CONRAD

Industries, Inc.

2004 ANNUAL REPORT

TABLE OF CONTENTS

FORWARD-LOOKING-STATEMENTS

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

REPORT TO OUR FELLOW SHAREHOLDERS

2004 was another very disappointing year for our Company in terms of our operating results. Since 2002 we have experienced a difficult Gulf of Mexico energy marine construction and repair market. A tough economy, depressed activity in the Gulf of Mexico oil and gas industry and a dramatic increase in steel prices combined to have a negative impact on our business as well as our financial results. Our Company has experienced many of these peaks and valleys in the offshore oil and gas industry throughout our 56 year history and has always survived. In 2004 we began taking the steps that we believe are necessary to return our Company to profitability: concentrating on our core competencies; emphasizing our customer focus; and leveraging our experienced and dedicated work force. We continued our focus on controlling costs. We also added an experienced Chief Operating Officer, Terry Frickey, who will help lead our management team's focus on the profitable execution of our backlog.

Diversification of Product Offerings and Increase in Backlog

As a result of the depressed Gulf of Mexico oil and gas activity, we targeted other new construction opportunities by diversifying our product offerings and soliciting new customers. We have been successful in securing work from government sources over the past few years. Government contracts accounted for approximately 24.9% of our backlog at December 31, 2000 and 65.5 % at December 31, 2004. In addition, in the fourth quarter of 2004, we delivered our first aluminum crew/supply boat at our Conrad Aluminum yard in Amelia, Louisiana.

Our backlog was $57.4 million at December 31, 2004 as compared to $43.6 million at December 31, 2003. The increase in backlog is primarily attributable to $16.4 million in contracts to construct three double-skin tank barges for commercial customers, approximately $4.1 million to build a crane barge for the U.S. Army Corps of Engineers, $8.8 million to build a 3300-horsepower towboat for the U.S. Army Corps of Engineers, $2.6 million to build a 90-foot Multi-Purpose High Speed Patrol and Firefighting aluminum vessel for the Plaquemines Port, Harbor & Terminal District, $5.5 million to build a 95-foot fish stocking vessel for the U.S. Department of the Interior and two ferry landing barges.

Operating Results

During 2004, revenue increased 11.0% to $37.1 million from $33.4 million in 2003. Gross profit decreased to $17,000 or 0.1% of revenue as compared to $659,000 and 2.0% of revenue for 2003. During 2004, 37.7% of our revenue was government related, 34.1% was energy and 28.2% was other commercial. This compares to 49.2% government, 37.0% energy and 13.8% other commercial in 2003.

We reported a net loss of $7.1 million and loss per diluted share of $0.98 for the year ended December 31, 2004 compared to a net loss of $6.8 million and loss per diluted share of $0.94 for the year ended December 31, 2003. 2004 and 2003 were impacted by non-cash charges of $4.1 million ($0.57 diluted EPS) and $4.0 million ($0.55 diluted EPS), respectively, related to the impairment of goodwill arising from our acquisition of Orange Shipbuilding. As a result, as of December 31, 2004 we had no goodwill remaining on our balance sheet.

Vessel construction gross profit was depressed primarily as a result of (1) the continued delay throughout most of 2004 in transitioning from design to production on a major project for four vessels in our backlog and the corresponding lack of overhead absorption, resulting in charges of $946,000 recorded in 2004, (2) a loss of $859,000 during 2004 related to losses on the first aluminum vessel delivered at Conrad Aluminum in the fourth quarter of 2004, and (3) the upward pressures on the price of steel throughout the first six months of 2004 which have since stabilized.

Our repair business is more dependent on the Gulf of Mexico oil and gas industry than our new construction business. In addition, our repair business has high fixed costs. As a result, our repair segment margins and profits are adversely affected when the volume of our repair work declines. The reduced demand and resulting increased competition have led us to bid some repair work from time to time at margins lower than we would have been willing to accept historically. We continue to seek out other opportunities in our repair business. In fact, during the first quarter of 2005, we began repair operations at our Orange, Texas shipyard to take advantage of repair opportunities in that region.

Although oil and gas prices have been relatively high for the last several years, and there has recently been some increase in exploration, drilling and production activity in the Gulf of Mexico, we cannot predict whether and if so when these trends will have a positive impact on our business.

We have continued our focus on controlling costs and seeking to operate more efficiently. For example, effective March 2004, we amended our employment agreements with our executive officers to further reduce the salaries of the Co-Chairmen of the Board. In addition, we delisted our common stock on March 30, 2005 and filed a Form 15 to deregister our common stock under Section 12 of the Securities Exchange Act of 1934 and cease filing reports pursuant to Section 15 (d) of that Act primarily to reduce expenses, as further described below.

Increased Revenue Generating Capacity

During the past few years, we have significantly increased our revenue generating capacity. Highlights include:

- the addition of a self-constructed 10,000 ton, American Bureau of Shipping-classed, state-of-the-art drydock put in operation in the first quarter of 2001;
- the extension in 2002 of one of our fabrication buildings at our Morgan City shipyard increasing our enclosed building space by approximately 15,000 square feet;
- the opening of our new Conrad Deepwater yard in the first quarter of 2003 allowing us to handle vessels with deeper drafts than we have historically been able to service at our other facilities;
- the expansion into aluminum marine fabrication and repair in 2004 via a strategic partnership with the State of Louisiana and St. Mary Parish;
- the development during the first quarter of 2005 of a new outdoor construction area at our Deepwater facility, which enables us to construct larger vessels than we were able to work on at our existing facilities;
- the start of repair operations at our Orange, Texas shipyard during the first quarter of 2005 to take advantage of repair opportunities in that region.

Balance Sheet and Liquidity

During the past five years the Company has invested $24.8 million in expanding our capacity and upgrading our facilities and equipment. During that period we have increased our debt by $19.3 million and repaid debt of $12.4 million, resulting in a net increase in debt of $6.9 million from December 31, 1999 to 2004. In addition we received a grant from State of Louisiana of $1.5 million.

Over this five year period our net cash investment (net of debt and the State of Louisiana grant) totaled $16.4 million. Due to the negative operating results over the past few years and the investment in our expanded capacity, our working capital position has weakened considerably. Our working capital declined from $8.2 million at December 31, 1999 to $660,000 at December 31, 2004.

During April 2005 we amended our loan agreement with our lending institution.   The amendment extended the maturity of our revolving credit facility to April 30, 2006 and allows us to draw up to $7.0 million. The amendment also relaxed the financial covenants. The interest rate was increased from LIBOR plus 2.75% to prime plus 0.75%. Although no amounts were drawn on our revolving credit facility as of December 31, 2004, as of May 31, 2005 we had drawn $2.0 million. We may have to borrow additional amounts in 2005 to meet our working capital requirements resulting from our projected increase in revenue from our backlog.

As a result of the operating losses, we have experienced negative cash flow from operations in both 2004 and 2003. We have continued to make all payments of principal and interest on our outstanding debt timely; however, due to our declining liquidity and operating losses, we have been forced to renegotiate our debt covenants several times over the past two years. All of these factors create doubt about our ability to continue as a going concern which is discussed in Note 15 to our financial statements.

In response, we have taken several actions such as delisting and deregistering to reduce expenses, renegotiating our debt agreements to preserve liquidity and hiring experienced supervisory personnel to better manage our performance. We are also considering the disposition of certain underutilized properties, if necessary, to provide greater liquidity to the Company and reduce outstanding debt. Based on these actions and improving market conditions in 2005, we believe that the Company will generate positive operating results and cash flows in 2005 and be in a position to restructure our debt and financing arrangements if necessary.

We believe that, barring any unforeseen circumstances and assuming that we are able to execute on our existing backlog without incurring any significant unanticipated losses, our existing working capital, cash flow from operations and bank commitments will be adequate to meet our working capital needs for operations and capital expenditures through 2005. We also believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2006 and 2007.

Management

In April 2004, John P. Conrad, Jr., our Co-Chairman, was appointed President and Chief Executive Officer. In August 2004, Cecil A. Hernandez returned to the Company as our Executive Vice President and Chief Operating Officer and also assumed the role of interim CFO between September 2004 until February 2005, at which time Terry T. Frickey was appointed Vice President and Chief Operating Officer and Mr. Hernandez assumed the position of Executive Vice-President and Chief Financial Officer. Additionally in January 2005, Richard Allen joined the management team and now serves as Vice-President of Orange Operations. All of these individuals, along with our other management personnel, bring many years of varied experience and are working together to return the Company to profitability.

Delisting

On March 22, 2005 we announced that we intended to voluntarily delist our common stock from NASDAQ on March 30, 2005 and that, simultaneously with delisting, we would file 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. We filed the Form 15 on March 30, 2005, at which time our obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K, immediately ceased. We expect that the deregistration of our common stock will become effective on June 28, 2005.

The deregistration and delisting were unanimously recommended to the Board of Directors by a special committee of independent directors after carefully considering the advantages and disadvantages of continuing registration and listing. The costs and administrative burdens associated with being a public company have significantly increased, particularly in light of new SEC, Sarbanes-Oxley and NASDAQ requirements. Our Board determined that the rising costs of compliance, as well as the substantial demands on management time and resources, outweighed the benefits the Company received from maintaining its registered and listed status. We believe that deregistering will result in significantly reducing expenses, avoiding even higher future expenses and will enable our management to focus more of its time and resources on operating the Company and enhancing shareholder value.

We estimate annual savings of $500,000 of current public company expenses and an additional annual savings of $300,000 commencing in 2006, which would have been included in order to comply with the internal control reporting requirements of Section 404 of Sarbanes-Oxley

The Company’s shares are currently quoted on the Pink Sheets, but the Company can give no assurances that any broker will continue to make a market in the Company's common stock. The Pink Sheets is a provider of pricing and financial information for the over-the-counter (OTC) securities markets. It is a centralized quotation service that collects and publishes market maker quotes in real time primarily through its website, www.pinksheets.com, which provides stock and bond price quotes, financial news and information about securities traded.

Our current plans are to provide regular information to our shareholders in the future. At this time we anticipate that we will post quarterly and annual financial statements on the Pink Sheets web site and on our web site. Our shareholders can also request copies of our latest financial reports by contacting us at 985-702-0195.

Strategic Direction

Conrad is committed to maintaining and enhancing our 56 year reputation for quality, service and integrity. Our strategy going forward is to:

- Focus on our core competencies
- Emphasize our commitment to customer service and satisfaction
- Pursue operational efficiencies through automation and improved work processes for competitive advantage
- Capitalize on enclosed space
- Maximize use of our recently expanded capacity in both new construction and repair
- Manage our backlog successfully
- Pursue opportunities in key niche product areas
- Leverage efficiencies from our multiple shipyard locations

We are optimistic that we are well-positioned to improve our financial performance significantly. With expanded revenue capacity in both the vessel construction and repair and conversion segments of our business, our experienced management team and other dedicated and highly qualified employees, our return to the focus and values that have made the Company successful in the past, the anticipated eventual positive impact on us of what appears to be the beginning of the recovery in the Gulf of Mexico energy sector, and our ability to adapt and diversify in order to meet the changing needs of both the government and commercial markets, we believe that we are well-positioned to return to profitability and growth.

Yours truly,

/s/ *J. Parker Conrad*
J. Parker Conrad
Founder and Co-Chairman of the Board

/s/ John P. Conrad, Jr.
John P. Conrad, Jr.
President, Chief Executive Officer and Co-Chairman of the Board

/s/ Cecil A. Hernandez
Cecil A. Hernandez
Executive Vice President and Chief Financial Officer

An Important Note About This Report

Effective March 31, 2005, Conrad Industries, Inc. is no longer subject to the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Accordingly, this Annual Report is not filed with the Securities and Exchange Commission, is not available on the (the "Act") 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.

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

Business Overview

General

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

Our new construction segment accounted for 64.7%, 67.5%, and 75.1 % of our total revenue for 2004, 2003 and 2002, respectively. Vessels we construct include barges, tug boats, towboats, ferries, lift boats and aluminum crew/supply vessels. Substantially all of our new construction is performed indoors, which we consider to be a significant strategic advantage. Our facilities allow us to construct vessels up to 350 feet in length.

Our repair and conversion segment accounted for 35.3%, 32.5%, and 24.9% of our total revenue for 2004, 2003 and 2002, 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 commenced aluminum work at Conrad Aluminum in December of 2003. For the year ended December 31, 2004 aluminum new vessel construction revenue accounted for 12.6% of total new construction segment revenue and aluminum repair and conversion revenue accounted for 8.5% of total repair and conversion segment revenue.

We serve a variety of customers and markets, including the Gulf of Mexico oil and gas industry, other commercial markets, various local and state governments and the U.S. government. We believe that our ability to provide products and services to a variety of customers is a competitive strength. Due to the continuing depressed conditions in the Gulf of Mexico oil and gas industry, our new construction backlog has shifted to consist primarily of government contracts. For example, at December 31, 2004, our backlog consisted of 65.5% government projects, 0.0% energy projects and 34.5% other commercial projects. By comparison, energy projects accounted for 6.3%, 9.9% 32.3% and 59.8% of our backlog at December 31, 2003, 2002, 2001 and 2000, respectively. In addition, because much of our repair work comes from the Gulf of Mexico oil and gas industry, depressed conditions in that industry have adversely affected our repair segment. For 2004, 2003 and 2002, we received approximately 34.1%, 37.0 %, and 59.4%, respectively, of our total revenues from customers in the offshore oil and gas industry, 37.7%, 49.2 %, and 19.9% from government customers and 28.2%, 13.8 %, and 20.7% from other commercial customers.

