CONRAD INDUSTRIES, INC.

Quarterly Financial Report

September 30, 2016

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

Table of Contents

FORWARD-LOOKING STATEMENTS

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

An Important Note About This Report

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

Our Annual Report and other periodic reports to shareholders are available on the Company's website, www.ConradIndustries.Com, and at www.otcmarkets.com. Interested persons may also request copies directly from the Company; please direct requests and inquiries to Chief Financial Officer, Conrad Industries Inc., P. O. Box 790, Morgan City, LA, 70381, telephone (985) 702-0195. In particular, you should read this Quarterly Report along with our 2015 Annual Report.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

ASSETS	September 30, 2016	December 31, 2015
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,082	$ 46,922
Accounts receivable, net	12,168	10,136
Costs and estimated earnings, net in excess of billings on uncompleted contracts	38,897	23,643
Inventories	5,337	2,968
Other receivables	4,957	6,172
Other current assets	7,923	4,408
Total current assets	81,364	94,249
PROPERTY, PLANT AND EQUIPMENT, net	72,823	72,705
TOTAL ASSETS	$ 154,187	$ 166,954
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,520	$ 9,248
Accrued employee costs	3,332	3,853
Accrued expenses	3,541	2,102
Billings in excess of costs and estimated earnings, net on uncompleted contracts	13,721	17,770
Total current liabilities	27,114	32,973
DEFERRED INCOME TAXES	9,494	9,598
Total liabilities	36,608	42,571
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, 7,314,837 in 2016 and 2015	73	73
Additional paid-in capital	29,104	29,104
Treasury stock at cost, 2,184,671 in 2016 and 1,956,693 in 2015	(36,713)	(32,315)
Retained earnings	125,115	127,521
Total shareholders' equity	117,579	124,383
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 154,187	$ 166,954

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
REVENUE	$ 34,145	$ 67,868	$ 121,397	$ 201,471
COST OF REVENUE	37,832	64,610	117,981	188,515
GROSS PROFIT/(LOSS)	(3,687)	3,258	3,416	12,956
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,556	1,394	4,718	5,332
INCOME/LOSS FROM OPERATIONS	(5,243)	1,864	(1,302)	7,624
INTEREST EXPENSE	-	-	-	-
OTHER INCOME/(EXPENSE), NET	46	47	150	(509)
INCOME/LOSS BEFORE INCOME TAXES	(5,197)	1,911	(1,152)	7,115
PROVISION/(BENEFIT) FOR INCOME TAXES	(465)	(68)	(294)	(65)
NET INCOME/(LOSS)	$ (4,732)	$ 1,979	$ (858)	$ 7,180
Income Per Share				
Basic and Diluted	$ (0.92)	$ 0.35	$ (0.17)	$ 1.24
Weighted Average Common Shares Outstanding Basic and Diluted	5,138	5,703	5,191	5,785

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ (858)	$ 7,180
Adjustments to reconcile net income to cash provided by/ (used in) operating activities:		
Depreciation and amortization	5,212	4,628
Deferred income tax benefit	(3,395)	(817)
Loss on sale of assets	25	3
Changes in assets and liabilities:		
Accounts receivable	(2,032)	8,023
Net change in billings related to cost and estimated earnings on uncompleted contracts	(19,303)	(32,565)
Inventory and other assets	(1,378)	6,262
Accounts payable, accrued expenses and other liabilities	(1,810)	(2,954)
Net cash used in operating activities	(23,539)	(10,240)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for plant and equipment	(5,355)	(12,036)
Net cash used in investing activities	(5,355)	(12,036)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid or payable	(1,548)	(4,343)
Purchase of treasury stock	(4,398)	(6,765)
Net cash used in financing activities	(5,946)	(11,108)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(34,840)	(33,384)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	46,922	68,612
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,082	$ 35,228
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:		
Taxes paid	$ 350	$ 350

