CONRAD

Industries, Inc.

2018 Annual Report

Section I

Conrad Industries, Inc.

Notice of the Annual Meeting and Proxy Statement

CONRAD INDUSTRIES, INC.
1100 Brashear Avenue
Suite 200
Morgan City, Louisiana 70380-0790

July 12, 2019

TO OUR STOCKHOLDERS:

You are cordially invited to attend our 2019 Annual Meeting of Stockholders to be held on Thursday, August 8, 2019 at 9:00 a.m., local time, at our corporate offices, 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana. A Notice of the Annual Meeting, proxy statement and proxy card are enclosed with this letter.

We encourage you to read the Notice of the Annual Meeting, proxy statement and proxy card so that you may be informed about the business to come before the meeting. Your participation in our business is important, regardless of the number of shares that you hold. To ensure your representation at the meeting, please promptly sign and return the accompanying proxy card in the enclosed postage-paid envelope.

We look forward to seeing you on August 8, 2019.

Sincerely,

/s/ John P. Conrad, Jr.

John P. Conrad, Jr.
Chief Executive Officer

CONRAD INDUSTRIES, INC.
1100 Brashear Avenue
Suite 200
Morgan City, Louisiana 70380-0790

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD AUGUST 8, 2019

To our Stockholders:

When and Where. Our 2019 Annual Meeting of Stockholders will be held on Thursday, August 8, 2019 at 9:00 a.m., local time, at our corporate offices, 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana.

Record Date. Only stockholders of record at the close of business on June 28, 2019 will be entitled to notice of and to vote at the Annual Meeting.

Purpose of the Meeting. The Annual Meeting has been called for the following purposes:

- To elect two Class III directors, to serve for a three-year term until our 2022 Annual Meeting of Stockholders and until their successors have been duly elected and qualified; and
- To consider and act upon such other business as may properly come before the meeting or any adjournments thereof.

You will find more information on the nominees for director in the proxy statement. You will find further instructions on how to vote beginning on page 2 of the proxy statement.

This proxy statement and our Annual Report to Shareholders for the year ended December 31, 2018 are available at https://materials.proxyvote.com/208305. We do not use "cookies" or other software that identifies visitors accessing these materials on the website.

Your Vote Counts! It is important that your shares be represented at the Annual Meeting regardless of whether you plan to attend. This will ensure the presence of a quorum at the meeting. Please complete, sign and date the enclosed proxy card and return it in the envelope provided as promptly as possible, even if you intend to be present at the meeting. You may revoke your proxy at any time before it is voted.

By Order of our Board of Directors,

/s/ Cecil A. Hernandez

Cecil A. Hernandez
Secretary

Morgan City, Louisiana
July 12, 2019

CONRAD INDUSTRIES, INC.
1100 Brashear Avenue
Suite 200
Morgan City, Louisiana 70380-0790

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS

To Be Held August 8, 2019

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Our principal executive offices are located at 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana 70380. This proxy statement, and the accompanying Notice of 2019 Annual Meeting of Stockholders and proxy card, are first being mailed to our stockholders on or about July 12, 2019.

VOTING INFORMATION

GENERAL INSTRUCTIONS ON HOW TO VOTE YOUR PROXY

Below are instructions on how to vote, as well as information on your rights as a stockholder as they relate to voting. Some of the instructions will differ depending on how your stock is held. It is important to follow the instructions that apply to your situation.

If your shares are held in "street name," you should vote your shares in the method directed by your broker or other nominee.

If you plan to attend the meeting and vote in person, your instructions will depend on how your shares are held:

- *Shares registered in your name*—Check the appropriate box on the enclosed proxy card and bring evidence of your stock ownership with you to the meeting. The proxy card and the evidence of your ownership will serve as your authorization to vote in person.
- *Shares registered in the name of your broker or other nominee*—Ask your broker to provide you with a broker's proxy card in your name (which will allow you to vote your shares in person at the meeting) and bring evidence of your stock ownership from your broker.

Remember that attendance at the meeting will be limited to stockholders as of the record date (or their authorized representatives) with evidence of their share ownership and our guests.

How to Revoke Your Proxy. If your shares are registered in your name, you may revoke your proxy at any time before it is exercised by:

- filing with our Secretary a written notice revoking it;
- executing and returning another proxy bearing a later date; or
- attending the Annual Meeting and so notifying the Secretary of the meeting in writing prior to the voting of the proxy.

If your shares are held in street name, you must contact your broker to revoke your proxy. Written notices to us must be addressed to Cecil A. Hernandez, Secretary, Conrad Industries, Inc., 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana 70380-0790. No revocation by written notice will be effective unless such notice has been received by our Secretary prior to the day of the Annual Meeting or by the Secretary of the meeting at the Annual Meeting.

VOTING RULES

Stockholders Entitled to Vote —The Record Date. The close of business on June 28, 2019 has been fixed as the record date for the determination of stockholders entitled to vote at the Annual Meeting and any postponement(s) or adjournment(s) thereof. As of the record date, we had issued and outstanding 5,017,935 shares of common stock. There are no other classes of our voting securities outstanding.

Quorum Required. A quorum must exist for us to hold the Annual Meeting. For a quorum to exist, we will need the presence, either in person or by proxy, of holders of a majority of our outstanding shares of common stock as of the record date. Abstentions and broker non-votes are counted for purposes of determining whether a quorum is present. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote such shares.

Number of Votes. You are entitled to one vote per share of our common stock that you own as of the record date on each matter that is called to a vote at the Annual Meeting.

Voting to Elect Directors. When voting to elect the directors, you have three options:

- Vote for all of the nominees;
- Vote for only one of the nominees; or
- Withhold authority to vote for all of the nominees.

If a quorum is present at the Annual Meeting, the two nominees receiving the greatest number of votes will be elected to serve as directors. Because of this rule, any shares that are not voted or any votes that are withheld will not influence the outcome of the election of directors. Cumulative voting for the election of the directors is not permitted.

Voting on Other Matters. When voting on all other matters, you will have three options, but these options are different from those pertaining to the election of the directors:

- Vote "FOR" a given proposal;
- Vote "AGAINST" a given proposal; or
- ABSTAIN from voting on a given proposal.

Each matter, other than the election of the directors, shall be approved if the votes cast in favor of the matter exceed the votes cast against the matter. An abstention with respect to a particular proposal will be treated as a vote not cast with respect to such proposal. Broker non-votes will not affect the voting results on a proposal because shares held by brokers who withhold authority to vote will be considered absent in the voting tallies on these proposals.

A duly executed proxy confers discretionary authority to the persons named in the proxy authorizing those persons to vote, in their discretion, on any other matters properly presented at the Annual Meeting. Our Board of Directors is not currently aware of any such other matters to be presented at the Annual Meeting.

Voting of Proxies with Unmarked Votes. All proxies that are properly completed, signed and returned prior to the Annual Meeting will be voted. If you return your proxy with no votes marked, your shares will be voted "FOR" the election of the nominees for director.

It is possible for a proxy to indicate that some of the shares represented are not being voted as to certain proposals. This occurs, for example, when a broker is not permitted to vote on a proposal without instructions from the beneficial owner of the stock. In these cases, non-voted (broker non-votes) shares are considered absent for those proposals.

Who Counts the Votes. Votes will be counted by American Stock Transfer & Trust Company, our transfer agent and registrar.

Information about this Solicitation of Proxies. The solicitation of the proxy accompanying this proxy statement is being made by our Board of Directors in connection with our 2019 Annual Meeting of Stockholders. In addition to the solicitation of proxies by use of this proxy statement, our directors, officers and employees may solicit the return of proxies by mail, personal interview, telephone, fax or electronic mail. Our directors, officers and employees will not receive additional compensation for their solicitation efforts, but they will be reimbursed for any out-of-pocket expenses incurred. Brokerage houses and other custodians, nominees and fiduciaries will be requested, in connection with our common stock registered in their names, to forward solicitation materials to beneficial owners of such stock.

All costs of preparing, printing, assembling and mailing the Notice of the 2019 Annual Meeting of Stockholders, this proxy statement, the enclosed proxy card and any additional materials, as well as the cost of forwarding solicitation materials to the beneficial owners of our common stock and all other costs of solicitation, will be borne by us.

PROPOSAL: ELECTION OF DIRECTORS

Our Amended and Restated Certificate of Incorporation divides or "classifies" our Board of Directors into three classes (Classes I, II and III) with respect to the three-year terms for which the directors in each class individually hold office. Each class consists, as nearly as possible, of one-third of the entire Board. Each director is elected to hold office for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected. Conrad Industries' Board of Directors currently consists of five directors: John P. Conrad, Jr., Cecil A. Hernandez, Michael J. Harris, Ogden U. Thomas, Jr., and Daniel T. Conrad. The current term for the Class III directors will expire at this year's Annual Meeting. The terms of office of the current Class I and Class II directors will expire at the annual meetings of stockholders to be held in 2020 and 2021, respectively.

Our Board of Directors has nominated and urges you to vote for the election of the two nominees identified below to serve as Class III directors for a three-year term and until their successors are duly elected and has qualified. Each of the nominees listed below is a member of our present Board of Directors. Proxies solicited hereby will be voted for all nominees unless stockholders specify otherwise in their proxies.

If, at the time of or prior to the Annual Meeting, any of the nominees should be unable or decline to serve, the discretionary authority provided in the proxy may be used to vote for a substitute or substitutes designated by our Board of Directors. Our Board of Directors has no reason to believe at this time that any substitute nominee or nominees will be required.

The two nominees for re-election as Class III directors to serve until 2022 and certain additional information with respect to each of them are as follows:

Name	Age	Position with Conrad Industries	Year First Became a Director
John P. Conrad, Jr.	76	Chairman of the Board of Directors and Chief Executive Officer (Class III)	1998
Daniel T. Conrad	55	Director (Class III) and Senior Vice President	2014

John P. Conrad, Jr. has been with our company since 1962, serving as Vice President since 1982, and as Co-Chairman of the Board of Conrad Industries, Inc. from March 1998 to January 2014, when he became Chairman of the Board. Mr. Conrad has served as Chief Executive Officer since April 2004. Mr. Conrad served as President from April 2004 until November of 2018. Mr. Conrad founded Johnny's Propeller Shop, Inc., a marine-related service company, in 1963 and is Chairman of the Board and Chief Executive Officer of this company. In 2000, Mr. Conrad and members of his immediate family founded Summit Management Group, L.L.C., which currently owns, among other investments, all of the outstanding ownership interests in Johnny's Propeller Shop. Mr. Conrad is currently the Operating Manager of Summit Management Group.

Daniel T. Conrad has been a director of Conrad Industries since January 2014. Mr. D. Conrad was appointed to the Board of Directors to fill the vacancy created by the resignation of J. Parker Conrad and to serve as a Class III director. Mr. Conrad joined the company in 1997 and has held numerous positions including Facility Manager, Sales Manager, and Business Relations Manager. He is currently our Senior Vice President. From 1989 to 1996, Mr. Conrad served in various positions with Venture Transport, Inc., a specialized carrier in oilfield and energy equipment. Mr. Conrad is the son of John P. Conrad, Jr.

The Board of Directors recommends that stockholders vote "FOR" the election of Mr. J. Conrad and Mr. D. Conrad as directors to hold office until the 2022 Annual Meeting of Stockholders and until their successors are elected and qualified. Proxies executed and returned will be so voted unless contrary instructions are indicated thereon.

COMPANY INFORMATION

INFORMATION ABOUT THE CONTINUING DIRECTORS

Information regarding the business experience of John P. Conrad, Jr. and Daniel T. Conrad, who have been nominated for re-election to our Board, is set forth above under the heading "Proposal: Election of Directors."

Name	Age	Position with Conrad Industries	Year First Became a Director
Cecil A. Hernandez	62	Director (Class I) and President	1998
Michael J. Harris	70	Director (Class II)	1998
Ogden U. Thomas, Jr.	74	Director (Class II)	2004

Cecil A. Hernandez has been a director of Conrad Industries since March 1998. Mr. Hernandez joined Conrad Industries in January 1998 and served as Vice President-Finance and Administration and Chief Financial Officer of Conrad Industries from 1998 until 2002. During August 2004, Mr. Hernandez returned to Conrad and served as Chief Operating Officer and interim CFO until February 2005, at which time he assumed the position of Executive Vice President and Chief Financial Officer until November 2018. Mr. Hernandez served as Chief Operating Officer from July until October 2018. In November 2018, he became President. From October 2002 to August 2004, Mr. Hernandez served as the President of Summit Management Group, L.L.C., a company formed by John P. Conrad, Jr. and his immediate family. Mr. Hernandez founded Hernandez & Blackwell CPAs in 1983 and served as its Managing Partner until December 1997. Hernandez & Blackwell CPAs merged with Darnall Sikes & Frederick CPAs in 1996. Additionally, Mr. Hernandez provided accounting and consulting services for Conrad Industries as the outside Certified Public Accountant from 1993 until 1997. From 1982 to 1983, Mr. Hernandez served as Assistant Controller for Oceaneering International, a publicly traded diving company. Mr. Hernandez was employed by the international accounting firm Deloitte Haskins & Sells (now Deloitte & Touche LLP) from 1979 to 1982.

Michael J. Harris has been a director of Conrad Industries since June 1998. From 2005 to 2014, Mr. Harris was president of Hope Christian Community Foundation, a charitable organization in Memphis, Tennessee, where he currently serves as President Emeritus. Previously, Mr. Harris was a Managing Director of Morgan Keegan & Company, Inc., where he was employed since 1986.

Ogden U. Thomas, Jr. has been a director of Conrad Industries since April 2004. Mr. Thomas served on the Board of Directors of Cross Group, Inc., a privately held group of companies servicing the oil and gas, marine services, offshore construction and deepwater services industries until July 2016, and as the company's President and Chief Operating Officer from 2006 to 2011. From 1988 to 2003, Mr. Thomas served as the President of the ENSCO Marine Company Division of ENSCO International, a leading offshore drilling contractor. Prior to that time, Mr. Thomas served in various management positions with Seahorse, Inc., a world-wide operator of offshore supply and anchor handling vessels and a subsidiary of Texas Eastern Corporation, and as President of the Drilling Services Division of Texas Eastern Corporation.

DIRECTORS' MEETINGS AND COMPENSATION

During 2018, our Board of Directors met five times and took certain additional actions by unanimous written consent in lieu of meetings. During this period, each of our directors attended at least 75 percent of the aggregate number of meetings of our Board of Directors and committees of our Board on which they served.

Our directors who are employees do not receive any compensation for service on our Board of Directors or any committee. Our directors are, however, reimbursed for expenses incurred in connection with attending each Board and committee meeting. Directors who are not our employees receive a fee of $40,800 annually, plus $1,350 for attendance at each Board of Directors meeting and $500 for each committee meeting attended.

INDEPENDENT DIRECTORS COMMITTEE

Our Board has established an Independent Directors Committee, which has the functions described in the Independent Directors Committee Charter attached to this proxy statement as Exhibit A. These functions include being directly responsible for the appointment, compensation, retention and oversight of the work of our independent auditors, approving all compensation and benefits provided to, and any employment agreement with, an executive officer of our company, and approving related party transactions involving a director or executive officer. Messrs. Thomas, Jr. (Chairperson), and Harris are the current members of the Independent Directors Committee. All members of the Committee are independent, as independence is defined in the listing standards of The NASDAQ Stock Market. The Independent Directors Committee met four times during 2018.

During 2016 and early 2017, the Committee engaged in an in-depth review of executive compensation, with the advice of its compensation consultant. The Committee approved a new annual incentive plan commencing in 2017 pursuant to which our executive officers may receive cash bonuses calculated as a percentage of salary, based upon achieving one or more specified performance indicators at threshold, target and stretch levels. For 2017 and 2018, the performance indicator was return on equity. With respect to 2018 bonuses under the annual incentive plan that would have been paid during 2019, the Company did not achieve the minimum return on equity as determined by the Board for 2018, and therefore no bonuses were awarded. No stock options or other stock-based incentive compensation awards were granted in 2018 or to date in 2019. In May 2018, the Committee approved amendments to the employment agreements for John P. Conrad, Jr., Cecil A. Hernandez and Daniel T. Conrad to extend the term of the agreements to May 31, 2019 without any increases in salary, and with a modification to the change of control severance benefit.

During 2018 our Company engaged in a focused management succession planning process, led by our Chairman and Chief Executive Officer John P. Conrad Jr. In October 2018, we announced that our Board of Directors appointed Brett T. Wolbrink as Executive Vice President and Chief Operating Officer. In November, we announced that our Board appointed Cecil A. Hernandez as President and Carl A. Herbert Jr. as Vice President and Chief Financial Officer. Mr. Conrad continues to serve as Chairman and Chief Executive Officer. In connection with this succession planning process, employment agreements with Messrs. Wolbrink and Hebert were entered into in October and November 2018, respectively. Messrs. J. Conrad, Hernandez, Wolbrink and D. Conrad's employment agreements were amended in November 2018. In November 2018, the Independent Directors Committee approved an increase in the salaries of all executive officers, as provided in their employment agreements, because the Committee concluded that the prior salaries had been below market for some time, and no bonuses had been paid since 2014. In May 2019, the Committee approved amendments to the employment agreements to extend the term of the agreements to May 31, 2020. For additional information, see "Executive Compensation" below.

