ 23,165
Accounts receivable, net	23,735	27,379
Costs and estimated earnings, net in excess of billings on uncompleted contracts	37,293	12,481
Inventories	2,318	10,571
Other receivables	286	416
Other current assets	2,563	3,023
Total current assets	109,845	77,035
PROPERTY, PLANT AND EQUIPMENT, net	38,438	37,760
OTHER ASSETS	30	37
TOTAL ASSETS	$ 148,313	$ 114,832
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 9,055	$ 8,724
Accrued employee costs	3,780	2,571
Accrued expenses	21,438	2,226
Current maturities of long-term debt	267	1,281
Billings in excess of costs and estimated earnings, net on uncompleted contracts	8,226	9,345
Total current liabilities	42,766	24,147
LONG-TERM DEBT, less current maturities	1,487	1,754
DEFERRED INCOME TAXES	7,694	7,503
OTHER NON-CURRENT LIABILITIES	900	1,500
Total liabilities	52,847	34,904
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 2011 and in 2010	73	73
Additional paid-in capital	29,039	29,039
Treasury stock at cost, 1,142,669 in 2011 and 887,630 shares in 2010	(13,580)	(9,951)
Retained earnings	79,934	60,767
Total shareholders' equity	95,466	79,928
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 148,313	$ 114,832

See independent auditor's report and notes to consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Year Ended December 31,		
	2011	2010	2009
REVENUE	$ 246,454	$ 138,841	$ 144,192
COST OF REVENUE	211,918	118,092	119,017
GROSS PROFIT	34,536	20,749	25,175
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,416	4,780	6,250
INCOME FROM OPERATIONS	29,120	15,969	18,925
INTEREST EXPENSE	(50)	(96)	(159)
OTHER INCOME, NET	867	348	771
INCOME BEFORE INCOME TAXES	29,937	16,221	19,537
PROVISION FOR INCOME TAXES	10,770	5,936	6,688
NET INCOME	$ 19,167	$ 10,285	$ 12,849
Income Per Share			
Basic	$ 3.02	$ 1.60	$ 2.00
Diluted	$ 3.01	$ 1.60	$ 1.99
Weighted Average Common Shares Outstanding			
Basic	6,345	6,426	6,439
Diluted	6,368	6,448	6,460

See independent auditor's report and notes to consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock $0.01 Par Value		Additional Paid-in	Treasury Stock at Cost		Retained	
	Shares	Amount	Capital	Shares	Amount	Earnings	Total
BALANCE—December 31, 2008	7,287	73	29,035	850	(9,685)	37,633	57,056
Net income	-	-	-	-	-	12,849	12,849
BALANCE—December 31, 2009	7,287	73	29,035	850	(9,685)	50,482	69,905
Purchase of treasury stock	-	-	-	38	(266)	-	(266)
Stock issued	4	-	4	-	-	-	4
Net income	-	-	-	-	-	10,285	10,285
BALANCE—December 31, 2010	7,291	73	29,039	888	(9,951)	60,767	79,928
Purchase of treasury stock	-	-	-	255	(3,629)	-	(3,629)
Net income	-	-	-	-	-	19,167	19,167
BALANCE—December 31, 2011	7,291	$ 73	$ 29,039	1,143	$ (13,580)	$ 79,934	$ 95,466

See independent auditor's report and notes to consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2011	**2010**	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 19,167	$ 10,285	$ 12,849
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	3,619	3,459	3,324
(Gain)/loss on sale of assets	(94)	1	-
Deferred income tax provision/(benefit)	1,572	(1,175)	342
Changes in assets and liabilities:			
Accounts receivable	3,644	1,206	(4,344)
Net change in billings related to cost and estimated earnings on uncompleted contracts	(25,931)	(4,612)	5,465
Inventory and other assets	7,462	237	(1,709)
Accounts payable, accrued expenses and other liabilities	20,152	2,009	(10,284)
Net cash provided by operating activities	29,591	11,410	5,643
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures for plant and equipment	(4,302)	(2,901)	(4,676)
Proceeds from sale of assets	106	11	-
Net cash used in investing activities	(4,196)	(2,890)	(4,676)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal repayments of debt	(1,281)	(1,788)	(1,789)
Increase in additional paid in capital	-	4	-
Purchase of treasury stock	(3,629)	(266)	-
Net cash used in financing activities	(4,910)	(2,050)	(1,789)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT	20,485	6,470	(822)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,165	16,695	17,517
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 43,650	$ 23,165	$ 16,695
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:			
Interest paid, net of capitalized interest	$ 50	$ 96	$ 159
Taxes paid	$ 7,650	$ 6,575	$ 13,919