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Conrad Industries, Inc. and its wholly-owned subsidiaries (the "Company") which are primarily engaged in the construction, conversion and repair of a variety of marine vessels for commercial and government customers. The Company was incorporated in March 1998 to serve as the holding company for Conrad Shipyard, L.L.C. ("Conrad") and Conrad Orange Shipyard, Inc. ("Conrad Orange"). On June 29, 2012 Orange Shipbuilding Company, Inc.'s name was changed to Conrad Orange Shipyard, Inc. In addition, during the second quarter of 2003, Conrad Aluminum, L.L.C., a wholly owned subsidiary of Conrad, was organized as a vehicle to accommodate the Company's expansion into aluminum marine fabrication, repair, and conversion services. New construction work and some repair work are performed on a fixed-price basis. The Company performs the majority of repair work under cost-plus-fee agreements. All significant intercompany transactions have been eliminated. In the opinion of the management of the Company, the interim consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (such adjustments consisting only of a normal recurring nature) considered necessary for a fair presentation, have been included in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company's audited 2015 consolidated financial statements and related notes. The results of operations for the nine-month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

2. TRADE RECEIVABLES

Receivables consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
U.S. Government:		
Amounts billed	$ 10	$ -
Unbilled costs and estimated earnings on uncompleted contracts	57	10
	67	10
Commercial:		
Amounts billed	12,158	10,136
Unbilled costs and estimated earnings on uncompleted contracts	38,840	23,633
Total	$ 51,065	$ 33,779

Included above in amounts billed is an allowance for doubtful accounts of $1.1 million and $898,000 for September 30, 2016 and December 31, 2015, respectively. 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 September 30, 2016, the majority are expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of September 30, 2016 and December 31, 2015 is as follows (in thousands):

		September 30, 2016		December 31, 2015
Costs incurred on uncompleted contracts	$	95,729	$	104,526
Estimated earnings, net		(10,013)		7,575
		85,716		112,101
Less billings to date		(60,540)		(106,228)
	$	25,176	$	5,873

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

		September 30, 2016		December 31, 2015
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$	38,897	$	23,643
Billings in excess of cost and estimated earnings, net on uncompleted contracts		(13,721)		(17,770)
Total	$	25,176	$	5,873

Pursuant to SOP 81-1, Paragraph 85-89 (ASC 605-35), when the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract should be made in the period it became evident. The provision for the loss should be recorded as an additional contract cost in the income statement. The offsetting liability can be recorded on the balance sheet where related contract costs are accumulated on the balance sheet, in which case the provision may be deducted from the related accumulated costs. The Company recorded total charges of $8.0 million and $12.5 million for the quarter and the nine months ended September 30, 2016, respectively (and $4.7 million of charges for the year ended December 31, 2015) in cost of revenue to reflect revised estimates related to anticipated losses on uncompleted vessels in progress. The offsetting credit was recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of September 30, 2016 and December 31, 2015, approximately $16.5 million and $4.3 million, respectively, of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. INVENTORIES

At September 30, 2016, inventories consisted of three stock vessels under construction, steel plate and structurals, and excess job related materials and supplies. At December 31, 2015, inventories consisted of two stock vessels, steel plate and structurals, and excess job related materials and supplies.

4. OTHER RECEIVABLES

Other receivables consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Income tax refund	$ 4,935	$ 6,077
Insurance claims receivable	-	95
Other	22	-
Total	$ 4,957	$ 6,172

Substantially all of these amounts at September 30, 2016 are expected to be collected within the next twelve months.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Land	$ 12,806	$ 12,380
Buildings and improvements	64,753	57,005
Machinery and equipment	36,533	31,618
Drydocks and bulkheads	14,908	15,053
Barges and boats	1,055	883
Office and automotive	2,384	3,082
Construction in progress	2,710	10,541
	135,149	130,562
Less accumulated depreciation	(62,326)	(57,857)
	$ 72,823	$ 72,705

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

	Useful Lives
Land	N/A
Buildings and improvements	3-40 years
Machinery and equipment	5-12 years
Drydocks and bulkheads	3-30 years
Barges and boats	10-15 years
Office and automotive	3-12 years
Construction in progress	N/A

Building and improvements include buildings (40 year useful life), fencing, roadways, parking lots, concrete work areas, material storage racks and shelving, launch systems, and storage lockers (5 year useful life). Drydocks and bulkheads include drydocks (30 year useful life), bulkheads, pontoons, and blocking systems (5 year useful life).