The depressed conditions in the Gulf of Mexico oil and gas industry have caused a reduction in our labor hours and have adversely affected our financial performance. 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. These fixed costs have been increased by our expansion into the aluminum business and the opening of Conrad Deepwater. The reduced demand and resulting increased competition have led us to bid some work from time to time at margins lower than we would have been willing to accept historically. In addition, we have experienced inefficiencies associated with the shift in the nature of our backlog to primarily government work which requires more administrative functions than our traditional commercial customers. We have responded to these challenges by, among other things, aggressively reducing our costs, pursuing new business opportunities, and seeking to operate more efficiently. Our financial performance is discussed in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

Internal Expansion

During 2004, we had no spending on internal expansion projects. We did, however, expand our new construction capabilities at Conrad Deepwater during the first quarter of 2005. This development of an uncovered work area and associated equipment cost approximately $550,000 and is being used to construct two 35,000 barrel double-skin tank barges.

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

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

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

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

History

Our company was founded in 1948 by J. Parker Conrad, Co-Chairman of our Board of Directors, and began operations at our shipyard in Morgan City, Louisiana. In December 1997, we paid approximately $22.8 million in cash (net of cash acquired) to purchase all of the stock of Orange Shipbuilding Company, Inc., which owns our shipyard in Orange, Texas. The acquisition expanded our new construction capacity and expanded our product capabilities into additional types of marine vessels, including vessels for the U.S. government and modular components for offshore drilling rigs and floating, production, storage and offloading vessels. Orange Shipbuilding has been engaged in shipbuilding since 1974. Our parent company Conrad Industries, Inc. was incorporated in March 1998 to serve as the holding company for our wholly-owned subsidiaries, currently Conrad Shipyard, L.L.C., Orange Shipbuilding Company, Inc. and Conrad Aluminum, L.L.C. We completed our initial public offering in June 1998 by issuing 2.1 million shares of common stock. On March 30, 2005 we voluntarily delisted our common stock from Nasdaq and, simultaneously with delisting, filed a Form 15 with the Securities and Exchange Commission (the "SEC") to voluntarily deregister our common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and to suspend our obligation to file reports under Section 15(d) of the Exchange Act. We were eligible to deregister by filing a Form 15 because we had fewer than 300 holders of record of common stock. At the time of filing, our obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K, immediately ceased. We expect that the deregistration of our common stock will become effective 90 days after the date of filing of the Form 15.

Operations

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

Backlog

Our construction and fabrication projects in progress as of December 31, 2004 consisted of 14 vessels: four 124-foot towboats, a 295-foot dump scow, a 255-foot crane barge, a, 3300-horsepower steel towboat, a 90-foot aluminum fire and patrol boat, three double-skin tank barges, a 95-foot fish stocking vessel, and two ferry landing barges. Our backlog (including remaining contract revenue for projects currently in progress) as of December 31, 2004 was approximately $57.4 million compared to $43.6 million as of December 31, 2003. Of this remaining contract revenue, approximately $16.2 million was attributable to a contract to build four towboats for the U.S. Army Corps of Engineers, $16.4 million was attributable to contracts to construct three double-skin tank barges for commercial customers, approximately $4.1 million was attributable to a contract to build a crane barge for the U.S. Army Corps of Engineers, $8.8 million was attributable to a contract to build a 3300-horepower towboat for the U.S. Army Corps of Engineers, and $5.5 million was attributable to a contract to build a 95-foot fish stocking vessel for the U.S. Department of the Interior. We anticipate that approximately 80% of the aggregate remaining revenue from firm contracts as of December 31, 2004 will be realized during fiscal 2005.

Construction of Vessels

We manufacture a variety of small and medium sized vessels for commercial and governmental customers. This activity accounted for 64.7%, 67.5% and 75.1 % of our total revenue for 2004, 2003 and 2002, respectively. Substantially all of our new vessel construction is done indoors in well-lighted space specifically designed to accommodate construction of marine vessels up to 350 feet in length. As a result, marine vessel construction is not hampered by weather conditions, and we are able to more effectively utilize our workforce and equipment.

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

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

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

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

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

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

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

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

Conversion and Repair Services

Conversion and repair services accounted for 35.3%, 32.5%, and 24.9% of our total revenue for 2004, 2003 and 2002, respectively. We have six drydocks and dockside space capable of accommodating vessels and barges up to 500 feet long. Our marine repair activities include shot blasting, painting, electrical system and piping repairs, propeller and shaft reconditioning and American Bureau of Shipping certified welding. Our conversion projects primarily consist of lengthening the midbodies of vessels, modifying vessels to permit their use for a different type of activity and other modifications to increase the capacity or functionality of a vessel. All U.S. Coast Guard inspected vessels and ABS classed vessels are required to undergo periodic inspections and surveys which require regular drydock examination. Non-U.S. flag vessels are subject to similar regulations. The inspection of vessels generally results in repair work being required in order to pass inspection. In addition, vessel owners often elect to make other repairs or modifications to vessels while in drydock undergoing required repairs. While we are not aware of any proposals to reduce the frequency or scope of such inspections, any such reduction could adversely affect our results of operations.

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

Customers

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

During fiscal 2004, we derived 20.4% of our revenues from a commercial customer for the construction of two 295-foot dump scows and 30.0% from the U.S. Army for the construction of four 124-foot towboats, a ST ("Small Tug") tug and two crane barges. The remaining 49.6% of revenue was attributable to 131 other customers.

During fiscal 2003, we derived 26.1% of our revenues from the State of Alaska's Marine Highway System for the construction of a passenger ferry and 12.9% from the U.S. Army for the construction of three ST ("Small Tug") tugs, a crane barge and a steel towboat. The remaining 61.0% of revenue was attributable to 101 other customers

During fiscal 2002, we derived 12.4% of our revenues from ConocoPhillips for the construction of four towboats, 11.6% from the U.S. Army for the construction of four ST tugs and 10.2% from Oceanic Fleet for the construction of an aluminum crew/supply vessel. The remaining 65.8% of revenue was attributable to 87 other customers.

Contract Procedure, Structure and Pricing

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

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

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

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

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

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

Bonding and Guarantee Requirements

Although we generally meet financial criteria that exempt us from bonding and guarantee requirements for most contracts, certain contracts with federal, state or local governments require contract performance bonds, and foreign government contracts generally require bank letters of credit or similar obligations. Commercial contracts also may require contract bid and performance bonds if requested by the customer. As of December 31, 2004, outstanding letters of credit and bonds amounted to $69.5 million. We believe that general industry conditions have led customers to require performance bonds more often than in the past. We believe that we have secured adequate bonding for potential future job prospects. Although we believe that we will be able to obtain contract bid and performance bonds, letters of credit, and similar obligations on terms that we consider 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.

Engineering

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

Materials and Supplies

The principal materials we use are standard steel shapes, steel plate and paint. Other materials used in large quantities include aluminum, steel pipe, electrical cable and fittings. We also purchase component parts such as propulsion systems, hydraulic systems, generators, auxiliary machinery and electronic equipment. All these materials and parts are currently available in adequate supply from domestic and foreign sources. In late 2003, the price of steel and steel delivery times began to increase substantially. All of our shipyards obtain materials and supplies by truck or rail. The affect of the steel price increase on our business is discussed in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

Vessel Construction Process

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

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

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

Competition

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

Employees

At December 31, 2004, we had 275 employees, of which 43 were salaried and 232 were hourly. At December 31, 2003, we had 262 employees, of which 52 were salaried and 210 were hourly. At December 31, 2002, we had 284 employees, of which 42 were salaried and 242 were hourly. We are not a party to any collective bargaining agreements.

Insurance

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

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. There could be additional environmental impact from historical operations at our properties that require remediation under Environmental Laws in the future. However, we currently are not aware of any such circumstances that are likely to result in any such impact under Environmental Laws.

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

Health and Safety Matters

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

Jones Act

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

OPA90

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

Risk Factors

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

Risks Related to our Business

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

Since the latter part of 2002, depressed conditions in the Gulf of Mexico oil and gas industry have adversely affected our revenues, margins and profits. For 2004, 2003 and 2002, we received approximately 34.1%, 37.0%, and 59.4%, respectively, of our revenues from customers in the Gulf of Mexico oil and gas industry, 37.7%, 49.2%, and 19.9% from government customers and 28.2%, 13.8%, and 20.7% from other commercial customers. 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. Although oil and gas prices have been relatively high for the last several years, and there has recently been some increase in exploration, drilling or production activity in the Gulf of Mexico, we cannot predict whether and if so when these trends have a positive impact on our business.

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

We have built vessels for the U.S. Army, U.S. Navy, U.S. Coast Guard and U.S. Army Corp of Engineers. We have also built vessels and performed conversion or repair services for local and state governments, either directly or as a subcontractor. Revenue derived from U.S. government customers accounted for approximately 30.2%, 13.0%, and 11.7% of our total revenue in 2004, 2003 and 2002, respectively. Government contracts accounted for approximately 65.5%, 73.8%, and 84.9% of our backlog at December 31, 2004, 2003 and 2002, 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. If we do not secure new government contracts, our revenues and profits could decline substantially. This risk factor has assumed increased importance for our operations in recent years, as the proportion of our government work has risen due primarily to the decline in Gulf of Mexico oil and gas activity.

Our internal expansion projects may not produce the revenues and profits that we anticipate.

We recently completed a new drydock, an extension of a fabrication building in our Morgan City shipyard, expanded our repair and conversion services with the addition of Conrad Deepwater and expanded into the aluminum marine fabrication, repair and conversion market through our subsidiary Conrad Aluminum. Although these projects so far have had a positive impact on our revenues, the impact has not been sufficient to offset our corresponding increases in fixed costs. We cannot predict whether or when these projects will result in increased profits for our company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We have only recently expanded into the aluminum marine fabrication, repair and conversion business and our expansion may not be successful or profitable. In addition, we are pursuing contracts with foreign customers, which involves new risks for our company.

Expansion into a new business involves numerous risks and uncertainties. These include whether we will be able to attract customers from our competitors which will be more experienced, whether we will be able to attract and retain a workforce that can perform efficiently and effectively, whether our facility adequately meets the needs of potential customers and whether we will be able to bid and perform on contracts profitably. In addition, in our aluminum business we are pursuing contracts with foreign customers including foreign governments. This exposes our company to new risks, as all of our customers in the last three fiscal years have been domiciled exclusively in the United States and Puerto Rico. Risks in dealing with foreign customers include:

- potential increased credit risk and difficulties in collecting amounts due;
- unfamiliarity with laws and customs of foreign jurisdictions;
- currency exchange rate fluctuations, if we were to agree to accept payment other than in U.S. dollars;
- insurrection or war that may disrupt or limit our relationships with our foreign customers; and
- government expropriation or nullification of contracts.

U.S. government-imposed export restrictions or trade sanctions, under the Export Administration Act, the Trading with the Enemy Act or similar legislation or regulation may also prohibit or restrict our relationships with foreign customers.

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. These fixed costs have been increased by our expansion into the aluminum business and the opening of our Conrad Deepwater yard.

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

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

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

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

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

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

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

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

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

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

Although varying contract terms may be negotiated on a case-by-case basis, our commercial and government construction contracts ordinarily provide for a down payment, with progress payments at specified stages of construction and a final payment upon delivery. Conversely, repair and conversion customers are typically billed upon completion of the work performed. If we are unable to collect an 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.

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, 2004, 2003 and 2002, our ten largest customers collectively accounted for 78.0%, 75.3% and 68.5% 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."

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

Shipyards along the Gulf Coast have experienced shortages of skilled labor from time to time as a result of low unemployment in the economy in general and/or increased demand for skilled labor in the offshore oil and gas and related industries in particular. We believe that our shipyards are not currently experiencing labor shortages, although we may experience labor shortages in the future. Labor shortages could increase our cost of labor, limit our production capacity, and materially decrease our earnings.

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

Our backlog is based on unearned revenue attributable to projects for which a customer has authorized us to begin work or purchase materials. Our contracts with commercial customers generally do not permit the customer to terminate the contract. However, some of our government projects included in our backlog are subject to change or termination at the option of the customer. In the case of a termination, the government is generally required to pay us for work performed and materials purchased through the date of termination and, in some cases, pay us termination fees. Our backlog of $57.4 million at December 31, 2004 was attributable to 14 projects, of which 65.5% was attributable to eight government projects. Either the change or termination of those contracts could substantially change the amount of backlog currently reported and could substantially decrease our revenue and earnings.

We rely on key personnel.

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

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

Interest on all of our long-term debt (including current maturities) totaling $14.4 million with an average interest rate of 4.84% at December 31, 2004, was variable based on short-term market rates. As a result, an increase in short-term interest rates could adversely affect our profits. For example, a general increase of 1.0% in short-term market interest rates would result in additional interest cost of $144,000 per year if we were to maintain the same debt level and structure.

Our principal stockholders may control the outcome of stockholder voting.

J. Parker Conrad, John P. Conrad, Jr. and Katherine Conrad Court own or control through trusts 3,624,164 shares of our common stock, or 50.1% of the outstanding shares of our common stock. In addition, our executive officers and directors and their affiliates as a group, which includes J. Parker Conrad and John P. Conrad, beneficially own approximately 2,250,839 shares or 31.1% of our common stock. If they act in concert, these holders will be able to exercise control over our affairs, elect our entire board of directors, and control substantially all matters submitted to a vote of our stockholders. The interests of these holders may differ from the interests of our minority stockholders, and they may vote their shares in a manner adverse to our minority stockholders.

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

Of the 7,235,954 shares of our common stock currently outstanding, approximately 3.7 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 2004 was 7,237 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. We expect that the deregistration of our common stock will become effective 90 days after the date of filing of the Form 15.