INDEPENDENT DIRECTORS COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal year 2018, Michael J. Harris and Ogden U. Thomas, Jr., served on the Independent Directors Committee. No member served as an officer or employee of Conrad Industries or any of its subsidiaries prior to or while serving on the Independent Directors Committee. None of our executive officers served during the last fiscal year on the board of directors or on the compensation committee of another entity, one of whose executive officers served on our Board of Directors or on our Independent Directors Committee.

EXECUTIVE COMPENSATION

Executive Officers

The compensation of our Executive Officers is included in our 2018 Annual Report, under the heading "Executive Compensation" and below under the heading "Agreements with Directors and Executive Officers."

401(k) Plan

Information pertaining to our 401(k) Plan is included in our 2018 Annual Report, in Note 7 under the heading of "Employee Benefits".

Annual and Long-Term Incentive Plans

We have established an annual incentive plan under which our executive officers and other key employees may be awarded cash bonuses based upon the achievement of certain performance goals. The payment of any bonuses is at the discretion of the Board, which may increase or decrease bonus amounts determined under the plan formulas. The payment of bonuses to executive officers must be approved by the Independent Directors Committee.

For 2018, our executive officers were eligible to receive cash bonuses calculated as a percentage of salary, based upon achieving specified threshold, target and stretch returns on equity. With respect to 2018 bonuses that would have been paid during 2019, the Company did not achieve the minimum return on equity as determined by the Board for 2018 and therefore no bonuses were awarded.

In May 2014, the Company adopted a long-term incentive compensation plan. The plan provides a cash incentive for the employee to remain employed by the Company through a specified vesting date, at which time the cash incentive is due. The plan was designed to encourage the continued service of certain key employees deemed important to the Company's management succession planning process. If the employee's employment terminates prior to the vesting of an award, the award is forfeited, except that, if prior to the applicable vesting date, the employee's employment (i) terminates due to death or disability, (ii) is terminated by the Company without cause, or (iii) is terminated by the employee for good reason, then the employee will fully vest in the award.

In May 2014, the Independent Directors Committee made awards under the plan to certain key employees who were not directors. A maximum of approximately $3.0 million could be paid by the Company within a three-year period pursuant to these grants. All awards due under the May 2014 grants were paid as of May 2017.

In May 2015, the Independent Directors Committee made awards under the Company's long-term incentive plan to John P. Conrad, Jr., Cecil A. Hernandez, Daniel T. Conrad, Scott J. Theriot (our former Chief Operating Officer) and another employee pursuant to which if such recipients remain employed for a five year period for Messrs. Conrad, Jr., Hernandez and D. Conrad and for a four year period for the other recipients, they will receive lump sum cash payments totaling $2.3 million ($1.08 million for Mr. Conrad, Jr.; $0.63 million for Mr. Hernandez; $0.32 million for Mr. Theriot and $0.24 million for D. Conrad).

Upon authorization of its Board of Directors, the Company terminated the employment of Scott J. Theriot on June 20, 2018. As a result of his termination, Mr. Theriot's long-term incentive award accelerated and was paid in accordance with the agreement.

Agreements with Directors and Executive Officers

We have employment and non-competition agreements with Messrs. Conrad Jr., Hernandez, Wolbrink, Hebert, Jr. and D. Conrad. The agreements provide that the Company will pay base salaries of $415,000 to Mr. Conrad, Jr., $290,000 to Mr. Hernandez, $230,000 to Mr. Wolbrink, $195,000 to Mr. Hebert, Jr. and $195,000 to Mr. D. Conrad. Each of the agreements provide for employment through May 31, 2020 and for annual extensions thereafter, subject to the parties' mutual agreement. The employment agreements with Messrs. Wolbrink and Hebert were entered into in October and November 2018, respectively. Messrs. J. Conrad, Hernandez, Wolbrink and D. Conrad's employment agreements were amended in November 2018. In November 2018, the Independent Directors Committee approved an increase in the salaries of all executive officers, as provided in their employment agreements, because the Committee concluded that the prior salaries had been below market for some time, and no bonuses had been paid since 2014.

Upon authorization of its Board of Directors, the Company terminated the employment of Scott J. Theriot on June 20, 2018. Mr. Theriot is eligible to receive severance benefits under the terms of his employment agreement with the Company, subject to his continued compliance with the noncompetition, non-solicitation and confidentiality covenants in the agreement. As a result of his termination, Mr. Theriot's long-term incentive award accelerated and was paid in accordance with the agreement.

In addition, our executive officers receive a monthly automobile allowance of $700, automobile insurance, and reimbursement for fuel and maintenance expenses. The agreements also provide that each executive will be reimbursed for out-of-pocket business expenses and that each executive is eligible to participate in all benefit plans and programs as are maintained from time to time by us.

The agreements prohibit the executives from competing with us during the term of their employment and for a period of two years, in the case of Mr. Conrad, Jr. and one year, in the case of the other executives after the termination of their employment. The agreements also prohibit the executives from disclosing our confidential information and trade secrets.

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

In the event the employment of Mr. Conrad, Jr. is terminated by us without "cause" or is terminated by Mr. Conrad, Jr. for "good reason," Mr. Conrad, Jr. will be entitled to receive his base salary for one year at the rate then in effect, plus the average of the payments made to him pursuant to the Company's annual incentive plan for each of the three fiscal years immediately preceding termination of employment (the "bonus component"), to be paid in substantially equal installments payable over a period of one year. In addition, the time period during which Mr. Conrad, Jr. will be restricted from competing with us will be shortened from two years to one year.

In the event the employment of Messrs. Hernandez, Wolbrink, Hebert, Jr. or D. Conrad is terminated by us without "cause" or is terminated by Messrs. Hernandez, Wolbrink, Hebert, Jr., or D. Conrad for "good reason," each will be entitled to receive his base salary for one year at the rate then in effect, plus the bonus component, to be paid in substantially equal installments payable over a period of one year.

The agreements for our executive officers provide that if, within two years following a change in control of the Company, the executive's employment is terminated by us other than for "cause" or by the executive for "good reason," or the executive is terminated by us within six months before a change in control at the request of the acquirer in anticipation of the change in control, instead of the severance described above, the executive will be entitled to receive in a lump sum payment the equivalent of the sum of (x) the bonus component prorated by multiplying such amount by the fraction obtained by dividing the number of days in the year through the date of termination of employment by 365, plus (y) an amount equal to 1.5 times the applicable annual premium for health insurance (including any portion thereof paid by executive) under a Company group health plan in which executive and eligible family members are enrolled at the time of termination of employment, plus (z) an amount equal to 2.5 times the sum of (I) the executive's base salary at the rate in effect on executive's termination date, and (II) the highest annual payment made to executive pursuant to the Company's annual incentive plan with respect to the three fiscal years immediately preceding the executive's termination date. If any of these payments are not required to be made in full within 10 business days after termination of employment, the Company or successor must contribute such amounts to a rabbi trust. In addition, the provisions that restrict the executive's competition with us will no longer apply. For any fiscal year ending during the two years following a change in control during which entire year the executive remains employed, his bonus must be at least equal to the bonus component. The agreements provide for a reduction of any change of control benefits to avoid parachute payment excise taxes if the executive would receive greater after-tax benefits with a reduction than he would receive if he had been paid the unreduced benefit and paid the excise tax.

We have also entered into indemnity agreements with all of our directors requiring us to indemnify and advance expenses to them in connection with their service to our company to the fullest extent permitted by law. The agreements also require us to maintain directors' and officers' liability insurance, unless it is not reasonably available or, in the reasonable business judgment of our directors, there is insufficient benefit to us from the insurance.

TRANSACTIONS WITH CERTAIN AFFILIATES

Information pertaining to transactions with certain affiliates is included in our 2018 Annual Report.

STOCK OWNERSHIP BY CONRAD INDUSTRIES' LARGEST STOCKHOLDERS AND MANAGEMENT

The following table presents certain information, as of June 25, 2019, regarding the beneficial ownership of our common stock by:

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

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

Beneficial Owner	Number of Shares	% of Total Outstanding
John Parker Conrad Family, LLC	1,043,267	20.8%
Conrad Family Foundation [1]	95,495	1.9%
John P. Conrad, Jr. [2]	2,124,920	42.3%
Katherine C. Court [3]	1,043,267	20.8%
Daniel T. Conrad	1,200	*
Michael J. Harris	7,000	*
Cecil A. Hernandez	50,968	1.0%
Ogden U. Thomas, Jr.	2,000	*
All Directors and Executive Officers as a group (7 persons)	2,186,088	43.6%

* Less than one percent.

1 Represents shares held by The Conrad Family Foundation, of which Mr. John P. Conrad, Jr., act as trustee.

2 Includes 374,216 shares held by the John P. Conard, Jr. Trust for which Mr. Conrad, Jr. exercises sole voting and investment control as trustee for the trust. Also includes 95,495 shares held by the Conrad Family Foundation, of which Mr. John P. Conrad, Jr., act as trustee. Also includes 1,043,267 shares held by the John Parker Conrad Family, LLC, of which John P. Conrad, Jr. and Katherine C. Court are the sole managers.

3 Represents 1,043,267 shares held by the John Parker Conrad Family, LLC, of which John P. Conrad, Jr. and Katherine C. Court are the sole managers. The address of Ms. Court is 979 Coyote Trl., Round Mountain, TX 78663.

INDEPENDENT AUDITORS

The Independent Directors Committee has selected Darnall, Sikes & Frederick, a Corporation of Certified Public Accountants as our independent auditors for fiscal year 2019. Representatives of Darnall, Sikes & Frederick, a Corporation of Certified Public Accountants will be present at the Annual Meeting and will have an opportunity to make a statement, if they desire to do so. They will also be available to respond to appropriate questions from stockholders attending the Annual Meeting.

STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS FOR THE 2020 ANNUAL MEETING

Stockholder Proposals

Under our bylaws, if you wish to bring any matter (other than stockholder nominations of director candidates, the procedures for which are summarized below) before the 2020 Annual Meeting, you must notify our Secretary in writing not less than 60 or more than 90 days prior to the first anniversary of the 2019 Annual Meeting. However, if the date of the 2019 Annual Meeting of Stockholders is changed by more than 30 calendar days from the date contemplated at the time of this proxy statement, the notice must be received by us at least 45 days prior to the date we intend to distribute the proxy statement with respect to such meeting. We plan to hold our 2020 Annual Meeting on August 13, 2020.

Notices regarding each matter must include:

- a brief description of the business to be brought before the Annual Meeting and the reasons for conducting the business at the Annual Meeting;
- the name and address of record of the stockholder proposing the business;
- the class and number of shares of our stock that are beneficially owned by the stockholder; and
- any material interest of the stockholder in such business.

If you do not provide the proper notice by June 9, 2020, or if you provide such notice before May 10, 2020, the chairman of the meeting may exclude the matter and, thus, it will not be acted upon at the meeting. If the chairman does not exclude the matter, the proxies may vote in the manner they believe appropriate. Stockholders should refer to our bylaws for a more complete description of the requirements for stockholder proposals.

Director Nominations

Our Board of Directors is open to suggestions from stockholders on candidates for election to our Board. Any of our stockholders may suggest a nominee by sending the following information to the Board: (1) your name, mailing address and telephone number, (2) the suggested nominee’s name, mailing address and telephone number, (3) a statement whether the suggested nominee knows that his or her name is being suggested by you, and whether he or she has consented to being suggested and is willing to serve, (4) the suggested nominee’s resume or other description of his or her background and experience and (5) your reasons for suggesting that the individual be considered. The information should be sent to the Board addressed as follows: Chairman, Board of Directors, Conrad Industries, Inc., and 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana 70380-0790.

If you do not wish to follow the foregoing procedure, but wish instead to nominate one or more persons for election to the Board of Directors at the 2020 Annual Meeting, you must notify our Secretary in writing not less than 60 or more than 90 days prior to the first anniversary of the 2019 Annual Meeting. However, if the date of the 2020 Annual Meeting of Stockholders is changed by more than 30 calendar days from the date contemplated at the time of this proxy statement (August 13, 2020), the notice must be received by us at least 45 days prior to the date we intend to distribute the proxy statement with respect to such meeting. If you do not provide the proper notice by June 9, 2020 or if you provide such notice before May 10, 2020, the chairman of the meeting may disregard your nomination and, thus, your nominee will not be eligible for election as a director. Stockholders should refer to our bylaws for a more complete description of the requirements for director nominations.

POLICIES REGARDING DIRECTOR ATTENDANCE AT ANNUAL MEETINGS AND COMMUNICATIONS WITH DIRECTORS

It is the policy of our Board of Directors that directors are encouraged to attend all meetings of our stockholders. All of our directors attended our 2018 Annual Meeting of Stockholders.

Our Board of Directors has also adopted a process by which stockholders may communicate with our directors. Any stockholder wishing to do so may write to the Board or any of our directors at our corporate offices, 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana 70380-0790, or by writing care of our outside counsel, Ms. Dionne M. Rousseau at the following address: Board of Directors of Conrad Industries, Inc., c/o Ms. Dionne M. Rousseau, Outside Counsel, Jones, Walker LLP, 8555 United Plaza Blvd., Baton Rouge, Louisiana 70809-7000. All such stockholder communications will be delivered to our Board's Independent Directors Committee. The Committee will review and consider all written communications from stockholders, and recommend appropriate responses thereto to our Board.

DISCRETIONARY VOTING OF PROXIES ON OTHER MATTERS

Our management does not currently intend to bring any proposals before the 2019 Annual Meeting other than the election of the director described in this proxy statement. If new proposals requiring a vote of our stockholders are brought before the meeting in a proper manner, the persons named in the accompanying proxy card intend to vote the shares represented by them in accordance with their best judgment.

2018 ANNUAL REPORT; REPORT FOR THE FIRST QUARTER 2019

A copy of our Annual Report and the financial statements for the year ended December 31, 2018 accompanies this proxy statement. A report for the first quarter of 2019 is available at www.otcmarkets.com and on the Company's website www.conradindustries.com.

By Order of the Board of Directors

/s/ Cecil A. Hernandez

Cecil A. Hernandez
Secretary

Morgan City, Louisiana
July 12, 2019

EXHIBIT A

CONRAD INDUSTRIES, INC.
INDEPENDENT DIRECTORS COMMITTEE CHARTER

This Independent Directors Committee (the "Committee") Charter has been adopted by the Board of Directors of Conrad Industries, Inc. (the "Company").

Composition and Independence

The Committee shall be appointed by the Board and shall consist of a minimum of two directors. All Committee members shall be independent under the rules of the Securities and Exchange Commission and the NASDAQ Stock Market.

One member of the Committee shall be appointed by the Board as chair. The chair shall be responsible for leadership of the Committee, including scheduling and presiding over meetings, preparing agendas, and making regular reports to the Board. The Committee may not designate subcommittees except with the prior approval of the Board.

Responsibilities

The Committee shall have the authority and responsibilities set forth below. The Committee shall report its actions to the Board at its next meeting. Except as otherwise expressly provided by the Board, all actions and recommendations of the Committee must be approved by the Board in order to become effective as acts of the Company:

Audit of Annual Financial Statements

- The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of any independent accounting firm engaged for the purpose of preparing or issuing an audit report on the Company's annual financial statements, and such accounting firm shall report directly to the Committee.
- The Committee shall take appropriate actions to oversee and satisfy itself as to the auditor's independence.
- The Committee shall review the Company's audited financial statements and discuss them with management and the independent auditor.
- The Committee shall discuss with management and/or the Company's counsel any legal matters (including the status of pending litigation) that may have a material impact on the Company's annual financial statements, and any material reports or inquiries from regulatory or governmental agencies.

Executive Compensation

- The Committee shall approve all compensation and benefits provided to, and any employment agreement with, an executive officer of the Company.

Code of Ethics, Conflicts of Interest and Related Party Transactions

- The Committee shall perform such responsibilities as may be delegated to it pursuant to the Company's Code of Ethics, including approving conflicts of interest involving any director or executive officer.
- The Committee shall conduct an appropriate review of all related party transactions for potential conflict of interest situations on a regular basis and all such transactions must be approved by the Committee. For this purpose, "related party transaction" shall refer to those transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404.

Stockholder Communication with Directors

- The Company's website and annual shareholder meeting materials will provide that any stockholder may communicate with the Company's directors regarding the Company. Stockholders may communicate with the Company's directors by writing to any director at the Company's principal business address or by writing care of the Company's outside counsel, Ms. Dionne M. Rousseau at the following address: Board of Directors of Conrad Industries, Inc., c/o Ms. Dionne M. Rousseau, Outside Counsel, Jones Walker, L.L.P., 8555 United Plaza Blvd., Baton Rouge, Louisiana 70809. All such stockholder communications shall be delivered to the Independent Directors Committee.

Other

- The Committee shall administer the Company's Policy for Handling Complaints about Accounting Matters.
- The Committee shall maintain free and open communication with the independent auditor and Company management.
- The Committee shall perform such other duties as may be assigned to it from time to time by the Board.

Meetings

The Committee shall meet at least once annually or more frequently as circumstances dictate. At least once each year the Committee shall have separate private meetings with the independent auditor and management.