6. LONG-TERM DEBT

We have no long-term debt at September 30, 2016 and December 31, 2015.

As of September 30, 2016, we have a Loan Agreement that governs our Revolving Credit Facility. Our Revolving Credit Facility permits us to borrow up to $10 million and matures April 30, 2017. The interest rate is Wall Street Journal prime rate or LIBOR plus two percent at our option. No amounts were outstanding on our Revolving Credit Facility as of September 30, 2016 and December 31, 2015. The Loan Agreement is secured by accounts receivable, accounts, documents, and chattel paper delivered to the lender and proceeds of the foregoing. The Loan Agreement contains customary restrictive covenants and requires the maintenance of certain financial ratios that could limit our use of available capacity under the Revolving Credit Facility. In addition, the Loan Agreement prohibits us from paying dividends and repurchasing stock without the consent of the lender and restricts our ability to incur additional indebtedness. The bank granted a waiver that allowed us to pay a special dividend on January 5, 2015, permitted the initiation in 2015 of a quarterly dividend of $.25 per share and permits the purchase of up to $20 million of stock. At September 30, 2016 and December 31, 2015, we were in compliance with all covenants. At September 30, 2016 and December 31, 2015, we had letters of credit of, $0 and $800,000, respectively, under the Loan Agreement.

7. SHAREHOLDERS' EQUITY

Income per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. The number of weighted average shares outstanding for "basic" and "diluted" income per share was 5,191,402 and 5,785,373 for the nine months ended September 30, 2016 and 2015, respectively. During the year ended December 31, 2015 and for the nine months ended September 30, 2016, there were no stock options outstanding.

Stockholders' Rights Plan

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

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

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

Special Cash Dividend

The Company paid a $1.00 per share special dividend on its common stock on January 5, 2015 to shareholders of record on December 23, 2014, totaling $5.9 million. The Company paid a $2.00 per share special dividend on its common stock on December 17, 2013 to shareholders of record on December 3, 2013, totaling $11.9 million.

Dividend

The Company initiated a quarterly dividend during the first quarter of 2015. During 2015, quarterly dividends of $0.25 per share were paid on April 14, 2015, June 16, 2015, September 17, 2015 and December 15, 2015. The first quarter 2016 dividend of $0.10 per share was paid on April 12, 2016 to shareholders of record on March 29, 2016. The second quarter dividend of $.10 per share was paid on June 14, 2016 to shareholders of record on May 24, 2016. The third quarter dividend of $.10 per share was paid on September 15, 2016 to shareholders of record on August 25, 2016. The Board has declared a dividend of $0.10 per share payable on December 13, 2016 to shareholders of record on November 22, 2016. Declaration of dividends is at the discretion of the Board each quarter, and will depend upon the Company's financial performance, cash requirements, outlook and other factors deemed relevant by the Board.

8. SEGMENT AND RELATED INFORMATION

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

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

Our product offerings in vessel construction have changed over time to meet market demands and currently include large and small deck barges, single and double hull tank barges, lift boats, ferries, push boats, offshore tug boats and offshore support vessels. 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 mid-bodies 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 evaluate the performance of our segments based upon gross profit. Selling, general and administrative expenses, executive compensation expense, interest expense, other income, net and income taxes are not allocated to the segments. Accounting policies are the same as those described in Note 1, "Summary of Significant Accounting Policies" in our audited 2015 consolidated financial statements. Intersegment sales and transfers are not significant.

