CONRAD INDUSTRIES, INC.

Quarterly Financial Report

March 31, 2018

Section I

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

In this report and in the normal course of business, we, in an effort to help keep our stockholders and the public informed about our operations, may from time to time issue or make certain statements, either in writing or orally, that are or contain forward looking statements. All statements contained herein, other than statements of historical fact, are forward looking statements. When used in this report, the words "anticipate," "believe," "estimate," "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 2017 Annual Report.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

ASSETS	March 31, 2018	December 31, 2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 40,853	$ 29,470
Accounts receivable, net	18,177	29,054
Costs and estimated earnings, net in excess of billings on uncompleted contracts	21,892	23,283
Inventories	1,251	1,039
Other receivables	4,935	5,512
Other current assets	4,870	5,751
Total current assets	91,978	94,109
PROPERTY, PLANT AND EQUIPMENT, net	65,776	67,355
OTHER ASSETS	82	84
TOTAL ASSETS	$ 157,836	$ 161,548
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 7,034	$ 11,514
Accrued employee costs	3,282	2,968
Accrued expenses	708	411
Current maturities of long-term debt	1,500	1,500
Billings in excess of costs and estimated earnings, net on uncompleted contracts	15,847	15,705
Total liabilities	28,371	32,098
LONG-TERM DEBT, less current maturities	11,500	11,875
DEFERRED INCOME TAXES	5,451	5,647
Total liabilities	45,322	49,620
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 March 31, 2018 and December 31, 2017	73	73
Additional paid-in capital	29,104	29,104
Treasury stock at cost, 2,296,902 in March 31, 2018 and in December 31, 2017	(38,892)	(38,892)
Retained earnings	122,229	121,643
Total shareholders' equity	112,514	111,928
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 157,836	$ 161,548

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	March 31,	
	2018	**2017**
REVENUE	$ 50,288	$ 45,403
COST OF REVENUE	47,796	43,583
GROSS PROFIT	2,492	1,820
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,519	1,582
INCOME FROM OPERATIONS	973	238
INTEREST EXPENSE	(116)	(129)
OTHER INCOME/(EXPENSE), NET	2	61
INCOME BEFORE INCOME TAXES	859	170
PROVISION FOR INCOME TAXES	273	51
NET INCOME	$ 586	$ 119
Income Per Share		
Basic and Diluted	$ 0.12	$ 0.02
Weighted Average Common Shares Outstanding		
Basic and Diluted	5,018	5,096

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)
(Unaudited)

	Common Stock $0.01 Par Value		Additional Paid-in	Treasury Stock at Cost		Retained	
	Shares	Amount	Capital	Shares	Amount	Earnings	Total
BALANCE—December 31, 2015	7,315	$ 73	$ 29,104	1,957	$ (32,315)	$ 127,521	$ 124,383
Purchase of treasury stock	-	-	-	245	(4,790)	-	(4,790)
Stock issued	-	-	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	(2,060)	(2,060)
Net loss	-	-	-	-	-	(1,694)	(1,694)
BALANCE—December 31, 2016	7,315	73	29,104	2,202	(37,105)	123,767	115,839
Purchase of treasury stock	-	-	-	95	(1,787)	-	(1,787)
Stock issued	-	-	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(2,124)	(2,124)
BALANCE—December 31, 2017	7,315	73	29,104	2,297	(38,892)	121,643	111,928
Purchase of treasury stock	-	-	-	-	-	-	-
Stock issued	-	-	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	-	-
Net income	-	-	-	-	-	586	586
BALANCE—March 31, 2018	7,315	73	29,104	2,297	(38,892)	122,229	112,514

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 586	$ 119
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,809	1,861
Deferred income tax benefit	366	202
Loss on sale of assets	9	-
Changes in assets and liabilities:		
Accounts receivable	10,877	(11,486)
Net change in billings related to cost and estimated earnings on uncompleted contracts	1,533	16,922
Inventory and other assets	681	(614)
Accounts payable, accrued expenses and other liabilities	(3,868)	410
Net cash provided by operating activities	11,993	7,414
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for plant and equipment	(239)	(1,039)
Proceeds from sale of assets	4	-
Net cash used in investing activities	(235)	(1,039)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of debt	(375)	(375)
Purchase of treasury stock	-	(267)
Net cash used in financing activities	(375)	(642)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,383	5,733
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,470	11,874
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 40,853	$ 17,607
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	$ 116	$ 129
Taxes paid	$ -	$ -

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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 are 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 time and materials agreements 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 six-months to twelve-months. We do not warrant machinery and equipment furnished by other manufacturers that become part of the vessels we build, convert, or repair. 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 less than three months are also considered cash and cash equivalents because they can be easily liquidated without penalties.