Meetings may be called by the chair of the Committee, or at the request of a majority of the members of the Committee, the President or Chairman of the Board.

Section II

Conrad Industries, Inc.

2018 Annual Report

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FORWARD-LOOKING-STATEMENTS

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

REPORT TO OUR FELLOW SHAREHOLDERS

For the year 2018, we recognized total revenues of $182.3 million, net income of $198,000, income per diluted share of $0.04, and EBITDA (earnings before interest, taxes, depreciation and amortization) of $8.2 million, compared to 2017, when we recognized total revenues of $189.1 million, a net loss of $2.1 million, loss per diluted share of -$.42, and EBITDA of $2.6 million.

We had a 43.0% increase in repair and conversion revenue primarily as a result of increased production hours and product mix. Repair and conversion hours increased 39.6% compared to 2017 due to an increase in jobs, while vessel construction hours decreased by .2% compared to 2017.

During 2018, we worked with 87 different customers engaged in a wide range of business activities including the towing, transportation, dredging, construction, and bunkering industries, and the oil and gas industry in the Gulf of Mexico (the "energy sector"). We also worked with federal, state, and local government agencies, including the US Army Corps of Engineers and the US Coast Guard. We delivered 38 vessel construction projects, which consisted of 4 tank barges, 2 ATB tugs, 6 deck barges, 2 Damen Stan Tugs, 5 crane barges, 6 anchor barges, an asphalt barge, a LNG barge, 2 Stop Log barges, 2 dock barges, a gangway, panels and 5 spud barges.

During 2018 our Company engaged in a focused management succession planning process, led by our Chairman and Chief Executive Officer John P. Conrad Jr. In October 2018, we announced that our Board of Directors appointed Brett T. Wolbrink as Executive Vice President and Chief Operating Officer. In November, we announced that our Board appointed Cecil A. Hernandez as President and Carl A. Herbert Jr. as Vice President and Chief Financial Officer. Mr. Conrad will continue to serve as Chairman and Chief Executive Officer. In addition, we promoted several key employees and realigned some responsibilities among our senior managers. While the development of our team is an ongoing process, our Company is excited about our new management group and our Board is grateful for their commitment to our Company.

Net income for 2018 was $198,000 compared to a net loss of $2.1 million for the same period of 2017, primarily as a result of recognizing the entire amount of the settlement agreements pursuant to the Deepwater Horizon Court-Supervised Settlement Program and other factors discussed in the "Results of Operations" section below. Our 2018, 2017 and 2016 operating results were affected by losses of $1.9 million, $11.9 million and $13.2 million, respectively, on the LNG barge which was delivered to the customer in August 2018. We experienced losses on other new construction projects of $11.4 million, $3.2 million and $2.3 million during those same periods. During 2018 our new construction segment was adversely affected by a soft market for energy transportation, increased pricing pressure, and low demand for large barge project orders. Our repair and conversion segment has seen an increase in volume but continues to be impacted by low crude oil prices and depressed Gulf of Mexico activity. These factors had a negative impact on our operating results in 2018, and they may continue to impact our operations during 2019. Additionally, steel prices rose substantially in early 2018 and may continue to rise as a result of recently imposed tariffs, which may cause an increase in our costs and lead potential customers to delay projects.

To remain competitive, we must be able to respond to customer demands for new types of vessels. 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. While these projects can entail additional risk, they can also provide us access to new customers and markets and provide more consistent backlog for a longer period of time than smaller projects.

Pursuant to our capital improvement program, we have invested an aggregate of $37.5 million in our facilities over the last five years. We believe these improvements have increased our operational capacity, operating efficiency and competitiveness. Capital investments made during 2018 for $785,000, allowed us to replace leased equipment with company owned equipment and make additional improvements to our facilities. Our Board of Directors has approved a $4.1 million capital expenditure program for 2019.

We did not make any stock repurchases during 2018. Since the program's inception in 2010, we have repurchased a total of 1,447,347 shares of our common stock for a total purchase price in excess of $29.2 million. As of December

31, 2018, $1.0 million remained available for future repurchases of common stock under our stock repurchase program.

By segment, 83.6% of our total 2018 revenue was generated by new construction, and 16.4% was generated by repair and conversion compared to 89.0% and 11.0% for 2017, respectively. The majority of this revenue, 73.4%, was derived from commercial customers operating outside of the energy sector, 18.2% was related to energy sector contracts, and 8.4% was government related, compared to 87.6%, 4.4% and 8.0%, respectively, during 2017. We also added $161.7 million of backlog to our new construction segment, resulting in a total backlog of $127.7 million at December 31, 2018, compared to $111.3 million at the close of 2017. At December 31, 2018, 49.9% of our vessel construction backlog was from contracts with commercial customers, 37.9% from the energy sector and 12.2% was from government contracts. Our management is focused on effectively executing our backlog and on obtaining additional backlog.

Throughout our 70-year history, we have used our cash and debt to make investments in our business, continued to diversify our product mix, taken advantage of business opportunities and improved efficiency. We believe this has allowed us to remain competitive, meet evolving customer needs and effectively navigate a cyclical business. Our primary goal has always been, and remains, the enhancement of shareholder value. In pursuit of this objective, we have returned cash to our shareholders through our stock repurchase program and the payment of dividends. Although we expect 2019 to be another challenging year, we are optimistic about the long-term prospects of our business. We have met these types of challenges in the past, and we remain confident that with our talented and dedicated employees, strong balance sheet and diversified customer base we can effectively respond to changing market conditions.

Yours truly,

/s/ John P. Conrad, Jr.	*/s/Cecil A. Hernandez*	*/s/Brett T. Wolbrink*	*/s/Carl A. Hebert, Jr.*
John P. Conrad, Jr.	Cecil A. Hernandez	Brett T. Wolbrink	Carl A. Hebert, Jr.
Chief Executive Officer and Chairman of the Board	President and Secretary, and member of the Board	Executive Vice President and Chief Operating Officer	Vice President and Chief Financial Officer

An Important Note About This Report

Effective March 31, 2005, Conrad Industries, Inc. is no longer subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934(the "Act"). Accordingly, this Annual Report is not filed with the Securities and Exchange Commission, is not available on the SEC's EDGAR system, and does not purport to meet the requirements for companies that are subject to the Act's reporting requirements. The Company does intend in this Annual Report and other reports to provide accurate financial and other information of interest to investors. Information in this Annual Report has not been reviewed or audited by our independent certified public accountants, except for the audited financial statements included in Section III.

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

Business Overview

General

We specialize in the construction, repair and conversion of a wide variety of steel and aluminum marine vessels for commercial and governmental customers. Through our subsidiaries, we operate five shipyards: one in Morgan City, Louisiana, three in Amelia, Louisiana and one in Orange, Texas. Our Company was founded in 1948 and commenced operations at our shipyard in Morgan City. From 1996 through 2003, we acquired and expanded our Conrad Amelia yard, our Conrad Orange yard and our second yard in Amelia, Conrad Deepwater. In 2012 we purchased 50 acres of property adjacent to our Conrad Deepwater yard and built our Conrad Deepwater South yard, which delivered its first vessel in the first quarter of 2014. We have continued to construct significant improvements at our Conrad Deepwater South yard, including a panel line building with an automated welding system which was completed during the third quarter of 2016. During the past five years, we have made an aggregate of approximately $37.5 million of capital expenditures to add capacity and improve the efficiency of our shipyards.

Our business has two segments: new construction and repair and conversion. Our new construction segment accounted for 83.6%, 89.0%, and 82.5% of our total revenue for 2018, 2017 and 2016, respectively. Vessels we construct include offshore and inland barges, tug boats, tow boats, ferries, lift boats and other offshore support vessels. Much of our new construction is performed indoors, which we consider to be a significant strategic advantage. Our repair and conversion segment accounted for 16.4%, 11.0%, and 17.5% of our total revenue for 2018, 2017 and 2016, respectively. We repair a wide variety of marine vessels. Our conversion projects are included in our repair segment and primarily consist of lengthening the midbodies of vessels, modifying vessels to permit their use for a different type of activity and other modifications to increase the capacity or functionality of a vessel.

We serve a variety of customers and markets, including the Gulf of Mexico oil and gas industry ("energy"), other commercial markets, various local and state governments and the U.S. government. In 2018, 18.2% of total revenue was related to the Gulf of Mexico oil and gas industry, 73.4% was other commercial and 8.4% was government related. We believe that our ability to provide products and services to a variety of customers and to respond to demand for new types of vessels is a competitive strength. The demand for our products and services is dependent upon a number of factors, including the economic condition of our customers and markets, the age and state of repair of the vessels operated by our customers, and the relative cost to construct a new vessel as compared with repairing an older vessel. To remain competitive, we must also be able to respond to changing customer demands for new types of vessels. 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.

In April 2010, the Deepwater Horizon rig, which was engaged in deepwater drilling operations in the Gulf of Mexico, sank after an explosion and fire, resulting in the discharge of substantial amounts of oil. On May 28, 2010, the Department of Interior imposed a moratorium on offshore deepwater drilling operations, which was lifted on October 12, 2010. However, due to the incident and new regulatory and permitting issues, deepwater and shallow water drilling was slowed, which adversely affected our business.

In December 2012 and February 2013, the Company submitted claims totaling $22.6 million to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program. The Company reached a settlement in 2018. For additional information, see Note 12 in our consolidated financial statements in this report.

A significant portion of our historical revenues has been derived from customers in the Gulf of Mexico oil and gas industry. When there has been a decline in new construction opportunities in the Gulf of Mexico oil and gas industry, we have been successful in securing work from government sources and other commercial customers. In 2012 and 2013, we saw increases in the commercial market and some increases in the energy market; however, there was a decrease in the government market. The increase in commercial customer demand was driven largely by customers acquiring inland tank barges to transport petroleum products resulting from the use of horizontal drilling in conjunction with hydraulic fracturing, which has expanded the ability of producers to recover natural gas and oil from low-permeability geologic plays, particularly shale plays. During 2016, 2017 and 2018, we experienced a decline in demand for these types of inland tank barges, and a softer repair market, due to low oil prices. Other commercial contracts accounted for approximately 49.9%, 81.3%, and 86.3% of our backlog at December 31, 2018, 2017 and

2016, respectively. Government contracts accounted for approximately 12.2%, 14.6%, and 13.7% of our backlog at December 31, 2018, 2017 and 2016, respectively. Energy contracts accounted for approximately 37.9%, 4.1%, and 0% of our backlog at December 31, 2018, 2017 and 2016, respectively. Other commercial markets include barges and motorized vessels used in a variety of commercial markets that are not related to the offshore oil and gas industry, including the marine construction industry, the petrochemical industry, the commodity grain industry and the ocean shipping industry. Many of these industries utilize barges and motorized vessels to transport products through inland waterways as well as offshore coastal waters and ocean waters.

During 2018, we added $161.7 million of backlog, which consist of projects related to commercial, energy and government contracts. Our backlog was $127.7 million at December 31, 2018 as compared to $111.3 million at December 31, 2017. During 2017, we added $58.1 million to our backlog, which was related to commercial, government and energy contracts.

For 2018, 2017 and 2016, we received approximately 18.2%, 4.4%, and 3.2%, respectively, of our total revenues from customers in the Gulf of Mexico oil and gas industry, 8.4%, 8.0%, and 9.2% from government customers and 73.4%, 87.6%, and 87.6% from other commercial customers.

Because a large percentage of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment. In 2013, we experienced our highest revenue in our repair segment in the history of the Company, and it exceeded our previous highest repair segment revenue in 2008 by $7.4 million. We experienced lower repair gross profits in 2014 due to a significant loss on a large conversion job, and a decrease in demand and customer activity, which we believe was due to the decline in crude oil prices. In 2015, 2016, and 2017 we experienced lower repair revenue and repair production hours due to a significant decrease in demand and customer activity, due to the decline in crude oil prices and Gulf of Mexico activity. In 2018, we have seen an increase in the volume of repair and conversion jobs, which has caused an increase in our production hours.

Internal Expansion

During 2018, we continued to do capital improvements and purchase equipment. In total, $785,000 was spent on capital expenditures for the year ended December 31, 2018.

During 2017, we continued to do capital improvements and purchase equipment. In total, $2.5 million was spent on capital expenditures for the year ended December 31, 2017.

During 2016, we continued to do capital improvements, purchase equipment and develop our Deepwater South location in the amount of $5.3 million. These improvements included a panel line building equipped with automated welding systems that was completed in 2016. At our Orange location, we purchased equipment to build the LNG vessel. In total, $6.9 million was spent on capital expenditures for the year ended December 31, 2016.

During 2015, we continued to do capital improvements, purchase equipment and develop our Deepwater South location in the amount of $14.9 million. These improvements include a panel line building equipped with automated welding systems that was completed during the third quarter of 2016. At our Orange location, we purchased equipment and improved our infrastructure to build the LNG vessel. In total, $17.5 million was spent on capital expenditures for the year ended December 31, 2015.

During 2014, we purchased real estate for $1.3 million at our Morgan City location, as well as replaced equipment. We made plant improvements and purchased machinery and equipment for our new facility, Deepwater South in the amount of $3.4 million. At our Deepwater location, we completed bulkheads and utility services in the amount of $1.4 million. At our Orange location, we completed plant improvements in the amount of $2.0 million. At our Conrad Shipyard Amelia facility, we purchased machinery and equipment. In total, $9.9 million was spent on capital expenditures for the year ended December 31, 2014.

History

Our company was founded in 1948 by the late J. Parker Conrad (1915-2017), and began operations at our shipyard in Morgan City, Louisiana. In December 1997, we paid approximately $22.8 million in cash (net of cash acquired) to purchase all of the stock of Orange Shipbuilding Company, Inc., which owns our shipyard in Orange, Texas. The acquisition expanded our new construction capacity and expanded our product capabilities into additional types of marine vessels, including vessels for the U.S. government and modular components for offshore drilling rigs and floating, production, storage and offloading vessels. Orange Shipbuilding has been engaged in shipbuilding since 1974, and on June 29, 2012, Orange Shipbuilding Company, Inc.'s name was changed to Conrad Orange Shipyard, Inc. Our parent company, Conrad Industries, Inc., was incorporated in March 1998 to serve as the holding company for our wholly-owned subsidiaries, currently Conrad Shipyard, L.L.C., Conrad Orange Shipyard, Inc., Conrad Shipyard Amelia, L.L.C. and Conrad LNG, L.L.C. In March 2017, Conrad Aluminum, L.L.C.'s name was changed to Conrad Shipyard Amelia, L.L.C. We completed our initial public offering in June 1998 by issuing 2.1 million shares of common stock. On March 30, 2005, we voluntarily delisted our common stock from Nasdaq and, simultaneously with delisting, filed a Form 15 with the Securities and Exchange Commission (the "SEC") to voluntarily deregister our common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and to suspend our obligation to file reports under Section 15(d) of the Exchange Act. We were eligible to deregister by filing a Form 15 because we had fewer than 300 holders of record of common stock. At the time of filing, our obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K, immediately ceased.

Operations

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

Backlog

Our backlog as of December 31, 2018 consisted of 50 vessels: a dock barge, a hopper barge, 6,000 BHP towboat, an ATB tug, 2 deck barges, 2 - 3,000 HP tugs, 2 Damen Stan Tugs, 3 crane barges, 3 LPG barges, 8 spud barges, 5 - 24,000 BBL barges, and 21 spud barges. Our backlog (including remaining contract revenue for projects currently in progress) as of December 31, 2018 was approximately \$127.7 million compared to \$111.3 million as of December 31, 2017. We anticipate that all of the aggregate remaining revenue from firm contracts as of December 31, 2018 will be realized during fiscal 2019 and 2020. As of December 31, 2018, approximately 58.5% of our backlog related to contracts for three customers, one from each of our commercial, energy and government sectors.

Construction of Vessels

We construct a variety of small, medium, and large sized vessels for commercial and governmental customers. This activity accounted for 83.6%, 89.0% and 82.5% of our total revenue for 2018, 2017 and 2016, respectively. Much of our new vessel construction is done indoors in well-lighted space specifically designed to accommodate construction of marine vessels up to 350 feet in length. As a result, marine vessel construction is not hampered by weather conditions, and we are able to more effectively utilize our workforce and equipment. Our development of the Conrad Deepwater South yard has enhanced our ability to build vessels up to 600 feet in length.

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

Offshore and Inland Barges. We build a variety of offshore barges, including container barges, double-skinned tank barges, pressurized tank barges, liquefied petroleum gas barges, and deck barges for commercial customers. Additionally, we have built YCs (yard carrier barges) and YONs (yard oiler Navy barges) for the U.S. Navy. We also build a variety of inland barges, including deck, crane, hopper, liquefied petroleum gas, and double skinned tank barges up to 83,000 BBL capacity. We have constructed a variety of barges used in the offshore oil and gas industry, including shale barges, pipe laying barges, oil and gas drilling barges, and oil and gas production barges. Our barges are also used in marine construction and are used by operators to carry liquid cargoes such as petroleum and drilling fluids, dry bulk cargoes such as aggregate, coal and wood products, deck cargoes such as machinery and equipment, and other large item cargoes such as containers, airplane components and rail cars. Other barges function as cement offloaders and split-hull dump scows. We have built barges ranging from 50 feet to 400 feet in length, with as many cargo tanks, decks and support systems as necessary for the intended functions of the barges. 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 and it was delivered in the third quarter of 2018.