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenue				
Vessel construction	$ 27,572	$ 60,866	$ 97,658	$ 177,674
Repair and conversions	6,573	7,002	23,739	23,797
Total revenue	34,145	67,868	121,397	201,471
Cost of revenue				
Vessel construction	31,895	57,486	97,025	164,610
Repair and conversions	5,937	7,124	20,956	23,905
Total cost of revenue	37,832	64,610	117,981	188,515
Gross profit/(loss)				
Vessel construction	(4,323)	3,380	633	13,064
Repair and conversions	636	(122)	2,783	(108)
Total gross profit/(loss)	(3,687)	3,258	3,416	12,956
S G & A expenses	1,556	1,394	4,718	5,332
Income/(loss) from operations	(5,243)	1,864	(1,302)	7,624
Interest expense	-	-	-	-
Other income/(expense), net	46	47	150	(509)
Income/(loss) before income taxes	(5,197)	1,911	(1,152)	7,115
Benefit for income tax	(465)	(68)	(294)	(65)
Net income/(loss)	$ (4,732)	$ 1,979	$ (858)	$ 7,180

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Depreciation and amortization expense:				
Vessel construction	$ 1,293	$ 982	$ 3,503	$ 2,788
Repair and conversions	507	554	1,546	1,673
Included in selling, general and administrative expenses	55	56	163	167
Total depreciation and amortization expense	$ 1,855	$ 1,592	$ 5,212	$ 4,628

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Capital expenditures:				
Vessel construction	$ 1,360	$ 4,444	$ 5,295	$ 11,877
Repair and conversions	(6)	100	205	147
Other	(145)	6	(145)	12
Total capital expenditures	$ 1,209	$ 4,550	$ 5,355	$ 12,036

Total assets by segment are as follows as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31 2015
Total assets:		
Vessel construction	$ 86,906	$ 73,307
Repair and conversions	38,943	34,691
Other	28,338	58,956
Total assets	$ 154,187	$ 166,954

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

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

9. COMMITMENTS AND CONTINGENCIES

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

Employment Agreements— We have employment agreements with certain of our executive officers which provide for employment of the officers through May 31, 2017, and which provide for extensions at the end of the term, subject to the parties’ mutual agreement. As of September 30, 2016, the minimum annual total compensation under these agreements was $950,000.

In May 2014, the Company adopted a long-term incentive compensation program for certain key employees who are not directors, under which a maximum of approximately $3 million in aggregate may be paid by the Company during a three-year period. These costs are accrued and expensed monthly over the vesting periods of the individual awards and were approximately $93,000 per month through December 31, 2015 and are $30,000 per month thereafter until April 30, 2017. Mr. Frickey retired from the Company effective January 1, 2016. Pursuant to the Company’s long-term incentive plan, the Independent Directors Committee determined to waive the remaining vesting period of Mr. Frickey’s $1.47 million award, which the Company paid at his retirement.

In May 2015, awards were made under the Company's long-term incentive plan to other key employees, under which a maximum of approximately $2.3 million in aggregate may be paid by the company during a five year period. These costs are accrued and expensed monthly over the vesting periods of the individual awards and are approximately $40,000 per month until May 12, 2019 and $32,000 per month thereafter until May 12, 2020.

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 $62.1 million and $52.1 million at September 30, 2016 and December 31, 2015, respectively.

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

There has been a significant delay in the claim review process because BP and class counsel were unable to agree on the criteria to be used to evaluate whether claims are moratoria related. We received a request from the accounting firm which is assisting the BP Claim Administrator for additional information on Conrad Aluminum, LLC's customer list, revenue, project descriptions, etc. in order for there to be a further evaluation as to whether the claim of Conrad Aluminum, LLC was moratoria related. We provided the requested information and we believe that the documentation provided further establishes that the claim of Conrad Aluminum, LLC is not related to the moratorium.

