

CONRAD INDUSTRIES, INC.

Quarterly Financial Report

September 30, 2011

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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FORWARD-LOOKING-STATEMENTS

In this report and in the normal course of business, we, in an effort to help keep our stockholders and the public informed about our operations, may from time to time issue or make certain statements, either in writing or orally, that are or contain forward looking statements. All statements contained herein, other than statements of historical fact, are forward looking statements. When used in this report, the words “anticipate,” “believe,” “estimate” 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, the effect on our business as a result of the Deepwater Horizon incident, 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 2010 Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We do not intend to update these forward looking statements. Although we believe that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove correct.

An Important Note About This Report

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

Our Annual Report and other periodic reports to shareholders are available on the Company’s website, www.ConradIndustries.Com and at www.otcm Markets.com. Interested persons may also request copies directly from the Company; please direct requests and inquiries to Chief Financial Officer, Conrad Industries Inc., P. O. Box 790, Morgan City, LA, 70381, telephone (985) 702-0195. In particular, you should read this Quarterly Report along with our 2010 Annual Report and our 2011 Proxy Statement.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30,	December 31,
<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,718	\$ 23,165
Accounts receivable, net	17,470	27,379
Costs and estimated earnings, net in excess of billings on uncompleted contracts	43,393	12,481
Inventories	2,932	10,571
Other receivables	167	416
Other current assets	<u>2,511</u>	<u>3,023</u>
Total current assets	92,191	77,035
PROPERTY, PLANT AND EQUIPMENT, net	37,688	37,760
OTHER ASSETS	<u>32</u>	<u>37</u>
TOTAL ASSETS	<u>\$ 129,911</u>	<u>\$ 114,832</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,513	\$ 8,724
Accrued employee costs	3,087	2,571
Accrued expenses	3,239	2,226
Current maturities of long-term debt	267	1,281
Billings in excess of costs and estimated earnings, net on uncompleted contracts	<u>15,382</u>	<u>9,345</u>
Total current liabilities	28,488	24,147
LONG-TERM DEBT, less current maturities	1,554	1,754
DEFERRED INCOME TAXES	7,375	7,503
OTHER NON-CURRENT LIABILITIES	<u>1,500</u>	<u>1,500</u>
Total liabilities	<u>38,917</u>	<u>34,904</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, \$0.01 par value 20,000,000 shares authorized, 7,290,837 in 2011 and in 2010	73	73
Additional paid-in capital	29,039	29,039
Treasury stock at cost, 985,225 in 2011 and 887,630 shares in 2010	(11,256)	(9,951)
Retained earnings	<u>73,138</u>	<u>60,767</u>
Total shareholders' equity	<u>90,994</u>	<u>79,928</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 129,911</u>	<u>\$ 114,832</u>

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
REVENUE	\$ 61,895	\$ 33,687	\$ 183,742	\$ 99,462
COST OF REVENUE	55,146	29,914	160,212	84,766
GROSS PROFIT	6,749	3,773	23,530	14,696
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,314	1,138	4,091	3,586
INCOME FROM OPERATIONS	5,435	2,635	19,439	11,110
INTEREST EXPENSE	(11)	(22)	(39)	(76)
OTHER INCOME/(EXPENSE), NET	(4)	35	120	304
INCOME BEFORE INCOME TAXES	5,420	2,648	19,520	11,338
PROVISION FOR INCOME TAXES	1,965	1,003	7,149	4,329
NET INCOME	\$ 3,455	\$ 1,645	\$ 12,371	\$ 7,009
Income Per Share				
Basic	\$ 0.54	\$ 0.26	\$ 1.94	\$ 1.09
Diluted	\$ 0.54	\$ 0.26	\$ 1.93	\$ 1.09
Weighted Average Common Shares Outstanding				
Basic	6,362	6,425	6,385	6,434
Diluted	6,384	6,446	6,408	6,456