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

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

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

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

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

Repair and Conversion Services

Repair and conversion services accounted for 16.4%, 11.0%, and 17.5% of our total revenue for 2018, 2017 and 2016, respectively. We have six drydocks, a 300-ton travel lift and dockside space capable of accommodating vessels and barges up to 500 feet long. Our marine repair activities include shot blasting, painting, electrical system and piping repairs, propeller and shaft reconditioning and American Bureau of Shipping certified welding. Our conversion projects primarily consist of lengthening the midbodies of vessels, modifying vessels to permit their use for a different type of activity and other modifications to increase the capacity or functionality of a vessel. All U.S. Coast Guard inspected vessels and ABS classed vessels are required to undergo periodic inspections and surveys which require regular drydock examination. Non-U.S. flagged vessels are subject to similar regulations. The inspection of vessels generally results in repair work being required in order to pass inspection. In addition, vessel owners often elect to make other repairs or modifications to vessels while in drydock undergoing required repairs. While we are not aware of any proposals to reduce the frequency or scope of such inspections, any such reduction could adversely affect our results of operations.

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

Customers

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

During 2018, we derived 14% of our revenue from one customer for which we constructed or have under construction 3 tank barges, 2 LPG, and 2 asphalt barges, and 13% from another customer for which we have under construction 4 Damen Stan tugs, and 13% from another customer for which we constructed or have under construction 3 - 80,000 BBL tank barges, and 3 ATB tugs. The remaining 60% of the revenue was attributable to 84 other customers.

During 2017, we derived 38% of our revenue from one customer for which we constructed 3 - 80,000 BBL tank barges, 3 ATB tugs and 1 – 55,000 BBL tank barge and 21% from another customer for which we constructed 4 Damen Stan tugs and 11% from another customer for which we constructed or have under construction, a barge, and 4 ATB tugs. The remaining 30% of the revenue was attributable to 96 other customers.

During 2016, we derived 28% of our revenue from one customer for which we constructed or have under construction 2 - 35,000 BBL tank barges, 3 - 80,000 BBL tank barges, 3 - 55,000 BBL tank barges and 3 ATB tugs, and 25% from another customer for which we constructed or have under construction, a barge, and 4 ATB tugs. The remaining 47% of the revenue was attributable to 122 other customers.

Contract Procedure, Structure and Pricing

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

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

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

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

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

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

Bonding and Guarantee Requirements

Although we generally meet financial criteria that exempt us from bonding and guarantee requirements for most contracts, certain contracts with federal, state or local governments and commercial customers may require contract bid and payment and performance bonds if requested by the customer. As of December 31, 2018, outstanding bonds and letters of credit amounted to $30.7 million. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so.

Engineering

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

Materials and Supplies

The principal materials we use are standard steel shapes, steel plate and paint. Other materials used in large quantities include aluminum, steel pipe, electrical cable and fittings. We also purchase component parts such as propulsion systems, hydraulic systems, generators, auxiliary machinery and electronic equipment. Additionally, we purchase the tanks used in our LPG barges from third parties. All these materials and parts are currently available in adequate supply from domestic and foreign sources. All of our shipyards obtain materials and supplies by truck or rail. From 2012 to 2014 steel prices remained relatively flat, and we experienced a slight decrease in 2015 and most of 2016. In the later part of 2016 we started experiencing a slow increase in steel prices and they remained flat through 2017. In early 2018, steel prices began rising substantially. On March 8, 2018, President Donald Trump signed an order imposing new tariffs on imported steel and aluminum of 25 percent and 10 percent, respectively. The tariffs went into effect on March 23, 2018. We believe these tariffs could further increase steel prices and adversely impact our business. In the past we have not carried a significant steel inventory, but due to the increase in steel prices and decrease in availability of certain steel sizes, we increased our steel inventory during the latter part of 2018.

Vessel Construction Process

Once a contract has been awarded to us, a project manager is assigned to supervise all aspects of the project, from the date the contract is signed through delivery of the vessel. The project manager aims to ensure that the contract and specifications are all in agreement with what is expected and required by the customer. The project manager oversees the engineering liaison's completion of the vessel's drawings and supervises the planning of the vessel's construction with our production team. The project manager also oversees the purchasing of all supplies and equipment needed to construct the vessel, as well as the actual construction of the vessel.

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

With the assistance of computers, we design and loft material for the NC ("Numerical Control") cutting table where all steel parts are cut to size and shape. All construction drawings and bills of materials are prepared for each module to be fabricated. Modules are built separately, and penetrations for piping, electrical and ventilation systems for each module are positioned and cut during the NC plasma cutting operation. Piping, raceways and ducting are also installed prior to the final assembly of modules. After the modules are assembled to form the vessel, piping, electrical, ventilation and other systems, as well as machinery, are installed prior to launching, testing and final outfitting and delivery of the vessel.

Competition

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

Employees

At December 31, 2018 we had 442 employees of which 111 were salaried and 331 were hourly. At December 31, 2017, we had 460 employees of which 110 were salaried and 350 were hourly. At December 31, 2016 we had 468 employees of which 113 were salaried and 353 were hourly. In addition, we use subcontract employees to fill openings that are short-term in nature or when we cannot find people to hire. These totaled 451, 452, and 425 at December 31, 2018, 2017, and 2016, respectively. We are not a party to any collective bargaining agreements.

Insurance

We maintain insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction to our facilities and equipment. We also maintain commercial general liability insurance, including builders' risk coverage, employment practices, professional (design), and directors and officer's liability. We currently maintain excess and umbrella policies. Other coverages currently in place include workers' compensation, water pollution, automobile, and hull and protection and indemnity for marine equipment. All policies are subject to deductibles and other coverage limitations. The insurance currently excludes acts of terrorism. We generally do not have business interruption insurance.

Regulation

Environmental Regulation

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

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

Health and Safety Matters

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

Jones Act

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

Risk Factors

Our business is subject to significant risks. The following section discusses material risks that may impact our business and identifies important factors that could cause our actual results to differ materially from those in or anticipated by our forward-looking statements.

Risks Related to our Business

We could incur losses under our fixed-price contracts as a result of cost overruns or delays in delivery, particularly on types of vessels we have not constructed in the past.

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

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

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

From time to time, we bid on fixed-price contracts to construct vessels that we have not constructed in the past. The risks of cost overruns or delays in delivery on those contracts are greater than for contracts for vessels that we have built in the past. When we enter into contracts for vessels we have not constructed in the past, we generally believe we have sufficient related experience to perform profitably; however, we are willing to risk losses in order to gain experience and entry into markets for new products.

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

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

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

Although varying contract terms may be negotiated on a case-by-case basis, our commercial and government construction contracts ordinarily provide for a down payment, with progress payments at specified stages of construction and a final payment upon delivery. Conversely, repair and conversion customers are typically billed upon completion of the work performed. A decline in the economy can adversely affect some of our customers' ability to pay. If we are unable to collect any account receivable in the amount we have estimated to be collectible, we must recognize a charge to earnings that is in effect a reversal of previously recorded profits. As of December 31, 2018, approximately 58.5% of our backlog related to contracts for three customers. Accordingly, any events adversely impacting those customers' ability to pay could have a material adverse effect on our financial condition, results of operations and cash flow.

As of December 31, 2018, one of our significant customers was not making payments on terms agreed upon in the contracts and had an outstanding balance of $15.2 million. Although we believe we will collect the full amount, it could be delayed beyond the completion of the vessels. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

A relatively small number of customers have historically generated a large portion of our revenue, although not necessarily the same customers from year to year. For the years ended December 31, 2018, 2017, and 2016, our ten largest customers collectively accounted for 74.6%, 88.3% and 84.4% of our revenues, respectively. The loss of a significant customer could result in a substantial loss of revenue and significantly reduce our earnings. See "Business – Customers."

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

We have built vessels for the U.S. Army, U.S. Navy, U.S. Coast Guard and U.S. Army Corp of Engineers. We have also built vessels and performed conversion or repair services for local and state governments, either directly or as a subcontractor. Revenue derived from all government customers accounted for approximately 8.4%, 8.0%, and 9.2% of our total revenue in 2018, 2017, and 2016, respectively. Revenue derived from U.S. government customers accounted for approximately 8.0%, 7.5%, and .1% of our total revenue in 2018, 2017, and 2016, respectively. Government contracts accounted for approximately 12.2%, 14.6%, and 13.7% of our backlog at December 31, 2018, 2017, and 2016, respectively. Government contracts are generally subject to strict competitive bidding requirements. In addition, the number of vessels that are purchased by governments varies with their budgets and the appropriation of government funds. We cannot predict whether we will be able to secure new government contracts.

Because a significant portion of our revenues has historically come from customers in the Gulf of Mexico oil and gas industry, particularly in our repair segment, decreases in offshore oil and gas activities tend to reduce demand for our products and services and negatively impact our revenues and profits. The level of offshore oil and gas activities can be affected by prevailing oil and gas prices, which historically have fluctuated significantly.

The Gulf of Mexico oil and gas industry can be affected by prevailing oil and gas prices, which historically have fluctuated significantly. Low oil or gas prices or a decline in demand for oil or gas can depress offshore exploration, development and production activity and result in decreased spending by our Gulf of Mexico oil and gas industry customers. This can result in a decline in the demand for our products and services and can have a substantial negative effect on our revenues and profits. Declines in offshore oil and gas exploration, development and production activity in the Gulf of Mexico can also result in excess capacity at other shipyard companies, which can lead to increased competition and pricing pressure.

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

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

Weak or uncertain global or domestic economic conditions can have an adverse impact on our business.

Adverse global and domestic economic conditions may contribute to a reduction in demand for our products and services. Market uncertainties may cause customers to delay signing new construction contracts and reduce their use of repair services.

We construct stock vessels from time to time to fill gaps in our construction schedules or for strategic business and marketing reasons. Inability to sell stock vessels at prices above our cost could have a material adverse impact on our profitability.

From time to time we have experienced gaps in our construction schedules and have begun construction on projects that were not under contract and that we believed we could convert to contracts in a relatively short period of time within starting construction or within completion of the project. The primary goal of this strategy is to maintain operational efficiencies and revenue volume between contracted projects. We have also constructed stock vessels for strategic business and marketing reasons. At December 31, 2016, we had one stock vessel under construction with approximately $3.6 million of total costs. At December 31, 2017 and 2018 we had no stock vessels. Subsequent to December 31, 2018, we commenced construction of six stock vessels, and, as of March 1, 2019, we had sold three of them. Our board has approved up to $20 million in inventory costs in stock barges and vessels. If we are not able to sell the stock vessels for at least cost, we would have a loss on the project. Additionally, this strategy results in a reduction in working capital available for other purposes until the stock vessels are sold.

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

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

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

Our backlog is based on unearned revenue attributable to projects for which a customer has authorized us to begin work or purchase materials. Our contracts with commercial customers generally do not permit the customer to terminate the contract but our government contracts are often subject to termination by the customer. In the case of a termination, the government is generally required to pay us for work performed and materials purchased through the date of termination and, in some cases, pay us termination fees. Either the change or terminations of government contracts could substantially change the amount of backlog currently reported and could substantially decrease our revenue and earnings. Our backlog of $127.7 million at December 31, 2018, was attributable to 50 projects, of which 12.2% was attributable to three government projects.

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

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

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

We also experienced disruptions in our operations at our Morgan City yard and our Orange yard in the first quarter of 2016 due to rising water levels and heavy rainfall, which did not produce any material adverse effect. We experienced disruptions in our operations at our Orange yard in the third quarter of 2017 due to rising water levels and heavy rainfall from Hurricane Harvey, which did not produce any material adverse effect. Water levels are high again in early 2019 and, while we believe we are prepared for anticipated effects, our preparations may not be adequate if the water level rises higher than anticipated.

Hazardous water conditions or insufficient water depths on waterways needed to access our shipyards may have a material adverse impact on our business.

If hazardous water conditions develop, for example due to heavy rainfall or flooding, or water depths become low, for example due to low rainfall or insufficient dredging by government entities responsible for maintenance of ports and waterways, needed to access our shipyards, we could lose projects and customers and incur expenses or losses on existing projects, which may have a material adverse impact on our business. We have experienced lost projects and incurred expenses due to insufficient dredging in the Atchafalaya River.

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

Shipyards along the Gulf Coast have experienced shortages of skilled labor from time to time as a result of low unemployment in the economy in general and/or increased demand for skilled labor in the offshore oil and gas, petrochemical, and related industries in particular. Currently we are experiencing trouble finding skilled labor, and we have experienced difficulties retaining skilled labor due to current market conditions. Labor shortages increase our cost of labor, could limit our production capacity, and materially decrease our earnings.

We rely on key personnel.

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

Our principal stockholders may control the outcome of stockholder voting.

Our executive officers and directors as a group, which includes John P. Conrad, Jr. and Daniel T. Conrad, beneficially owns approximately 2,186,088 shares or 43.6% of our common stock. John P. Conrad, Jr. and Katherine C. Court, the sister of John P. Conrad, Jr., are sole managers of the John Parker Conrad Family, L.L.C. which holds 1,043,267 shares of our common stock (which shares are included in the 2,186,088 shares beneficially owned by our directors and executive officers as a group). If they act in concert, these holders could be able to exercise effective control over our affairs, elect our entire board of directors, and control substantially all matters submitted to a vote of our stockholders. The interests of these holders may differ from the interests of our minority stockholders, and they may vote their shares in a manner averse to our minority stockholders.

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

Of the 5,017,935 shares of our common stock outstanding as of March 8, 2019, approximately 2.8 million shares are freely tradable. The remaining outstanding shares may be resold publicly only following their registration under the Securities Act of 1933, as amended, or under an available exemption.

In addition, the average daily trading volume in our common stock for 2018 was 2,004 shares. The availability of a large block of stock for sale in relation to our normal trading volume can result in a decline in the market price of our common stock.

We are not a public company.

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

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

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

We cannot control whether trading in the stock will continue on the "OTC Markets" or elsewhere.

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

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

- authorizes the issuance of "blank check" preferred stock;
- divides our board into three classes, the members of which serve three-year terms;
- provides that directors may only be removed for cause and then only by the vote of the holders of a majority of our outstanding capital stock;
- establishes advance notice requirements for director nominations and stockholder proposals to be considered at annual meetings;
- prohibits stockholder action by written consent; and
- prohibits stockholders from calling special meetings of stockholders.

In addition, Delaware law restricts specified mergers and other business combinations between us and any holder of 15% or more of our common stock. Delaware law also permits the adoption of a shareholder rights plan without stockholder approval, and we have adopted a rights plan. The rights plan is intended to protect stockholder interests in the event we become the subject of a takeover initiative that our board of directors believes could deny our stockholders the full value of their investment. The adoption of the rights plan was intended as a means to guard against abusive takeover tactics and was not in response to any particular proposal. The plan does not prohibit the board from considering any offer that it considers advantageous to stockholders.

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

We may not pay dividends in the future.

We paid special dividends on our common stock of $1.00 per share on January 5, 2015, and $2.00 per share on December 17, 2013 and December 31, 2012. Additionally, we paid quarterly dividends of $0.25 per share during each of the four quarters of 2015. We paid quarterly dividends of $0.10 per share during each of the four quarters of 2016. Our board did not declare a dividend in 2017, 2018 or in the first quarter of 2019. 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.

Risks Related to our Industry

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

- *The price of steel has recently increased substantially, which can adversely affect our profits and cause potential customers to delay new construction projects. For additional information, see "Business Overview – Materials and Supplies."*

- *Excess capacity in our industry has placed downward pressure on pricing and profit margins.*

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

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

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

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

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

Properties

We conduct our operations at five shipyards, one in Morgan City, Louisiana, three in Amelia, Louisiana, and one in Orange, Texas. Much of our new vessel construction is done indoors in well-lighted space specifically designed to accommodate construction of marine vessels up to 350 feet in length. During the past five years, we have made, in the aggregate, approximately $37.5 million of capital expenditures to add capacity and improve the efficiency of our shipyards. For additional information, see "General – Internal Expansion."

Our principal executive offices occupy approximately 10,533 square feet of leased office space in Morgan City, Louisiana. The current lease term extends through June 2020.

Morgan City Shipyard

We have owned and operated our Morgan City, Louisiana shipyard since 1948. The yard is located on the Atchafalaya River approximately 30 miles from the Gulf of Mexico on approximately 12 acres. The shipyard has 14 buildings containing approximately 125,000 square feet of enclosed building area and thirteen overhead cranes. In addition, the shipyard has one submersible launch barge, 1,300 linear feet of steel bulkhead, five rolling cranes and a slip. During 2012, we completed filling our second slip to increase our land area for material lay down and fabrication. The buildings at the Morgan City shipyard include offices for management and support personnel as well as three large fabrication warehouses specifically designed to accommodate marine vessel construction. In 2014, 2016 and 2018 we purchased land and buildings to increase parking, fabrication and office space.