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

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

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

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

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

In addition, Delaware law restricts specified mergers and other business combinations between us and any holder of 15% or more of our common stock. Delaware law also permits the adoption of a shareholder rights plan without stockholder approval, and during May 2002, we adopted a rights plan. The rights plan is intended to protect stockholder interests in the event we become the subject of a takeover initiative that our board of directors believes could deny our stockholders the full value of their investment. The adoption of the rights plan is intended as a means to guard against abusive takeover tactics and is 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. In addition, our outstanding stock options vest and become exercisable upon a change of control.

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

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

Risks Related to our Industry

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

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

- *The price of steel has increased substantially, which has adversely affected our profits and caused potential customers to delay projects.*

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

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

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

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

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

Properties

We conduct our operations at four shipyards, one in Morgan City, Louisiana, two in Amelia, Louisiana, and one in Orange, Texas. All of our new vessel construction is done indoors in well-lighted space specifically designed to accommodate construction of marine vessels up to 350 feet in length. During the past five years, we have made, in the aggregate, approximately $24.4 million of capital expenditures to add capacity and improve the efficiency of our shipyards.

In June 2002, we moved our principal executive offices to approximately 8,700 square feet of leased office space in Morgan City, Louisiana. The current lease term extends through May 2007.

Morgan City Shipyard

We have owned and operated our Morgan City, Louisiana shipyard since 1948. The yard is located on the Atchafalaya River approximately 30 miles from the Gulf of Mexico on approximately 11 acres. The shipyard has 14 buildings containing approximately 125,000 square feet of enclosed building area and ten overhead cranes. In addition, the shipyard has two drydocks, one submersible launch barge, 1,700 linear feet of steel bulkhead, five rolling cranes and two slips. The buildings include offices for management and support personnel as well as three large fabrication warehouses specifically designed to accommodate marine vessel construction. The drydocks consist of two 120-foot by 52- foot drydocks with lifting capacities of 900 tons. During 2002, we completed an extension of one of our fabrication buildings at our Morgan City shipyard at a cost of approximately $800,000. The extension increased our enclosed building space by approximately 15,000 square feet and increased our efficiencies in making pre-fabricated components and in using modular construction techniques.

Amelia Shipyards

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

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

We currently have the four largest of our six drydocks at Conrad Deepwater. The drydocks consist of two 200-foot by 70-foot drydocks with lifting capacities of 2,400 tons, one 200-foot by 95-foot drydock with a lifting capacity of 3,000 tons and one 280-foot by 160-foot drydock with a lifting capacity of 10,000 tons. We constructed the largest drydock ourselves in 2000 and 2001 for approximately $5.7 million. This allowed us to (1) increase our repair and conversion capacity; (2) lift and compete to repair larger vessels such as derrick and pipe laying barges and the large offshore service vessels recently built for the deep water drilling activities in the Gulf of Mexico; and (3) launch larger new vessel construction projects more competitively.

In January 2005, we commenced the development of a new construction area at our Deepwater facility. This development was completed in March 2005 and enables us to efficiently construct larger vessels than we were able to work on at our existing facilities.

Orange Shipyard

Our Orange, Texas shipyard is located on the Sabine River approximately 37 miles from the Gulf of Mexico on approximately 12 acres. The shipyard has six construction bays under approximately 110,000 square feet of enclosed building area with 14 overhead cranes. The site also has 150 feet of steel bulkhead and one slip. Our Orange shipyard equipment includes a Wheelabrator, a “gantry” type NC (“Numerical Control”) plasma burner with a 21-foot by 90-foot table, over 60 automatic and semi-automatic welding machines, two rolling cranes, 600, 800 and 1,600-ton transfer/loadout systems and a marine railway with side transfer system. We acquired our Orange shipyard in 1997. See Item 1: Business – Overview -- History.

Legal Proceedings

In February 2004, Swiftships Shipbuilders, LLC and two affiliates (collectively, “Swiftships”) brought suit against us, alleging that various of our actions in connection with our expansion into the aluminum marine fabrication and repair business breached in bad faith a confidentiality agreement we entered into when we were considering acquiring Swiftships. The suit also alleged that we conspired with one of our employees who is a former Swiftships employee to breach a confidentiality agreement the employee had with Swiftships as a result of his employment with them. The suit also alleged violations of the Louisiana Uniform Trade Secrets Act, unfair trade practices and fraud. The suit sought unspecified damages and asked for injunctive relief to prevent further alleged breaches of the confidentiality agreements and misappropriation of trade secrets. In March 2005, we settled the lawsuit for $137,500.

During April 2005, a former customer initiated a demand for arbitration under a vessel construction contract entered into in 2000 and completed in 2001. The former customer alleges that we are responsible for damages because we breached the agreement, and that certain components of the vessel did not comply with the agreement. Additionally the former customer alleges that the vessel was not suitable for its intended purpose. The demand was initiated almost four years after delivery of the vessel and long after the pertinent warranty provision had expired. The action is in its earliest stages and no formal discovery has taken place. We believe that the claims are without merit.

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.

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, par value $0.01 per share (the “Common Stock”),began trading in the over-the-counter market through the Pink Sheets Electronic Quotation Service. Pink Sheet quotes are available over the internet at www.pinksheets.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 March 16, 2005, there were 174 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 NASDAQ National Market, for each fiscal quarter during the last two fiscal years.

Fiscal Year 2004	High	Low
First Quarter……	$ 3.65	$ 2.11
Second Quarter ……	2.48	2.10
Third Quarter……	2.22	2.09
Fourth Quarter……	2.11	1.98

Fiscal Year 2003	High	Low
First Quarter……	$ 2.76	$ 2.26
Second Quarter ……	3.12	2.25
Third Quarter……	3.15	2.25
Fourth Quarter……	3.29	2.25

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

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, 2004 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" and our consolidated financial statements and notes thereto included elsewhere in this report.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
Statement of Operations Data					
Revenues	$ 37,121	$ 33,429	$ 41,023	$ 46,904	$ 38,516
Cost of revenue	37,104	32,770	35,657	37,017	29,168
Gross profit	17	659	5,366	9,887	9,348
Selling, general and administrative expenses	4,296	4,702	4,815	5,077	4,661
Impairment of goodwill (1)	4,101	4,000	-	-	-
Terminated acquisition costs (2)	-	-	350	-	-
Executive compensation (3)	-	-	-	2,613	-
(Loss) income from operations	(8,380)	(8,043)	201	2,197	4,687
Interest and other income (expense), net	(422)	(399)	(182)	(49)	31
(Loss) income before income taxes	(8,802)	(8,442)	19	2,148	4,718
(Benefit) provision for income taxes	(1,681)	(1,613)	23	1,115	2,021
(Loss) income before cumulative effect of change in accounting principle	(7,121)	(6,829)	(4)	1,033	2,697
Cumulative effect of change in accounting principle (1)	-	-	4,500	-	-
Net (loss) income	$ (7,121)	$ (6,829)	$ (4,504)	$ 1,033	$ 2,697
Net (Loss) Income Per Common Share Before Cumulative Effect of Change in Accounting Principle					
Basic	$ (0.98)	$ (0.94)	$ (0.00)	$ 0.14	$ 0.38
Diluted	$ (0.98)	$ (0.94)	$ (0.00)	$ 0.14	$ 0.38
Net (Loss) Income Per Common Share					
Basic	$ (0.98)	$ (0.94)	$ (0.62)	$ 0.14	$ 0.38
Diluted	$ (0.98)	$ (0.94)	$ (0.62)	$ 0.14	$ 0.38
Weighted Average Common Shares Oustanding					
Basic	7,236	7,234	7,230	7,129	7,067
Diluted	7,236	7,234	7,230	7,149	7,076
Statement of Cash Flows Data					
Cash provided by operating activities	$ (1,663)	$ 1,534	$ 613	$ 4,098	$ 8,457
Cash used in investing activities	$ (137)	$ (7,800)	$ (5,311)	$ (4,776)	$ (6,692)
Cash provided by (used in) financing activities	$ (1,776)	$ 4,251	$ 4,216	$ 4,074	$ (2,504)
Other Financial Data					
Depreciation & amortization	$ 2,471	$ 2,175	$ 1,861	$ 2,326	$ 2,199
Capital expenditures	$ 1,116	$ 6,888	$ 5,767	$ 4,320	$ 6,692
EBITDA (1) (4)	$ (5,746)	$ (5,832)	$ 2,101	$ 4,667	$ 7,303
EBITDA margin (5)	-15.5%	-17.4%	5.1%	10.0%	19.0%
Operating profit margin (6)	-22.6%	-24.1%	0.5%	4.7%	12.2%

	As of December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Balance Sheet Data					
Working capital	$ 660	$ 5,024	$ 9,447	$ 9,312	$ 4,107
Property, plant & equipment, net	$ 32,738	$ 34,156	$ 29,430	$ 25,486	$ 22,675
Total assets	$ 43,262	$ 53,916	$ 53,841	$ 52,574	$ 47,964
Long term debt, including current portion	$ 14,367	$ 16,506	$ 13,223	$ 9,007	$ 4,806
Shareholders' equity	$ 18,271	$ 25,392	$ 32,215	$ 36,696	$ 34,685

(1) We recorded non-cash charges of $4.1 million and $4.0 million as operating charges in 2004 and 2003, respectively, and a $4.5 million non-cash change for the cumulative effect of change in accounting principle in 2002, resulting from the impairment of goodwill in accordance with Statement of Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets" as detailed in Note 1 to the financial statements.

(2) Represents deferred acquisition costs related to the terminated proposed acquisition of Swiftships Shipbuilders, LLC and Swiftships Technologies LLC as detailed in Note 8 to the financial statements.

(3) For 2001, represents non-recurring executive compensation expense incurred in the third quarter related to the issuance of shares of common stock, forgiveness of notes and related interest, severance payment and cash bonuses to William H. Hidalgo, our former President and Chief Executive Officer, and Cecil A. Hernandez, our Executive Vice President and Chief Financial Officer as detailed in the notes to the financial statements.

(4) 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.

(5) Represents EBITDA as a percentage of revenues.

(6) 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):

	2004	2003	2002	2001	2000
Net cash provided by operating activities	$ (1,663)	$ 1,534	$ 613	$ 4,098	$ 8,457
Interest expense	585	435	221	193	386
(Benefit) provision for income taxes	(1,681)	(1,613)	23	1,115	2,021
Deferred income tax provision (benefit)	1,633	173	(3)	(174)	(93)
Impairment of goodwill	(4,101)	(4,000)	-	-	-
Executive compensation expense	-	-	-	(1,547)	-
Other	69	23	(19)	(153)	-
Changes in operating assets and liabilities	(588)	(2,384)	1,266	1,135	(3,468)
EBITDA	$ (5,746)	$ (5,832)	$ 2,101	$ 4,667	$ 7,303

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

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

Overview

We specialize in the construction, conversion and repair of a wide variety of steel and aluminum marine vessels for commercial and government customers. These vessels include tugboats, ferries, liftboats, barges, aluminum crew/supply vessels and other offshore support vessels. We operate four shipyards: one in Morgan City, Louisiana, two in Amelia, Louisiana and one in Orange, Texas. For 2004, our new construction segment accounted for 64.7% of our total revenue and our repair and conversion segment accounted for 35.3% of our total revenue. Most of our new construction is performed indoors.

During 2003, we expanded into the aluminum marine fabrication and repair business after transforming one of our existing repair yards in Amelia, Louisiana into a facility specifically designed to handle aluminum marine fabrication and repair. We refer to this facility as "Conrad Aluminum." In the fourth quarter of 2003, we began aluminum operations at this facility and announced our first new aluminum vessel construction contract for an aluminum crew/supply boat.

We delivered the vessel in the fourth quarter of 2004. Although we incurred a significant loss on the vessel, as described in more detail below, we believe the vessel demonstrates the high quality of the aluminum work that we are able to do and will assist us in obtaining work for additional aluminum vessels. In September 2004, we added to our backlog a $2.8 million contract to build a 90'x25'x11'6" Multi-Purpose High Speed Patrol and Firefighting aluminum vessel for the Plaquemines Port, Harbor & Terminal District in Plaquemines Parish, Louisiana. We began production on this vessel during the fourth quarter of 2004 at Conrad Aluminum. As of December 31, 2004, our backlog related to our aluminum business was approximately 4.5% of total backlog. We continue to bid on aluminum crew/supply vessels, aluminum vessels for government customers and other aluminum fabrication business, but have not been successful securing additional aluminum work to date. We believe there are signs that oil and gas activity is increasing in the Gulf of Mexico, which may lead to an increase in demand for aluminum crew/supply vessels. In addition to continuing to pursue new aluminum work for the Conrad Aluminum yard, we began performing some steel fabrication and repair at the yard.

In the first quarter of 2003, we opened a new steel marine vessel repair and conversion yard at our second location in Amelia, Louisiana. We refer to this facility as "Conrad Deepwater." During 2002 and 2003, we invested approximately $7.0 million developing the site, which we purchased in 2000. During the first quarter of 2005, we developed a new outdoor construction area at Conrad Deepwater which enables us to construct larger vessels more efficiently than we were able to at our existing facilities.

The demand for our products and services is dependent upon a number of factors, including the economic condition of our customers and markets, the age and state of repair of the vessels operated by our customers and the relative cost to construct a new vessel as compared with repairing an older vessel. A significant portion of our historical revenues has been derived from customers in the Gulf of Mexico oil and gas industry. Accordingly, demand for our products and services has been adversely impacted since the latter part of 2002 by decreased activity in that industry. This decreased demand has adversely affected our revenues, margins and profits, particularly in our repair and conversion segment, but also in our new construction segment. Although oil and gas prices have been relatively high for the last several years, and there has recently been some increase in exploration, drilling and production activity in the Gulf of Mexico, we cannot predict whether and if so when these trends will have a positive impact on our business.