See independent auditor's report and notes to consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation—The 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. New construction work and some repair work is performed on a fixed-price basis. We perform a significant amount of our repair work under time and materials agreements. All significant intercompany transactions have been eliminated.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition—We are engaged in various types of construction under long-term construction contracts. The accompanying financial statements have been prepared using the percentage-of-completion method of accounting and, therefore, take into account the estimated cost, estimated earnings and revenue to date on 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. 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.

Contract costs include all direct material, labor, and subcontracting costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, depreciation, and insurance costs. Revisions in estimates of cost and earnings during the course of the work are reflected in the accounting period in which the facts which require the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The Company provides warranties for the work we perform for periods ranging from 90 days to two years. We do not warrant machinery and equipment furnished by other manufacturers that become part of the vessels we build. The manufacturers' warranties are passed on to our customers. The warranty exposure for our workmanship, which is subject to our internal quality control programs as well as inspection by governmental agencies and customer representatives, is normally less than one percent of cost of revenue. This potential warranty exposure is recorded as a cost of the job pursuant to Statement of Position ("SOP") 81-1 (ASC 605-35) Accounting For Performance of Construction-Type and Certain Production Type Contracts.

Indirect costs are allocated to contracts and to certain inventory and capital projects on the basis of direct labor charges.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, and on deposit. Short-term investments with original maturities of over three months are also considered cash and cash equivalents because they can be easily liquidated without penalties.

Allowance for Doubtful Accounts—We estimate our allowance for doubtful accounts based on an evaluation of individual customer financial strength, current market conditions, and other information.

***Property, Plant and Equipment*—**Property, plant and equipment is stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the individual assets which range from three to forty years. Ordinary maintenance and repairs which do not extend the physical or economic lives of the plant or equipment are charged to expense as incurred.

***Interest Capitalization*—**Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. During the years ended December 31, 2011, 2010 and 2009, no interest costs were capitalized.

***Impairment of Long-Lived Assets*—**Long-lived assets held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We assess the recoverability of long-lived assets by determining whether the carrying values can be recovered through undiscounted net cash flows expected to result from such operations and assets over their remaining lives. If impairment is indicated, the asset is written down to its fair value, or if fair value is not readily determinable, to its estimated discounted net cash flows.

***Inventories*—**At December 31, 2011, inventories consisted of eight stock barges and two tow boats, steel plate and structurals, and excess job related materials and supplies. At December 31, 2010, inventories consisted of seven stock barges, steel plate and structurals, and excess job related materials and supplies. Inventories are stated at the lower of cost (first-in, first-out basis) or market.

***Basic and Diluted Income Per Share*—**Basic net income per share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per share uses the weighted average number of common shares outstanding adjusted for the incremental shares attributable to dilutive outstanding options to purchase common stock.

***Fair Value of Financial Instruments*—**The carrying amounts of our financial instruments including cash and cash equivalents, receivables, payables and long-term debt approximate fair value at December 31, 2011 and 2010.

In September 2006, the FASB issued ASC 820-10 which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement, which is effective for fiscal years beginning after November 15, 2007, applies to most FASB pronouncements that require fair value measurement but does not in itself require any new fair value measurements. We evaluated the provisions of ASC 820-10 and have determined there is no significant impact on our consolidated financial statements.

In February 2007, the FASB issued ASC 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statements No. 115*. ASC 825-10 permits all entities to choose, at specified election dates, to measure many eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We have evaluated the provisions of ASC 825-10 and have determined there is no significant impact on our consolidated financial statements.

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

In July 2006, the FASB issued ASC 740-10-50, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting and disclosure for uncertain tax positions, as defined. ASC 740-10-50 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. On January 1, 2007, we adopted the provisions of ASC 740-10-50. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements.