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

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

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

With respect to these Fifth Circuit panel decisions, BP requested an en banc hearing from the Fifth Circuit, which was denied.

The district court has allowed the claims process to resume. BP's application to the U. S. Supreme Court to stay the process pending BP's filing and the disposition of a petition for a Writ of Certiorari to the U. S. Supreme Court was denied. BP also requested that the U. S. Supreme Court review the merits of the underlying Fifth Circuit rulings. That request also was denied.

The moratoria review related to the claim of Conrad Aluminum, LLC and the other Conrad claimants has prolonged the claim review process. As it stands now, due to the lack of an agreement between BP and class counsel to establish the criteria for moratoria review, claimants who are subject to automatic moratoria review, such as the Conrad claimants, are not able to establish that their claims are not moratoria related and that they should be placed back into the claim review process.

BP also has initiated additional levels of "fraud review" and is aggressively challenging pending claims, which is further slowing down the processing of the claims.

We cannot predict the timing of the resolution of this matter or whether Conrad will ultimately receive any award. Any award we receive will be subject to income taxes. No amounts related to the claims have been recorded in our financial statements at September 30, 2016 or December 31, 2015.

10. SUBSEQUENT EVENTS

Dividend – In November, the Company declared a quarterly dividend of $0.10 per share of common stock. The dividend is payable on December 13, 2016 to shareholders of record on November 22, 2016.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes to consolidated financial statements included elsewhere in this report, and should be read in conjunction with our 2015 Annual Report.

Overview

We specialize in the construction, conversion and repair of a wide variety of steel and aluminum marine vessels for commercial and government customers. These vessels include tugboats, ferries, liftboats, barges, aluminum crew/supply vessels, and other offshore support vessels. We operate five shipyards: one in Morgan City, Louisiana; three in Amelia, Louisiana; and, one in Orange, Texas. For the nine months ended September 30, 2016 our new construction segment accounted for 80.4% of our total revenue and our repair and conversion segment accounted for 19.6% of our total revenue. For the year ended December 31, 2015, our new construction segment accounted for 89.1% of our total revenue and our repair and conversion segment accounted for 10.9% of our total revenue.

Our results for the first nine months of 2016 and for the year of 2015 reflect a continued challenging operating environment. In new construction, we have experienced a decline in demand for inland tank barges primarily used to transport petroleum products produced from shale plays, and believe that customers are continuing to delay orders for larger projects. The repair market continues to be soft, which we believe is due primarily to the decline in crude oil prices. We have experienced pricing pressure in both segments. These factors negatively impacted our results for 2015, and we currently expect these factors to continue to negatively impact our financial performance through 2016.

Net loss for the first nine months of 2016 was $858,000 compared to net income of $7.2 million for the same period in 2015, primarily reflecting a loss on the LNG barge. In our repair segment, for the first nine months of 2016, gross profit was $2.8 million, compared to a gross loss of $108,000 for the same period in 2015, reflecting continued solid performance in a very competitive environment. Gross profit and margins for our new construction segment were adversely impacted by the loss on the LNG barge.

We had record backlog at September 30, 2016 of $251.1 million. Backlog was $211.8 million at December 31, 2015 and $91.1 million at September 30, 2015. During the first nine months of 2016, we added $129.6 million of backlog, compared to $93.4 million added in the first nine months of 2015, which includes an ocean going tank barge, four twin screw tugs, two ATB tugs, four spud barges, a deck barge, a crane barge, two stop log barges and a LPG barge. We believe our capital improvement program at our Deepwater South yard has strengthened our ability to compete for these types of projects. Our management team is focused on effectively executing our backlog. In addition, while we have incurred losses on the LNG barge, we believe we have developed resources to establish our Company as a leader in LNG marine-related construction in North America.