Although 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. Government contracts accounted for approximately 65.5%, 73.89%, and 84.9% of our backlog at December 31, 2004, 2003 and 2002, respectively. Energy contracts accounted for approximately 0.0%, 6.3%, and 9.9% of our backlog at December 31, 2004, 2003 and 2002, respectively, and other commercial contracts accounted for approximately 34.5%, 19.9%, and 5.2% of our backlog at December 31, 2004, 2003 and 2002, respectively. Our backlog was $57.4 million at December 31, 2004 as compared to $43.6 million at December 31, 2003.

The depressed conditions in the Gulf of Mexico oil and gas industry have caused a reduction in our labor hours and have adversely affected our financial performance. Our repair business has high fixed costs primarily associated with depreciation of facilities, floating drydocks and our marine travel lift. As a result, our margins and profits are adversely affected when the volume of our work declines. These fixed costs have been increased by our expansion into the aluminum business and the opening of Conrad Deepwater. The reduced demand and resulting increased competition have led us to bid some work from time to time at margins lower than we would have been willing to accept historically. In addition, we have experienced inefficiencies associated with the shift in the nature of our backlog to primarily government work which requires more administrative functions than our traditional commercial customers.

The continued consolidation of the domestic steel industry and an increased demand from China have put a strain on the worldwide supply of raw materials required to produce steel. As a result, in late 2003, the price of steel and steel delivery times began to increase substantially. The Company's average raw steel costs increased approximately 122% between the fourth quarter of 2003 and the second quarter of 2004. Currently, our average raw steel costs are approximately 102% higher than in the fourth quarter of 2003. Because the vessel construction contracts in our backlog at the beginning of 2004 were substantially all fixed price contracts without steel price escalation clauses, rising steel costs increased our costs and adversely affected our margins and profits in 2004. Commencing in the second quarter of 2004, we attempted to negotiate steel escalation clauses in all of our new construction contracts. As of December 31, 2004, approximately $17.4 million of our $57.4 million vessel construction backlog had steel price escalation clauses. Approximately $16.9 million did not have steel price escalation clauses but were entered into after steel prices had begun to rise, and our estimated costs take into account the increases in steel prices to date; these contracts are exposed to the risk of any further steel price increases. The remaining approximately $21.9 million of contracts were entered into before steel prices began to rise and do not have steel price escalation clauses. Our estimated costs to complete these contracts take into account the rise in steel costs and accordingly our margins associated with these contracts are lower than originally estimated and in some cases the contract is in a loss position. Any anticipated losses on current contracts in backlog are recorded in the periods that they become known. Our steel price escalation clauses protect us in the event of an increase in the price of steel, but they allocate the benefit of a decline in the price of steel to the customer. In addition, we cannot predict whether we will be successful in negotiating steel price escalation clauses in our contracts and we cannot predict steel prices. We have not engaged, and currently do not intend to engage, in hedging transactions for our steel purchase requirements.

We have responded to these challenges by, among other things, aggressively reducing our costs, pursuing new business opportunities, and seeking to operate more efficiently. In September 2003, we implemented an aggressive cost reduction plan, designed to achieve approximately $1.0 million in savings on an annualized basis. This plan includes among other items a 5.0% salary reduction for management and an increase in employee contributions for health insurance. In addition, we were able to obtain better rates on some of our insurance programs, and have also increased the deductible on our workers' compensation program to take advantage of our excellent safety performance. In addition, effective March 1, 2004, we amended our employment agreements with our executive officers. The amended agreements extend employment of the officers through December 31, 2005 and further reduce the salaries of the Co-Chairmen of the Board. In addition, we delisted our common stock on March 30, 2005 and filed a Form 15 to deregister our common stock under Section 12 of the Securities Exchange Act of 1934 and cease filing reports pursuant to Section 15 (d) of that Act primarily to reduce expenses, as further described below in "Liquidity and Capital Resources". We will continue to seek out other opportunities to reduce costs.

In April 2004, we entered into a separation agreement with Kenneth G. Myers, Jr., our former President and Chief Executive Officer, and appointed John P. Conrad, Jr., our Co-Chairman, as President and Chief Executive Officer. Under the terms of the separation agreement, Mr. Myers resigned from all of the positions he held with the Company and will be paid a total of $218,500, payable in substantially equal installments over a one-year period, and six months of COBRA continuation coverage. As a result, Mr. Myers' benefits from the separation agreement were accrued in the second quarter of 2004.

In August 2004, we entered into an employment agreement with Cecil A. Hernandez providing for employment as our Executive Vice President and Chief Operating Officer through December 31, 2005 and annual extensions thereafter, subject to the parties' mutual agreement. The minimum annual total compensation under the agreement is $150,000.

In addition, our former Chief Financial Officer, Lewis Derbes, Jr. resigned as CFO effective September 3, 2004 to pursue other business opportunities. The Board initiated a comprehensive search for a successor. Cecil Hernandez served as interim CFO until February 2005, at which time Terry T. Frickey was appointed Vice President and Chief

Operating Officer and Cecil A. Hernandez, assumed the position of Executive Vice-President and Chief Financial Officer.

We recorded non-cash charges of $4.1 million and $4.0 million as operating charges in 2004 and 2003, respectively, resulting from the impairment of goodwill in accordance with Statement of Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets" as detailed in Note 1 to the financial statements and discussed further below.

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

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

Results of Operations

	Years Ended December 31,					
	2004		2003		2002	
Financial Data:						
Revenue						
Vessel construction	$ 24,005	64.7%	$ 22,573	67.5%	$ 30,814	75.1%
Repair and conversions	13,116	35.3%	10,856	32.5%	10,209	24.9%
Total revenue	37,121	100.0%	33,429	100.0%	41,023	100.0%
Cost of revenue						
Vessel construction	25,300	105.4%	22,515	99.7%	26,826	87.1%
Repair and conversions	11,804	90.0%	10,255	94.5%	8,831	86.5%
Total cost of revenue	37,104	100.0%	32,770	98.0%	35,657	86.9%
Gross profit						
Vessel construction	(1,295)	-5.4%	58	0.3%	3,988	12.9%
Repair and conversions	1,312	10.0%	601	5.5%	1,378	13.5%
Total gross profit	17	0.0%	659	2.0%	5,366	13.1%
S G & A expenses	4,296	11.6%	4,702	14.1%	4,815	11.7%
Impairment of goodwill (1)	4,101	11.0%	4,000	12.0%	-	0.0%
Terminated acquisition costs (2)	-	0.0%	-	0.0%	350	0.9%
(Loss) income from operations	(8,380)	-22.6%	(8,043)	-24.1%	201	0.5%
Interest expense	585	1.6%	435	1.3%	221	0.5%
Other income, net	(163)	-0.4%	(36)	-0.1%	(39)	-0.1%
(Loss) income before income taxes	(8,802)	-23.7%	(8,442)	-25.3%	19	0.0%
Income tax (benefit) provision	(1,681)	-4.5%	(1,613)	-4.8%	23	0.1%
(Loss) income before cumulative effect of change in accounting principle	(7,121)	-19.2%	(6,829)	-20.4%	(4)	0.0%
Cumulative effect of change in accounting principle (1)	-	0.0%	-	0.0%	(4,500)	-11.0%
Net (loss) income	$ (7,121)	-19.2%	$ (6,829)	-20.4%	$ (4,504)	-11.0%
EBITDA (1) (3)	$ (5,746)	-15.5%	$ (5,832)	-17.4%	$ 2,101	5.1%
Net cash provided by operating activities	$ (1,663)		$ 1,534		$ 613	
Net cash used in investing activities	$ (137)		$ (7,800)		$ (5,311)	
Net cash provided by financing activities	$ (1,776)		$ 4,251		$ 4,216	
Operating Data: Labor Hours	493		419		471	

(1) We recorded non-cash charges of $4.1 million and $4.0 million as operating charges in 2004 and 2003 respectively, and a $4.5 million non-cash change for the cumulative effect of change in accounting principle in 2002, resulting from the impairment of goodwill in accordance with Statement of Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets" as detailed in Note 1 to the financial statements.

(2) Represents deferred acquisition costs related to the terminated proposed acquisition of Swiftships Shipbuilders, LLC and Swiftships Technologies, LLC as detailed in Note 8 to the financial statements.

(3) 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):

	2004	2003	2002
Net cash provided by operating activities	$ (1,663)	$ 1,534	$ 613
Interest expense	585	435	221
(Benefit) provision for income taxes	(1,681)	(1,613)	23
Deferred income tax provision (benefit)	1,633	173	(3)
Impairment of goodwill	(4,101)	(4,000)	-
Other	69	23	(19)
Changes in operating assets and liabilities	(588)	(2,384)	1,266
EBITDA	$ (5,746)	$ (5,832)	$ 2,101

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

During the year ended December 31, 2004, we generated revenue of $37.1 million, an increase of approximately $3.7 million, or 11.0%, compared to $33.4 million generated for 2003. The increase was due to a $1.4 million (6.3%) increase in vessel construction revenue to $24.0 million for 2004 compared to $22.6 million for 2003 and an increase of $2.3 million (20.8%) in repair and conversion revenue to $13.1 million for 2004 compared to $10.9 million for 2003. The increase in revenue for the current year is primarily a result of the overall increase in production hours due to (1) the entry into the aluminum business, (2) increased repair and conversion activity, and (3) the execution of our new construction backlog, along with the sale in 2004 of barges in inventory at the end of 2003. Vessel construction hours increased 22.5% compared to 2003 while repair and conversion hours increased by 11.6% when compared to 2003. Vessel construction revenue was 64.7% of total revenue compared to 67.5% for 2003 and repair and conversion revenue was 35.3% of total revenue compared to 32.5% in 2003. For 2004, 37.7% of revenue was government related, 34.1% was energy and 28.2% was other commercial. This compares to 49.2% government, 37.0% energy and 13.8% other commercial in 2003.

Gross profit was $17,000 (0.1% of revenue) for 2004 as compared to gross profit of $659,000 (2.0% of revenue) for 2003. Vessel construction gross profit decreased $1.4 million for 2004 to a gross profit loss of $1.3 million compared to gross profit of $58,000 for 2003. Repair and conversion gross profit increased $711,000 for 2004 to $1.3 million compared to $601,000 million for 2003.

Vessel construction gross profit margins decreased to -5.4% for 2004, compared to gross profit margins of 0.3% for 2003. Vessel construction gross profit was depressed primarily as a result of (1) continuing delays in transitioning from design to production on a major project for four vessels in our backlog and the corresponding lack of overhead absorption, resulting in charges of $946,000 recorded in 2004, (2) a loss of $859,000 during 2004 related to anticipated losses on a commercial contract for the first aluminum vessel at the new aluminum facility which was delivered in the fourth quarter of 2004, and (3) the increased price of steel. For additional information on steel prices, see “Overview”.

During 2004, we recorded charges totaling $946,000 on the first two vessels of a four vessel project. The delay in design approval on the project, which we believe was caused primarily by the customer, caused our overhead rates to rise because we could not take on additional work while we waited for the notice to proceed from the customer. In addition, delays caused us to incur additional costs to purchase steel and other material for this project as a result of the surging prices of steel and other price increases. We are engaged in discussions with this customer for recovery of these additional costs. We are optimistic that we will not experience further delays on the project; however, more unanticipated delays could cause us to realize additional losses on the project if we are unable to secure other work to absorb our overhead during the delay.

In addition, we only had one new construction project at our aluminum facility in production during most of 2004, which absorbed all of the construction overhead at that facility. That along with increases in the estimated costs of completion caused us to realize a loss in 2004 of approximately $859,000 related to that commercial contract. We added a new aluminum project to our backlog during the third quarter of 2004 but actual construction did not commence until the fourth quarter of 2004. If we are not successful in obtaining new construction work for the aluminum facility in the near future, the new project may be required to absorb additional overhead thereby leading to a loss on the new project. Management is focused on pursuing all types of vessel construction projects to add to our backlog in order to alleviate some of the upward pressure on our overhead rates.

Also during 2004 we recorded a charge of $169,000 on the second dump scow of a two vessel contract. This charge was due to an increase in the estimated hours to complete and to high steel costs.

Repair and conversion gross profits margins were 10.0% for 2004, compared to gross profit margins of 5.5% for 2003. Repair and conversion gross profit for 2004 improved primarily as a result of the overhead absorption benefits associated with a single, large, low margin fixed price repair job in 2004, as well as the disruptive impact in early 2003 associated with the transition and relocation of the our core repair and conversion operations to Conrad Deepwater. In addition, the gross margins were depressed in the prior year period as a result of increases in the estimated costs at completion on a single significant fixed price repair and conversion contract that was scheduled for delivery during this transition period.

The additional capacity at Conrad Deepwater has caused the Company's fixed costs to rise and its profits to decline relative to profit margins achieved prior to the expansion. The facility opened in February 2003 and has allowed the Company to obtain repair and conversion contracts on some larger vessels with deeper drafts that could not have been accommodated at the Company's other yards. Conrad Deepwater has become the Company's primary location for the repair and conversion segment. For 2004, this facility generated approximately 81.7% of the Company's total repair and conversion revenue and 91.4% of the Company's total repair and conversion gross profit. Furthermore, new construction can also be performed outdoors at the yard, to the extent the Company has the backlog to support the work. In fact, the Company began its first vessel construction project (for two double skin tank barges) at the Deepwater yard during the first quarter of 2005. Management believes opportunities exist for the repair and conversion and new construction of new double-skin barges due to the Oil Pollution Act of 1990 ("OPA '90") requirements, which should provide significant opportunities to further increase utilization and revenue and profits at the Conrad Deepwater facility.