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,371	\$ 7,009
Adjustments to reconcile net income to cash provided by /(used for) operating activities:		
Depreciation and amortization	2,669	2,575
Deferred income tax provision/(benefit)	1,743	(1,997)
Loss on sale of assets	5	1
Changes in assets and liabilities:		
Accounts receivable	9,909	13,831
Net change in billings related to cost and estimated earnings on uncompleted contracts	(24,875)	(8,939)
Inventory and other assets	6,529	4,811
Accounts payable, accrued expenses and other liabilities	(682)	6,718
Net cash provided by operating activities	7,669	24,009
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for plant and equipment	(2,597)	(1,816)
Proceeds from sale of assets	-	11
Net cash used in investing activities	(2,597)	(1,805)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of debt	(1,214)	(1,341)
Purchase of Treasury Stock	(1,305)	(266)
Net cash used in financing activities	(2,519)	(1,607)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,553	20,597
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,165	16,695
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 25,718	\$ 37,292
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	\$ 39	\$ 76
Taxes paid	\$ 6,425	\$ 3,370

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Conrad Industries, Inc. and its wholly-owned subsidiaries (the "Company") which are primarily engaged in the construction, conversion and repair of a variety of marine vessels for commercial and government customers. The Company was incorporated in March 1998 to serve as the holding company for Conrad Shipyard, L.L.C. ("Conrad") and Orange Shipbuilding Company, Inc. ("Orange Shipbuilding"). In addition, during the second quarter of 2003, Conrad Aluminum, L.L.C., a wholly owned subsidiary of Conrad, was organized as a vehicle to accommodate the Company's expansion into aluminum marine fabrication, repair and conversion services. New construction work and some repair work are performed on a fixed-price basis. The Company performs the majority of repair work under cost-plus-fee agreements. All significant intercompany transactions have been eliminated. In the opinion of the management of the Company, the interim consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (such adjustments consisting only of a normal recurring nature) considered necessary for a fair presentation have been included in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company's audited 2010 consolidated financial statements and related notes. The results of operations for the nine-month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

2. TRADE RECEIVABLES

Receivables consisted of the following at September 30, 2011 and December 31, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
U.S. Government:		
Amounts billed	\$ 2,094	\$ 7,637
Unbilled costs and estimated earnings on uncompleted contracts	<u>878</u>	<u>244</u>
	2,972	7,881
Commercial:		
Amounts billed	15,376	19,742
Unbilled costs and estimated earnings on uncompleted contracts	<u>42,515</u>	<u>12,237</u>
Total	<u>\$ 60,863</u>	<u>\$ 39,860</u>

Included above in amounts billed is an allowance for doubtful accounts of \$330,000 at September 30, 2011 and \$957,000 at December 31, 2010. During 2009, \$711,000 was added to the allowance for doubtful accounts primarily as a result of two customers filing for protection under Chapter 11 of the U.S. Bankruptcy Code. A portion of these accounts are uncollectible and during the second quarter of 2011 were written off against the reserve.

Unbilled costs and estimated earnings on uncompleted contracts were not billable to customers at the balance sheet dates under terms of the respective contracts. Of the unbilled costs and estimated earnings at September 30, 2011, substantially all is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of September 30, 2011 and December 31, 2010 is as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Costs incurred on uncompleted contracts	\$ 195,496	\$ 51,889
Estimated earnings, net	<u>28,250</u>	<u>5,502</u>
	223,746	57,391
Less billings to date	<u>(195,735)</u>	<u>(54,255)</u>
	<u>\$ 28,011</u>	<u>\$ 3,136</u>

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

	<u>2011</u>	<u>2010</u>
Costs and estimated earnings, net in excess of billings on uncompleted contracts	\$ 43,393	\$ 12,481
Billings in excess of cost and estimated earnings, net on uncompleted contracts	<u>(15,382)</u>	<u>(9,345)</u>
Total	<u>\$ 28,011</u>	<u>\$ 3,136</u>

Pursuant to SOP 81-1, Paragraph 85-89(ASC 605-35), when the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract should be made in the period it became evident. The provision for the loss should be recorded as an additional contract cost in the income statement. The offsetting liability can be recorded on the balance sheet where related contract costs are accumulated on the balance sheet, in which case the provision may be deducted from the related accumulated costs. The Company recorded total charges of \$1.5 million for the quarter ended September 30, 2011 and \$1.6 million for the nine months ended September 30, 2011 (\$1.8 million in 2010) in cost of revenues to reflect revised estimates related to anticipated losses on certain uncompleted vessels in progress. The offsetting credit was recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of September 30, 2011 and December 31, 2010, approximately \$1.3 million and \$1.4 million, respectively, of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. INVENTORIES

At September 30, 2011, inventories consisted of steel plate and structural and excess job related materials and supplies. At December 31, 2010, inventories consisted of seven stock barges, steel plate and structurals, and excess job related materials and supplies.