During the first nine months of 2016 and for the year ended December 31, 2015, we received approximately 4.2% and 15.6%, respectively, of our total revenues from customers in the offshore oil and gas industry, 11.8% and 13.3% from government customers and 84.0% and 71.1% from other commercial customers.

We can experience significant changes in the price of steel due to the global demand. For additional information about steel prices, see our 2015 Annual Report.

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

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

Results of Operations

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

Conrad Industries, Inc. Summary Results of Operations

(In thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
Financial Data:								
Revenue								
Vessel construction	$ 27,572	80.7%	$ 60,866	89.7%	$ 97,658	80.4%	$ 177,674	88.2%
Repair and conversions	6,573	19.3%	7,002	10.3%	23,739	19.6%	23,797	11.8%
Total revenue	34,145	100.0%	67,868	100.0%	121,397	100.0%	201,471	100.0%
Cost of revenue								
Vessel construction	31,895	115.7%	57,486	94.4%	97,025	99.4%	164,610	92.6%
Repair and conversions	5,937	90.3%	7,124	101.7%	20,956	88.3%	23,905	100.5%
Total cost of revenue	37,832	110.8%	64,610	95.2%	117,981	97.2%	188,515	93.6%
Gross profit (loss)								
Vessel construction	(4,323)	-15.7%	3,380	5.6%	633	0.6%	13,064	7.4%
Repair and conversions	636	9.7%	(122)	-1.7%	2,783	11.7%	(108)	-0.5%
Total gross profit/(loss)	(3,687)	-10.8%	3,258	4.8%	3,416	2.8%	12,956	6.4%
S G & A expenses	1,556	4.6%	1,394	2.1%	4,718	3.9%	5,332	2.6%
Income from operations	(5,243)	-15.4%	1,864	2.7%	(1,302)	-1.1%	7,624	3.8%
Interest expense	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Other income/(expense), net	46	0.1%	47	0.1%	150	0.1%	(509)	-0.3%
Income/(loss) before income taxes	(5,197)	-15.2%	1,911	2.8%	(1,152)	-0.9%	7,115	3.5%
Income tax benefit	(465)	-1.4%	(68)	-0.1%	(294)	-0.2%	(65)	0.0%
Net income/(loss)	$ (4,732)	-13.9%	$ 1,979	2.9%	$ (858)	-0.7%	$ 7,180	3.6%
EBITDA (1)	$ (3,342)	-9.8%	$ 3,503	5.2%	$ 4,060	3.3%	$ 11,743	5.8%
Net cash provided by/(used in) operating activities	$ (14,928)		$ (5,317)		$ (23,539)		$ (10,240)	
Net cash used in investing activities	$ (1,209)		$ (4,550)		$ (5,355)		$ (12,036)	
Net cash used in financing activities	$ (1,267)		$ (4,442)		$ (5,946)		$ (11,108)	

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Net cash used in operating activities	$ (14,928)	$ (5,317)	$ (23,539)	$ (10,240)
Interest expense	-	-	-	-
Benefit for income taxes	(465)	(68)	(294)	(65)
Deferred income tax provision/(benefit)	1,409	187	3,395	817
Other	-	-	(25)	(3)
Changes in operating assets and liabilities	10,642	8,701	24,523	21,234
EBITDA	$ (3,342)	$ 3,503	$ 4,060	$ 11,743

Revenue for the third quarter of 2016 decreased $33.7 million, or 49.7%, to $34.1 million compared to $67.9 million for the third quarter of 2015, while revenue for the first nine months of 2016 reflected a decrease of $80.1 million, or 39.7%, compared to the same period in 2015. Vessel construction revenue decreased $33.3 million or 54.7% for the third quarter of 2016, and decreased by $80.0 million, or 45.0% for first nine months of 2016 compared to the same period in 2015, primarily due to lower volume and product mix. Repair and conversion revenue decreased $429,000 for the third quarter of 2016, or 6.1%, compared to the same period in 2015, while repair and conversion revenue decreased $58,000, or .2%, for the first nine months of 2016 compared to the same period in 2015.