The declining production hours we have experienced in recent years, due primarily to decreased oil and gas activity, has led to decreased profitability and we have attempted to respond to this challenge by, among other things, pursuing new business opportunities (e.g. increased government and aluminum work). During 2004 we added $34.8 million to vessel construction backlog which produced our vessel construction backlog at December 31, 2004 of $57.4 million. We estimate that approximately 80.0% of the aggregate remaining revenue from firm contracts as of December 31, 2004 will be realized during fiscal 2005. That would represent an increase in vessel construction revenue of approximately 90.0% compared to 2004, and would lead to an increase in 2005 vessel construction production hours compared to 2004. As stated above approximately $21.9 million of our backlog was adversely affected by steel price increases and our estimated costs to complete these contracts take into account the rise in steel costs and accordingly our margins associated with these contracts are lower than originally estimated and in some cases the contract is in a loss position. The Company cannot predict whether it will ultimately be successful in continuing to add backlog or in improving profitability.

The decline in our work volume in recent years has also led to a decrease in the number of our employees, although our employee levels began to climb again in the latter part of 2004. We expect to increase the number of employees in 2005 in part to meet the demand of our vessel construction backlog. As a result, we may experience labor shortages as we attempt to hire additional employees. Any inability to hire an adequate number of appropriately trained employees when they are needed to perform a contract would negatively affect our ability to perform the contract profitably. For example, we may not be able to meet a contractual delivery date, or may incur unanticipated overtime expenses. We currently do not expect any significant difficulty in hiring new employees.

Selling, general and administrative expenses ("SG&A") decreased $406,000, or 8.6%, to $4.3 million (11.6% of revenue) for 2004, as compared to $4.7 million (14.1% of revenue) for 2003. This net decrease of $406,000 of SG&A expenses was due primarily to decreases of $603,000 in Conrad Aluminum start-up expenses incurred in 2003 and $124,000 decrease in salary and fringes, offset by a $153,000 increase in legal and accounting expenses, an increase of $100,000 in bad debts, and increase of $138,000 to settle a lawsuit.

Interest expense increased $150,000 to $585,000 for 2004 as compared to interest expense of $435,000 for 2003. The increase is primarily the result of an increase in the average outstanding loan balance associated with our expansion into aluminum marine fabrication and repair and the development of Conrad Deepwater and the capitalization of interest related to the development of Conrad Deepwater in the prior year. The increase is also a result of an increase in the variable interest rates on the Term and Development Loans, described in Note 5 to the financial statements. We expect interest expense in 2005 to be higher than 2004 due to increases in rates and outstanding balances described in Note 5.

We had an income tax benefit of $1.7 million for 2004, compared to income tax benefit of $1.6 million for 2003. The increase in the benefit is primarily attributable to the loss from operations as discussed above.

Liquidity and Capital Resources

For 2004 net cash used by operations was $1.7 million. Net cash provided by operations was $1.5 million and $0.6 million for 2003 and 2002, respectively. The decrease in 2004 was primarily a result of an increase in accounts receivable, a decrease in deferred taxes and in accounts payable and accrued expenses and an increased net loss offset by a decrease in net change in billings related to cost and estimated earnings on uncompleted contracts and a decrease in inventory and other assets. The increase in 2003 was primarily a result of a decrease in net change in billings related to cost and estimated earnings on uncompleted contracts and increases in accounts payable and accrued expenses partially offset by an increase of net loss and increases in accounts receivable, inventory and other assets. We borrowed funds in 2004 and in recent years primarily to expand our facilities and to fund the Orange acquisition, and not for working capital purposes; however, as of May 31, 2005 we had borrowed $2.0 million primarily for working capital purposes and may borrow additional amounts for working capital in 2005. We had a net decrease in debt of $1.8 million during 2004 and a net increase of $3.3 million in 2003. Our working capital position was $660,000 and $5.0 million at December 31, 2004 and 2003, respectively.

Our net cash used in investing activities of $137,000 for 2004 reflected capital expenditures of approximately $876,000 for the development of Conrad Aluminum and approximately $200,000 for improvements to facilities and equipment, partially offset by a draw of project funds for the development of Conrad Aluminum of $831,000 and proceeds from the sale of assets of $148,000. Capital expenditures for 2004 were approximately $1.1 million, including $0.9 million for the development of Conrad Aluminum and approximately $200,000 for improvements to other facilities and equipment. Capital expenditures for 2003 were approximately $6.9 million, including $4.5 million for the development of Conrad Aluminum, $2.0 million for the completion of Conrad Deepwater, and approximately $400,000 for improvements to other facilities and equipment. Capital expenditures were $5.8 million for 2002 of which approximately $4.1 million was for the development of Conrad Deepwater, $680,000 was for the completion of the expansion of a construction fabrication building in Morgan City, Louisiana, and $1.0 million was for improvements to other facilities and equipment. For additional information on our internal expansion activities, see Business -- Overview -- Internal Expansion.

For 2005, the Board of Directors has approved approximately $1.0 million in capital expenditures for the repair and upgrade of existing facilities in addition to the development of a portion of Conrad Deepwater to allow new construction of vessels. As of December 31, 2004, we had no material outstanding commitments for capital expenditures.

Net cash used in financing activities was $1.8 million for 2004 which included the repayment of debt of $2.1 million, and offset by the grant from the State of Louisiana of $363,000.

During 2003, we borrowed $5.2 million in additional long-term debt resulting in a total outstanding balance at December 31, 2003 of $16.5 million. The additional borrowing was predominantly related to the $4.0 million of long-term financing for our expansion into the aluminum marine construction and repair business.

Our long term debt is described in Note 5 to our financial statements.

In the normal course of our business, we are required to provide letters of credit to secure the payment of workers' compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations. At December 31, 2004, outstanding letters of credit and bonds amounted to $69.5 million. We believe that general industry conditions have led customers to require performance bonds more often than in the past. We believe that we have secured adequate bonding for potential future job prospects. Although we believe that we will be able to obtain contract bid and performance 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 $57.4 million at December 31, 2004 as compared to $43.6 million at December 31, 2003. The increase in backlog is primarily attributable to $16.4 million to construct three double-skin tank barges for commercial customers, approximately $4.1 million to build a crane barge for the U.S. Army Corps of Engineers, $8.8 million to build a 3300-

horepower towboat for the U.S. Army Corps of Engineers, and $5.5 million to build a 95-foot fish stocking vessel for the U.S. Department of the Interior and two ferry landing barges.

We have incurred significant operating losses over the past two years due to a variety of factors. Excluding the write-off of impaired goodwill in both 2004 and 2003, pre-tax losses have amounted to $4.7 million and $4.4 million, respectively. As a result of the operating losses, we have experienced negative cash flow from operations in both 2004 and 2003 and in the first quarter of 2005. We have continued to make all payments of principal and interest on our outstanding debt timely; however, due to our declining liquidity and operating losses, we have been forced to renegotiate our debt covenants several times over the past two years. As indicated in Note 5, our Loan Agreement was further amended on April 22, 2005 to relax certain covenants and reduce our line of credit to $7.0 million, of which $5.0 million remains available at March 31, 2005. All of these factors create doubt about our ability to continue as a going concern.

If we were unable to continue as a going concern, we may be unable to realize our assets and discharge our liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

In response to these adverse factors, the Board of Directors decided to delist and deregister the Company as a publicly traded entity effective March 30, 2005 to reduce the expenses of compliance with securities laws and Nasdaq listing requirements. Management estimates annual savings of $500,000 of current public company expenses and an additional annual savings of $300,000 commencing in 2006, which would have been included in order to comply with the internal control reporting requirements of Section 404 of Sarbanes-Oxley. Management also renegotiated the debt agreements to enable the Company to have a reasonable likelihood of ongoing compliance based on our most recent forecasts of operating results. In addition, management hired experienced supervisory personnel to better manage our backlog of contracts and to improve contract bidding and contract performance. Management is also considering the dispositions of certain underutilized properties, if necessary, to provide greater liquidity to the Company and reduce outstanding debt. Based on these actions and improving market conditions in 2005, management believes that the Company will generate positive operating results and cash flows in 2005 and be in a position to restructure its debt and financing arrangements if necessary.

We believe that our existing working capital, cash flow from operations and bank commitments will be adequate to meet our working capital needs for operations and capital expenditures through 2005. We also believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2006 and 2007. We are also considering other potential refinancing opportunities. At March 31, 2005, we had $2.0 million outstanding on our line of credit and we anticipate additional borrowings in 2005 to meet the working capital requirements of the new construction contracts in our backlog. Our line of credit expires on April 30, 2006 and we believe access to a line of credit is an important part of our available cash resources. In addition, we have large principal payments becoming due on our long-term debt in 2007 and believe that we may need to refinance some or all of those amounts. Our ability to extend our revolving line of credit and refinance our long-term debt will depend in large part on our financial condition and the condition of the credit markets at the time.

Due to the relatively low levels of inflation experienced in fiscal 2004, 2003, and 2002, inflation did not have a significant effect on our results in those fiscal years.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

Financial Statements

December 31, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Conrad Industries, Inc.

We have audited the accompanying consolidated balance sheets of Conrad Industries, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Conrad Industries, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the year ended December 31, 2004 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 15 to the financial statements, the Company's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ DELOITTE & TOUCHE LLP

New Orleans, Louisiana
May 13, 2005

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31	
ASSETS	**2004**	**2003**
CURRENT ASSETS:		
Cash and cash equivalents	$ 836	$ 4,412
Accounts receivable—net	4,405	3,683
Costs and estimated earnings—net in excess of billings on uncompleted contracts	3,058	2,951
Inventories	265	820
Other receivables	657	1,551
Other current assets	1,125	1,222
Total current assets	10,346	14,639
PROPERTY, PLANT AND EQUIPMENT—Net	32,738	34,156
GOODWILL		4,101
OTHER ASSETS	178	1,020
TOTAL ASSETS	$ 43,262	$ 53,916
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,817	$ 3,506
Accrued employee costs	479	574
Accrued expenses	1,271	824
Current maturities of long-term debt	2,247	2,247
Billings in excess of costs and estimated earnings on uncompleted contracts	2,872	2,464
Total current liabilities	9,686	9,615
LONG-TERM DEBT—Less current maturities	12,120	14,259
DEFERRED INCOME TAXES	1,685	3,203
OTHER NON-CURRENT LIABILITIES	1,500	1,447
Total liabilities	24,991	28,524
COMMITMENTS AND CONTINGENCIES (Note 13)		
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, 7,276,437 shares issued in 2004 and 2003	73	73
Additional paid-in capital	29,000	29,000
Treasury stock at cost, 40,483 shares in 2004 and 2003	(211)	(211)
Accumulated deficit	(10,591)	(3,470)
Total shareholders' equity	18,271	25,392
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 43,262	$ 53,916

See notes to consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Years Ended December 31,		
	2004	2003	2002
REVENUE	$ 37,121	$ 33,429	$ 41,023
COST OF REVENUE	37,104	32,770	35,657
GROSS PROFIT	17	659	5,366
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,296	4,702	4,815
IMPAIRMENT OF GOODWILL	4,101	4,000	
TERMINATED ACQUISITION COSTS	-	-	350
(LOSS) INCOME FROM OPERATIONS	(8,380)	(8,043)	201
INTEREST EXPENSE	(585)	(435)	(221)
OTHER INCOME, NET	163	36	39
(LOSS) INCOME BEFORE INCOME TAXES	(8,802)	(8,442)	19
(BENEFIT) PROVISION FOR INCOME TAXES	(1,681)	(1,613)	23
LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(7,121)	(6,829)	(4)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	-	(4,500)
NET LOSS	$ (7,121)	$ (6,829)	$ (4,504)
Basic and diluted loss per common share:			
Loss before cumulative effect of change in accounting principle	$ (0.98)	$ (0.94)	-
Cumulative effect of change in accounting principle	-	-	(0.62)
Net loss	$ (0.98)	$ (0.94)	$ (0.62)
Weighted average common shares outstanding:			
Basic	7,236	7,234	7,230
Diluted	7,236	7,234	7,230

See 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 Capital	Unearned Stock Compensation	Treasury Stock at Cost		(Accumulated Deficit)/ Retained Earnings	Total
	Shares	Amount			Shares	Amount		
BALANCE—January 1, 2002	7,274	73	$ 28,992	$ (21)	40	$ (211)	$ 7,863	$ 36,696
Restricted stock issued to executive	2	-	8	(8)	-	-	-	-
Amortization of unearned stock compensation	-	-	-	23	-	-	-	23
Net loss	-	-	-	-	-	-	(4,504)	(4,504)
BALANCE—December 31, 2002	7,276	73	29,000	(6)	40	(211)	3,359	32,215
Amortization of unearned stock compensation	-	-	-	6	-	-	-	6
Net loss	-	-	-	-	-	-	(6,829)	(6,829)
BALANCE—December 31, 2003	7,276	73	29,000	-	40	(211)	(3,470)	25,392
Net loss	-	-	-	-	-	-	(7,121)	(7,121)
BALANCE—December 31, 2004	7,276	$ 73	$ 29,000	$ -	40	$ (211)	$ (10,591)	$ 18,271

See notes to consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31, 2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (7,121)	$ (6,829)	$ (4,504)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Cumulative effect of change in accounting principle	-	-	4,500
Depreciation and amortization	2,471	2,175	1,861
Deferred income tax (benefit) provision	(1,632)	(173)	3
Impairment of goodwill	4,101	4,000	-
Other	(69)	(23)	19
Changes in assets and liabilities:			
Accounts receivable	(722)	(33)	(1,297)
Net change in billings related to cost and estimated earnings, net on uncompleted contracts	301	3,234	(1,180)
Inventory and other assets	1,398	(1,321)	60
Accounts payable and accrued expenses	(390)	504	1,151
Net cash (used in) provided by operating activities	(1,663)	1,534	613
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures for property, plant and equipment	(1,116)	(6,888)	(5,767)
Draw of (increase in) project funds—net	831	(937)	-
Proceeds from sale of assets	148	25	-
Proceeds of executive notes receivable	-	-	456
Net cash used in investing activities	(137)	(7,800)	(5,311)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of debt	-	5,200	5,500
Principal repayments of debt	(2,139)	(1,917)	(1,284)
Proceeds from grant from State of Louisiana	363	1,044	-
Financing costs	-	(76)	-
Net cash (used in) provided by financing activities	(1,776)	4,251	4,216
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,576)	(2,015)	(482)
CASH AND CASH EQUIVALENTS—Beginning of year	4,412	6,427	6,909
CASH AND CASH EQUIVALENTS—End of year	$ 836	$ 4,412	$ 6,427
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid—net of capitalized interest	$ 585	$ 435	$ 221
NON-CASH ACTIVITIES:			
Issuance of restricted stock to executives	$ -	$ -	$ 8

See notes to consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation—The consolidated financial statements include the accounts of Conrad Industries, Inc. and its wholly-owned subsidiaries (the "Company") which are primarily engaged in the construction, conversion and repair of a variety of marine vessels for commercial and government customers. New construction work and some repair work is performed on a fixed-price basis. We perform a significant amount of our repair work under time and materials agreements. All significant intercompany transactions have been eliminated.