Allowance for Doubtful Accounts—Accounts receivable is stated at cost, net of any allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the failure of customers to make required payments. The Company reviews the accounts receivable on a periodic basis and makes allowances where there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, the customer's payment history, and current credit worthiness.

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. No interest costs were capitalized at March 31, 2018 and December 31, 2017.

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. There was no impairment at March, 31, 2018.

Inventories—At March 31, 2018 and December 31, 2017, inventories consisted 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. The Company did not have any dilutive outstanding options for the first quarter of 2018 nor the first quarter of 2017.

Fair Value of Financial Instruments—The carrying amounts of our financial instruments including cash and cash equivalents, receivables and payables approximate fair value at March 31, 2018 and December 31, 2017.

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.

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 date through May 8, 2018, the date the financial statements were available to be issued, and determined that any events or transactions occurring during that period that would require recognition or disclosure are addressed in these financial statements.

2. RECEIVABLES

Receivables consisted of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
U.S. Government:		
Amounts billed	$ -	$ 2,130
Unbilled costs and estimated earnings on uncompleted contracts	2,132	1,356
	2,132	3,486
Commercial:		
Amounts billed	18,177	26,924
Unbilled costs and estimated earnings on uncompleted contracts	19,760	21,927
Total	$ 40,069	$ 52,337

Included above in amounts billed is an allowance for doubtful accounts of $1.6 million at March 31, 2018 and December 31, 2017, 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 March 31, 2018, the majority is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of March 31, 2018 and December 31, 2017 is as follows (in thousands):

	March 31, 2018	December 31, 2017
Costs incurred on uncompleted contracts	$ 194,706	$ 205,215
Estimated earnings, net	(26,959)	(26,833)
	167,747	178,382
Less billings to date	(161,702)	(170,804)
	$ 6,045	$ 7,578

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

	March 31, 2018	December 31, 2017
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$ 21,892	$ 23,283
Billings in excess of cost and estimated earnings, net on uncompleted contracts	(15,847)	(15,705)
Total	$ 6,045	$ 7,578

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 $1.1 million for the first quarter of 2018 and $14.6 million charges for the year ended December 31, 2017 in cost of revenues to reflect revised estimates related to anticipated losses on certain uncompleted vessels in progress. The offsetting credit was recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of March 31, 2018 and December 31, 2017, approximately $7.7 million and $12.5 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 March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Income tax refund	$ 4,934	$ 4,935
Insurance claims receivable	1	-
MARAD grant reimbursement	-	577
Total	$ 4,935	$ 5,512

Substantially all of these amounts at March 31, 2018 are expected to be collected within the next twelve months.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Land	$ 12,806	$ 12,806
Buildings and improvements	66,041	66,057
Machinery and equipment	38,474	38,464
Drydocks and bulkheads	15,282	15,282
Barges and boats	1,055	1,055
Office and automotive	2,610	2,610
Construction in progress	1,710	1,480
	137,978	137,754
Less accumulated depreciation	(72,202)	(70,399)
	$ 65,776	$ 67,355

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).

5. LONG-TERM DEBT

Long-term debt consists of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Term loan - Bank, 3.5% due November 21, 2026	$ 13,000	$ 13,375
Less current maturities	(1,500)	(1,500)
	$ 11,500	$ 11,875

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

	Amount
2018	$ 1,125
2019	1,500
2020	1,500
2021	1,500
2022	1,500
Thereafter	5,875
	$ 13,000

The Company and its subsidiaries entered into a new loan agreement on November 21, 2016, providing for a $15 million term loan and a $10 million revolving credit facility, superseding all prior loan agreements. The revolving credit facility matures on April 30, 2019 and has a sublimit of up to $4 million for letters of credit. The interest rate is the prime rate, or one-month LIBOR plus 1.5%, at the Company’s option. As of March 31, 2018, no amounts were drawn down on the revolving credit facility. The term loan has a 120-month amortization, a 3.5% fixed interest rate, and can be prepaid without penalty at any time. The loans are secured by accounts receivable, deposit accounts and chattel paper, and by two dry-docks. The loan agreement contains restrictions on mergers and liens on the collateral and the capital stock of our subsidiaries. Subject to compliance with financial covenants, the loan agreement does not restrict our ability to pay dividends, repurchase shares of common stock or incur additional indebtedness.

6. SHAREHOLDERS’ EQUITY

Dividends

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. During 2016, quarterly dividends of $0.10 per share were paid on April 12, 2016, June 14, 2016, September 15, 2016 and December 13, 2016. The declaration of future 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.