4. OTHER RECEIVABLES

Other receivables consisted of the following at September 30, 2011 and December 31, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Insurance claims receivable	\$ -	\$ 203
Quality Jobs Program Rebate	167	210
Other	-	3
	<u> </u>	<u> </u>
Total	<u>\$ 167</u>	<u>\$ 416</u>

Substantially all of these amounts at September 30, 2011 are expected to be collected within the next twelve months.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at September 30, 2011 and December 31, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Land	\$ 5,275	\$ 5,275
Buildings and improvements	31,733	31,550
Machinery and equipment	20,916	20,114
Drydocks and bulkheads	11,511	11,536
Barges and boats	883	883
Office and automotive	2,987	2,678
Construction in progress	2,001	784
	<u>75,306</u>	<u>72,820</u>
Less accumulated depreciation	<u>(37,618)</u>	<u>(35,060)</u>
	<u>\$ 37,688</u>	<u>\$ 37,760</u>

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

6. LONG-TERM DEBT

Long-term debt consisted of the following at September 30, 2011 and December 31, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Term loan - Bank, floating interest rate (2.190% at June 30, 2011), due August 31, 2011	\$ -	\$ 1,015
Industrial revenue bonds - St. Mary Parish, variable interest rate (2.226% at September 30, 2011), due August 1, 2018	<u>1,821</u>	<u>2,020</u>
	1,821	3,035
Less current maturities	<u>(267)</u>	<u>(1,281)</u>
	<u>\$ 1,554</u>	<u>\$ 1,754</u>

We have a Loan Agreement that governs our Revolving Credit Facility and Term Loan. Our Term Loan was paid in full on August 31, 2011. Our Revolving Credit Facility permits us to borrow up to \$10 million and matures April 30, 2012. The interest rate is JPMorgan Chase prime rate or LIBOR plus two percent at our option. No amounts were outstanding on our Revolving Credit Facility as of September 30, 2011 and December 31, 2010. 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 September 30, 2011 and December 31, 2010, we were in compliance with all covenants. At September 30, 2011 and December 31, 2010, we have letters of credit of \$389,000 issued under the Revolving Credit Facility.

In July 2003, we completed the financing for our expansion into the aluminum marine fabrication, repair and construction business. The financing included a \$1.5 million grant by the State of Louisiana through the Economic Development Award Program (EDAP) and \$4.0 million of industrial revenue bonds issued by the St. Mary Parish Industrial Development Board. In connection with the issuance of the bonds, Conrad subsidiary Conrad Aluminum, L.L.C. contributed to the Industrial Development Board the land and buildings at the Conrad Aluminum yard and is leasing them back along with the items to be purchased with the bond proceeds. The transaction is being accounted for as a financing and thus the original cost of the property less accumulated depreciation remains reflected in our property, plant and equipment.

The lease payments are essentially equal to, and are used to pay, the principal and interest on the bonds. The lease terminates upon payment in full of the bonds on the contractual maturity date of August 1, 2018 or earlier if we elect to prepay them. In connection with the payment in full of the bonds, we have the option to purchase the leased facilities for \$1,000. Alternatively, we and the lessor may choose to extend the lease upon mutually satisfactory terms. Conrad and its subsidiaries have guaranteed the industrial revenue bonds. The bonds have a 15 year term and monthly principal payments of \$22,222 plus interest. Interest accrues, at our option, at either the JPMorgan Chase prime rate or the higher of (a) 30, 60 or 90-day LIBOR plus two percent or (b) the prime rate minus one percent.

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

We met the job creation requirement at December 31, 2004 but not at December 31, 2005, 2006, 2007, 2008, 2009 and 2010. We cannot predict whether we will be successful in meeting the job creation benchmarks for 2011 and beyond; however, achieving the benchmarks will be difficult. We are in discussions to amend the agreement.