***Stock-Based Compensation*—**In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (R) (ASC 718), Share Based Payment. SFAS No. 123 (R) supersedes Accounting Principles Board ("APB") No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123 (R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. As permitted by SFAS No. 123, prior to January 1, 2006, we accounted for share-based payments to employees using the intrinsic value method and, as such, generally recognized no compensation expense for employee stock options.

We adopted SFAS No. 123(R) effective January 1, 2006 using the modified-prospective method. Under this method, we record compensation expense at fair value for all awards granted after the date of adoption of SFAS 123(R). In addition, we record compensation expense at fair value (as previous awards continue to vest) for the unvested portion of previously granted stock option awards that were outstanding as of the date of adoption. Prior periods' financial statements are not restated. As no employee stock options were granted in the current period and all stock awards are vested, the adoption of SFAS No. 123 (R) had no impact on our results of operations for the years ended December 31, 2011 and 2010. The impact on future periods will be dependent on levels of share based payments granted in the future.

***Subsequent Events*—**In May 2009, the FASB issued ASC 855, Subsequent Events which establishes general standards for accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This is effective for financial periods ending after June 15, 2009. We have evaluated events subsequent to the balance sheet through March 2, 2012, the date the financial statements were available to be issued.

2. RECEIVABLES

Receivables consisted of the following at December 31, 2011 and 2010 (in thousands):

	2011	2010
U.S. Government:		
Amounts billed	$ 2,380	$ 7,637
Unbilled costs and estimated earnings on uncompleted contracts	1,158	244
	3,538	7,881
Commercial:		
Amounts billed	21,355	19,742
Unbilled costs and estimated earnings on uncompleted contracts	36,135	12,237
Total	$ 61,028	$ 39,860

Included above in amounts billed is an allowance for doubtful accounts of $313,000 and $957,000 at December 31, 2011 and 2010 respectively. During 2009, $711,000 was added to the allowance for doubtful accounts primarily as a result of two customers filing for protection under Chapter 11 of the U.S. Bankruptcy

Code. A portion of these accounts are uncollectible and during the second quarter of 2011 were written off against the reserve.

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 December 31, 2011, substantially all is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of December 31, 2011 and 2010 is as follows (in thousands):

	2011	2010
Costs incurred on uncompleted contracts	$ 115,423	$ 51,889
Estimated earnings, net	17,353	5,502
	132,776	57,391
Less billings to date	(103,709)	(54,255)
	$ 29,067	$ 3,136

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

	2011	2010
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$ 37,293	$ 12,481
Billings in excess of cost and estimated earnings, net on uncompleted contracts	(8,226)	(9,345)
Total	$ 29,067	$ 3,136

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 charges of $2.2 million for the twelve months ended December 31, 2011 ($2.1 million in 2010) 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 December 31, 2011 and December 31, 2010, approximately $665,000 and $1.4 million, respectively, of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. OTHER RECEIVABLES

Other receivables consisted of the following at December 31, 2011 and 2010 (in thousands):

	2011	2010
Insurance claims receivable	$ 47	$ 203
Quality Jobs Program Rebate	236	210
Other	3	3
Total	$ 286	$ 416

Substantially all of these amounts at December 31, 2011 are expected to be collected within the next twelve months.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2011 and 2010 (in thousands):

	2011	2010
Land	$ 5,909	$ 5,275
Buildings and improvements	32,051	31,550
Machinery and equipment	22,157	20,114
Drydocks and bulkheads	11,953	11,536
Barges and boats	883	883
Office and automotive	3,031	2,678
Construction in progress	947	784
	76,931	72,820
Less accumulated depreciation	(38,493)	(35,060)
	$ 38,438	$ 37,760

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).

5. ACCRUED EXPENSE

At December 31, 2011, Accrued Expenses includes $18.5 million payable to a customer for payments made by the customer on vessel construction contracts that were ultimately cancelled by mutual agreement. The customer was paid in February 2012, net of an outstanding amount owed of $2.3 million on a remaining contract.