Treasury Stock

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 2017, we purchased 94,576 shares at an average price of

$19 per share. In the first quarter of 2018 there were no purchases of stock. As of March 31, 2018, $1.0 million remained available under the program.

Income per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. The number of weighted average shares outstanding for “basic” income per share was 5,017,935 and 5,096,488 for the first quarter of 2018 and 2017 respectively. For the first quarter of 2018 and 2017 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.

Stock Option Plan

In May 2002, we established the 2002 Stock Plan, which was amended in November 2005 (the “Stock Plan”). The Stock Plan permitted 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 were eligible for participation in all awards under the Stock Plan. Awards granted under the Stock Plan had a maximum term of ten years. The maximum number of shares that could be delivered under the 2002 Stock Plan was the sum of (1) 512,044 shares, plus (2) any shares represented by awards granted under a prior plan that were forfeited, expired or were cancelled without delivery of shares. As of March 31, 2018, and March 31, 2017 no awards remained outstanding under the Stock Plan. The Company does not intend to issue any additional awards under the Stock Plan.

The Company has not granted options since 2004 and as of March 31, 2018 has no outstanding options.

7. 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 $151,000 and $141,000 for the first quarter of 2018 and 2017, respectively. The plan was amended to become a Safe Harbor Matching Plan effective January 1, 2017, which increased our contribution expense.

8. INCOME TAXES

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Current (benefit) provision	$ (93)	$ (151)
Deferred (benefit) provision	366	202
Total	$ 273	$ 51

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

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

	Three Months Ended March 31,			
	2018		2017	
	Amount	%	Amount	%
Taxes at Federal statutory rate	$ 223	26.0	$ 58	34.0
Special Deductions and Credits	-	0.0	(30)	(18.0)
Non-deductible other expenses, net of non-reportable income	22	2.6	21	12.0
State income taxes	28	3.3	2	1.0
Total	$ 273	31.9	$ 51	29.0

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 March 31, 2018 and March 31, 2017 are as follows (in thousands):

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Deferred tax liabilities:		
Differences between book and tax basis of property, plant and equipment	$ 5,451	$ 8,914
Capitalized Intangibles	0	(4)
	5,451	8,910
Deferred tax assets (included in other current assets):		
Contracts in progress	(960)	(1,688)
Accrued expenses not currently deductible	(1,240)	(2,609)
	(2,200)	(4,297)
Net deferred tax liabilities	$ 3,251	$ 4,613

9. SALES TO MAJOR CUSTOMERS

Sales to various customers that amounted to 10 percent or more of our total revenues for the three months ended March 31, 2018 and March 31, 2017 are summarized as follows (in thousands):

	Three Months Ended March 31,			
	2018		2017	
	Amount	%	Amount	%
Customer A	13,061	26%	4,350	10%
Customer B	9,590	19%	20,364	45%
Customer C	447	1%	8,619	19%

10. RELATED PARTY TRANSACTIONS

We purchase in the ordinary course of business certain components from Johnny's Propeller Shop, Inc. ("JPS"), a company wholly owned indirectly by John P. Conrad, Jr., Chairman of the Board of Directors, President and Chief Executive Officer and members of his immediate family. Total purchases for the first quarter of 2018 and 2017 were $146,000 and $920,000, respectively. In addition, John P. Conrad Jr.'s son purchased an ownership interest in Power Panels, LLC ("PP"), from which we purchased electrical components totaling $56,000 and $31,000 for the first quarter of 2018 and 2017, respectively. These transactions were approved by the Independent Directors Committee.

11. 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.

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.

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

	Three Months Ended March 31, 2018	2017
Revenue		
Vessel construction	$ 42,420	$ 39,306
Repair and conversions	7,868	6,097
Total revenue	50,288	45,403
Cost of revenue		
Vessel construction	41,267	38,439
Repair and conversions	6,529	5,144
Total cost of revenue	47,796	43,583
Gross profit		
Vessel construction	1,153	867
Repair and conversions	1,339	953
Total gross profit	2,492	1,820
S G & A expenses	1,519	1,582
Income from operations	973	238
Interest expense	(116)	(129)
Other income/(expense), net	2	61
Income before income taxes	859	170
Provision for income taxes	273	51
Net income	$ 586	$ 119

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

	Three Months Ended March 31, 2018	2017
Depreciation and amortization expense:		
Vessel construction	$ 1,366	$ 1,350
Repair and conversions	429	496
Included in selling, general and administrative expenses	14	15
Total depreciation and amortization expense	$ 1,809	$ 1,861

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

	Three Months Ended March 31, 2018	2017
Capital expenditures:		
Vessel construction	$ 239	$ 1,086
Repair and conversions	-	(47)
Other	-	-
Total capital expenditures	$ 239	$ 1,039

	March 31, 2018	December 31 2017
Total assets:		
Vessel construction	$ 70,798	$ 88,440
Repair and conversions	35,855	31,979
Other	51,183	41,129
Total assets	$ 157,836	$ 161,548

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.