Amelia Shipyards

We have three facilities in Amelia, Louisiana, which is approximately five miles from Morgan City, Louisiana: Conrad Shipyard Amelia, Conrad Deepwater and Conrad Deepwater South. Conrad Shipyard Amelia is located on the Bayou Boeuf/Intracoastal Waterway approximately 30 miles from the Gulf of Mexico on approximately 16 acres. We purchased the yard for approximately $1.0 million in 1996 and commenced marine steel repair and conversion operations there during February 1998. In 2003, we obtained approximately $5.5 million in financing to convert the yard into an aluminum marine fabrication and repair facility capable of serving both commercial and government customers, and commenced our aluminum operations at the facility in the fourth quarter of 2003. The funding was primarily used to construct a 37,500 square foot two-bay building, to purchase a 300 ton travel lift, nine overhead cranes and other tools and equipment, and to make improvements to the docks. The facility has a total of seven buildings containing approximately 67,500 square feet of enclosed building area. The site has 2,100 linear feet of bulkhead and two slips. During 2007 and 2009 we further developed our repair and new construction areas at Conrad Shipyard Amelia to give us additional capacity and improved production efficiencies. On March 13, 2017 Conrad Aluminum L.L.C.'s name was changed to Conrad Shipyard Amelia, L.L.C.

Conrad Deepwater is located on the Bayou Boeuf/Intracoastal Waterway approximately 30 miles from the Gulf of Mexico and is within one mile of Conrad Shipyard Amelia. The facility is located on a 52-acre previously undeveloped site that we purchased in 2000 for $1.3 million. During 2002 and 2003, we invested approximately $7.0 million developing approximately 14 acres of the site into the new facility. We commenced steel repair and conversion operations at the facility in February 2003. This facility has one building containing approximately 5,400 square feet comprising a stock room and maintenance shop. The site also has 1,700 linear feet of bulkhead and one slip. The facility allows us to handle vessels with deeper drafts than we have historically been able to service at our other facilities. We expanded our new construction capabilities at Conrad Deepwater during the first quarter of 2005. During 2007, we purchased a heavy lift crane and installed a crane foundation at our Deepwater facility to enable us to remove and replace lift boat legs that needed repair. This heavy lift crane has also been used by our new construction operations to install legs on liftboats. In the past we had to bring the liftboats, at an additional cost, to a third party facility to accomplish this task. During 2008, we completed development of a slip at the facility and added infrastructure to increase our capabilities for topside work.

We currently have six drydocks at Conrad Deepwater. The drydocks consist of two 120-foot by 52-foot drydocks with lifting capacity of 900 tons, two 200-feet by 70-foot drydocks with lifting capacities of 2,400 tons, one 200-foot by 95-foot drydock with a lifting capacity of 4,000 tons and one 280-foot by 160-foot drydock with a lifting capacity of 10,000 tons. We constructed the largest drydock ourselves in 2000 and 2001 for approximately $5.7 million. This allowed us to (1) increase our repair and conversion capacity; (2) be more competitive by lifting larger repair vessels such as derrick and pipe laying barges and the large offshore service vessels built for the deep water drilling activities in the Gulf of Mexico; and (3) launch larger new vessel construction projects more competitively. During 2010, we put into service an extension to our second largest drydock that increased the lifting capacity from 3,000 tons to 4,000 tons. During the first quarter of 2012, we received a grant from The U.S. Maritime Administration to construct a new section to extend our largest drydock to a length of approximately 350 feet, with a lifting capacity of 12,500 tons. The total cost of the project was $2.6 million. In 2013, we spent $1.0 million in machinery and equipment to improve our operational efficiency. In 2014, we completed 550 feet of additional bulkhead at a cost of $1.4 million.

In 2012, we purchased 50 acres of property adjoining our Conrad Deepwater facility for $5.6 million, which we now operate as our Conrad Deepwater South shipyard. During the fourth quarter of 2012, we renovated the existing office building at the new location and relocated our engineering department. We added one new construction site and upgraded the existing building for manufacturing. We started operations at this site in June 2013. In 2013 we purchased machinery and equipment and did improvements to the facility in the amount of $1.9 million. We delivered our first vessel constructed at the yard in the first quarter of 2014. In 2014, we spent $3.4 million to renovate a building for fabrication, land improvements, and additional equipment. In 2015, we made land improvements, purchased equipment and bulkhead in the amount of $14.9 million. In 2016, we continued to make land improvements and purchased machinery for added efficiency. The improvements for 2015 and 2016 included a panel line building equipped with automated welding systems that was completed in the third quarter of 2016. In 2017, we made land improvements and purchased machinery to support this expansion in the amount of $1.4 million.

Conrad Orange Shipyard

Our Orange, Texas shipyard is located on the Sabine River approximately 37 miles from the Gulf of Mexico on approximately 2 acres. The shipyard has six construction bays under approximately 110,000 square feet of enclosed building area with 14 overhead cranes. The site also has 150 feet of steel bulkhead, and 1,900 linear feet of waterfront including one slip. Our Orange shipyard equipment includes a Wheelabrator, a "gantry" type NC ("Numerical Control") plasma burner with a 21-foot by 90-foot table, over 60 automatic and semi-automatic welding machines, two rolling cranes, 600, 800 and 1,600-ton transfer/load-out systems and a marine railway with side transfer system. We acquired our Orange shipyard in 1997. During 2007 we added a second repair dolly to allow us to repair a greater number of vessels, and we improved our railway system. During 2012, we made improvements and renovations to our railway launch system in the amount of $3.7 million. On June 29, 2012, Orange Shipbuilding Company, Inc.'s name was changed to Conrad Orange Shipyard, Inc. In 2014, we spent $2.5 million in property improvements, land and machinery. In 2015, we continued to make property improvements and purchased equipment in the amount of $1.5 million. In 2016, we purchased the land adjacent to our facility, purchased additional machinery, and did plant improvements totaling $900,000. In 2017, we purchased machinery and equipment in the amount of $706,000 to assist in building the LNG barge.

Legal Proceedings

For a discussion of legal proceedings, see Note 12 to our financial statements included within this report.

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

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

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

Prior to this time our stock was traded on the NASDAQ National Market System under the symbol "CNRD." As of January 10, 2019, there were 110 record holders of our common stock.

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

Fiscal Year 2018	High	Low
First Quarter	$19.00	$16.98
Second Quarter	17.85	16.25
Third Quarter	19.25	16.34
Fourth Quarter	19.05	13.00

Fiscal Year 2017	High	Low
First Quarter	$22.25	$19.60
Second Quarter	20.00	17.47
Third Quarter	18.50	16.51
Fourth Quarter	19.00	16.45

We paid special dividends on our common stock of $1.00 per share on January 5, 2015, and of $2.00 per share on December 17, 2013 and December 31, 2012. Additionally, we paid quarterly dividends of $0.25 per share during each of the four quarters of 2015. We paid quarterly dividend of $0.10 per share during each of the four quarters of 2016. The Board did not declare a dividend in 2017, 2018 or in the first quarter of 2019. 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. In November 2016, the Company entered into a new loan agreement, which does not restrict the payment of dividends or repurchase of shares, subject to compliance with the financial covenants in the agreement.

During August 2010, our board authorized the Company to repurchase up to $5 million of common stock using our cash on hand or generated from operations, in the open market or privately negotiated transactions. We purchased 38,075 shares during the third quarter of 2010 at an average price of $7 per share. During March 2011, our board authorized a 10b5-1 stock purchase plan, in an attempt to increase the amount of stock we repurchase pursuant to the share repurchase program. In 2011, we purchased 255,039 shares at an average price of $14 per share. On January 17, 2012 our Board authorized an additional $5 million to purchase shares of our common stock under the program. In 2012, we purchased 209,881 shares at an average price of $15 per share. During February 2013, the board approved an increase in the stock repurchase program of $10 million. No shares were purchased under the program in 2013. In November 2014, we purchased 100,000 shares at an average price of $32 per share. On December 11, 2014, the board approved an increase in the stock repurchase program of $20 million. During the second quarter of 2015, we purchased 121,155 shares at an average price of $31 per share. During the third quarter of 2015, we purchased 126,526 shares at an average price of $24 per share. During the fourth quarter of 2015, we purchased 256,462 shares at an average price of $22 per share. 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. During the fourth quarter of 2016, we purchased 17,655 shares at an average price of $22 per share. During the first quarter of 2017, we purchased 12,229 shares at an average price of $22 per share. During the second quarter of 2017, we purchased 6,741 shares at an average price of $18 per share. During the third quarter of 2017, we purchased 36,072 shares at an average price of $18 per share. During the fourth quarter of 2017, we purchased 39,534 shares at an average price of $19 per share. During 2010 through 2017, we have repurchased an aggregate of 1,447,347 shares pursuant to our stock repurchase program. During 2018, no shares were purchased. As of December 31, 2018, $1.0 million remained available for future repurchases under our stock repurchase program.

Selected Financial Data

The following table sets forth our selected historical consolidated financial data as of the dates and for the periods indicated. The historical financial data for each year in the five-year period ended December 31, 2018 are derived from our historical audited financial statements. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report and our consolidated financial statements and notes thereto included as an attachment to this report.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share data)				
Statement of Operations Data					
Revenues	$ 182,320	$ 189,146	$ 164,416	$ 263,809	$ 309,009
Cost of revenue	182,905	188,429	160,893	248,895	269,197
Gross profit/(loss)	(585)	717	3,523	14,914	39,812
Selling, general and administrative expenses	5,685	6,152	6,483	7,153	8,558
Income/(loss) from operations	(6,270)	(5,435)	(2,960)	7,761	31,254
Interest and other income (expense), net	7,066	37	511	(1,446)	224
Income/(loss) before income taxes	796	(5,398)	(2,449)	6,315	31,478
Provision/(benefit) for income taxes	598	(3,274)	(755)	(4,303)	8,657
Net income/(loss)	$ 198	$ (2,124)	$ (1,694)	$ 10,618	$ 22,821
Net Income/(Loss) Per Common Share (1)					
Basic	$ 0.04	$ (0.42)	$ (0.33)	$ 1.86	$ 3.84
Diluted	$ 0.04	$ (0.42)	$ (0.33)	$ 1.86	$ 3.84
Weighted Average Common Shares Oustanding					
Basic	5,018	5,076	5,174	5,700	5,950
Diluted	5,018	5,076	5,174	5,700	5,950
Dividends Paid Per Share of Common Stock (1)	$ -	$ -	$ 0.40	$ 2.00	$ -
Statement of Cash Flows Data					
Cash provided by/(used in) operating activities	$ 4,553	$ 23,367	$ (36,219)	$ 13,873	$ 33,868
Cash used in investing activities	$ (780)	$ (2,484)	$ (6,854)	$ (17,480)	$ (9,866)
Cash provided by/(used in) financing activities	$ (1,500)	$ (3,287)	$ 8,025	$ (18,083)	$ (10,281)
Other Financial Data					
Depreciation & amortization	$ 6,943	$ 7,529	$ 7,074	$ 6,261	$ 5,676
Capital expenditures	$ 785	$ 2,486	$ 6,854	$ 17,480	$ 9,871
EBITDA (2)	$ 8,219	$ 2,636	$ 4,669	$ 12,658	$ 37,165
EBITDA margin (3)	4.5%	1.4%	2.8%	4.8%	12.0%
Operating profit/(loss) margin (4)	-3.4%	-2.9%	-1.8%	2.9%	10.1%

	As of December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Balance Sheet Data					
Working capital (1)	$ 62,530	$ 62,011	$ 66,066	$ 61,276	$ 79,554
Property, plant & equipment, net	$ 61,169	$ 67,355	$ 72,462	$ 72,705	$ 61,489
Total assets	$ 160,533	$ 161,548	$ 164,533	$ 166,954	$ 190,887
Long term debt, including current portion	$ 11,875	$ 13,375	$ 14,875	$ -	$ -
Shareholders' equity (1)	$ 112,127	$ 111,928	$ 115,839	$ 124,383	$ 131,848

(1) We paid quarterly dividends in 2016 totaling $2.1 million. We paid quarterly dividends in 2015 totaling $5.7 million. We declared in December 2014 and paid in January 2015 a special cash dividend of $1.00 per share totaling $5.9 million. In addition, for 2014-2017, stock repurchases totaled $3.2 million, $12.4 million, $4.8 million, $1.8 million, and $0, respectively.

(2) 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.

(3) Represents EBITDA as a percentage of revenues.

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

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

	2018	2017	2016	2015	2014
Net cash provided by/(used in) operating activities	$ 4,553	$ 23,367	$ (36,219)	$ 13,873	$ 33,868
Interest expense	480	505	44	82	11
Provision/(benefit) for income taxes	598	(3,274)	(755)	(4,303)	8,657
Deferred income tax provision (benefit)	1,676	1,526	2,675	813	(490)
Other	(35)	(74)	(25)	(3)	(1)
Changes in operating assets and liabilities	947	(19,414)	38,949	2,196	(4,880)
EBITDA	$ 8,219	$ 2,636	$ 4,669	$ 12,658	$ 37,165

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes to consolidated financial statements included as an attachment to this report.

Overview

We specialize in the construction, repair and conversion of a wide variety of steel and aluminum marine vessels for commercial and government customers. These vessels include tugboats, ferries, liftboats, barges, 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 year ended December 31, 2018 our new construction segment accounted for 83.6% of our total revenue and our repair and conversion segment accounted for 16.4% 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.

In 2018, we recognized revenues of $182.3 million, net income of $198,000, income per diluted share of $.04 and net cash provided by operating activities of $4.6 million compared to 2017 revenues of $189.1 million, net loss of $2.1 million, diluted loss per share of -$.42 and net cash provided by operating activities of $23.4 million.

Vessel construction gross profit/loss for 2018, 2017 and 2016 reflects losses of $1.9 million, $11.9 million and $13.2 million, respectively, on the LNG barge. We entered into a contract to construct the LNG barge, the first vessel of its kind in North America, in 2015 and delivered the barge in August 2018. The losses on the project primarily related 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. While we 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. We also experienced losses on other new construction projects of $11.4 million, $3.2 million and $2.3 million during 2018, 2017 and 2016, respectively. In our repair segment, gross profit increased from $1.8 million in 2017 to a gross profit of $4.1 million in 2018, due to an increase in volume but continues to reflect a soft market environment which we believe continues to be impacted by low crude oil prices and depressed Gulf of Mexico activity.

As of December 31, 2018, we had cash and cash equivalents of $31.7 million. As part of our detailed business planning process to identify optimal uses for our cash, in 2014 our Board of Directors declared a special dividend of $1.00 per share that was paid in January 2015, totaling $5.9 million. During 2015, the Company paid quarterly dividends of $0.25 per share. During 2016, the Company paid quarterly dividends of $0.10 per share. The Board did not declare a dividend during 2017, 2018 or the first quarter of 2019.

During 2018, we had $725,000 of capital expenditures, and we believe these investments in our business will improve our efficiencies and competitiveness. In 2018, we made no purchases under our stock buyback program. As of December 31, 2018, $1.0 million remained available under the program.

Our results for 2018 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. In the repair market we saw an increase in volume but it 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 2016, 2017, and 2018, and it may negatively impact our financial performance through 2019. 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 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.

In December 2012 and February 2013, the Company submitted claims totaling $22.6 million to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program. The Company reached a settlement in 2018 for a total of $7.5 million to be paid in installments, all of which was recognized in the second quarter of 2018 and reflected in "Other Income/(Expense), net" in our statement of operations. For additional information, see Note 12 in our consolidated financial statements in this report.

The demand for our products and services is dependent upon a number of factors, including the economic condition of our customers and markets, the age and state of repair of the vessels operated by our customers and the relative cost to construct a new vessel as compared with repairing an older vessel. Because some of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment.

For 2018, 2017 and 2016, we received approximately 18.2%, 4.4%, and 3.2%, respectively, of our total revenues from customers in the Gulf of Mexico oil and gas industry ("energy"), 8.4%, 8.0%, and 9.2% from government customers and 73.4%, 87.6%, and 87.6% from other commercial customers.

During 2018, we added $161.7 million of backlog. Our backlog was $127.7 million at December 31, 2018, compared to $111.3 million at December 31, 2017. Other commercial contracts accounted for approximately 49.9%, 81.3%, and 86.3% of our backlog at December 31, 2018, 2017 and 2016, respectively. Government contracts accounted for approximately 12.2%, 14.6%, and 13.7% of our backlog at December 31, 2018, 2017 and 2016, respectively. Energy contracts accounted for approximately 37.9%, 4.1%, and 0% of our backlog at December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, approximately 58.5% of our backlog related to contracts for three customers. We expect to complete most of our backlog within the next 12 months. Our management is focused on effectively executing our backlog and on obtaining additional backlog.

Our construction and fabrication projects in progress as of December 31, 2018 consisted of 50 vessels: a dock barge, a hopper barge, a 6,000 BHP towboat, an ATB tug, 2 deck barges, 2 - 3,000 HP tugs, 2 Damen Stan Tugs, 3 crane barges, 3 LPG barges, 8 spud barges, 5 - 24,000 BBL barges, and 21 spud barges. Our customers comprise a very diverse group that crosses a wide range of businesses including the energy sector, dredging, construction, towing, and bunkering markets.

