

Section I

Conrad Industries, Inc.
2012 ANNUAL REPORT

TABLE OF CONTENTS

REPORT TO OUR FELLOW SHAREHOLDERS.....	4
An Important Note About This Report.....	5
<i>Business Overview</i>	6
General.....	6
Operations.....	8
Customers.....	10
Contract Procedure, Structure and Pricing.....	10
Bonding and Guarantee Requirements.....	11
Engineering.....	11
Materials and Supplies.....	11
Vessel Construction Process.....	12
Competition.....	12
Employees.....	12
Insurance.....	12
Regulation.....	13
Risk Factors.....	14
<i>Properties</i>	20
Morgan City Shipyard.....	20
Amelia Shipyards.....	20
Conrad Orange Shipyard.....	21
<i>Legal Proceedings</i>	21
<i>Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</i>	22
<i>Selected Financial Data</i>	23
<i>Management’s Discussion and Analysis of Financial Condition and Results of Operations</i>	25
Overview.....	25
Results of Operations.....	27
Liquidity and Capital Resources.....	28
<i>Directors and Executive Officers</i>	30
<i>Executive Compensation</i>	31
<i>Option Grants During 2012</i>	32
<i>Directors’ Compensation</i>	32
<i>Agreements with Directors and Executive Officers</i>	32
<i>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</i>	33
<i>Certain Relationships and Related Transactions</i>	34
<i>Annual Incentive Plan</i>	34
<i>Financial Statements</i>	35
<i>Consolidated Financial Report</i>	37

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, the outcome of the claims process for economic damages under the Deepwater Horizon Court-Supervised Settlement Program, our ability to perform contracts at costs consistent with estimated costs utilized in bidding for the projects covered by such contracts, variations in quarterly revenues and earnings resulting from the percentage of completion accounting method, the possible termination of contracts included in our backlog at the option of customers, operating risks, competition for marine vessel contracts, our ability to retain 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

In 2012, we achieved revenues of \$233.6 million, net income of \$20.8 million, EBITDA of \$35.6 million and earnings per diluted share of \$3.46. Vessel construction hours and gross profit were the highest in the Company's history and exceeded 2011 amounts by 23.8% and .2%, respectively. Earnings per diluted share were the highest in the company's history.

Although repair and conversion segment hours, revenue and gross profit were down 34.8%, 33.0% and 50.2%, respectively, compared to the peak year of 2008, hours and revenue in 2012 were not materially different from years since 2008. Repair and conversion segment gross profit was 40.4% higher than 2011, primarily due to increased manhours. Our new construction segment accounted for 79.6% of our total revenue and our repair and conversion segment accounted for 20.4% of our total revenue.

With confidence in the strength of our balance sheet and in our future prospects, our Board of Directors declared a special dividend of \$2.00 per share, paid in December 2012, totaling \$11.9 million. We spent \$3.1 million in 2012 in our stock repurchase program.

Our customers comprise a very diverse group that crosses a wide range of businesses including the energy sector, dredging, construction, towing and bunkering markets, as well as the US Army Corps of Engineers, US Coast Guard and various state and local governmental agencies. During 2012 we derived our revenue from 176 customers compared to 171 in 2011, and in 2012 no customer accounted for 10% or more of our total revenue.

For 2012, 16.2% of total revenue was energy related, 76.1% was other commercial and 7.7% was government. This compares to 7.0% energy, 75.7% other commercial and 17.3% government in 2011.

During 2012 we delivered 57 vessel construction jobs comprised of 3 crane barges, 2 ferries, 8 LPG barges, 2 tow boats, 7 deck barges, a spud barge, 27 30,000 bbl. tank barges, 2 7,500 bbl. tank barges, a 8,400 bbl. tank barge, 2 push boats, a cargo barge and a dredge.

During the year, we added \$253.6 million of backlog to our new construction segment, which is from other commercial and energy contracts. This compares to total contract signings of \$144.2 million during 2011.

Our backlog was \$120.7 million at December 31, 2012 as compared to \$47.1 million at December 31, 2011. At December 31, 2012, 84.3% of our vessel construction backlog was from other commercial contracts and 15.7% was from energy contracts. This compares to backlog at December 31, 2011 of 91.2% other commercial, 7.5% government and 1.3% from energy contracts. Subsequent to year end, as of March 22, 2013, we had signed contracts totaling \$51.4 million, which includes the sales of three stock barges and four stock tow boats that were in progress at December 31, 2012.

During the past five years, we have made, in the aggregate, approximately \$33.1 million of capital expenditures to add capacity and improve the efficiency of our shipyards. This includes \$15.3 million in 2012, which was primarily capital additions at our four locations to increase capacity and operational efficiencies, and to replace leased equipment with Company owned equipment. The additions for 2012 also include the purchase of 50 acres of property adjoining our Conrad Deepwater facility for approximately \$5.6 million. Our Board of Directors has approved a \$22.0 million capital expenditure program for 2013.

During 2011 and 2012, we repurchased 464,920 shares of our Company's stock. The purchases totaled \$6.8 million, at an average cost of \$15 per share. This leaves 5,938,287 basic shares outstanding as of December 31, 2012. During February 2013, the board approved an increase in the stock repurchase program of \$10 million. As of March 22, 2013, \$13 million remained available under the program.