12. 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.

Employment Agreements— We have employment agreements with certain of our executive officers which provide for employment of the officers through May 31, 2018, and which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of March 31, 2018, 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 are approximately $93,000 per month until December 31, 2015 and $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. All other awards due under the plan for awards granted in May 2014 have been paid as of May 2017.

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 may be 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. Bonds relating to these business activities amounted to $55.8 million and $55.6 million at March 31, 2018 and December 31, 2017, respectively. We have no letters of credit at March 31, 2018 and December 31, 2017.

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 a 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, as moratoria losses are not recoverable under the settlement program.

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 Shipyard Amelia, LLC's customer list, revenue, project descriptions, and other information in order for there to be a further evaluation as to whether the claim of Conrad Shipyard Amelia, LLC was moratoria related. We provided the requested information and we believe that the documentation provided further establishes that the claim of Conrad Shipyard Amelia, LLC is not related to the moratorium. No additional documentation was requested for the other Conrad claimants.

The moratoria review related to the Conrad claimants has prolonged the claim review process. As of the date of this report, due to the lack of an agreement between BP and class counsel to establish the criteria for moratoria review, claimants who are subject to 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, or how to apportion the non-moratoria related and moratoria related parts of a claim. At this point, the Claims Administrator has no agreed-upon criteria pursuant to which it can evaluate such claims to determine if there is any relationship to the moratorium and if so how to apportion the claim between the part related to the moratorium and the part not related to the moratorium. Conrad, along with other similarly situated claimants in moratoria review, are evaluating their options moving forward.

We cannot predict the timing of the resolution of this matter or whether Conrad will ultimately receive any award, although the continuing resistance of BP to a reasonable resolution or settlement of the claims in moratoria review leads to significant uncertainty regarding whether we will recover any material amount from the settlement program. Any award we receive will be subject to income taxes. No amounts related to the claims have been recorded in our financial statements.

MARAD – In April 2016, the Company received a grant from the U. S. Maritime Administration to purchase equipment for Conrad Orange Shipyard. This grant is a portion of a $5 million appropriation by Congress for capital improvements and for maritime training programs at small shipyards. The grant funds must be spent in 2 years or less, and the Company must adhere to various recordkeeping and filing requirements. The Company must maintain title to the purchased equipment for a minimum of 2 years, and "Buy American" as much as practical. The total cost of the project is $1.2 million of which the Federal share for reimbursement is $605,000 and the Company is $605,000. The Company must expend the required portion before any portion of the Federal share is distributed. The Company elected to receive reimbursement at the completion of the project. At March 31, 2018 we have expended $1.2 million, and we were reimbursed in March 2018 for the government's portion. Therefore $0 and $577,000 is included in "Other Receivables" at March 31, 2018 and December 31, 2017, respectively.

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 2017 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 first quarter of 2018 our new construction segment accounted for 84.4% of our total revenue and our repair and conversion segment accounted for 15.6% of our total revenue. For the year ended December 31, 2017, our new construction segment accounted for 89.0% of our total revenue and our repair and conversion segment accounted for 11.0% of our total revenue.

Net income for the first quarter of 2018 was $586,000 compared to $119,000 for the first quarter of 2017, primarily as a result of higher volume and a loss on the LNG barge of $785,000 in the first quarter of 2018 compared to a $2.5 million loss in the first quarter of 2017. 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 and production hours, resulting from the vessel being the first of its kind produced in North America. We anticipate delivery during the third quarter of 2018. While most of the regulatory review process has been completed, we continue to have regulatory and execution risk associated with completing the vessel. 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.

Our results for the first quarter of 2018 and for the year 2017 reflect a continued challenging operating environment. In new construction, we continue to experience a soft market for energy transportation projects and projects related to the offshore oil and gas industry, and low demand for large barge project orders. The repair market continues to be soft, which continues to be impacted by low crude oil prices and depressed Gulf of Mexico activity. We have experienced pricing pressure in both segments. Some new construction customers are continuing to request favorable contract terms with smaller up-front and progress payments during construction. These factors negatively impacted our results for 2017, and continued to negatively impact our financial performance in the first quarter of 2018. Steel prices rose substantially in early 2018 and may continue to rise as a result of recently imposed tariffs, which may cause potential customers to delay projects and increase our costs. For additional information, see our 2017 Annual Report - Business – Overview – Material and Supplies.