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

Revenue Recognition—We are engaged in various types of construction under long-term construction contracts. The accompanying financial statements have been prepared using the percentage-of-completion method of accounting and, therefore, take into account the estimated cost, estimated earnings and revenue to date on contracts not yet completed. The amount of revenue recognized is based on the portion of the total contract price that the labor hours incurred to date bears to the estimated total labor hours, based on current estimates to complete. This method is used because management considers expended labor hours to be the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of cost incurred during the period plus the fee earned.

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

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

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

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, on deposit and short-term investments with original maturities of three months or less.

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

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

Interest Capitalization—Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. During the years ended December 31, 2004, 2003 and 2002, interest costs capitalized were $0, $37,000 and $90,000, respectively.

Goodwill—In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon adoption of this statement. In accordance with SFAS No. 142, we discontinued the amortization of goodwill upon the adoption of this statement on January 1, 2002.

During 2002, we completed the two-step process of the transitional goodwill impairment test prescribed in SFAS No. 142 with respect to existing goodwill. The first step of the transitional goodwill impairment test involved a comparison of the fair value of each of our reporting units, as defined under SFAS No. 142, with its respective carrying amount. If the carrying amount exceeded the fair value of a reporting unit, we were required to perform the second step of the transitional goodwill impairment test. As a result of the outcome of the first step relative to the Orange Shipbuilding reporting unit, we were required to perform the second step of the transitional goodwill impairment test for this reporting unit. The second step involved comparing the implied fair value of this reporting unit's goodwill to its carrying value to measure the amount of impairment. The transitional goodwill impairment test resulted in our recognizing a non-cash transitional goodwill impairment charge of $4.5 million related entirely to the Orange Shipbuilding reporting unit. As required by SFAS No. 142, the $4.5 million charge is reflected as a cumulative effect of a change in accounting principle in our Consolidated Statement of Operations for the twelve months ended December 31, 2002. There was no income tax effect on the impairment charge as the charge related to non-deductible goodwill. The circumstance leading to the goodwill impairment was a decline in market conditions since the acquisition of this reporting unit. This circumstance caused lower than expected operating profits and cash flows.

During the first quarter of 2003, we completed our annual update of the impairment test as prescribed in SFAS No. 142 with respect to existing goodwill. The first step of the goodwill impairment test indicated that the fair value of each of our reporting units exceeded its respective carrying amount. As no impairment was indicated, the second step of the test, as defined under SFAS No. 142, was not required to be performed.

As a result of deteriorating market conditions, further increases steel prices and a reduction in the committed future funding of the U.S. Army ST Tug program, operating profits and cash flows were lower than expected in the latter half of 2003. Based on these trends, the future earnings forecast was revised and, in December 2003, a non-cash goodwill impairment charge of $4.0 million was recognized in the Orange Shipbuilding reporting unit. The fair value of the reporting unit was estimated using the expected present value of future cash flows. As required by SFAS No. 142, the $4.0 million charge is reflected in our income/(loss) from operations. There was no income tax effect on the impairment charge as the charge related to non-deductible goodwill. As of December 31, 2003 our goodwill amounted to $4.1 million, all attributable to our Orange Shipbuilding reporting unit.

As a result of the continuation of weak market conditions, further increases in steel prices and a reduction in the committed future funding of the U.S. Army ST Tug program, operating profits and cash flows were lower than expected in the latter half of 2004. Based on these trends, the future earnings forecast was revised and, in December 2004, a non-cash goodwill impairment charge of $4.1 million was recognized in the Orange Shipbuilding reporting unit. The fair value of the reporting unit was estimated using the expected present value of future cash flows. As required by SFAS No. 142, the $4.1 million charge is reflected in our income/(loss) from operations. There was no income tax effect on the impairment charge as the charge related to non-deductible goodwill. This charge eliminated all goodwill on the balance sheet as of December 31, 2004.

The carrying amount of goodwill as of December 31, 2004 and 2003, by segment is as follows (in thousands):

	Vessel Construction	Repair and Conversions	Total
Balance at December 31, 2003	$ 4,101	$ -	$ 4,101
SFAS No. 142 impairment	(4,101)	-	(4,101)
Balance at December 31, 2004	$ -	$ -	$ -

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 an 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, 2004, inventories consist primarily of excess job related material and supplies. At December 31, 2003, inventories primarily consist of $624,000 of costs related to vessels in progress not under customer contract. During the first quarter of 2004, all of these vessels were sold. Inventories are stated at the lower of cost (first-in, first-out basis) or market.

Basic and Diluted (Loss) Income Per Share—Basic net income (loss) per share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) 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 and non-vested restricted stock awards.

Fair Value of Financial Instruments—The carrying amounts of our financial instruments including cash and cash equivalents, receivables, payables and long-term debt approximate fair value at December 31, 2004 and 2003.

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.

Stock-Based Compensation—We use the intrinsic value method of accounting for employee-based compensation prescribed by Accounting Principles Board ("APB") Opinion No. 25 and, accordingly, follow the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 encourages the use of a fair value based method of accounting for compensation expense associated with stock option and similar plans. However, SFAS No. 123 permits the continued use of the intrinsic value based method prescribed by Opinion No. 25 but requires additional disclosures, including pro forma calculations of net earnings and earnings per share as if the fair value method of accounting prescribed by SFAS No.123 had been applied.

Had compensation cost for our stock plans been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, net (loss) income and net (loss) income per share amounts would have approximated the following pro forma amounts (in thousands, except per share data):

	2004	2003	2002
Net (loss) income, as reported	$ (7,121)	$ (6,829)	$ (4,504)
Add: Total stock-based employee compensation expense included in reported net (loss) income, net of related tax effects	-	4	14
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(64)	(79)	(124)
Pro forma, net (loss) income	$ (7,185)	$ (6,904)	$ (4,614)
(Loss) income per share:			
Basic and diluted - as reported	$ (0.98)	$ (0.94)	$ (0.62)
Basic and diluted - pro forma	$ (0.99)	$ (0.95)	$ (0.64)
Weighted average fair value of grants	$ 1.05	$ 1.38	$ 1.75
Black-Scholes option pricing model assumptions:			
Risk-free interest rate	3.61 %	2.95 %	2.72 %
Expected life (years)	3.0	3.0	3.0
Volatility	69.7 %	73.5 %	79.0 %
Dividend yield	-	-	-

***New Accounting Pronouncements*—**In June 2001, FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires the recording of liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. These liabilities are required to be recorded at their fair values (which are likely to be the present values of the estimated future cash flows) in the period in which they are incurred. SFAS No. 143 requires the associated asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset. The asset retirement obligation will be accreted each year through a charge to expense. The amounts added to the carrying amounts of the assets will be depreciated over the useful lives of the assets. We implemented SFAS No. 143 on January 1, 2003, as required, and it did not have a material effect on our consolidated financial position or results of operations.

In November 2002, FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required, we adopted the disclosure requirements of FIN 45 as of December 31, 2002. On January 1, 2003, we adopted the initial recognition and measurement provisions on a prospective basis for guarantees that may be issued or modified after December 31, 2002.

In January 2003, FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46 became effective immediately for variable interest entities created after January 31, 2003. For entities created before January 31, 2003, the provisions of FIN 46 have been delayed until

December 31, 2003. We do not have interests that would be considered variable interest entities under FIN 46.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (R), *Share Based Payment*. SFAS No. 123 (R) supersedes Accounting Principles Board ("APB") No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123 (R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using the intrinsic value method and, as such, generally recognizes no compensation expense for employee stock options. Accordingly, the adoption of SFAS No. 123 (R) will have an impact on our results of operations. The impact of this adoption of this Statement cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However had we adopted SFAS No. 123 (R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 1 to our consolidated financial statements. SFAS No. 123 (R) becomes effective for the Company on January 1, 2006. The Company plans to adopt SFAS No. 123 (R) using the modified-prospective method.

Reclassifications—Certain prior year balances have been reclassified to conform to the current year presentation.

2. RECEIVABLES

Receivables consisted of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
U.S. Government:		
Amounts billed	$ 1,784	$ 1,723
Unbilled costs and estimated earnings on uncompleted contracts	923	852
	2,707	2,575
Commercial:		
Amounts billed	2,621	1,960
Unbilled costs and estimated earnings on uncompleted contracts	2,135	2,099
Total	$ 7,463	$ 6,634

Included above in amounts billed is an allowance for doubtful accounts of $87,000 at December 31, 2004 and $16,000 at December 31, 2003. During 2004, we reserved approximately $71,000 related to receivables from a company that declared Chapter 11 bankruptcy during the last quarter of 2004. During 2003, there were no significant transactions recorded in the allowance for doubtful accounts.

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, 2004, substantially all is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of December 31, 2004 and 2003 is as follows (in thousands):

	2004	2003
Costs incurred on uncompleted contracts	$ 48,558	$ 20,946
Estimated earnings (loss)—net	(284)	1,416
	48,274	22,362
Less billings to date	(48,088)	(21,875)
	$ 186	$ 487

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

	2004	2003
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$3,058	$ 2,951
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,872)	(2,464)
Total	$ 186	$ 487

Pursuant to SOP 81-1, Paragraph 85-89, when the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract should be made in the period it became evident. The provision for the loss should be recorded as an additional contract cost in the income statement. The offsetting liability can be recorded on the balance sheet where related contract costs are accumulated on the balance sheet, in which case the provision may be deducted from the related accumulated costs. The Company recorded total charges of $2.1 million for the year ended December 31, 2004 ($372,000 in 2003) 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. $1.1 million of these charges had been incurred at year end. The remaining $975,000 accrual relates to anticipated labor and material costs to complete the contracts. The $2.1 million loss in 2004 on uncompleted projects was comprised primarily of the contracts described in the following three paragraphs.

During 2004, we recorded charges totaling $946,000 on the first two vessels of a four vessel project. The delay in design approval on the project, which we believe was caused primarily by the customer, caused our overhead rates to rise because we could not take on additional work while we waited for the notice to proceed from the customer. In addition, delays caused us to incur additional costs to purchase steel and other material for this project as a result of the surging prices of steel and other price increases. We are engaged in discussions with this customer for recovery of these additional costs. The financial statements do not include any amounts related to such potential recovery. We are optimistic that we will not experience further delays on the project; however, more unanticipated delays could cause us to realize additional losses on the project if we are unable to secure other work to absorb our overhead during the delay.

In addition, we only had one new construction project at our aluminum facility in production during 2004, which absorbed all of the construction overhead at that facility. That along with increases in the estimated costs of completion caused us to realize a loss in 2004 of approximately $859,000 related to that commercial contract. We added a new aluminum project to our backlog during the third quarter of 2004 but actual construction did not commence until the fourth quarter of 2004. If we are not successful in obtaining new construction work for the aluminum facility in the near future, the new project may be required to absorb additional overhead thereby leading to a loss on the new project. Management is focused on pursuing all types of vessel construction projects to add to our backlog in order to alleviate some of the upward pressure on our overhead rates.

Also during 2004 we recorded a charge of $169,000 on the second dump scow of a two vessel contract. This charge was due to increase to estimated hours to complete and high steel cost.

3. OTHER RECEIVABLES

Other receivables consisted of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
Grants receivable from State of Louisiana	$	$ 403
Income tax receivable	404	1,006
Other	253	142
Total	$ 657	$ 1,551

Substantially all of the balance at December 31, 2004, is expected to be collected within the next twelve months.