Initially, the customer advised that it was defaulting on contracts for the construction of five-LPG tank barges, four-30,000 bbl. tank barges, two-tow boats, four-7,500 bbl. tank barges and two-10,000 bbl tank barges. Except as noted below, all vessels subject to the default were sold to other customers prior to year end

with no adverse financial impact to the Company. The two tow boats and two of the 7,500 bbl. tank barges were in the early stages of construction, the contracts were cancelled, and the material for these has been included in our inventory. The two remaining 7,500 bbl. tank barges have not been sold and the contracts have not been cancelled. 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 do not expect any material adverse financial consequences due to the default of these remaining two barges.

6. LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2011 and 2010 (in thousands):

	2011	2010
Term loan - Bank, floating interest rate (2.190% at June 30, 2011), due August 31, 2011	$ -	$ 1,015
Industrial revenue bonds - St. Mary Parish, variable interest rate (2.277% at December 31, 2011), due August 1, 2018	1,754	2,020
	1,754	3,035
Less current maturities	(267)	(1,281)
	$ 1,487	$ 1,754

Annual maturities of long-term debt for each of the next five years and thereafter are as follows (in thousands):

	Amount
2012	$ 267
2013	267
2014	267
Thereafter	953
	$ 1,754

We have a Loan Agreement that governs our Revolving Credit Facility and Term Loan. Our Term Loan was paid in full on August 31, 2011. Our Revolving Credit Facility permits us to borrow up to $10 million and matures April 30, 2012. 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 December 31, 2011. 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. At December 31, 2011, we were in compliance with all covenants. At December 31, 2011 and 2010 we have 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 requires us to achieve specified job creation benchmarks: (1) by December 31, 2004, 35 jobs with a total annual payroll of at least $1,090,160, (2) by December 31, 2005, 81 additional jobs with an additional total annual payroll of at least $2,385,042, and (3) by December 31, 2006, 108 additional jobs (for a total of 224 new jobs) with an additional total annual payroll of at least $3,143,916 (for a total annual payroll of at least $6,619,118). These benchmarks must be sustained 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 at December 31, 2005, 2006, 2007, 2008, 2009, 2010 or 2011. We cannot predict whether we will be successful in meeting the job creation benchmarks for 2012; however, achieving the benchmarks will be difficult. We are in discussions with the State of Louisiana to amend the agreement. 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 2010.

As of December 31, 2011 approximately $1.5 million of equipment had been purchased with EDAP grant proceeds. Accordingly, as of December 31, 2010, a $1.5 million liability was included under the caption "Other Non-Current Liabilities." As a result of our discussion the liability was reduced to $900,000 for December 31, 2011. This amount will be amortized into other income in future periods when it is probable that the benchmarks will be achieved and repayment will not be required. Such amortization will be calculated using the ratio of monthly payroll targets achieved over the total payroll targets of the grant. No amounts were amortized into income for the years 2004 through 2010. For December 31, 2011 $600,000 was amortized into income.

The equipment purchased with the grant proceeds is owned by St. Mary Parish and is being leased to us for a term expiring December 31, 2012 or upon earlier termination of the EDAP agreement, 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. During the lease term, we have the option to purchase the equipment subject to the lease for the amount that may be owed to the state under the EDAP agreement, as agreed to by us and the state (generally, an amount of the grant commensurate with any unmet performance objectives). St. Mary Parish cannot terminate the lease due to our failure to meet the job creation benchmarks unless the state acts to obtain the return of all or a part of the grant. If the state does so, we can exercise our option to purchase the equipment and thereby cause the lease and the EDAP agreement to terminate. At the end of the lease term, provided we have complied with our obligations under the EDAP agreement, the equipment subject to the lease will be conveyed to us for a nominal sum. Alternatively, the lease term may be extended upon mutually satisfactory terms. The transaction is being accounted for as a financing and therefore the assets are included in our property, plant and equipment.

7. SHAREHOLDERS' EQUITY

Treasury Stock

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. The shares will be held as treasury stock.

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 6,345,167, 6,426,319 and 6,439,282 for the years ended December 31, 2011, 2010 and 2009 respectively. The number of weighted average shares outstanding for "diluted" income per share was 6,367,717, 6,447,822 and 6,459,973 for the years ended December 31, 2011, 2010 and 2009 respectively.