We have been actively pursuing and have been successful in obtaining opportunities to produce different types of vessels for new markets. Some of these vessels are larger, take longer to start production and take longer to complete than the types of vessels we have constructed more often in the past. For example, in recent years, we have constructed barges larger than those we constructed historically, including 55,000 and 80,000 barrel tank barges, and articulated tug barges (ATBs) consisting of a large tank barge and a related tug that is positioned in a notch in the stern of the barge, enhancing the maneuverability of the barge. We believe our capital improvement program at our Deepwater South yard has strengthened our ability to compete for these types of projects. While these types of larger projects can entail additional risk, they can also supply us with a more consistent backlog for a longer period of time. During March 2015, we entered into a contract to construct the first LNG bunker barge to be built for the marine market in North America. The barge is scheduled for delivery during the third quarter of 2018.

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 the state of repair of the vessels operated by our customers and the relative cost to construct a new vessel as compared with repairing an older vessel. Because some of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment.

During the first quarter of 2018 and for the year ended December 31, 2017, we received approximately 4.9 % and 4.4%, respectively, of our total revenues from customers in the offshore oil and gas industry, 7.6% and 8.0% from government customers and 87.5% and 87.6% from other commercial customers.

During the first quarter of 2018, we added $35.4 million of backlog, as compared to $5.2 million added in the first quarter of 2017, which includes four spud barges, two anchor barges, four 30,000 bbl. barges, two LPG barges, and three 24,000 bbl. barges. Our backlog was $106.2 million at March 31, 2018, $111.3 million at December 31, 2017 and $183.0 million at March 31, 2017. As of March 31, 2018, approximately 51.6% of our backlog related to contracts for two commercial customers and one energy customer. As of December 31, 2017, approximately 66.0% of our backlog related to contracts for three commercial customers. Our management team is focused on effectively executing our backlog and on obtaining additional backlog.

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 volumes between contracted projects. We have also constructed stock vessels for strategic business and marketing reasons. The ultimate selling price and timing of the sales of stock vessels can have an impact on our revenue, profitability, and working capital. At March 31, 2018 and December 31, 2017, we had no stock vessel under construction. Our Board has approved construction of up to $20 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 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 conversion and repair services on a time and materials basis pursuant to which the customer pays a negotiated labor rate for labor hours spent on the project as well as the cost of materials plus a margin on materials purchased. Repair projects may take a few days to a few weeks, although some extend for a longer period.

Results of Operations

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

Conrad Industries, Inc. Summary Results of Operations
(In thousands)

	Three Months Ended March 31,					
	2018			2017		
Financial Data:						
Revenue						
Vessel construction	$	42,420	84.4%	$	39,306	86.6%
Repair and conversions		7,868	15.6%		6,097	13.4%
Total revenue		50,288	100.0%		45,403	100.0%
Cost of revenue						
Vessel construction		41,267	97.3%		38,439	97.8%
Repair and conversions		6,529	83.0%		5,144	84.4%
Total cost of revenue		47,796	95.0%		43,583	96.0%
Gross profit						
Vessel construction		1,153	2.7%		867	2.2%
Repair and conversions		1,339	17.0%		953	15.6%
Total gross profit		2,492	5.0%		1,820	4.0%
S G & A expenses		1,519	3.0%		1,582	3.5%
Income from operations		973	1.9%		238	0.5%
Interest expense		(116)	-0.2%		(129)	-0.3%
Other income/(expense), net		2	0.0%		61	0.1%
Income before income taxes		859	1.7%		170	0.4%
Provision for income taxes		273	0.5%		51	0.1%
Net income	$	586	1.2%	$	119	0.3%
EBITDA (1)	$	2,784	5.5%	$	2,160	4.8%
Net cash provided by operating activities	$	11,993		$	7,414	
Net cash used in investing activities	$	(235)		$	(1,039)	
Net cash used in financing activities	$	(375)		$	(642)	

(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):

	Three Months Ended March 31,	
	2018	2017
Net cash provided by operating activities	$ 11,993	$ 7,414
Interest expense	116	129
Provision for income taxes	273	51
Deferred income tax benefit	(366)	(202)
Other	(9)	-
Changes in operating assets and liabilities	(9,223)	(5,232)
EBITDA	$ 2,784	$ 2,160

Revenue for the first quarter of 2018 increased $4.9 million, or 10.8%, to $50.3 million compared to $45.4 million generated for the same period in 2017. The increase was due to a $3.1 million, or 7.9%, increase in new construction revenue and an increase of $1.8 million, or 29.0%, in repair revenue for the first quarter of 2018 compared to the same period in 2017. Vessel construction hours for the first quarter of 2018 increased 6.7%, when compared to the same period in 2017. Repair and conversion hours increased 11.8% for the first quarter of 2018 when compared to the same period in 2017.