The grants receivable from State of Louisiana at 2003 are legally restricted for use solely in connection with the construction and equipping of the aluminum facility pursuant to the terms of the trust indenture governing the bonds and the related lease agreement between the Industrial Development Board of the Parish of St. Mary, Louisiana, Inc. and Conrad Aluminum, L.L.C.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
Land	$ 4,674	$ 4,153
Buildings and improvements	24,670	21,657
Machinery and equipment	9,007	7,158
Drydocks and bulkheads	10,737	10,737
Barges and boats	454	454
Office and automotive	2,059	2,128
Construction in progress	24	4,549
	51,625	50,836
Less accumulated depreciation	(18,887)	(16,680)
	$ 32,738	$ 34,156

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

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

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

5. LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
Term loan - Bank, variable interest rate (4.93% at December 31, 2004), due May 31, 2007	$ 5,262	$ 6,439
Development loan - Bank, variable interest rate (5.31% at December 31, 2004), due May 31, 2007	5,482	6,178
Industrial revenue bonds -St. Mary Parish, variable interest rate (4.29% at December 31, 2004), due August 1, 2018	3,623	3,889
	14,367	16,506
Less current maturities	(2,247)	(2,247)
	$ 12,120	$ 14,259

We have a Loan Agreement with a commercial bank, which specifies the terms of the Term Loan, the Development Loan and a separate Revolving Credit Facility. The interest rates are variable, and, through May 1, 2005, interest accrues at our option either at the JPMorgan Chase prime rate or LIBOR plus 2.75 percent. The Loan Agreement is secured by substantially all of our assets, contains customary restrictive covenants and requires the maintenance of certain financial ratios that could limit our use of available capacity under the Revolving Credit Facility. In addition, the Loan Agreement prohibits us from paying dividends without the consent of the lender and restricts our ability to incur additional indebtedness. At December 31, 2004 we were not in compliance with the current ratio and the minimum tangible net worth covenants. On April 22, 2005, the Loan Agreement was further amended to waive the current ratio and minimum tangible net worth covenant violations for December 31, 2004 and March 31, 2005 and to relax the minimum tangible net worth, the current ratio, EBITDA, and the debt to tangible net worth covenants. Effective May 2, 2005, the interest rate for the Term Loan, the Development Loan and the Revolving Credit Facility was increased to the JPMorgan Chase prime rate plus 0.75 percent and the LIBOR rate option was discontinued. The Revolving Credit Facility was decreased to $7.0 million and the maturity extended to April 30, 2006. If we violate a covenant in the future and are not successful in obtaining a waiver or amendment from our lender, the lender will have the right to accelerate all amounts outstanding under our Term Loan, Development Loan, Revolving Credit Facility and Industrial Revenue Bonds and to terminate our Revolving Credit Facility.

The Term Loan has a maturity date of May 31, 2007 and is payable in 28 remaining monthly principal payments of $107,000 plus interest, with a final payment of $2.3 million. Interest accrues at 4.93 percent until January 30, 2005, at 5.50 percent until April 30, 2005, and thereafter at the JPMorgan Chase prime rate plus 0.75 percent (5.25 percent at December 31, 2004). During 2004, the principal repayment schedule of the Term Loan was amended to extend the final payment date to May 31, 2007 such that a final payment of $2.3 million will be due on May 31, 2007 and the monthly principal payments of $107,000 plus interest remain unchanged. At December 31, 2004, the Term Loan balance outstanding was $5.3 million and the interest rate was 4.93 percent.

On July 18, 2002, we entered into the Development Loan which provided financing totaling $6.7 million to fund the development of the Conrad Deepwater facility. The loan included a revolver that converted to a term loan on April 1, 2003. Payments under the revolver included interest only until March 31, 2003, at which time it converted to a term loan to be repaid in 49 monthly principal payments of $58,000 plus interest with a final payment of $3.9 million due on May 31, 2007. Interest accrues at 5.31 percent until March 30, 2005, at 5.85 percent until June 30, 2005, and thereafter at the JPMorgan Chase prime rate plus 0.75 percent (5.25 percent at December 31, 2004). At December 31, 2004 and 2003, the Development Loan outstanding was $5.5 million and $6.2 million, respectively.

Revolving Credit Facility

Prior to April 22, 2005, the Revolving Credit Facility permitted us to borrow up to $10.0 million for working capital and other general corporate purposes, including the funding of acquisitions, and matured on May 31, 2005. During 2004, the maturity date of the facility was extended from May 31, 2004 to May 31, 2005. As of December 31, 2004 and 2003, no amounts were outstanding on the Revolving Credit Facility. Effective April 22, 2005, the Revolving Credit Facility was decreased to $7.0 million and the maturity extended to April 30, 2006 under the amended Loan Agreement. During March 2005, the Company borrowed $2.0 million. Interest accrues at the JPMorgan Chase prime rate plus 0.75 percent which was 5.75 percent. As of March 31, 2005, $2.0 million remained outstanding and $5.0 million of the line of credit was available for additional borrowing.

Industrial Revenue Bonds

In July 2003, we completed the financing for expansion into the aluminum marine fabrication, repair and construction business. The expansion is part of a $5.5 million investment in our original facility in Amelia, Louisiana, through our subsidiary Conrad Aluminum, L.L.C. The financing of this expansion included a $1.5 million grant by the State of Louisiana through the Economic Development Award Program (EDAP) and $4.0 million of industrial revenue bonds issued by the St. Mary Parish Industrial Development Board. In connection with the issuance of the bonds, Conrad subsidiary Conrad Aluminum, L.L.C. contributed to the Industrial Development Board the land and buildings at the Conrad Aluminum yard and is leasing them back along with the items to be purchased with the bond proceeds, with a right to repurchase or extend. The transaction is being accounted for as a financing and thus the original cost of the property less accumulated depreciation remains reflected in our property, plant and equipment. The lease payments will be used by the Industrial Development Board to pay principal and interest on the bonds. Conrad and its subsidiaries have guaranteed the bonds. The bonds have a 15 year term and monthly principal payments of $22,222 plus interest. Interest accrues at 4.29 percent until March 12, 2005, at 4.79 percent until June 11, 2005, and thereafter, at our option, at either the JPMorgan Chase prime rate (5.25 percent at December 31, 2004) or the higher of (a) 30, 60 or 90-day LIBOR plus two percent (2.40 percent – 2.56 percent at December 31, 2004) or (b) the prime rate minus one percent (4.25 percent at December 31, 2004). As of December 31, 2004, remaining industrial revenue bond proceeds of approximately $106,000 restricted for use on the aluminum facility expansion are included under the caption “Other Assets”. The funds are legally restricted for use solely in connection with the construction and equipping of the aluminum facility pursuant to the terms of the trust indenture governing the bonds and the related lease agreement between the Industrial Development Board and Conrad Aluminum, L.L.C.

In connection with the issuance of the bonds, Conrad subsidiary Conrad Aluminum, L.L.C. contributed to the Industrial Development Board the land and buildings at the Conrad Aluminum yard and is leasing them back along with the items purchased with the bond proceeds. The lease payments are essentially equal to, and are used to pay, the principal and interest on the bonds. The lease terminates upon payment in full of the bonds on the contractual maturity date of August 1, 2018 or earlier if we elect to prepay them. In connection with the payment in full of the bonds, we have the option to purchase the leased facilities for $1,000. Alternatively, we and the lessor may choose to extend the lease upon mutually satisfactory terms.

EDAP Grant

The $1.5 million EDAP grant requires us to achieve specified job creation benchmarks: (1) by December 31, 2004, 35 jobs with a total annual payroll of at least $1,090,160, (2) by December 31, 2005, 81 additional jobs with an additional total annual payroll of at least $2,385,042, and (3) by December 31, 2006, 108 additional jobs (for a total of 224 new jobs) with an additional total annual payroll of at least $3,143,916 (for a total annual payroll of at least $6,619,118). These benchmarks must be sustained through December 31, 2012. The EDAP agreement states that if we fail to meet the job creation objectives, the state may choose to recover an amount of the grant commensurate with the scope of the unmet performance objectives.

We met the job creation requirement at December 31, 2004. We cannot predict whether we will be successful in meeting the job creation benchmarks for 2005, 2006 and beyond; however, if current market conditions do not improve, achieving the benchmarks will be difficult. We are continuing to seek new projects for the Conrad Aluminum facility and, in addition to aluminum work, are performing some steel construction and repair/conversion work at the facility.

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

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

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

	Amount
2005	$ 2,247
2006	2,247
2007	7,051
2008	267
2009	267
Thereafter	2,288
	$ 14,367

6. SHAREHOLDERS’ EQUITY

Treasury Stock

On March 21, 2000, our Board of Directors authorized management to repurchase shares of our outstanding common stock. The shares are held as treasury stock and are available for use in connection with our stock option and other compensation programs or for other corporate purposes. We repurchased 40,483 shares at a total cost of approximately $211,000 as of December 31, 2004 and 2003. This repurchase program has been terminated.

Income (Loss) Per Share

The calculation of basic earnings (loss) 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 7,235,954, 7,234,091 and 7,230,194 for the years ended December 31, 2004, 2003 and 2002, respectively. The number of weighted average shares for "diluted" income per share was 7,235,954, 7,234,091, and 7,230,194 for the years ended December 31, 2004, 2003 and 2002, respectively.

Income (loss) per diluted share calculations for the years ended December 31, 2004, 2003, and 2002 exclude 178,475, 355,175, and 205,775, respectively, of common shares issuable under common stock options because the options' exercise price was greater than the average market price of the common shares.

Stockholders' Rights Plan

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

Under the plan, we declared and paid a dividend on June 18, 2002 of one right for each share of common stock held by stockholders of record on June 11, 2002. Each right initially entitles our stockholders to purchase one one-thousandth of a share of our preferred stock for $20 per one one-thousandth, subject to adjustment. However, if a person acquires, or commences a tender offer that would result in ownership of, 15 percent or more of our outstanding common stock while the plan remains in place, then, unless we redeem the rights for $0.001 per right, the rights will become exercisable by all rights holders except the acquiring person or group for shares of common stock or of the acquiring person having a market value of twice the purchase price of the rights.

The rights will expire on May 23, 2012, unless redeemed or exchanged at an earlier date. The rights will initially trade with shares of our common stock and will 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 Issuance to Executive Officers

In September 2002, we entered into an employment agreement with Lewis J. Derbes, Jr. providing for employment as our Vice President and Chief Financial Officer. Pursuant to the agreement, on the executive's start date of September 30, 2002, he was granted 2,500 restricted shares of common stock, vesting on the first anniversary of his start date, and options to purchase 25,000 shares of common stock at the market price on the start date, vesting over a three year period.

In August 2001, we entered into an employment agreement with Kenneth G. Myers, Jr. providing for employment as our President and Chief Executive Officer. Pursuant to the agreement, on the executive's start date of August 27, 2001, he was granted 5,000 restricted shares of common stock, vesting on the first anniversary of his start date, and options to purchase 50,000 shares of common stock at the market price on the start date, vesting over a three-year period.

In August 2001, we and William H. Hidalgo entered into a transition agreement and terminated his employment agreement. The agreement provided that he would remain employed by us as President and Chief Executive Officer through August 26, 2001 and as Special Advisor to the new Chief Executive Officer through October 31, 2001. In consideration of past services, assistance with an orderly transition, surrender of his stock options, execution of the agreement (including a one-year non-competition covenant) and severance, Mr. Hidalgo received 132,820 shares of common stock and, on February 28, 2002, a severance payment of $195,290 and bonus of $622,500. Options to purchase 285,957 shares of common stock previously granted to Mr. Hidalgo were cancelled. His $233,327 promissory note payable and related accrued interest payable to us were also cancelled.

We also granted Cecil A. Hernandez, our former Chief Financial Officer, in consideration of past services and surrender of his stock options, 44,261 shares of common stock and paid a cash bonus on February 28, 2002, of $248,000. Options to purchase 114,043 shares of common stock previously granted to Mr. Hernandez were cancelled. His $139,277 promissory note payable and related accrued interest payable to us were also cancelled.

Messrs. Hidalgo and Hernandez executed notes payable to us in the amount of their related withholding tax obligations, which were repaid on February 28, 2002 by an offset against the bonuses due on that date. In addition, we purchased 19,683 shares of common stock from the executives to assist them in meeting their income tax obligations relating to these transactions.

As a result of these transactions, we incurred a one-time earnings charge of approximately $2.6 million or $0.37 per diluted share ($1.6 million, net of tax or $0.23 per diluted share), in the quarter ended September 30, 2001.

Stock Option Plan

We established the 2002 Stock Plan (the "Stock Plan") in May 2002. The Stock Plan permits the granting of any or all of the following types of awards: stock options, restricted stock, automatic director options, and various other stock-based awards. All officers and employees of, and any consultants to us or any affiliate will be eligible for participation in all awards under the Stock Plan other than directors' options. Only our non-employee directors will receive automatic grants of director options. Awards granted under the Stock Plan have a maximum term of ten years. The maximum number of shares that can be delivered under the 2002 Stock Plan is the sum of (1) 512,044 shares, plus (2) any shares represented by awards granted under the 1998 Stock Plan that are forfeited, expire or are cancelled without delivery of shares.

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

The following is a summary of the option activity for the years ended December 31, 2004, 2003 and 2002:

	Weighted Avg. Price	Number of Options
Outstanding at January 1, 2002	6.12	241,742
Granted	3.34	42,800
Forfeited	5.16	(24,767)
Outstanding at December 31, 2002	5.70	259,775
Granted	2.76	150,300
Forfeited	6.31	(54,900)
Outstanding at December 31, 2003	4.36	355,175
Granted	2.17	7,000
Forfeited	4.33	(183,700)
Outstanding at December 31, 2004	4.31	178,475
Exercisable at December 31, 2004	4.87	130,808
Exercisable at December 31, 2003	5.68	169,940
Exercisable at December 31, 2002	6.10	186,641

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price Range Per Share	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.70 - $3.40	99,200	8.27 years	$ 2.85	51,533	$ 2.93
$4.70 - $6.40	40,275	5.96 years	$ 5.62	40,275	$ 5.62
$6.75 - $7.25	39,000	3.60 years	$ 6.78	39,000	$ 6.78

Options granted under the stock plans during 2004, 2003 and 2002 have various vesting rights ranging from immediate to three years from the date of the grant. Vesting is accelerated upon a change of control as defined in the plans.