From time to time we have experienced gaps in our construction schedules and began construction on projects that were not under contract but we believed we could convert to contracts in a relatively short period of time within starting construction or within completion of the project. The primary goal of this strategy is to maintain operational efficiencies and revenue volume between contracted projects. We have also constructed stock vessels for strategic business and marketing reasons. At December 31, 2017 and 2018, we had no stock vessels under construction. Subsequent to year end we commenced construction of six stock vessels to fill gaps in our construction schedules. As of March 1, 2019, we had sold three of the six stock vessels since commencing construction. Our board has approved construction of up to $20 million in stock barges and vessels. The stock vessel program adversely impacted our results for 2017, and may adversely impact our revenue, profitability, and working capital in the future.

In the past we have not carried a significant steel inventory, but due to the increase in steel prices and decrease in availability of certain steel sizes, we increased our steel inventory during the latter part of 2018.

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.

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 ceased filing reports pursuant to Section 15(d) of that Act primarily to reduce expenses.

Results of Operations

	Years Ended December 31,					
	2018		2017		2016	
Financial Data:						
Revenue						
Vessel construction	$ 152,482	83.6%	$ 168,280	89.0%	$ 135,721	82.5%
Repair and conversions	29,838	16.4%	20,866	11.0%	28,695	17.5%
Total revenue	182,320	100.0%	189,146	100.0%	164,416	100.0%
Cost of revenue						
Vessel construction	157,189	103.1%	169,388	100.7%	135,205	99.6%
Repair and conversions	25,716	86.2%	19,041	91.3%	25,688	89.5%
Total cost of revenue	182,905	100.3%	188,429	99.6%	160,893	97.9%
Gross profit/(loss)						
Vessel construction	(4,707)	-3.1%	(1,108)	-0.7%	516	0.4%
Repair and conversions	4,122	13.8%	1,825	8.7%	3,007	10.5%
Total gross profit/(loss)	(585)	-0.3%	717	0.4%	3,523	2.1%
S G & A expenses	5,685	3.1%	6,152	3.3%	6,483	3.9%
Income/(loss) from operations	(6,270)	-3.4%	(5,435)	-2.9%	(2,960)	-1.8%
Interest expense	(480)	-0.3%	(505)	-0.3%	(44)	0.0%
Other income/(expense), net	7,546	4.1%	542	0.3%	555	0.3%
Income/(loss) before income taxes	796	0.4%	(5,398)	-2.9%	(2,449)	-1.5%
Provision/(benefit) for income taxes	598	0.3%	(3,274)	-1.7%	(755)	-0.5%
Net income/(loss)	$ 198	0.1%	$ (2,124)	-1.1%	$ (1,694)	-1.0%
EBITDA (1)	$ 8,219	4.5%	$ 2,636	1.4%	$ 4,669	2.8%
Net cash provided by/(used in) operating activities	$ 4,553		$ 23,367		$ (36,219)	
Net cash used in investing activities	$ (780)		$ (2,484)		$ (6,854)	
Net cash providedby/(used in) financing activities	$ (1,500)		$ (3,287)		$ 8,025	

(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):

	2018	2017	2016
Net cash provided by/(used in) operating activities	$ 4,553	$ 23,367	$ (36,219)
Interest expense	480	505	44
Provision/(benefit) for income taxes	598	(3,274)	(755)
Deferred income tax provision	1,676	1,526	2,675
Other	(35)	(74)	(25)
Changes in operating assets and liabilities	947	(19,414)	38,949
EBITDA	$ 8,219	$ 2,636	$ 4,669

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

During the year ended December 31, 2018, we generated revenue of $182.3 million, a decrease of approximately $6.8 million or -3.6%, compared to $189.1 million generated for 2017. The decrease was due to a 15.8 million or -9.4% decrease in vessel construction revenue primarily as a result of decreased production hours and product mix. Vessel construction hours decreased -.2% compared to 2017 due to timing of executing jobs in backlog, while repair and conversion hours increased by 39.6% compared to 2017 due to an improved market environment.

Vessel construction revenue was 83.6% of total revenue compared to 89.0% for 2017 and repair and conversion revenue was 16.4% of total revenue compared to 11.0% in 2017. For 2018, 8.4% of revenue was government related, 18.2% was energy and 73.4% was other commercial. This compares to 8.0% of revenue being government related, 4.4% energy and 87.6% other commercial in 2017.

We had a gross loss of $585,000 (-0.3% of revenue) for 2018 as compared to gross profit of $717,000 (.4% of revenue) for 2017. Vessel construction gross profit decreased $3.6 million for 2018 to a gross loss of $4.7 million compared to gross loss of $1.1 million for 2017. Vessel construction gross profit decreased primarily as a result of a loss on the LNG barge, losses on additional jobs as explained below, and overall lower margin jobs. Repair and conversion gross profit increased $2.3 million for 2018 to $4.1 million compared to $1.8 million for 2017. The increase in gross profit in the repair and conversion segment was due to an increase in volume during 2018, and a better product mix.

Vessel construction gross profit margin decreased to -3.1% for 2018, compared to a gross profit margin of -.7% for 2017, due to a loss on the LNG barge, losses on additional jobs, and overall lower margin jobs.

Vessel construction gross profit for 2018 and 2017 reflects $1.9 million and $11.9 million, respectively, in losses on the LNG barge. Additionally, in 2018 we experienced losses in new construction of approximately $11.4 million due to learning curves and complexities on constructing four vessels built for the first time by the Company, issues with labor shortages and retention of labor, material increases impacted by the steel environment, and selling stock vessels at a loss. These losses reflect a very competitive environment, aggressive pricing, operation and labor challenges, and management's decision to fill gaps with stock vessels in order to be prepared for improving market conditions.

Repair and conversion gross profit margin was 13.8% for 2018, compared to a gross profit margin of 8.7% for 2017. Repair and conversion gross profit increased primarily due to an increase in production hours.

Selling, general and administrative expenses ("SG&A") decreased $467,000, or -7.6%, to $5.7 million (3.1% of revenue) for 2018, as compared to $6.2 million (3.3% of revenue) for 2017. This decrease in SG&A expenses was due to decreases in employee related expenses due to lower bonus accruals, and lower advertising and bad debt expenses.

Interest expense decreased $25,000 to $480,000 for 2018 as compared to interest expense of $505,000 for 2017. The decrease in interest expense in 2018 was due to the reduction of our term loan balance. The Company entered into a term loan in late 2016. See Note 5 for additional information.

We had an income tax expense of $598,000 for 2018, compared to income tax benefit of $3.3 million for 2017, as a result of higher income in 2018 due to the BP settlement. The Tax Cuts and Jobs Act resulted in a one-time revaluation of certain tax-related assets and liabilities to reflect their value at the lower corporate tax rate of 21%. As such, the Company has calculated its deferred tax assets and liabilities at the 21% rate and recorded a net tax benefit in the fourth quarter of 2017 totaling $1.3 million. See Note 8 for additional information.

Liquidity and Capital Resources

Net cash provided by operations was $4.6 million for 2018, compared to $23.4 million for 2017 and net cash used in operations of $36.2 million for 2016. The decrease in 2018 is due to an increase in inventory and other assets, partially offset by a decreases in accounts receivable. Our working capital position was $62.5 million and $62.0 million at December 31, 2018 and 2017, respectively. Cash and cash equivalents at December 31, 2018 and 2017 were $31.7 million and $29.5 million, respectively. Management continues to engage in a detailed business planning process that includes an assessment of 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 provided 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.

Our net cash used in investing activities of $780,000 in 2018 consisted of capital expenditures in machinery, land and property improvements. Our net cash used in investing activities of $2.5 million in 2017 consisted of capital expenditures, which included the machinery, building and property improvements at our Conrad Deepwater South shipyard. For additional information on our internal expansion activities, see Business - Overview - Internal Expansion. Our Board of Directors has approved a $4.1 million capital expenditure program for 2019.

As of December 30, 2018, one of our significant customers was not making payments on terms agreed upon in the contracts and had an outstanding balance of $15.2 million. Although we believe we will collect the full amount, it could be delayed beyond completion of the vessels. We would have to spend additional funds to complete the two vessels, which were approximately 73% and 63% percent complete as of December 30, 2018. If our customer continues not to meet its obligations under the contracts, we may, among other things, sell the vessels to another buyer and take legal action to recover the deficiency, if any, between the contract prices (and other amounts due under the contracts) and the amount of the selling prices plus funds already paid to us by the customer. In April 2016, the Company received a grant from the U. S. Maritime Administration to purchase equipment for our Conrad Orange Shipyard. This grant was a portion of a $5 million appropriation by Congress for capital improvements and for maritime training programs at small shipyards. The total cost of the project was $1.2 million of which the Federal share for reimbursement was $605,000, and the Company's share was $605,000. The Company was required to expend the required portion before any portion of the Federal share was distributed. The Company elected to receive reimbursement at the completion of the project. We 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 December 31, 2018 and December 31, 2017, respectively.

To fill 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 2018, we had no stock vessels under construction. Subsequent to year end we commenced construction of six stock vessels to fill in gaps in our construction schedules. As of March 1, 2019, we had sold three of the six stock vessels since commencing construction. Our board has approved construction of up to $20 million in stock vessels to the extent management deems appropriate.

In the past we have not carried a significant steel inventory, but due to the increase in steel prices and decrease in availability of certain steel sizes, we increased our steel inventory during the latter part of 2018.

Net cash used in financing activities was $1.5 million for 2018 for the payments on the term loan. Net cash used in financing activities was $3.3 million for 2017 which includes $1.5 million for payments on the term loan and $1.8 million for the purchase of stock under the stock buyback program.

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 2017, we purchased 12,229 shares at an average price of $22 per share. During the second quarter of 2017, we purchased 6,741 shares at an average price of $18 per share. During the third quarter of 2017, we purchased 36,072 shares at an average price of $18 per share. During the fourth quarter of 2017, we purchased 39,534 shares at an average price of $19 per share. During 2018, no shares were purchased. As of December 31, 2018, $1.0 million remained available under the program.

Our long term-debt is described in Note 5 to our financial statements included as an attachment to this report. 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 December 31, 2018 or December 31, 2017. The revolving credit facility matures April 30, 2021. We have no outstanding letters of credit as of December 31, 2018. As of December 31, 2018, we were in compliance with our covenants under our loan agreement.

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. At December 31, 2018, bonds and letters of credit amounted to $30.7 million compared to $55.6 million at December 31, 2017. We believe that general industry conditions have led customers to require performance bonds more often than in the past. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so. In addition, the cost of obtaining such bonds, letters of credit and similar obligations has increased and may continue to increase.

Our backlog was $127.7 million at December 31, 2018 as compared to $111.3 million at December 31, 2017 and $216.5 million at December 31, 2016.

We believe that our existing working capital and cash flow from operations will be adequate to meet our working capital needs for operations and capital expenditures through 2019.

Directors and Executive Officers

Our Founder

J. Parker Conrad founded our Company and served as Chairman of the Board from its inception in 1948 and as President from 1948 until 1994. From March 1998, Mr. Conrad served as Executive Co-Chairman of the Board of Conrad Industries, Inc., our holding company formed at that time in connection with our initial public offering, until his retirement from our Board in January 2014.

Upon his retirement from our Board, he was granted the honorary position of Chairman Emeritus and was invited to attend all board meetings, although he was not entitled to vote. He remained an employee of our Company and served as Advisor to the Chief Executive Officer until his death in July 2017. Mr. Conrad is the father of John P. Conrad, Jr. and grandfather of Daniel T. Conrad.

Current Directors

Name	Age	Position	Year First Became a Director
John P. Conrad, Jr.	76	Chairman of the Board of Directors, Chief Executive Officer (Class III)	1998
Cecil A. Hernandez	62	Director and President (Class I)	1998
Michael J. Harris	69	Director (Class II)	1998
Ogden U. Thomas, Jr.	73	Director (Class II)	2004
Daniel T. Conrad	55	Director (Class III)	2014

John P. Conrad, Jr. has been with our company since 1962, serving as Vice President since 1982, and as Co-Chairman of the Board of Conrad Industries, Inc. from March 1998 to January 2014, when he became Chairman of the Board. Mr. Conrad has served as Chief Executive Officer since April 2004. Mr. Conrad served as President from April 2004 until November of 2018. Mr. Conrad founded Johnny's Propeller Shop, Inc., a marine-related service company, in 1963 and is Chairman of the Board and Chief Executive Officer of this company. In 2000, Mr. Conrad and members of his immediate family founded Summit Management Group, L.L.C., which currently owns, among other investments, all of the outstanding ownership interests in Johnny's Propeller Shop. Mr. Conrad is currently the Operating Manager of Summit Management Group.

Michael J. Harris has been a director of Conrad Industries since the consummation of the initial public offering in June 1998. From 2005-2014, Mr. Harris was president of Hope Christian Community Foundation, a charitable organization in Memphis, Tennessee, where he currently serves as President Emeritus. Previously, Mr. Harris was a Managing Director of Morgan Keegan & Company, Inc., where he was employed since 1986. Morgan Keegan was the lead managing underwriter of our initial public offering.

Cecil A. Hernandez has been a director of Conrad Industries since March 1998. Mr. Hernandez joined Conrad Industries in January 1998 and served as Vice President-Finance and Administration and Chief Financial Officer of Conrad Industries from 1998 until 2002. During August 2004, Mr. Hernandez returned to Conrad and served as Chief Operating Officer and interim CFO until February 2005, at which time, he assumed the position of Executive Vice-President and Chief Financial Officer until November 2018. Mr. Hernandez served as Chief Operating Officer from July until October 2018. In November 2018, he became President. From October 2002 to August 2004, Mr. Hernandez served as the President of Summit Management Group, L.L.C., a company formed by John P. Conrad, Jr. and his immediate family. Mr. Hernandez founded Hernandez & Blackwell CPAs in 1983 and served as its Managing Partner until December 1997. Hernandez & Blackwell CPAs merged with Darnall Sikes & Frederick CPAs in 1996. Additionally, Mr. Hernandez provided accounting and consulting services for Conrad Industries as the outside Certified Public Accountant from 1993 until 1997. From 1982 to 1983, Mr. Hernandez served as Assistant Controller for Oceaneering International, a publicly traded diving company. Mr. Hernandez was employed by the international accounting firm Deloitte Haskins & Sells (now Deloitte & Touche LLP) from 1979 to 1982.

Ogden U. Thomas, Jr. has been a director of Conrad Industries since April 2004. Mr. Thomas served on the Board of Directors of Cross Group, Inc., a privately held group of companies servicing the oil and gas, marine services, offshore construction and deepwater services industries until July 2016, and from 2006 to 2011 served as that company's President and Chief Operating Officer. From 1988 to 2003, Mr. Thomas served as the President of the ENSCO Marine Company Division of ENSCO International, a leading offshore drilling contractor. Prior to that time, Mr. Thomas served in various management positions with Seahorse, Inc., a world-wide operator of offshore supply and anchor handling vessels and a subsidiary of Texas Eastern Corporation, and as President of the Drilling Services Division of Texas Eastern Corporation.

Daniel T. Conrad has been a director of Conrad Industries since January 2014. Mr. D. Conrad was appointed to the Board of Directors to fill the vacancy created by the resignation of J. Parker Conrad and to serve as a Class III director. Mr. Conrad joined the company in 1997 and has held numerous positions including Facility Manager, Sales Manager, Business Relations Manager and currently is Senior Vice President of our Conrad Shipyard, Conrad Shipyard Amelia and Conrad Orange subsidiaries. From 1989 to 1996, Mr. Conrad served in various positions with Venture Transport, Inc., a specialized carrier in oilfield and energy equipment. Mr. Conrad is the son of John P. Conrad, Jr.

Executive Officers

During 2018 our Company engaged in a focused management succession planning process, led by our Chairman and Chief Executive Officer John P. Conrad Jr. In October 2018, we announced that our Board of Directors appointed Brett T. Wolbrink as Executive Vice President and Chief Operating Officer. In November, we announced that our Board appointed Cecil A. Hernandez as President and Carl A. Herbert Jr. as Vice President and Chief Financial Officer. Mr. Conrad will continue to serve as Chairman and Chief Executive Officer. In addition, we promoted several key employees and realigned some responsibilities among our senior managers. Our Board and executive officers continue to focus on the further development of our management team.

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

Name	Age	Position with Conrad Industries
John P. Conrad, Jr.	76	Chief Executive Officer and Chairman of the Board
Cecil A. Hernandez	62	President and Secretary
Brett T. Wolbrink.	47	Executive Vice President, Chief Operating Officer
Daniel T. Conrad.	55	Senior Vice President
Carl A. Hebert, Jr.	35	Vice President and Chief Financial Officer

Information regarding the business experience of Mr. Conrad, Jr., Mr. Hernandez, and Mr. D. Conrad is set forth above under the heading “Directors.”

Brett T. Wolbrink became Executive Vice President and Chief Operating Officer of Conrad Industries in October 2018. Mr. Wolbrink most recently served as Vice President of Conrad LNG since June 2016 and previously held various other senior management positions at the company since 2009. Other positions included General Manager of Orange Shipbuilding, Vice President of Louisiana Operations, and Vice President of Western Operations. Mr. Wolbrink began his career in 1990 and held various roles and responsibilities at three different shipyards and marine related companies.