For the first quarter of 2018, vessel construction revenue was 84.4% of total revenue compared to 86.6% for the same period in 2017 and repair and conversion revenue was 15.6% of total revenue compared to 13.4% for the same period in 2017. For the first quarter of 2018, 7.6% of revenue was government related, 4.9% was energy and 87.5% was other commercial. This compares to 6.5% government, .1% energy and 93.4% other commercial for the same period in 2017.

Gross profit was $2.5 million (5.0% of revenue) for the first quarter of 2018 compared to gross profit of $1.8 million (4.0% of revenue) for the same period of 2017. Vessel construction gross profit increased $286,000, or 33.0%, for the first quarter of 2018 compared to the first quarter of 2017. Repair and conversion gross profit increased $386,000, or 40.5%, for the first quarter of 2018 compared to the first quarter of 2017.

Vessel construction gross profit margins increased to 2.7% for the first quarter of 2018, compared to gross profit margins of 2.2% for the same period of the prior year. Vessel construction gross profit and margin increased primarily as a result of a loss on the LNG barge of $785,000 in the first quarter of 2018 compared to a $2.5 million loss in the first quarter of 2017.

Repair and conversion gross profit margins increased to 17.0% for the first quarter of 2018, compared to gross profit margins of 15.6% for the same period of 2017. Repair and conversion gross profit margin increased primarily as a result of increased hours, better margin jobs and cost control efforts during the first quarter of 2018.

Selling, general and administrative expenses ("SG&A") were $1.5 million (3.0% of revenue) for the first quarter of 2018, as compared to $1.6 million (3.5% of revenue) for the same period in 2017.

Interest expense decreased to $116,000 for the first quarter 2018, as compared to $129,000 for the same period of 2017. The decrease is due to the reduction in the outstanding balance of the term loan. See Note 5 for additional information.

We had an income tax expense of $273,000 for the first quarter of 2018 compared to the expense of $51,000 for the same period in 2017. The increase in tax expense is primarily attributable to the increase in net income. We are uncertain of the amount of the research and development tax credits that we will be able to recognize for 2018, if any. Accordingly, our tax provision for the first quarter of 2018 does not include any research and development tax credits.

Liquidity and Capital Resources

Net cash provided by operating activities was $12.0 million for the first quarter of 2018 compared to $7.4 million for the same period in 2017. The increase in cash flow from the prior year is primarily due to the decrease in accounts receivable and partially offset by the decrease in accounts payable. Our working capital position was $63.6 million at March 31, 2018 compared to $62.0 million at December 31, 2017. Cash and cash equivalents at March 31, 2018 and December 31, 2017 were $40.9 million and $29.5 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

Our net cash used in investing activities of $235,000 for the first quarter of 2018 reflected capital expenditures for facility improvements, equipment and machinery purchases. Other significant approved capital expenditures include improvements to increase capacity and operational efficiencies. For 2018, our Board of Directors approved $1.8 million in capital expenditures, but has asked management to review capital expenditure needs and defer incurring costs if the business climate dictates.

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, 2017 and March 31, 2018, we had no stock vessel under construction. 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 first quarter of 2018 was $375,000 for repayment of debt, compared to net cash used in financing activities for the prior year of $642,000, consisting $375,000 for repayment of debt and $267,000 for the purchase of stock. Our board did not declare a dividend during the first quarters of 2018 or 2017. Declaration of the 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. For additional information on our common stock dividends, see page 20 of our 2017 Annual Report.

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 2017, we purchased 94,576 shares at an average price of $19 per share. In the first quarter of 2018 there were no purchases of stock. As of March 31, 2018, $1.0 million remained available under the program. For additional information on our stock repurchase program, see page 20 of our 2017 Annual Report.

Our long term-debt is described in Note 5 of our financial statements. In the fourth quarter of 2016, we entered into a $15.0 million term loan. We also have a $10.0 million revolving credit facility and no amounts were drawn on the facility as of March 31, 2018 or December 31, 2017. We have no outstanding letters of credit as of March 31, 2018 or December 31, 2017. As of March 31, 2018, we were in compliance with the covenants under our loan agreement.

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 $55.8 million and $55.6 million at March 31, 2018 and December 31, 2017, 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 2018.

CONRAD INDUSTRIES, INC.