Vessel construction hours for the third quarter of 2016 decreased 19.8%, when compared to the same period in 2015 and decreased 28.3% for the first nine months of 2016 compared to the same period in 2015. Repair and conversion hours decreased 3.7% for the third quarter of 2016 and decreased 3.8% for the first nine months of 2016 when compared to the same period in 2015.

For the nine months ended September 30, 2016, vessel construction revenue was 80.4% of total revenue compared to 88.2% for the same period in 2015 and repair and conversion revenue was 19.6% of total revenue compared to 11.8% for the same period in 2015. For the first nine-month period of 2016, 11.8% of revenue was government related, 4.2% was energy and 84.0% was other commercial. This compares to 9.6% government, 17.8% energy and 72.6% other commercial for the same period in 2015.

Gross profit for the third quarter of 2016 decreased $6.9 million, or 213.2%, and decreased $9.5 million, or 73.6%, for the first nine months of 2016 compared to the same periods of the prior year. Vessel construction gross profit decreased $7.7 million or 227.9%, to $-4.3 million for the third quarter of 2016 compared to $3.4 million for the third quarter of 2015, while vessel construction gross profit decreased $12.4 million or 95.2%, to $633,000 for the first nine months of 2016 compared to $13.1 million for the same period in 2015. Vessel construction gross profit for nine months ended September 30, 2016 reflects a $12.5 million loss on the LNG barge of which we recognized an $8.0 million loss in the third quarter and a $4.5 million loss in the second quarter. We recognized a $4.0 million loss on the LNG barge for the year ended December 31, 2015. The total LNG barge job-to-date loss is $16.5 million. The losses on the LNG barge primarily relate to vessel changes required by regulatory authorities, which increased costs and caused delays, and higher than expected equipment costs, resulting from the vessel being the first of its kind produced in North America. After discussions with our customer, we have adjusted our anticipated delivery date to the second quarter of 2017, and our revised contract terms are reflected in our projected loss on the project. While most of the regulatory review process has been completed, we continue to have regulatory and execution risk associated with completing the vessel.

Repair and conversion gross profit increased $758,000 for the third quarter of 2016 compared to the third quarter of 2015, while repair and conversion gross profit increased $2.9 million for the first nine months of 2016 compared to the same period in 2015.

Vessel construction gross profit margins decreased to -15.7% for the quarter, compared to 5.6% for the prior year quarter. Vessel construction gross profit margins decreased to 0.6% for the first nine months of 2016, compared to gross profit margins of 7.4% for the same period in 2015. Vessel construction gross profit and margins decreased primarily due to the loss on the LNG barge.

Repair and conversion gross profit margins increased to 9.7% for the quarter, compared to -1.7% for the prior year quarter. Repair and conversion gross profit margins increased to 11.7% for the first nine months of 2016, compared to gross profit margins of -0.5% for the same period in 2015. Repair and conversion gross profit increased primarily as a result of efficiencies and cost control efforts during the first nine months of 2016.

Selling, general and administrative expenses ("SG&A") increased $162,000, or 11.6%, for the third quarter of 2016 and decreased $614,000, or 11.5%, for the first nine months of 2016, compared to the same periods in 2015. The decrease for the nine months was primarily due to lower professional fees, contract services and employee expenses.

We had no interest expense for the quarter and the nine months ended September 30, 2016 and September 30, 2015. We had no long-term debt outstanding as of September 30, 2016 and September 30, 2015.