As of September 30, 2011 and December 31, 2010 approximately \$1.5 million of equipment had been purchased with EDAP grant proceeds. Accordingly, as of September 30, 2011 and December 31, 2010, 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 the years 2004 through 2010, and for the three quarters ended September 30, 2011.

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

7. SHAREHOLDERS' EQUITY

Income per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. The number of weighted average shares outstanding for "basic" income per share was 6,385,096 and 6,434,401 for the nine months ended September 30, 2011 and 2010, respectively. The number of weighted average shares outstanding for "diluted" income per share was 6,407,783 and 6,455,800 for the nine months ended September 30, 2011 and 2010, respectively.

8. SEGMENT AND RELATED INFORMATION

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

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

Our product offerings in vessel construction have changed over time to meet market demands and currently include large and small deck barges, single and double hull tank barges, lift boats, ferries, push boats, offshore tug boats and offshore support vessels 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 our other yards.

We evaluate the performance of our segments based upon gross profit. Selling, general and administrative expenses, executive compensation expense, interest expense, other income, net and income taxes are not allocated to the segments. Accounting policies are the same as those described in Note 1, "Summary of Significant Accounting Policies" in our audited 2010 consolidated financial statements. Intersegment sales and transfers are not significant.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Vessel construction	\$ 48,339	\$ 23,311	\$ 148,534	\$ 63,071
Repair and conversions	13,556	10,376	35,208	36,391
Total revenue	<u>61,895</u>	<u>33,687</u>	<u>183,742</u>	<u>99,462</u>
Cost of revenue				
Vessel construction	42,588	22,001	129,238	55,987
Repair and conversions	12,558	7,913	30,974	28,779
Total cost of revenue	<u>55,146</u>	<u>29,914</u>	<u>160,212</u>	<u>84,766</u>
Gross profit				
Vessel construction	5,751	1,310	19,296	7,084
Repair and conversions	998	2,463	4,234	7,612
Total gross profit	<u>6,749</u>	<u>3,773</u>	<u>23,530</u>	<u>14,696</u>
S G & A expenses	<u>1,314</u>	<u>1,138</u>	<u>4,091</u>	<u>3,586</u>
Income from operations	5,435	2,635	19,439	11,110
Interest expense	11	22	39	76
Other income/(expense), net	(4)	35	120	304
Income before income taxes	5,420	2,648	19,520	11,338
Provision for Income tax	<u>1,965</u>	<u>1,003</u>	<u>7,149</u>	<u>4,329</u>
Net income	<u>\$ 3,455</u>	<u>\$ 1,645</u>	<u>\$ 12,371</u>	<u>\$ 7,009</u>

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

	Three Months		Nine Months	
	Ended September 30,	Ended September 30,	Ended September 30,	Ended September 30,
	2011	2010	2011	2010
Depreciation and amortization expense:				
Vessel construction	\$ 404	\$ 359	\$ 1,212	\$ 1,091
Repair and conversions	461	469	1,367	1,359
Included in selling, general and administrative expenses	<u>31</u>	<u>38</u>	<u>90</u>	<u>125</u>
Total depreciation and amortization expense	<u>\$ 896</u>	<u>\$ 866</u>	<u>\$ 2,669</u>	<u>\$ 2,575</u>

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2011	2010	2011	2010
Capital expenditures:				
Vessel construction	\$ 826	\$ 339	\$ 1,623	\$ 880
Repair and conversions	53	290	516	928
Other	<u>328</u>	<u>8</u>	<u>458</u>	<u>8</u>
Total capital expenditures	<u>\$ 1,207</u>	<u>\$ 637</u>	<u>\$ 2,597</u>	<u>\$ 1,816</u>

Total assets by segment are as follows as of September 30, 2011 and December 31, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Total assets:		
Vessel construction	\$ 65,341	\$ 39,828
Repair and conversions	33,752	37,390
Other	<u>30,818</u>	<u>33,163</u>
Total assets	<u>\$ 129,911</u>	<u>\$ 110,381</u>