OTC Pink Basic Disclosure Guidelines

March 31, 2018

Section II

Conrad Industries, Inc. March 31, 2018 Quarterly Report

OTC Pink Basic Disclosure Guidelines

1) Name of the issuer and its predecessors (if any)

Conrad Industries, Inc.

2) Address of the issuer's principal executive offices

Company Headquarters

1100 Brashear Avenue, Suite 200
Morgan City, Louisiana 70380
Phone: 985-702-0195
Website: http://www.conradindustries.com/

IR Contact

Cecil A. Hernandez
1100 Brashear Avenue, Suite 200
Morgan City, Louisiana 70380
Email: investors@conradindustries.com
Website: http://www.conradindustries.com/about/investor-information/

3) Security Information

Trading Symbol:	CNRD
Exact title and class of securities outstanding:	Common Stock
CUSIP:	208305102
Par or Stated Value	$0.01
Total shares authorized:	20,000,000 as of March 31, 2018
Total shares outstanding:	5,017,935 as of March 31, 2018

Additional class of securities:

Trading Symbol:	No trading symbol
Exact title and class of securities outstanding:	Preferred Stock
CUSIP:	No CUSIP number
Par or Stated Value	$0.01
Total shares authorized:	5,000,000 as of March 31, 2018
Total shares outstanding:	None as of March 31, 2018

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

Is the Transfer Agent registered under the Exchange Act?* Yes: ☒ No: ☐

List any restrictions on the transfer of security:

As of March 31, 2018, there were 5,017,935 shares of our Common Stock outstanding. Approximately 3 million of these shares are freely tradable and not subject to any restrictions on transfer. The remaining shares of our Common Stock that are outstanding are not registered under the Securities Act of 1933 and may only be sold publicly following registration or pursuant to an exemption therefrom. Additionally, our Common Stock is subject to our Shareholders' Rights Plan, which was adopted in 2002 and amended in 2012 (as amended, the "Plan"). In accordance with the Plan, we declared and paid a dividend on June 22, 2002 of one "right" for each share of Common Stock. Each right entitles our stockholders to purchase one one-thousandth of a share of our preferred stock for $70 per one-thousandth of a share, subject to adjustment. However, if a person or group of persons (the "Acquiring Person") acquires 15 percent or more of our outstanding Common Stock or commences a tender offer that would result in the 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, such rights will become exercisable by all holders, except the Acquiring Person, for shares of Common Stock (or of the Acquiring Person) having a market value of twice the purchase price of the rights. The Plan will expire on May 23, 2022, unless the rights are 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 is currently no separate certificate evidencing the rights.

Describe any trading suspension orders issued by the SEC in the past 12 months.

There have been no trading suspension orders issued by the SEC in the past 12 months.

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

The Company considers these types of transactions from time to time and plans to disclose them when and as determined by the Board to be appropriate and as required by law.

4) Issuance History

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of equity securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);

None

B. Any jurisdictions where the offering was registered or qualified;

None

C. The number of shares offered;

None

D. The number of shares sold;

None

E. The price at which the shares were offered, and the amount actually paid to the issuer;

Not applicable.

F. The trading status of the shares; and,

Not applicable.

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

Not applicable.

5) Financial Statements

See Section I of this Quarterly Financial Report, which contains unaudited financial statements for the quarter ended March 31, 2018. A copy of the financial statements is attached to this Disclosure and such financial statements are incorporated by reference herein. Section I includes the following unaudited financial statements:

A. Consolidated Balance Sheets;
B. Consolidated Statements of Operation;
C. Consolidated Statements of Shareholders' Equity;
D. Consolidated Statements of Cash Flows; and,
E. Notes to the Unaudited Consolidated Financial Statements.

All such financial statements were prepared in accordance with generally accepted accounting principles in the United States by persons with sufficient financial skills.

6) Describe the Issuer's Business, Products and Services

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. A description of the issuer's business operations;

Conrad Industries specialize in the construction, conversion and repair of a wide variety of steel and aluminum marine vessels, including barges, tug boats, tow boats, ferries, and lift boats. Through our subsidiaries, we operate five shipyards in Louisiana and Texas that serve a variety of customers and markets. For the three months ended March 31, 2018, our new construction segment accounted for 84.4% of our total revenue and our repair and conversion segment accounted for 15.6% of our total revenue. For additional information regarding our business operations, please see Section I of our 2017 Annual Report – "*Business Overview*," beginning on page 5.

B. Date and State (or Jurisdiction) of Incorporation;

The Company was incorporated on June 3, 1998, in the State of Delaware.