Carl A. Hebert, Jr. became Vice President and Chief Financial Officer in November 2018. Mr. Hebert most recently served as Vice President of Finance and Administration since March 2014 and previously held the position of Corporate Controller since joining the Company in January 2012. Prior to joining the Company, Mr. Hebert was employed by Cameron International Corp. between 2007 and 2012 where he held various positions including cost accountant, assistant controller, and Controller III. Between 2005 and 2007, Mr. Hebert held the position of cost accountant for International Paper. Mr. Hebert is a graduate of University of Louisiana at Lafayette with a Bachelor of Finance degree with a minor in Accounting and holds an Executive MBA degree with Honors from Nicholls State University.

Independent Directors Committee

We have two independent directors, as independence is defined by The NASDAQ Stock Market: Mr. Harris and Mr. Thomas. Messrs. Harris and Thomas serve on our Independent Directors Committee, which has the functions described in the Independent Directors Committee Charter, a copy of which was included with our 2018 proxy statement. These functions include being directly responsible for the appointment, compensation, retention and oversight of the work of our independent auditors, approving all compensation and benefits provided to, and any employment agreement with, an executive officer of our company, and approving related party transactions involving a director or executive officer.

Executive Compensation

Summary Compensation Table

The following table provides summary information concerning compensation paid or accrued to each of our current executive officers (each, a "Named Executive Officer" and, together, the "Named Executive Officers") during the fiscal year(s) during which they served as executive officers. Except as noted below, for fiscal years 2016, 2017 and 2018, none of the Named Executive Officers received perquisites, the aggregate value of which exceeded $10,000.

Name and Principal Position	Year	Annual Salary	Compensation Bonus	All Other Compensation
John P. Conrad, Jr…………………………....	2018	$373,430	$ —	$ 12,426 (1)
Chief Executive Officer and	2017	360,300	—	11,739 (1)
Chairman of the Board	2016	360,300	—	14,888 (1)
Cecil A. Hernandez(2)…………………………...	2018	225,496	—	13,582 (1)
President and Secretary and a Director	2017	210,300	—	14,763 (1)
	2016	210,300	—	17,125 (1)
Brett T. Wolbrink(2)……………………………..	2018	192,749	—	20,165 (3)
Executive Vice President and Chief Operating Officer				
Daniel T. Conrad………………………………	2018	165,810	—	16,560 (4)
Senior Vice President and a Director	2017	158,000	—	16,384 (4)
	2016	159,975	—	17,140 (4)
Carl A. Hebert, Jr.(2) ……………………………..	2018	165,248	—	21,312 (5)
Vice President, Chief Financial Officer				

(1) Represents amounts paid by us under our auto allowance program.

(2) Mr. Hernandez become our President, and Mr. Hebert became our Vice President and Chief Financial Officer, in November 2018. Mr. Wolbrink became our Executive Vice President and Chief Operating Officer in October 2018. In November 2018, all of our executive officers entered into employment agreements, or amendments to employment agreements, with the Company providing for an increase in base salary. For additional information, see "Agreements with Directors and Executive Officers."

(3) Represents $6,191 paid by us under our 401(k) plan and $13,974 paid by us under our auto allowance program.

(4) Represents $6,548 paid by us under our 401(k) plan and $10,012 paid by us under our auto allowance program in 2018. Represents $6,320 paid by us under our 401(k) plan and $10,064 paid by us under our auto allowance program in 2017. Represents $3,950and $13,190 paid by us under our auto allowance program in 2016.

(5) Represents $6,522 paid by us under our 401(k) plan and $14,790 paid by us under our auto allowance program.

Annual and Long-Term Incentive Plans

We have established an annual incentive plan under which our key employees may be awarded cash bonuses based upon the achievement of certain performance goals. For 2017 and 2018, our Independent Directors' Committee approved a new annual incentive plan pursuant to which our executive officers may receive cash bonuses calculated as a percentage of salary, based upon achieving a specified threshold of approved performance measurements. The payment of any bonuses is at the discretion of the Board, which may increase or decrease bonus amounts determined under the plan formulas. All bonuses paid to executive officers must be approved by the Independent Directors'

Committee. With respect to 2018 and 2017 bonuses that would have been paid during 2019 and 2018, respectively, the Company did not achieve the minimum threshold as determined by the Board, and therefore no bonuses were awarded to executive officers.

In May 2014, the Company adopted a long-term incentive compensation plan. The plan provides a cash incentive for the employee to remain employed by the Company through a specified vesting date, at which time the cash incentive is due. The plan was designed to encourage the continued service of certain key employees deemed important to the Company's management succession planning process. If the employee's employment terminates prior to the vesting of an award, the award is forfeited, except that, if prior to the applicable vesting date, the employee's employment (i) terminates due to death or disability, (ii) is terminated by the Company without cause, or (iii) is terminated by the employee for good reason, then the employee will fully vest in the award.

In May 2014, the Independent Directors Committee made awards under the Company's long-term incentive plan to certain key employees who were not directors, under which a maximum of approximately $3.0 million in the aggregate could be paid by the Company during a three-year period. The awards granted in May 2014 vested and were paid in or prior to May 2017.

In May 2015, the Independent Directors Committee made awards under the Company's long-term incentive plan to John P. Conrad, Jr., Cecil A. Hernandez, Daniel T. Conrad, Scott J. Theriot (our former chief operating officer) and another employee pursuant to which they would receive lump sum cash payments totaling $2.3 million ($1.08 million for Mr. Conrad, Jr.; $630,000 for Mr. Hernandez; and $240,000 for D. Conrad) if such recipients remain employed for a five-year period for Messrs. Conrad, Jr., Hernandez and D. Conrad and for a four-year period for the other recipients. Mr. Theriot's award of $0.32 million accelerated and was paid in connection with his separation from the Company in 2018.

Directors' Compensation

Our directors who are employees do not receive any compensation for service on our Board of Directors or any committee. Our directors are, however, reimbursed for expenses incurred in connection with attending each Board and committee meeting. During 2018, directors who are not our employees received a fee of $40,800 annually, plus $1,350 for attendance at each Board of Directors meeting and $500 for each committee meeting attended.

Agreements with Directors and Executive Officers

We have employment and non-competition agreements with Messrs. Conrad Jr., Hernandez, Wolbrink, Hebert, Jr. and D. Conrad. The agreements provide that the company will pay base salaries of $415,000 to Mr. Conrad, Jr., $290,000 to Mr. Hernandez, $230,000 to Mr. Wolbrink, $195,000 to Mr. Hebert, Jr. and $195,000 to Mr. D. Conrad. Each of the agreements provide for employment through May 31, 2019 and for annual extensions thereafter, subject to the parties' mutual agreement. The employment agreements with Messrs. Wolbrink and Hebert were entered into in October and November 2018, respectively. Messrs. J. Conrad, Hernandez, Wolbrink and D. Conrad's employment agreements were amended in November 2018. In November 2018, the Independent Directors Committee approved an increase in the salaries of all executive officers, as provided in their employment agreements, because the Committee concluded that the prior salaries had been below market for some time, and no bonuses had been paid since 2014.

Upon authorization of its Board of Directors, the Company terminated the employment of Scott J. Theriot on June 20, 2018. Mr. Theriot is eligible to receive severance benefits under the terms of his employment agreement with the Company, subject to his continued compliance with the noncompetition, nonsolicitation and confidentiality covenants in the agreement. As a result of his termination, Mr. Theriot's long-term incentive award accelerated and was paid in accordance with the agreement.

In addition, our executive officers receive a monthly automobile allowance of $700, automobile insurance, and reimbursement for fuel and maintenance expenses. The agreements also provide that each executive will be reimbursed for out-of-pocket business expenses and that each executive is eligible to participate in all benefit plans and programs as are maintained from time to time by us.

The agreements prohibit the executives from competing with us during the term of their employment and for a period of two years, in the case of Mr. Conrad, Jr. and one year, in the case of the other executives after the termination of their employment. The agreements also prohibit the executives from disclosing our confidential information and trade secrets.

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

In the event the employment of Mr. Conrad, Jr. is terminated by us without “cause” or is terminated by Mr. Conrad, Jr. for “good reason,” Mr. Conrad, Jr. will be entitled to receive his base salary for one year at the rate then in effect, plus the average of the payments made to him pursuant to the Company’s annual incentive plan for each of the three fiscal years immediately preceding termination of employment (the “bonus component”), to be paid in substantially equal installments payable over a period of one year. In addition, the time period during which Mr. Conrad, Jr. will be restricted from competing with us will be shortened from two years to one year.

In the event the employment of Messrs. Hernandez, Wolbrink, Hebert, Jr. or D. Conrad is terminated by us without “cause” or is terminated by Messrs. Hernandez, Wolbrink, Hebert, Jr., or D. Conrad for “good reason,” each will be entitled to receive his base salary for one year at the rate then in effect, plus the bonus component, to be paid in substantially equal installments payable over a period of one year.

The agreements for our executive officers provide that if, within two years following a change in control of the Company, the executive’s employment is terminated by us other than for “cause” or by the executive for “good reason,” or the executive is terminated by us within six months before a change in control at the request of the acquirer in anticipation of the change in control, instead of the severance described above, the executive will be entitled to receive in a lump sum payment the equivalent of the sum of (x) the bonus component prorated by multiplying such amount by the fraction obtained by dividing the number of days in the year through the date of termination of employment by 365, plus (y) an amount equal to 1.5 times the applicable annual premium for health insurance (including any portion thereof paid by executive) under a Company group health plan in which executive and eligible family members are enrolled at the time of termination of employment, plus (z) an amount equal to 2.5 times the sum of (I) the executive’s base salary at the rate in effect on executive’s termination date, and (II) the highest annual payment made to executive pursuant to the Company’s annual incentive plan with respect to the three fiscal years immediately preceding the executive’s termination date. If any of these payments are not required to be made in full within 10 business days after termination of employment, the Company or successor must contribute such amounts to a rabbi trust. In addition, the provisions that restrict the executive’s competition with us will no longer apply. For any fiscal year ending during the two years following a change in control during which entire year the executive remains employed, his bonus must be at least equal to the bonus component. The agreements provide for a reduction of any change of control benefits to avoid parachute payment excise taxes if the executive would receive greater after-tax benefits with a reduction than he would receive if he had been paid the unreduced benefit and paid the excise tax.

We have also entered into indemnity agreements with all of our directors requiring us to indemnify and advance expenses to them in connection with their service to our company to the fullest extent permitted by law. The agreements also require us to maintain directors’ and officers’ liability insurance, unless it is not reasonably available or, in the reasonable business judgment of our directors, there is insufficient benefit to us from the insurance.

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

The following table presents certain information, as of March 8, 2019, regarding the beneficial ownership of our common stock by:

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

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

Beneficial Owner	Number of Shares	% of Total Outstanding
John Parker Conrad Family, L.L.C.…………………………………………..	1,043,267	20.8%
Conrad Family Foundation(1)	95,495	1.9%
John P. Conrad, Jr.(2)	2,124,920	42.3%
Katherine C. Court(3)	1,043,267	20.8%
Daniel T. Conrad …………………………………………………………	1,200	*
Michael J. Harris...	7,000	*
Cecil A. Hernandez...	50,968	1.0%
Ogden U. Thomas, Jr.	2,000	*
All directors and executive officers as a group(4) (7 persons)	2,186,088	43.6%

* Less than one percent.

(1) Represents shares held by The Conrad Family Foundation, of which Mr. John P. Conrad, Jr. acts as trustee.

(2) Includes 374,216 shares held by The John P. Conrad, Jr. Trust for which Mr. Conrad, Jr. exercises sole voting and investment control as Trustee for the trust. Also includes 95,495 shares held by The Conrad Family Foundation, of which Mr. John P. Conrad, Jr. acts as trustee. Also includes 1,043,267 shares held by the John Parker Conrad Family, L.L.C., of which John P. Conrad, Jr. and Katherine C. Court are the sole managers.

(3) Includes 1,043,267 shares held by the John Parker Conrad Family, L.L.C., of which John P. Conrad, Jr. and Katherine C. Court are the sole managers. The address of Ms. Court is 979 Coyote Trl., Round Mountain, TX, 78663.

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

Certain Relationships and Related 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 three years ended December 31, 2018, 2017, and 2016 were $1,772,000, $2,052,000, and $2,314,000, 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 $330,000, $353,000 and $384,000 for the years ended December 31, 2018, 2017, and 2016, respectively. These transactions were approved by the Independent Directors Committee.

We purchase in the ordinary course of business certain supplies from PAC Specialties, LLC (“PAC”). PAC is a company owned by Cecil A. Hernandez’s wife’s family. Cecil A. Hernandez, is President and Secretary of the Company and a member of our Board of Directors. Total purchases for the three years ended December 31, 2018, 2017 and 2016 were $127,000, $92,000, and $134,000, respectively. All transactions were approved by the Independent Directors Committee.

In addition, J. Parker Conrad, the founder and father of John P. Conrad, Jr., was an employee and was paid aggregate compensation for services as an employee of the Company of $68,642, and $132,200 from January 1, 2017 to July 6, 2017, and for the year 2016, respectively.

Financial Statements and Quarterly Financial Data

Our audited Financial Statements for the year ended December 31, 2018 are included as an attachment to this Annual Report.

2018 Quarterly Results of Operations

	Quarters ended							
	March 31, 2018		**June 30, 2018**		**September 30, 2018**		**December 31, 2018**	
Financial Data:								
Revenue								
Vessel construction	$ 42,420	84.4%	$ 37,554	84.8%	$ 33,226	79.2%	$ 39,282	85.8%
Repair and conversions	7,868	15.6%	6,739	15.2%	8,704	20.8%	6,527	14.2%
Total revenue	50,288	100.0%	44,293	100.0%	41,930	100.0%	45,809	100.0%
Cost of revenue								
Vessel construction	41,267	97.3%	37,554	100.0%	35,938	108.2%	42,431	108.0%
Repair and conversions	6,529	83.0%	6,159	91.4%	7,671	88.1%	5,357	82.1%
Total cost of revenue	47,796	95.0%	43,713	98.7%	43,609	104.0%	47,788	104.3%
Gross profit/(loss)								
Vessel construction	1,153	2.7%	-	0.0%	(2,712)	-8.2%	(3,149)	-8.0%
Repair and conversions	1,339	17.0%	580	8.6%	1,033	11.9%	1,170	17.9%
Total gross profit/(loss)	2,492	5.0%	580	1.3%	(1,679)	-4.0%	(1,979)	-4.3%
S G & A expenses	1,519	3.0%	1,442	3.3%	1,477	3.5%	1,247	2.7%
Income/(loss) from operations	973	1.9%	(862)	-1.9%	(3,156)	-7.5%	(3,226)	-7.0%
Interest expense	(116)	-0.2%	(115)	-0.3%	(112)	-0.3%	(137)	-0.3%
Other income/(expense), net	2	0.0%	7,518	17.0%	37	0.1%	(11)	0.0%
Income/(loss) before income taxes	859	1.7%	6,541	14.8%	(3,231)	-7.7%	(3,374)	-7.4%
Provision/(benefit) for income taxes	273	0.5%	1,821	4.1%	(670)	-1.6%	(826)	-1.8%
Net income/(loss)	$ 586	1.2%	$ 4,720	10.7%	$ (2,561)	-6.1%	$ (2,548)	-5.6%
EBITDA	$ 2,784	5.5%	$ 8,405	19.0%	$ (1,425)	-3.4%	$ (1,545)	-3.4%
Net cash provided by/(used in) operating activities	$ 11,993		$ (7,723)		$ (1,188)		$ 1,471	
Net cash used in investing activities	$ (235)		$ (180)		$ (248)		$ (117)	
Net cash used in financing activities	$ (375)		$ (375)		$ (375)		$ (375)	

Supplemental Selected Quarterly Financial Data

Consolidated operating results for the four quarters of 2018 and 2017 were as follows (in thousands, except per share data):

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Fiscal 2018				
Revenue	$ 50,288	$ 44,293	$ 41,930	$ 45,809
Gross profit/(loss)	2,492	580	(1,679)	(1,978)
Net income/(loss)	586	4,720	(2,561)	(2,547)
Net income/(loss) per share:				
Basic & diluted	0.12	0.94	(0.51)	(0.51)
Fiscal 2017				
Revenue	$ 45,403	$ 47,653	$ 49,624	$ 46,466
Gross profit/(loss)	1,820	3,743	1,054	(5,900)
Net income/(loss)	119	1,359	(193)	(3,409)
Net income/(loss) per share:				
Basic & diluted	0.02	0.27	(0.04)	(0.67)

Section III

CONRAD INDUSTRIES, INC.
AND SUBSIDIARIES

Consolidated Financial Report

December 31, 2018

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DARNALL SIKES & FREDERICK
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Conrad Industries, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2018, 2017, and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Conrad Industries, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years ended December 31, 2018, 2017, and 2016, in accordance with accounting principles generally accepted in the United States of America.