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

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

9. COMMITMENTS AND CONTINGENCIES

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

Environmental Matters— In 2006, the Company reported to the Louisiana Department of Environmental Quality (the “LDEQ”) that the deposit of fill material in 1986 in one of its slips at Morgan City, Louisiana, may have constituted the unauthorized disposal of solid and/or hazardous waste. The source of the fill was Marine Shale Processors, which federal courts later found to be a sham recycler. The Company did not know until 2006 that the fill material could be something other than a non-regulated aggregate product. On December 7, 2006, the LDEQ agreed to accept the Company’s plan (to be submitted later in 2007) with respect to the proper classification, delisting and removal of the fill material. The Company submitted its plan to delist the fill as a hazardous waste to the LDEQ on May 31, 2007. LDEQ issued a demand letter to the Company on July 23, 2007, asking for a remedial investigation and remedial action, and allowing 60 days for the Company to negotiate a cleanup plan and agreement with the LDEQ. The Company submitted its comments on the LDEQ draft cooperative agreement to LDEQ on August 24, 2007. On December 18, 2008, the LDEQ approved the Company’s delisting petition with its sampling and analysis plan. The Company implemented the approved sampling and analysis plan in early 2010. The Company had to prepare two assessment reports on the data. The Company submitted a risk assessment report to LDEQ on April 20, 2010. LDEQ on September 7, 2010, approved the risk assessment on the former slip area and asked for a corrective action plan. The Company has asked for an extension of time in submitting the corrective action plan until after final delisting of the fill by LDEQ as other than hazardous waste,

and LDEQ concurred on November 9, 2010. A separate hazardous waste assessment report was submitted to LDEQ on November 8, 2010. Since the data confirms that the fill is appropriately classified as not hazardous, the LDEQ will proceed to delist the fill through a rule-making process, which, when and if completed, should make the Company's disposal costs less expensive than if the fill were required to be disposed of as hazardous waste. The rule-making is set to commence on November 20, 2011. The Company has made provisions in its financial statements based on management's estimate of the range of potential cost to resolve this matter; and such estimates may change as more information becomes known. Depending on further developments and information about expected costs, the Company may seek a CERCLA and/or state cost recovery action from other responsible parties.

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

Employment Agreements— We have employment agreements with certain of our executive officers which provide for employment of the officers through March 31, 2012, and which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of September 30, 2011, the minimum annual total compensation under these agreements was \$836,000.

Construction Commitments – As of September 30, 2011, we had no outstanding construction commitments.

Letters of Credit and Bonds – In the normal course of our business, we are required to provide letters of credit to secure the payment of workers' compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations. Outstanding letters of credit and bonds relating to these business activities amounted to \$38.0 million and \$70.6 million at September 30, 2011 and December 31, 2010, respectively.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes to consolidated financial statements included elsewhere in this report and should be read in conjunction with our 2010 Annual Report.

Overview

We specialize in the construction, conversion and repair of a wide variety of steel and aluminum marine vessels for commercial and government customers. These vessels include tugboats, ferries, liftboats, barges, aluminum crew/supply vessels and other offshore support vessels. We operate four shipyards: one in Morgan City, Louisiana, two in Amelia, Louisiana and one in Orange, Texas. For the nine months ended September 30, 2011 our new construction segment accounted for 80.8% of our total revenue and our repair and conversion segment accounted for 19.2% of our total revenue. For the year ended December 31, 2010, our new construction segment accounted for 66.5% of our total revenue and our repair and conversion segment accounted for 33.5% of our total revenue. Most of our new construction is done indoors.

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

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

During August 2010, our board authorized the Company to repurchase up to \$5 million of common stock using our cash on hand or generated from operations, in the open market or privately negotiated transactions. We believe this approach enhances shareholder value and provides us with flexibility to respond to potential future business opportunities and risks. The stock repurchase plan does not obligate us to acquire any particular amount of common stock, does not have an expiration date and could be amended or terminated at any time without prior notice. We purchased 38,075 shares during the third quarter of 2010 at an average price of \$7 per share. During March 2011, our board authorized a 10b5-1 stock purchase plan, in an attempt to increase the amount of stock we repurchase pursuant to the share repurchase program. During the second quarter of 2011, we purchased 16,209 shares at an average price of \$13 per share. During the third quarter of 2011, we purchased 81,386 shares at an average price of \$13 per share.