C. The issuer's primary and secondary SIC Codes;

3730 – Ship and Boat Building and Repairing

D. The issuer's fiscal year end date; and

December 31

E. Principal products or services, and their markets.

Conrad Industries specializes in the construction, repair and conversion of marine vessels at its shipyards in Louisiana and Texas. The Company serves a variety of markets. For additional information regarding our products and principal markets, please see Section I of our 2017 Annual Report – "*Business Overview,*" beginning on page 5.

7) Describe the Issuer's Facilities

Through our subsidiaries, we own and operate five shipyards: one in Morgan City, Louisiana, three in Amelia, Louisiana, and one in Orange, Texas. For a detailed description of our facilities, please see Section I of our 2017 Annual Report – "*Properties,*" beginning on page 18.

8) Officers, Directors, and Control Persons

For detailed information regarding our directors and executive officers, please see Section I of our 2017 Annual Report – "*Directors and Executive Officers,*" beginning on page 30. For more information regarding the beneficial ownership of our Common Stock, including the identity and ownership of control persons, as defined in subsection A of this Item 8, please see Section I of our 2017 Annual Report – "*Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,*" beginning on page 34.

A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

Executive Officers

1. John P. Conrad, Jr. – President, Chief Executive Officer and Chairman of the Board
2. Cecil A. Hernandez – Executive Vice President, Chief Financial Officer and Secretary
3. Scott J. Theriot – Executive Vice President and Chief Operating Officer
4. Daniel T. Conrad – Senior Vice President

Current Directors

1. John P. Conrad, Jr., Chairman
2. Cecil A. Hernandez
3. Michael J. Harris;
4. Ogden U. Thomas, Jr.
5. Daniel T. Conrad

Control Persons (as defined above)

John Parker Conrad Family, L.L.C.

The John Parker Conrad Family, L.L.C. is the beneficial owner of 1,043,267 shares, or 20.8%, of our Common Stock. John P. Conrad, Jr. and Katherine C. Court are the sole managers of the John Parker Conrad Family L.L.C.

John P. Conrad, Jr.

Mr. Conrad is the beneficial owner of 2,124,920 shares, or 42.3%, of our Common Stock. This includes the 1,043,267 shares of Common Stock beneficially owned by the John Parker Conrad Family, L.L.C., of which Mr. Conrad and Ms. Court are the sole managers.

Katherine C. Court

Ms. Court is the beneficial owner of 1,043,267 shares, or 20.8%, of our Common Stock. This includes the 1,043,267 shares of Common Stock beneficially owned by the John Parker Conrad Family, L.L.C., of which Mr. Conrad and Ms. Court are the sole managers.

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of;

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

   No

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

   No

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

   No

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

   No

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

John Parker Conrad Family, L.L.C.

The John Parker Conrad Family, L.L.C. is the beneficial owner of 1,043,267 shares, or 20.8%, of our Common Stock. John P. Conrad, Jr. and Katherine C. Court are the sole managers of the John Parker Conrad Family L.L.C. Mr. Conrad's address is 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana, 70380. Ms. Court's address is 979 Coyote Trl., Round Mountain, Texas, 78663.

John P. Conrad, Jr.

Mr. Conrad is the beneficial owner of 2,124,920 shares, or 42.3%, of our Common Stock. This includes the 1,043,267 shares of Common Stock beneficially owned by the John Parker Conrad Family, L.L.C., of which Mr. Conrad and Ms. Court are the sole managers. Mr. Conrad's address is 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana, 70380.

Katherine C. Court

Ms. Court is the beneficial owner of 1,043,267 shares, or 20.8%, of our Common Stock. This includes the 1,043,267 shares of Common Stock beneficially owned by the John Parker Conrad Family, L.L.C., of which Mr. Conrad and Ms. Court are the sole managers. Ms. Court's address is 979 Coyote Trl., Round Mountain, Texas, 78663.

9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

Legal Counsel

Jones Walker, LLP
8555 United Plaza Boulevard
Baton Rouge, Louisiana 70809
(225) 248-2000
drousseau@joneswalker.com

Accountant or Auditor

Darnall, Sikes & Frederick
2000 Kaliste Saloom Road
Lafayette, Louisiana 70508
(337) 232-3312
jeremym@dsfcpas.com

Investor Relations Consultant

None

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.

None

10) Issuer Certification

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

The certifications shall follow the format below:

I, John P. Conrad, Jr. and Cecil A. Hernandez, certify that:

1. I have reviewed this quarterly report of Conrad Industries, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 15, 2018

/s/ *John P. Conrad, Jr.*	*/s/ Cecil A. Hernandez*
John P. Conrad, Jr.	Cecil A. Hernandez
Chief Executive Officer	Chief Financial Officer