Darnall, Sikes & Frederick
A Corporation of Certified Public Accountants

Lafayette, Louisiana
March 6, 2019

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

ASSETS		December 31, 2018		December 31, 2017
CURRENT ASSETS:				
Cash and cash equivalents	$	31,743	$	29,470
Accounts receivable, net		27,290		29,054
Costs and estimated earnings, net in excess of billings on uncompleted contracts		19,853		23,283
Inventories		3,493		1,039
Other receivables		9,224		5,512
Other current assets		4,500		5,751
Total current assets		96,103		94,109
PROPERTY, PLANT AND EQUIPMENT, net		61,169		67,355
OTHER ASSETS		3,261		84
TOTAL ASSETS	$	160,533	$	161,548
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	8,679	$	11,514
Accrued employee costs		3,449		2,968
Accrued expenses		1,533		411
Current maturities of long-term debt		1,500		1,500
Billings in excess of costs and estimated earnings, net on uncompleted contracts		18,412		15,705
Total liabilities		33,573		32,098
LONG-TERM DEBT, less current maturities		10,375		11,875
DEFERRED INCOME TAXES		4,458		5,647
Total liabilities		48,406		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 issued in 2018 and 2017		73		73
Additional paid-in capital		29,104		29,104
Treasury stock at cost, 2,296,902 in 2018 and 2017		(38,892)		(38,892)
Retained earnings		121,842		121,643
Total shareholders' equity		112,127		111,928
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	160,533	$	161,548

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

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Year Ended December 31, 2018	2017	2016
REVENUE	$ 182,320	$ 189,146	$ 164,416
COST OF REVENUE	182,905	188,429	160,893
GROSS PROFIT/(LOSS)	(585)	717	3,523
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,685	6,152	6,483
LOSS FROM OPERATIONS	(6,270)	(5,435)	(2,960)
INTEREST EXPENSE	(480)	(505)	(44)
OTHER INCOME/(EXPENSE), NET	7,546	542	555
INCOME/(LOSS) BEFORE INCOME TAXES	796	(5,398)	(2,449)
PROVISION/(BENEFIT) FOR INCOME TAXES	598	(3,274)	(755)
NET INCOME/(LOSS)	$ 198	$ (2,124)	$ (1,694)
Income/(Loss) Per Share Basic and Diluted	$ 0.04	$ (0.42)	$ (0.33)
Weighted Average Common Shares Outstanding Basic and Diluted	5,018	5,076	5,174

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

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock $0.01 Par Value		Additional Paid-in	Treasury Stock at Cost		Retained	
	Shares	Amount	Capital	Shares	Amount	Earnings	Total
BALANCE—December 31, 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	-	-	-	-	-	198	198
BALANCE—December 31, 2018	7,315	$ 73	$ 29,104	2,297	$ (38,892)	$ 121,842	$ 112,127

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

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income/(loss)	$ 198	$ (2,124)	$ (1,694)
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation and amortization	6,943	7,529	7,074
Deferred income tax benefit	(1,676)	(1,526)	(2,675)
Loss on sale of assets	35	74	25
Changes in assets and liabilities:			
Accounts receivable	1,764	(21,300)	2,382
Net change in billings related to cost and estimated earnings on uncompleted contracts	6,137	37,605	(39,310)
Inventory and other assets	(7,617)	2,180	(782)
Accounts payable, accrued expenses and other liabilities	(1,231)	929	(1,239)
Net cash provided by/(used in) operating activities	4,553	23,367	(36,219)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures for plant and equipment	(785)	(2,486)	(6,854)
Proceeds from sale of assets	5	2	-
Net cash used in investing activities	(780)	(2,484)	(6,854)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal repayments of debt	(1,500)	(1,500)	(125)
Proceeds from issuance of debt	-	-	15,000
Dividends paid or payable	-	-	(2,060)
Purchase of treasury stock	-	(1,787)	(4,790)
Net cash provided by/(used in) financing activities	(1,500)	(3,287)	8,025
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,273	17,596	(35,048)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,470	11,874	46,922
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 31,743	$ 29,470	$ 11,874
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:			
Interest paid, net of capitalized interest	$ 480	$ 505	$ 44
Taxes paid	$ 1,474	$ 1,270	$ 350

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation**—**The consolidated financial statements include the accounts of Conrad Industries, Inc. and its wholly-owned subsidiaries (the "Company") which are primarily engaged in the construction, conversion and repair of a variety of marine vessels for commercial and government customers. New construction work and some repair work 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. During the years ended December 31, 2018, 2017 and 2016, no interest costs were capitalized.

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

***Inventories*—**At December 31, 2018 and 2017, inventories consisted of 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 years ended December 31, 2018, 2017 and 2016.

***Fair Value of Financial Instruments*—**The carrying amounts of our financial instruments including cash and cash equivalents, receivables and payables approximate fair value at December 31, 2018 and 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 March 6, 2019, the date the financial statements were available to be issued.

2. RECEIVABLES

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

	December 31, 2018	December 31, 2017
U.S. Government:		
Amounts billed	$ 1,162	$ 2,130
Unbilled costs and estimated earnings on uncompleted contracts	2,010	1,356
	3,172	3,486
Commercial:		
Amounts billed	26,128	26,924
Unbilled costs and estimated earnings on uncompleted contracts	17,843	21,927
Total	$ 47,143	$ 52,337

Included above in amounts billed is an allowance for doubtful accounts of $1.1 million and $1.6 million at December 31, 2018 and 2017, respectively. One of our significant customers is not making payments on terms agreed upon in the contracts and has an outstanding balance of $15.2 million. Although we believe we will collect the full amount, it could be delayed beyond the completion of the vessels.

Unbilled costs and estimated earnings on uncompleted contracts were not billable to customers at the balance sheet dates under terms of the respective contracts. Of the unbilled costs and estimated earnings at December 31, 2018, the majority is expected to be collected within the next twelve months.

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

	December 31, 2018	December 31, 2017
Costs incurred on uncompleted contracts	$ 148,023	$ 205,215
Estimated earnings, net	(8,525)	(26,833)
	139,498	178,382
Less billings to date	(138,057)	(170,804)
	$ 1,441	$ 7,578

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

	December 31, 2018	December 31, 2017
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$ 19,853	$ 23,283
Billings in excess of cost and estimated earnings, net on uncompleted contracts	(18,412)	(15,705)
Total	$ 1,441	$ 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 $9.6 million for the twelve months ended December 31, 2018 ($14.6 million in 2017 and $14.2 million in 2016) in cost of revenues to reflect revised estimates related to anticipated losses on certain uncompleted vessels in progress. The offsetting credit was recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of December 31, 2018 and December 31, 2017, approximately $7.3 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 December 31, 2018 and 2017 (in thousands):

	December 31, 2018	December 31, 2017
Income tax refund	$ 5,944	$ 4,935
Deepwater Horizon Settlement	3,186	-
Other	94	-
MARAD grant reimbursement	-	577
Total	$ 9,224	$ 5,512

Substantially all of these amounts at December 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 December 31, 2018 and 2017 (in thousands):

	December 31, 2018	December 31, 2017
Land	$ 12,832	$ 12,806
Buildings and improvements	66,076	66,057
Machinery and equipment	39,748	38,464
Drydocks and bulkheads	15,282	15,282
Barges and boats	1,055	1,055
Office and automotive	2,153	2,610
Construction in progress	660	1,480
	137,806	137,754
Less accumulated depreciation	(76,637)	(70,399)
	$ 61,169	$ 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 December 31, 2018 and 2017 (in thousands):

	December 31, 2018	December 31, 2017
Term loan - Bank, 3.5% due November 21, 2026	$ 11,875	$ 13,375
Less current maturities	(1,500)	(1,500)
	$ 10,375	$ 11,875

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

	Amount
2019	1,500
2020	1,500
2021	1,500
2022	1,500
2023	1,500
Thereafter	4,375
	$ 11,875

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, 2021 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 December 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

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

In August 2010, the Company's Board of Directors authorized management to repurchase up to $5.0 million of its outstanding common stock. The stock repurchase plan did not obligate management to acquire any particular amount of common stock, did not have an expiration date and could be amended or terminated at any time without prior notice. Pursuant to the plan, in 2010 the Company purchased 38,075 shares at an average price of $7 per share. During March 2011, our board authorized a 10b5-1 stock purchase plan, in an attempt to increase the amount of stock we repurchase pursuant to the share repurchase program. From 2011 to 2012, we purchased 464,920 shares at an average price of $15 per share. During February 2013, the board approved an increase in the stock repurchase program of $10 million. No shares were purchased under the program in 2013. During 2014, 100,000 shares were purchased at an average price of $32 per share. On December 11, 2014, the board approved an increase in the stock repurchase program of $20 million. From 2015 to 2017, we purchased 844,352 shares at an average price of $22 per share. No shares were purchased under the program in 2018. Since 2010, the Company has repurchased 1,447,347 shares of common stock. As of December 31, 2018, $1.0 million remained available under the stock repurchase 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, 5,076,292 and 5,174,337 for the years ended December 31, 2018, 2017 and 2016 respectively. For the years ended December 31, 2018 and December 31, 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 December 31, 2018, and December 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 December 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 $613,000, $572,000 and $255,000 for the years ended December 31, 2018, 2017 and 2016, 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):

	2018	2017	2016
Current (benefit) provision	$ 2,274	$ (1,748)	$ 1,920
Deferred (benefit) provision	(1,676)	(1,526)	(2,675)
Total	$ 598	$ (3,274)	$ (755)

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJ Act”) was enacted into law. The TCJ Act provides for significant changes to the U.S. Internal Revenue Code of 1986, as amended (the “Code”), that impact corporate taxation requirements, such as the reduction of the federal tax rate for corporations from 35% to 21% and changes or limitations to certain tax deductions.

The reduction in the corporate tax rate under the TCJ Act also required a one-time revaluation of certain tax-related assets and liabilities to reflect their value at the lower corporate tax rate of 21%. As such, the Company has calculated the deferred tax assets and liabilities at the 21% rate and has reflected a net tax benefit within the 2017 financial statements totaling $1.3 million, included as an additional deferred income tax benefit.

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

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

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Taxes at Federal statutory rate	$ 215	27.0	$ (1,835)	(86.4)	$ (833)	(34.0)
Non-deductible other expenses, net of non-reportable income	119	15.0	126	5.9	88	3.6
Tax rate effects on deferred	-	-	(1,305)	(61.4)	-	-
State income taxes	264	33.2	(260)	(12.2)	(10)	(0.4)
Total	$ 598	75.2	$ (3,274)	(154.1)	$ (755)	(30.8)

Deferred income taxes represent the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effects of significant items comprising our net deferred tax balances at December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Deferred tax liabilities:		
Differences between book and tax basis of property, plant and equipment	$ 4,458	$ 5,647
	4,458	5,647
Deferred tax assets (included in other current assets):		
Contracts in progress	1,191	(1,496)
Accrued expenses not currently deductible	(4,440)	(1,266)
	(3,249)	(2,762)
Net deferred tax liabilities	$ 1,209	$ 2,885

9. SALES TO MAJOR CUSTOMERS

Sales to various customers that amounted to 10 percent or more of our total revenues for the three years ended December 31, 2018, 2017 and 2016 are summarized as follows (in thousands):

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Customer A	26,053	14%	4,800	3%	7	0%
Customer B	24,122	13%	38,992	21%	276	0%
Customer C	23,386	13%	71,612	38%	46,762	28%
Customer D	13,724	8%	20,466	11%	41,498	25%

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 and Chief Executive Officer and members of his immediate family. Total purchases for the three years ended December 31, 2018, 2017 and 2016 were $1,772,000, $2,052,000, and $2,314,000, 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 $330,000, $353,000 and $384,000 for the year ended December 31, 2018, 2017 and 2016, respectively.

We purchase in the ordinary course of business certain supplies from PAC Specialties, LLC ("PAC"). PAC is a company owned by Cecil A. Hernandez's wife's family. Cecil A. Hernandez is President and Secretary of the Company and a member of the Board of Directors. Total purchases for the three years ended December 31, 2018, 2017 and 2016 were $127,000, $92,000, and $134,000, respectively.

All related party transactions were approved by the Independent Directors Committee.

11. SEGMENT AND RELATED INFORMATION

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

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

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

We evaluate the performance of our segments based upon gross profit. Selling, general and administrative expenses, executive compensation expense, interest expense, other income, net and income taxes are not allocated to the segments. Accounting policies are the same as those described in Note 1, "Summary of Significant Accounting Policies". Intersegment sales and transfers are not significant.

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

	Year Ended December 31, 2018	2017	2016
Revenue			
Vessel construction	$ 152,482	$ 168,280	$ 135,721
Repair and conversions	29,838	20,866	28,695
Total revenue	182,320	189,146	164,416
Cost of revenue			
Vessel construction	157,189	169,388	135,205
Repair and conversions	25,716	19,041	25,688
Total cost of revenue	182,905	188,429	160,893
Gross profit/(loss)			
Vessel construction	(4,707)	(1,108)	516
Repair and conversions	4,122	1,825	3,007
Total gross profit/(loss)	(585)	717	3,523
Selling, general and administrative expenses	5,685	6,152	6,483
Loss from operations	(6,270)	(5,435)	(2,960)
Interest expense	(480)	(505)	(44)
Other income/(expense), net	7,546	542	555
Income/(loss) before income taxes	796	(5,398)	(2,449)
Provision/(benefit) for income tax	598	(3,274)	(755)
Net income/(loss)	$ 198	$ (2,124)	$ (1,694)

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

	Years Ended December 31, 2018	2017	2016
Depreciation and amortization expense:			
Vessel construction	$ 5,304	$ 5,521	$ 4,809
Repair and conversions	1,579	1,948	2,046
Included in selling, general and administrative expenses	60	60	219
Total depreciation and amortization expense	$ 6,943	$ 7,529	$ 7,074

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

	December 31,		
	2018	2017	2016
Total assets:			
Vessel construction	$ 74,718	$ 88,440	$ 103,445
Repair and conversions	33,811	31,979	33,651
Other	52,004	41,129	27,437
Total assets	$ 160,533	$ 161,548	$ 164,533
Capital expenditures:			
Vessel construction	$ 607	$ 2,567	$ 6,902
Repair and conversions	46	(82)	41
Other	132	1	(89)
Total capital expenditures	$ 785	$ 2,486	$ 6,854

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, 2019, and which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of December 31, 2018, the minimum annual total compensation under these agreements was $1.3 million.

Upon authorization of its Board of Directors, the Company terminated the employment of Scott J. Theriot on June 20, 2018. Mr. Theriot is eligible to receive severance benefits under the terms of his employment agreement with the Company, subject to his continued compliance with the noncompetition, nonsolicitation and confidentiality covenants in the agreement. As a result of his termination, Mr. Theriot's long-term incentive award accelerated and was paid in accordance with the agreement.

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 could be paid by the Company during a three-year period. These costs were accrued and expensed monthly over the vesting periods of the individual awards and were approximately $93,000 per month until December 31, 2015 and $30,000 per month thereafter until April 30, 2017. All 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 $34,000 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 $30.7 million and $55.6 million at December 31, 2018 and 2017, respectively. We have no letters of credit at December 31, 2018 and 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.

In May 2018, the Company entered into settlement agreements for a total of $7.5 million to resolve all Business Economic Loss claims submitted pursuant to the Deepwater Horizon Court-Supervised Settlement Program. At the time of the settlement, the Company received $1.1 million as the first installment. In the first quarter of 2019 we received the second installment of $3.2 million and in the first quarter of 2020 we will receive the final installment of $3.2 million. The entire amount of the settlement was recognized in the second quarter of 2018. It was included on the income statement in "Other Income/Expense".

***MARAD* –** In April 2016, the Company received a grant from the U. S. Maritime Administration to purchase equipment for our Conrad Orange Shipyard. This grant was a portion of a $5 million appropriation by Congress for capital improvements and for maritime training programs at small shipyards. The total cost of the project was $1.2 million of which the Federal share for reimbursement was $605,000 and the Company was $605,000. The Company was required to expend the required portion before any portion of the Federal share was distributed. The Company elected to receive reimbursement at the completion of the project. 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 December 30, 2018 and December 31, 2017, respectively.

***Subsequent Events* –** Subsequent to year end we commenced construction of six stock vessels to fill gaps in our construction schedules. As of March 1, 2019, we had sold three of the six stock vessels since commencing construction.

BOARD OF DIRECTORS

JOHN P. CONRAD, JR.
Chief Executive Officer, Chairman of the Board

CECIL A. HERNANDEZ
President, Secretary and Director

MICHAEL J. HARRIS
Director

OGDEN U. THOMAS, JR.
Director

DANIEL T. CONRAD
Director

2018 ANNUAL REPORT
This Report and the statements contained in it are submitted for the general information of the shareholders of Conrad Industries, Inc. and not in connection with the sale or solicitation of any offer to buy any securities, nor is it intended as a representation by the Company of the value of its securities.

COMMON STOCK
Conrad Industries, Inc.'s common stock is traded over-the-counter through the OTC Markets Electronic Quotation Service. OTC quotes are available over the internet at www.otcmarkets.com as well as through other services.

ANNUAL MEETING
The Annual Meeting of Shareholders has been scheduled for August 8, 2019 at 9:00 a.m., local time, at our corporate offices, 1100 Brashear Avenue, Suite 200, Morgan City, Louisiana.

FINANCIAL REPORTS
Stockholders who wish to obtain company financial reports may do so without charge by writing Carl A. Hebert, Jr., Chief Financial Officer, Conrad Industries, Inc. P.O. Box 790, Morgan City, LA 70380. Financial Reports, can also be accessed via our web site at www.conradindustries.com and www.otcmarkets.com.

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