During the first nine months of 2011, we added \$135.8 million of backlog to our new construction segment, which is primarily related to spending for double-skinned tank barges, and various other barges. Our backlog was \$87.7 million at September 30, 2011, \$89.5 million at December 31, 2010 and \$86.1 million at September 30, 2010. During the third quarter a customer defaulted on contract that include two 192'x 42'x10' 7500 bbl. double skin tank barges and two 75'x 30'x 10' towboats which were at the beginning stages of construction and thus were cancelled. The default also included two 192'x 42'x10' 7500 bbl. double skin tank barges and two 200'x 35'x 12'6" 10,000 bbl. tank barges that are under construction and for which we have interested customers. As a result of contract provisions that allow us to recover from the defaulting customer the difference between the contract price and what we sell the barges for, progress payments already made by the defaulting customer and favorable market conditions for these vessels, we do not expect any material adverse financial consequences due to the default.

Because a large percentage of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment. We experienced lower gross profits in our repair segment in the first nine months of 2011, as a result of decreased customer activity in the Gulf of Mexico primarily as a result of the Deepwater Horizon incident. For the first nine months of 2011 and for the year ended December 31, 2010, we received approximately 8.0%, and 10.4%, respectively of our total revenue from customers in the oil and gas industry, 19.4% and 14.1% from government customers and 72.6% and 75.5% from other commercial customers.

We experienced significant increases in the price of steel during 2010, which appear to be moderating in 2011. For additional information about steel prices, see our 2010 Annual Report.

From time to time we have experienced gaps in our construction schedules and began construction on projects that were not under contract and that we believed we could convert to contracts in a relatively short period of time within starting construction or within completion of the project. The primary goal of this strategy is to maintain operational efficiencies and revenue volume between contracted projects. At December 31, 2010, we had seven stock barges under construction with approximately \$9.5 million of costs, all of which were sold in the first quarter of 2011. At September 30, 2011 we had no stock barges under construction. Our board has approved construction of up to \$10 million in stock barges and vessels.

We delisted our common stock on March 30, 2005 and filed Form 15 to deregister our common stock under Section 12 of the Securities Exchange Act of 1934 and cease filing reports pursuant to Section 15 (d) of that Act primarily to reduce expenses.

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

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

Results of Operations

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

Conrad Industries, Inc. Summary Results of Operations

(In thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
Financial Data:								
Revenue								
Vessel construction	\$48,339	78.1%	\$23,311	69.2%	\$148,534	80.8%	\$63,071	63.4%
Repair and conversions	<u>13,556</u>	21.9%	<u>10,376</u>	30.8%	<u>35,208</u>	19.2%	<u>36,391</u>	36.6%
Total revenue	<u>61,895</u>	100.0%	<u>33,687</u>	100.0%	<u>183,742</u>	100.0%	<u>99,462</u>	100.0%
Cost of revenue								
Vessel construction	42,588	88.1%	22,001	94.4%	129,238	87.0%	55,987	88.8%
Repair and conversions	<u>12,558</u>	92.6%	<u>7,913</u>	76.3%	<u>30,974</u>	88.0%	<u>28,779</u>	79.1%
Total cost of revenue	<u>55,146</u>	89.1%	<u>29,914</u>	88.8%	<u>160,212</u>	87.2%	<u>84,766</u>	85.2%
Gross profit								
Vessel construction	5,751	11.9%	1,310	5.6%	19,296	13.0%	7,084	11.2%
Repair and conversions	<u>998</u>	7.4%	<u>2,463</u>	23.7%	<u>4,234</u>	12.0%	<u>7,612</u>	20.9%
Total gross profit	6,749	10.9%	3,773	11.2%	23,530	12.8%	14,696	14.8%
S G & A expenses	<u>1,314</u>	2.1%	<u>1,138</u>	3.4%	<u>4,091</u>	2.2%	<u>3,586</u>	3.6%
Income from operations	5,435	8.8%	2,635	7.8%	19,439	10.6%	11,110	11.2%
Interest expense	11	0.0%	22	0.1%	39	0.0%	76	0.1%
Other income/(expense), net	<u>(4)</u>	0.0%	<u>35</u>	0.1%	<u>120</u>	0.1%	<u>304</u>	0.3%
Income before income taxes	5,420	8.8%	2,648	7.9%	19,520	10.6%	11,338	11.4%
Income tax provision	<u>1,965</u>	3.2%	<u>1,003</u>	3.0%	<u>7,149</u>	3.9%	<u>4,329</u>	4.4%
Net income	<u>\$ 3,455</u>	5.6%	<u>\$ 1,645</u>	4.9%	<u>\$ 12,371</u>	6.7%	<u>\$ 7,009</u>	7.0%
EBITDA (1)	<u>\$ 6,327</u>	10.2%	<u>\$ 3,536</u>	10.5%	<u>\$ 22,228</u>	12.1%	<u>\$13,989</u>	14.1%
Net cash provided by (used for)								
operating activities	<u>\$ (9,019)</u>		<u>\$11,579</u>		<u>\$ 7,669</u>		<u>\$24,009</u>	
Net cash used in investing	<u>\$ (1,207)</u>		<u>\$ (637)</u>		<u>\$ (2,597)</u>		<u>\$ (1,805)</u>	
Net cash used in financing activities	<u>\$ (1,414)</u>		<u>\$ (713)</u>		<u>\$ (2,519)</u>		<u>\$ (1,607)</u>	