Stockholders' Rights Plan

During May 2002, we adopted a rights plan. 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. Each right initially entitles our stockholders to purchase one one-thousandth of a share of our preferred stock for $20 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.

The rights will expire on May 23, 2012, 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.

Stock Option Plan

In May 2002, we established the 2002 Stock Plan, which was amended in November 2005 (the "Stock Plan"). The Stock Plan permits the granting of any or all of the following types of awards: stock options, restricted stock, and various other stock-based awards. All officers and employees of, and any consultants to us or any affiliate are eligible for participation in all awards under the Stock Plan. Awards granted under the Stock Plan have a maximum term of ten years. The maximum number of shares that can be delivered under the 2002

Stock Plan is the sum of (1) 512,044 shares, plus (2) any shares represented by awards granted under the 1998 Stock Plan that are forfeited, expire or are cancelled without delivery of shares.

We established the 1998 Stock Plan in March 1998. The 1998 Stock Plan permitted the granting of any or all of the following types of awards: stock options, restricted stock, automatic director options, and various other stock-based awards. Only our non-employee directors received automatic grants of director options. Awards granted under the 1998 Stock Plan have a maximum term of ten years. A total of 950,000 shares were authorized and reserved for issuance and 246,742 shares were subject to outstanding awards when we adopted the 2002 Stock Plan. No further awards may be made under the 1998 Stock Plan.

The following is a summary of the option activity for the years ended December 31, 2011, 2010 and 2009:

	Weighted Avg. Price	Number of Options
Outstanding at December 31, 2008	2.91	48,200
Granted	-	-
Forfeited	2.77	(9,200)
Exercised	-	-
Outstanding at December 31, 2009	2.94	39,000
Granted	-	-
Forfeited	3.17	(5,800)
Exercised	2.12	(2,000)
Outstanding at December 31, 2010	2.95	31,200
Granted	-	-
Forfeited	-	-
Exercised	4.22	(4,000)
Outstanding at December 31, 2011	2.76	27,200
Exercisable at December 31, 2011	2.76	27,200
Exercisable at December 31, 2010	2.95	31,200
Exercisable at December 31, 2009	2.94	39,000

The following table summarizes information about stock options outstanding at December 31, 2011:

Exercise Price Range Per Share	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.24 - $2.95	27,200	1.85 years	$ 2.76	27,200	$ 2.76

The Company has not granted options since 2004 and all outstanding options are currently vested. As a result of the deregistering and delisting of the Company's common stock in March 2005, the Company will not be able to issue freely tradable stock upon exercise of stock options. Shares issued will be considered "restricted stock" and cannot be resold unless an exemption is available under the Securities Act of 1933, as amended (the "1933 Act") and applicable state securities laws for the resale, as evidenced to the satisfaction of the Company, or unless the resale is registered under the 1993 Act and applicable state securities laws. Employees should be able to take advantage of the exemption provided by Rule 144 under the 1933 Act to resell shares acquired upon exercise of an option but will be required to hold and not resell the stock for one year after the exercise date.

There were 39,000, 31,200, and 27,200 options outstanding and exercisable with a weighted average exercise price of $2.94, $2.95 and $2.76 at December 31, 2009, 2010 and 2011, respectively.

8. EMPLOYEE BENEFITS

We have a 401(k) plan that covers all employees who meet certain eligibility requirements. Contributions to the plan by us are made at the discretion of the Board of Directors. Contribution expense was $210,000, $189,000 and $203,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

9. INCOME TAXES

We have provided for Federal and State income taxes as follows (in thousands):

	2011	2010	2009
Current (benefit) provision	$ 9,198	$ 7,111	$ 6,346
Deferred (benefit) provision	1,572	(1,175)	342
Total	$ 10,770	$ 5,936	$ 6,688

State income taxes included above are not significant for the years presented.