Warrants

In June 1998, we issued to the underwriter involved in the initial public offering, warrants to purchase 72,000 shares of common stock exercisable for five years at the initial public offering price of $12.00 per share. These warrants expired unexercised in June 2003.

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 $90,000, $101,000 and $121,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

8. TERMINATED ACQUISITION COSTS

On October 9, 2002, we announced that we had terminated negotiations under a non-binding letter of intent executed August 12, 2002 regarding the purchase of substantially all of the assets of Swiftships Shipbuilders, LLC and Swiftships Technologies, LLC. Approximately $350,000 of deferred acquisition costs were charged to operations for the year ended December 31, 2002 as a result of the termination of this proposed acquisition.

In connection with the letter of intent, we entered into an agreement pursuant to which we loaned approximately $500,000, secured by real estate, to Swiftships Shipbuilders, LLC. The loan and related interest were collected in full during the fourth quarter of 2002.

9. INCOME TAXES

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

	2004	2003	2002
Current (benefit) provision	$ (49)	$ (1,440)	$ 20
Deferred (benefit) provision	(1,632)	(173)	3
Total	$ (1,681)	$ (1,613)	$ 23

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):

	Amount	%	Amount	%	Amount	%
Taxes at Federal statutory rate	$ (3,081)	35.0	$(2,955)	35.0	$ 7	35.0
Non-deductible goodwill impairment/amortization	1,435	(16.3)	1,400	(16.6)	-	-
Non-deductible other expenses	15	(0.2)	16	(0.2)	21	110.5
State income taxes	(50)	0.6	(74)	0.9	(5)	(24.4)
Total	$ (1,681)	19.1	$(1,613)	19.1	$ 23	121.1

At December 31, 2004 the Company has, as a result of the carry back of Federal and State income tax losses, a receivable in the amount of $404,000 recorded in other receivables. The

Company has available for carry forward a federal net operating loss of $4.3 million, which expires in 2023, a federal net operating loss carryforward of $4.4 million, which expires in 2024 and a state net operating loss of $3.6 million which expires in 2019.

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, 2004 and 2003 are as follows (in thousands):

	2004	2003
Deferred tax liabilities:		
Differences between book and tax basis of property, plant and equipment	$ 4,742	$ 4,875
Capitalized Intangibles	(65)	
Net operating loss carryforwards	(2,992)	(1,672)
	1,685	3,203
Deferred tax assets (included in other current assets):		
Contracts in progress	(127)	(7)
Accrued expenses not currently deductible	(202)	(208)
	(329)	(215)
Net deferred tax liabilities	$ 1,356	$ 2,988

10. SALES TO MAJOR CUSTOMERS

Sales to various customers, which amount to 10 percent or more of our total revenues for the three years ended December 31, 2004, 2003 and 2002 are summarized as follows (in thousands):

	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Customer A	$ 11,116	30%	$ 4,330	13 %	$ 4,891	12 %
Customer B	78	0%	2,991	9 %	5,095	12 %
Customer C	3	0%	300	1 %	4,167	10 %
Customer D	881	2%	8,720	26 %		
Customer E	7,578	20%	144	0%		

Sales to Customers A, B, C, D, and E for all periods presented in the table were reported by our vessel construction segment.

11. RELATED PARTY TRANSACTIONS

We purchase in the ordinary course of business certain components from Johnny's Propeller Shop, Inc., a company wholly owned by John P. Conrad, Jr., Co-Chairman of the Board of Directors. Total purchases for the three years ended December 31, 2004, 2003 and 2002 were $115,000, $231,000 and $345,000, respectively.

12. SEGMENT AND RELATED INFORMATION

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

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

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

We evaluate the performance of our segments based upon gross profit. Selling, general and administrative expenses, impairment charges, 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):

	Years Ended December 31,		
	2004	2003	2002
Revenue:			
Vessel construction	$ 24,005	$ 22,573	$ 30,814
Repair and conversions	13,116	10,856	10,209
Total revenue	37,121	33,429	41,023
Cost of revenue:			
Vessel construction	25,300	22,515	26,826
Repair and conversions	11,804	10,255	8,831
Total cost of revenue	37,104	32,770	35,657
Gross profit:			
Vessel construction	(1,295)	58	3,988
Repair and conversions	1,312	601	1,378
Total gross profit	17	659	5,366
Selling, general and administrative expenses	4,296	4,702	4,815
Impairment of goodwill	4,101	4,000	-
Terminated acquisition costs			350
(Loss) income from operations	(8,380)	(8,043)	201
Interest expense	(585)	(435)	(221)
Other income, net	163	36	39
(Loss) income before income taxes	(8,802)	(8,442)	19
(Benefit) provision for income taxes	(1,681)	(1,613)	23
(Loss) income before cumulative effect of change in accounting principle	(7,121)	(6,829)	(4)
Cumulative effect of change in accounting principle			(4,500)
Net (loss) income	$ (7,121)	$ (6,829)	$ (4,504)

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

	Years Ended December 31,		
	2004	2003	2002
Depreciation and amortization expense:			
Vessel construction	$ 989	$ 912	$ 840
Repair and conversion	1,118	880	608
Included in selling, general and administrative expenses	364	383	413
Total depreciation and amortization expense	$ 2,471	$ 2,175	$ 1,861

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

	Years Ended December 31,		
	2004	2003	2002
Total assets:			
Vessel construction	$17,878	$22,946	$24,799
Repair and conversion	20,575	20,604	18,393
Other	4,809	10,366	10,649
Total assets	$43,262	$53,916	$53,841
Capital expenditures:			
Vessel construction	$ 1,045	$ 2,356	$ 1,252
Repair and conversion	50	4,192	3,382
Other	21	340	1,133
Total capital expenditures	$ 1,116	$ 6,888	$ 5,767

Certain assets and capital expenditures are allocated to corporate and are included in the "Other" caption.

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

13. COMMITMENTS AND CONTINGENCIES

***Legal Matters*—**In February 2004, Swiftships Shipbuilders, LLC and two affiliates (collectively, "Swiftships") brought suit against us, alleging that various of our actions in connection with our expansion into the aluminum marine fabrication and repair business breached in bad faith a confidentiality agreement we entered into when we were considering acquiring Swiftships. The suit also alleged that we conspired with one of our employees who is a former Swiftships employee to breach a confidentiality agreement the employee had with Swiftships as a result of his employment with them. The suit sought unspecified damages and asked for injunctive relief to prevent further alleged breaches of the confidentiality agreements and misappropriation of trade secrets. In March 2005, we settled the lawsuit for $137,500 which amount was recognized as an expense in 2004.

During April 2005, a former customer initiated a demand for arbitration under a vessel construction contract entered into in 2000 and completed in 2001. The former customer alleges that we are responsible for damages because we breached the agreement, and that certain components of the vessel did not comply with the agreement. Additionally the former customer alleges that the vessel was not suitable for its intended purpose. The demand was initiated almost four years after delivery of the vessel and long after the pertinent warranty provision had expired. The action is in its earliest stages and no formal discovery has taken place. We believe that the claims are without merit.

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 December 31, 2005, and provide for extensions at the end of the term, subject to the parties' mutual agreement. As of December 31, 2004, the minimum annual total compensation under these agreements was $360,000.

In April 2004, we entered into a separation agreement with Kenneth G. Myers, Jr., our former President and Chief Executive Officer. Subject to the terms of this agreement, Mr. Myers resigned from all of the positions he held with the Company and will be paid a total of $218,500, payable in substantially equal installments over a one-year period, and six months of COBRA continuation coverage. As a result, Mr. Myers' benefits from the Separation agreement were accrued in the second quarter of 2004.

In August 2004, we entered into an employment agreement with Cecil A. Hernandez providing for employment as our Executive Vice President and Chief Operating Officer through December 31, 2005 and annual extensions thereafter, subject to the parties' mutual agreement. The minimum annual total compensation under the agreement is $150,000.

In addition, our former Chief Financial Officer, Lewis Derbes, Jr. resigned as CFO effective September 3, 2004 to pursue other business opportunities. Cecil Hernandez served as interim CFO until February 2005, at which time Terry T. Frickey was appointed Vice President and Chief Operating Officer and Cecil A. Hernandez assumed the position of Executive Vice-President and Chief Financial Officer.

***Construction Commitments*—**As of December 31, 2004, we had no outstanding construction commitments. As of December 31, 2003, we had an outstanding commitment of $683,000 for the construction of our new aluminum marine fabrication, repair and conversion facility in Amelia, Louisiana.

***Letters of Credit and Bonds*—**In the normal course of its business, we are required to provide letters of credit to secure the payment of workers' compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations. Outstanding letters of credit and bonds relating to these business activities amounted to $69.5 million and $46.3 million at December 31, 2004 and 2003, respectively.

14. SUPPLEMENTAL SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Consolidated operating results for the four quarters of 2004 and 2003 were as follows (in thousands, except per share data):

	Quarter Ended				
	March 31,	June 30,	September 30,	December 31,	
Fiscal 2004					
Revenue	$ 11,703	$ 9,016	$ 8,142	$ 8,260	
Gross profit (loss)	1,011	354	(771)	(577)	
Net (loss) income	(132)	(576)	(1,177)	(5,236)	(1)
Net (loss) income per share:					
Basic	(0.02)	(0.08)	(0.16)	(0.72)	(1)
Diluted	(0.02)	(0.08)	(0.17)	(0.72)	(1)
Fiscal 2003					
Revenue	$ 10,474	$ 9,338	$ 6,722	$ 6,895	
Gross profit (loss)	815	(67)	(7)	82	
Net (loss) income	(321)	(726)	(827)	(4,955)	(1)
Net (loss) income per share:					
Basic	(0.04)	(0.10)	(0.11)	(0.68)	(1)
Diluted	(0.04)	(0.10)	(0.11)	(0.68)	(1)

(1) The Company recorded non-cash charges of $4.1 million, ($0.67 per diluted share) and $4.0 million ($0.55 per diluted share) as operating charges, respectively, in 2004 and 2003, resulting from the impairment of goodwill.

(2) Includes the effect of a $0.6 million ($0.3 million after tax or $0.05 per diluted share) charge to reflect revised estimates related to anticpated losses on certain uncompleted vessels in progress.

15. GOING CONCERN CONSIDERATIONS

The Company has incurred significant operating losses over the past two years due to a variety of factors. Excluding the write-off of impaired goodwill in both 2004 and 2003, pre-tax losses have amounted to $4.7 million and $4.4 million, respectively. As a result of the operating losses, the Company has experienced negative cash flow in both 2004 and 2003. The Company has continued to make all payments of principal and interest on its outstanding debt timely; however, due to its declining liquidity and operating losses, it has been forced to renegotiate its debt covenants several times over the past two years. As indicated in Note 5, the Company's Loan Agreement was further amended on April 22, 2005 to relax certain covenants and reduce the Company's line of credit to $7.0 million, of which $5.0 million remains available at March 31, 2005. All of these factors create doubt about the Company's ability to continue as a going concern.

If the Company were unable to continue as a going concern, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary should the entity be unable to continue as a going concern.

In response to these adverse factors, the Board of Directors decided to delist and deregister the Company as a publicly traded entity effective March 31, 2005 to reduce the expenses of compliance with securities laws and NASDAQ listing requirments. Management estimates annual savings of $500,000 of current public company expenses and an additional annual savings of $300,000 commencing in 2006, which would have been incurred to comply with the internal control reporting requirements of Section 404 of Sarbanes-Oxley. Management also renegotiated the debt agreements to enable the Company to have a reasonable likelihood of ongoing compliance based on its most recent forecasts of operating results. In addition, management hired experienced supervisory personnel to better manage its backlog of contracts and to improve contract bidding and contract performance. Management is also considering the dispositions of certain underutilized properties, if necessary, to provide greater liquidity to the Company and reduce outstanding debt. Based on these actions and improving market conditions in 2005, management believes that the Company will generate positive operating results and cash flows in 2005 and be in a position to restructure its debt and financing arrangements if necessary.

Management believes that its existing working capital, cash flow from operations and bank commitments will be adequate to meet working capital needs for operations and capital expenditures through 2005. Management further believes that, barring unforeseen circumstances, the Company should have sufficient resources to meet its cash needs through 2006 and 2007. Management is also considering other potential refinancing opportunities. At March 31, 2005, the Company has $2.0 million outstanding on its line of credit and anticipates additional borrowings in 2005 to meet the working capital requirements of the new construction contract in its backlog. The line of credit expires on April 30, 2006 and management believes access to a line of credit is an important part of managing available cash resources. In addition, the Company has large principal payments becoming due on its long-term debt in 2007 and management believes that refinancing some or all of such amounts may be necessary. The Company’s ability to extend its revolving credit line and refinance its long-term debt will depend in large part on the Company’s financial position and the condition of the credit markets at the time.

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BOARD OF DIRECTORS

J. PARKER CONRAD
Founder & Co-Chairman of the Board

JOHN P. CONRAD, JR.
President & Chief Executive Officer, Co-Chairman of the Board

CECIL A. HERNANDEZ
Executive Vice President, Chief Financial Officer, Secretary and Director

MICHAEL J. HARRIS
Director

LOUIS J. MICHOT, JR.
Director

RICHARD J. SHOPF
Director

OGDEN U. THOMAS, JR.
Director

2004 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 Pink Sheets Electronic Quotation Service. Pink Sheet quotes are available over the internet at www.pinksheets.com as well as through other services.

ANNUAL MEETING
The Annual Meeting of Shareholders has not been scheduled.

FINANCIAL REPORTS
Stockholders who wish to obtain company financial reports may do so without charge by writing Cecil. A. Hernandez, 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.pinksheets.com.

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