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

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net cash provided by (used for) operating activities	\$ (9,019)	\$ 11,579	\$ 7,669	\$ 24,009
Interest expense	11	22	39	76
Provision for income taxes	1,965	1,001	7,149	4,329
Deferred income tax provision	(1,181)	1,580	(1,743)	1,997
Loss on sale of assets	(5)	(1)	(5)	(1)
Changes in operating assets and liabilities	14,556	(10,645)	9,119	(16,421)
EBITDA	<u>\$ 6,327</u>	<u>\$ 3,536</u>	<u>\$ 22,228</u>	<u>\$ 13,989</u>

Revenue for the third quarter of 2011 increased \$28.2 million, or 83.7%, to \$61.9 million compared to \$33.7 million for the third quarter of 2010, while revenue for the first nine months of 2011 reflected an increase of \$84.3 million, or 84.7%, compared to the same period in the prior year. Vessel construction revenue increased \$25.0 million, or 107.4% for the third quarter of 2011, and increased by \$85.5 million, or 135.5% for first nine months of 2011 compared to the same period in 2010. Repair and conversion revenue increased \$3.2 million for the third quarter of 2011, or 30.6%, compared to the same period of the prior year, while repair and conversion revenue decreased \$1.2 million, or -3.3%, for the first nine months of 2011 compared to the same period in 2010.

The increase in revenue for the three-month period and the nine-month period is primarily a result of an increase in production hours for new construction as compared to the prior year. Vessel construction hours for the third quarter of 2011 increased 159.6%, when compared to the same period in 2010 and increased 117.1% for the first nine months of 2011 compared to the same period in 2010. Repair and conversion hours increased 31.9% for the three months ended September 30, 2011 and decreased -6.3% for the first nine months of 2011 when compared to the same period in 2010. The repair segment was negatively affected by the slow-down in activity in the Gulf of Mexico related to the Deepwater Horizon incident and the resulting continued uncertainties surrounding the issuance of drilling permits by the Department of the Interior and new regulations related to drilling operations.

For the nine months ended September 30, 2011, vessel construction revenue was 80.8% of total revenue compared to 63.4% for 2010 and repair and conversion revenue was 19.2% of total revenue compared to 36.6% for the same period in 2010. For the first nine-month period of 2011, 19.4% of revenue was government related, 8.0% was energy and 72.6% was other commercial. This compares to 10.9% government, 11.7% energy and 77.4% other commercial for the same period in 2010.

Gross profit for the third quarter of 2011 increased \$3.0 million, or 78.9%, and increased \$8.8 million, or 60.1%, for the first nine months of 2011 compared to the same periods of the prior year. Vessel construction gross profit increased \$4.4 million for the third quarter of 2011 compared to the third quarter of 2010, while vessel construction gross profit increased \$12.2 million or 172.4%, for the first nine months of 2011 compared to the same period in 2010. Repair and conversion gross profit decreased \$1.5 million or -59.5% for the third quarter of 2011 compared to the third quarter of 2010, and decreased \$3.4 million, or -44.4%, for the first nine months of 2011 compared to the same period of the prior year.