The provision for income taxes varied from the Federal statutory income tax rate due to the following (in thousands):

	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Taxes at Federal statutory rate	$ 10,144	33.9	$ 5,677	35.0	$ 6,838	35.0
Special Deductions and Credits	(615)	(2.1)	(397)	(2.4)	(472)	(2.4)
Non-deductible penalties	-	0.0	7	-	-	-
Non-deductible other expenses, net of non-reportable income	106	0.4	107	0.7	(349)	(1.8)
State income taxes	1,135	3.8	542	3.3	671	3.4
Total	$ 10,770	36.0	$ 5,936	36.6	$ 6,688	34.2

Deferred income taxes represent the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effects of significant items comprising our net deferred tax balances at December 31, 2011 and 2010 are as follows (in thousands):

	2011	2010
Deferred tax liabilities:		
Differences between book and tax basis of property, plant and equipment	$ 7,724	$ 7,538
Capitalized Intangibles	(30)	(35)
	7,694	7,503
Deferred tax assets (included in other current assets):		
Contracts in progress	(108)	(1,252)
Accrued expenses not currently deductible	(979)	(1,216)
	(1,087)	(2,468)
Net deferred tax liabilities	$ 6,607	$ 5,035

10. SALES TO MAJOR CUSTOMERS

Sales to various customers, which amount to 10 percent or more of our total revenues for the three years ended December 31, 2011, 2010 and 2009 are summarized as follows (in thousands):

	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Customer A	$ 18,398	7%	$ 8,582	6%	$ 17,005	12%
Customer B	25,503	10%	577	0%	17,144	12%
Customer C	45	0%	19,779	14%	-	0%

11. RELATED PARTY TRANSACTIONS

We purchase in the ordinary course of business certain components from Johnny's Propeller Shop, Inc., a company wholly owned by John P. Conrad, Jr., Co-Chairman of the Board of Directors, President and Chief Executive Officer. Total purchases for the three years ended December 31, 2011, 2010, and 2009 were $2,465,000, $1,677,000, and $1,445,000, respectively.

12. 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". Intersegment sales and transfers are not significant.

Remainder of page left intentionally blank.

Selected information as to our operations by segment is as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Revenue:			
Vessel construction	$ 198,586	$ 92,291	$ 94,667
Repair and conversions	47,868	46,550	49,525
Total revenue	246,454	138,841	144,192
Cost of revenue:			
Vessel construction	170,352	81,077	79,481
Repair and conversions	41,566	37,015	39,536
Total cost of revenue	211,918	118,092	119,017
Gross profit:			
Vessel construction	28,234	11,214	15,186
Repair and conversions	6,302	9,535	9,989
Total gross profit	34,536	20,749	25,175
Selling, general and administrative expenses	5,416	4,780	6,250
Income from operations	29,120	15,969	18,925
Interest expense	(50)	(96)	(159)
Other income, net	867	348	771
Income before income taxes	29,937	16,221	19,537
Provision for income taxes	10,770	5,936	6,688
Net income	$ 19,167	$ 10,285	$ 12,849

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

	Years Ended December 31,		
	2011	2010	2009
Depreciation and amortization expense:			
Vessel construction	$ 1,653	$ 1,483	$ 1,382
Repair and conversions	1,841	1,817	1,695
Included in selling, general and administrative expenses	125	159	247
Total depreciation and amortization expense	$ 3,619	$ 3,459	$ 3,324

Total assets and capital expenditures by segment are as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Total assets:			
Vessel construction	$ 65,600	$ 51,435	$ 45,682
Repair and conversions	33,862	33,510	32,179
Other	48,851	29,887	24,252
Total assets	$ 148,313	$ 114,832	$ 102,113
Capital expenditures:			
Vessel construction	$ 2,924	$ 1,887	$ 2,815
Repair and conversions	932	1,006	1,814
Other	446	8	47
Total capital expenditures	$ 4,302	$ 2,901	$ 4,676

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.

13. 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 has 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 confirms that the fill is appropriately classified as not hazardous, the LDEQ will proceed to delist the fill through a rule-making process, which, when and if completed, should make the Company's disposal costs less expensive than if the fill were required to be disposed of as hazardous waste. The Company anticipates LDEQ will proceed with a rulemaking on the delisting by the second quarter of 2012. 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, 2012 which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of December 31, 2011, the minimum annual total compensation under these agreements was $836,000.

Construction Commitments — As of December 31, 2011, we had no outstanding commitments to pay for construction.

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 $60.5 million and $70.6 million at December 31, 2011 and 2010, respectively.