We had an income tax benefit of $465,000 for the third quarter of 2016 compared to the benefit of $68,000 for the same period in 2015, which included research and development tax credits of $800,000 for 2015. For the nine months ended September 30, 2016 the Company had income tax benefit of $294,000 compared to $65,000 for the same period of the prior year, which included research and development tax credits of $2.5 million for 2015. For the six months ended June 30, 2016 our tax provision included a benefit of $1.2 million as the result of the research and development credits we estimated for fiscal 2016. We also expected to record $1.2 million in such credits ratably over the third and fourth quarters of 2016. Due to the net loss for the nine months ended September 30, 2016, we are uncertain of the amount of the research and development tax credits that we will be able to recognize for 2016, if any. Accordingly, our tax provision for the nine months ended September 30, 2016 does not include any research and development tax credits, as such credits recorded for prior 2016 periods were reversed.

Liquidity and Capital Resources

Net cash used in operating activities was $23.5 million for the first nine months of 2016 compared to net cash used in operating activities of $10.2 million for the same period in 2015. The decrease in cash flow from the prior year is primarily due to the net loss and an increase in accounts receivable and in cost and estimated earnings in excess of billings. Our working capital position was $54.3 million at September 30, 2016 compared to $61.3 million at December 31, 2015. Cash and cash equivalents at September 30, 2016 and December 31, 2015 were $12.1 million and $46.9 million, respectively. Management continues to engage in a detailed business planning process in assessing the Company's cash position and potential resources in light of the challenging operating environment, new types of projects being pursued, and the Company's capital expenditure program. In response to market conditions, we have been providing more favorable payment terms to certain new construction customers, which decreases our cash balances and increases our costs and estimated earnings in excess of billings on uncompleted contracts, and we expect this trend to continue for at least the next few quarters. We are considering entering into a term loan to borrow up to $15 million in order to provide us with additional financial flexibility.

Our net cash used in investing activities of $5.4 million for the nine months ended September 30, 2016 reflected capital expenditures for facility improvements, equipment and machinery purchases. Other significant approved capital expenditures include improvements to increase capacity and operational efficiencies. For 2016, our Board of Directors approved $11.7 million in capital expenditures, which includes $7.0 million for the continued development of the Deepwater South facility, but has asked management to review capital expenditure needs and defer incurring costs if the business climate dictates. The additional improvements at Deepwater South will continue to enhance our ability to build larger vessels.

To fill in gaps in our construction schedules, we construct stock vessels from time to time. We have also constructed stock vessels for strategic business and marketing reasons. At December 31, 2015, we had two stock vessels which were included inventory at a cost of $1.7 million. At September 30, 2016 we have three stock vessels included in inventory with approximately $4.8 million in costs. Our board has approved construction of up to $20 million in stock vessels to the extent management deems appropriate.

Net cash used in financing activities for the nine months ended September 30, 2016 was $5.9 million, consisting of $1.5 million for dividends and $4.4 million for the purchase of stock under the stock buyback program, compared to net cash used in financing activities for the prior year of $11.1 million, consisting of dividends of $4.3 million and $6.8 million for the purchase of stock. For additional information on our common stock dividends, see Note 7 and 10.

During December 2014, our Board approved an increase in our stock repurchase program to $20 million. The program permits purchase of common stock in the open market or privately negotiated transactions, does not obligate us to acquire any particular amount of stock, does not have an expiration date and can be amended or terminated at any time without prior notice. During the first quarter of 2016, we purchased 181,075 shares at an average price of $19 per share. During the second quarter of 2016, we purchased 12,955 shares at an average price of $21 per share. During the third quarter of 2016, we purchased 33,948 shares at an average price of $22 per share. As of September 30, 2016, $3.2 million remained available under the program.

In the normal course of our business, we are required to provide letters of credit as security for our workers' compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations. Bonds and letters of credit relating to these business activities amounted to $62.1 million and $52.1 million at September 30, 2016 and December 31, 2015, respectively. We believe that general industry conditions have led customers to require performance bonds more often than in the past. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so. In addition, the cost of obtaining such bonds, letters of credit and similar obligations has increased and may continue to increase.

We believe that our existing working capital, cash flow from operations and bank commitments will be adequate to meet our working capital needs for operations and capital expenditures through 2016. We further believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2017.