Vessel construction gross profit margins increased to 11.9% for the quarter, compared to 5.6% for the prior year quarter. Vessel construction gross profit margins increased to 13.0% for the first nine months of 2011, compared to gross profit margins of 11.2% for the first nine months of 2010. Vessel construction gross profit and margins increased for the three and nine month periods primarily as a result of increased production hours and the mix of jobs during the periods.

Repair and conversion gross profit margins decreased to 7.4% for the quarter, compared to 23.7% for the prior year quarter, as a result of decreased demand and pricing pressure. Repair and conversion gross profit margins decreased to 12.0% for the first nine months of 2011, compared to gross profit margins of 20.9% the first nine months of 2010. Repair and conversion gross profit decreased for the nine month periods primarily as a result of decreased repair and conversion production hours, pricing pressures due to decreased demand by commercial and energy related customers, and a fixed-price repair contract which resulted in a loss.

Selling, general and administrative expenses (“SG&A”) increased \$176,000, or 15.5%, for the third quarter of 2011 and increased \$505,000, or 14.1%, for the first nine months of 2011, compared to the same periods in 2010. The increase for the quarter and nine months was primarily due to an increase in employee related expenses, advertising, computer license agreements and director fees offset by a reduction in taxes and licenses.

Interest expense decreased \$11,000, or -50.0%, for the third quarter of 2011, and \$37,000, or -48.7%, for the first nine months of 2011 compared to the same periods in the prior year. The decrease for the quarter and nine months is primarily the result of decreases in the average outstanding balances of our long term debt. We expect interest expense in 2011 to be lower than 2010 due to continued decreases in the outstanding balances and low interest rates described in Note 6.

We had income tax expense of \$2.0 million for the third quarter of 2011 compared to \$1.0 million in the same period of 2010. For the nine months ended September 30, 2011, the Company had income tax expense of \$7.1 million compared to \$4.3 million for the same period of the prior year. The increase in tax expense is primarily attributable to the increase in income from operations as discussed above.

Liquidity and Capital Resources

Net cash provided by operating activities was \$7.7 million for the first nine months of 2011 compared to net cash provided by operating activities of \$24.0 million for the prior year period. The decrease is primarily due to an increase in cost and estimated earnings in excess of billings partially offset by an increase in billings in excess of cost and estimated earnings, an increase in net income, a decrease in accounts receivable and a decrease in inventories. Our working capital position was \$63.7 million at September 30, 2011 compared to \$52.9 million at December 31, 2010. The increase in working capital during 2011 was primarily a result of net income earned during the year. Management is currently engaged in a detailed business planning process to identify potential uses of the Company’s cash.

Our net cash used in investing activities of \$2.6 million for the nine months ended September 30, 2011 reflected capital expenditures for equipment and machinery purchases. For 2011, the Board of Directors has approved approximately \$7.0 million in capital expenditures for the repair and upgrade of existing facilities and purchase of machinery and equipment that will allow us to improve production efficiencies. In July 2011, we entered into a contract to purchase 50 acres of property adjoining our Conrad Deepwater facility for approximately \$5.5 million which is subject to customary closing conditions. The board has indicated to management their desire to be prudent and if conditions are not favorable to postpone the less important expenditures.

To fill in gaps in our construction schedules, we construct stock barges from time to time. At December 31, 2010, we had seven stock barges under construction, which were included in our inventory at a cost of \$9.5 million, and at September 30, 2011, we had no stock barges under construction. All stock barges that were in process at December 31, 2010 were sold as of March 31, 2011. At September 30, 2011, we had no material outstanding commitments for capital expenditures. Our board has approved construction of up to \$10.0 million in stock barges and vessels over the next few quarters to the extent management deems appropriate to fill in gaps in our construction schedules and maintain operational efficiencies.

Net cash used by financing activities was \$2.5 million for the nine months ended September 30, 2011, which includes \$1.2 million for the repayment of debt and \$1.3 million for the purchase of treasury stock under the stock buyback program.

Our long term debt is described in Note 6 to our financial statements.

In the normal course of our business, we are required to provide letters of credit as security for our workers compensation insurance programs. 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 \$38.0 million and \$69.9 million at September 30, 2011 and 2010 respectively. We believe that general industry conditions have led customers to require performance bonds more often than in the past. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so.

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 2011. We further believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2012.