Net working capital decreased from \$67.1 million at December 31, 2011 to \$61.3 million at December 31, 2012, mainly due to the special dividend and capital expenditures. We reduced our debt balance from \$1.8 million at December 31, 2011 to \$1.5 million at December 31, 2012. Shareholders' equity increased from \$95.5 million at December 31, 2011 to \$101.3 million at December 31, 2012.

In December 2012 and February 2013, we submitted claims to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program, totaling \$22.6 million. For additional information, please see Note 13 (Commitments and Contingencies) to our Consolidated Financial Statements included with this report.

We intend to continue to execute on our proven business strategy in our effort to maximize earnings in constantly changing markets. Over the past years, we have continued to reinvest our earnings in expanding capacity, maintaining the shipyards excellent condition and upgrading equipment and facilities to improve efficiencies. We will continue to evolve and change with the demands of our customers.

We continue to be confident that because of our people, experience, strong balance sheet and diversified customer base, we will continue to be responsive to changing market conditions, with our goal remaining to continue to enhance shareholder value.

Yours truly,

<i>/s/ J. Parker Conrad</i>	<i>/s/ John P. Conrad, Jr.</i>	<i>/s/ Terry T. Frickey</i>	<i>/s/ Cecil A. Hernandez</i>
J. Parker Conrad	John P. Conrad, Jr.	Terry T. Frickey	Cecil A. Hernandez
Founder and Co-Chairman of the Board	President, Chief Executive Officer and Co-Chairman of the Board	Vice President and Chief Operating Officer	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(the “Act”). Accordingly, this Annual Report is not filed with the Securities and Exchange Commission, is not available on the SEC’s EDGAR system, and does not purport to meet the requirements for companies that are subject to the Act’s reporting requirements. The Company does intend in this Annual Report and other reports to provide accurate financial and other information of interest to investors. Information in this Annual Report has not been reviewed or audited by our independent certified public accountants, except for the audited financial statements included in Section II.

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

Business Overview

General

We specialize in the construction, repair and conversion of a wide variety of steel and aluminum marine vessels for commercial and governmental customers. Through our subsidiaries, we operate 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 all 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. In 2012 we purchased 50 acres of property adjacent to our Deepwater facility to position us for future opportunities.

Our new construction segment accounted for 79.6%, 80.6%, and 66.5% of our total revenue for 2012, 2011 and 2010, respectively. Vessels we construct include barges, tug boats, tow boats, ferries, lift boats and aluminum crew/supply vessels. Much 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 20.4%, 19.4%, and 33.5% of our total revenue for 2012, 2011 and 2010, respectively. We repair a wide variety of marine vessels. Our conversion projects are included in our repair segment and primarily consist of lengthening the midbodies of vessels, modifying vessels to permit their use for a different type of activity and other modifications to increase the capacity or functionality of a vessel.

We serve a variety of customers and markets, including the Gulf of Mexico oil and gas industry, 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. 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.

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

In December 2012 and February 2013, the Company submitted claims to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program, which was approved by the court on December 21, 2012, totaling \$22.6 million. Certain of our businesses are located within the economic zones included in the class settlement and we believe that the damage calculations have been made in accordance with the guidelines established for the BP Settlement Fund; however, the claims are subject to review by the professionals responsible for processing the claims and determining the amount to be awarded for each claim. Accordingly, the amounts awarded to us may be less than the amounts we submitted and some or all of our claims may be rejected. Any award we receive will be subject to income taxes. Based on the current pace of the review process, the Company anticipates a response in the second or third quarter of 2013. No amounts related to the claims have been recorded in our financial statements at December 31, 2012.

A significant portion of our historical revenues has been derived from customers in the Gulf of Mexico oil and gas industry. When there has been a decline in new construction opportunities in the Gulf of Mexico oil and gas industry, we have been successful in securing work from government sources and other commercial customers. We saw in 2009, 2010 and 2011 a major increase in projects for other commercial customers as well as government projects. In 2012, we saw increases in the commercial market and some in the energy market; however there was a decrease in the government market. The increase in commercial customer demand has been driven largely by customers acquiring barges to transport petroleum products resulting from the use of horizontal drilling in

conjunction with hydraulic fracturing, which has expanded the ability of producers to recover natural gas and oil from low-permeability geologic plays, particularly shale plays. Other commercial contracts accounted for approximately 84.3%, 91.2%, and 58.9% of our backlog at December 31, 2012, 2011 and 2010 respectively. Government contracts accounted for approximately 0.0%, 7.5%, and 41.1% of our backlog at December 31, 2012, 2011 and 2010, respectively. Energy contracts accounted for approximately 15.7%, 1.3%, and 0.0% of our backlog at December 31, 2012, 2011 and 2010, respectively.

During 2012, we added \$253.6 million of backlog, which are related to commercial and energy contracts. Our backlog was \$120.7 million at December 31, 2012 as compared to \$47.1 million at December 31, 2011. During 2011, we added \$144.2 million to our new construction segment, all of which was related to commercial contracts.

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. There was an increase in revenue and gross profit in the repair and conversion segment starting in the fourth quarter of 2005 and continuing for 2006, 2007 and 2008 related to increased oil and gas activities in the Gulf of Mexico and the impacts of Hurricanes Katrina, Rita, Gustav and Ike. Although we had strong activity in our repair segment during the first quarter of 2009, we experienced lower repair gross profits in 2009, 2010 and 2011 as a result of a significant decrease in demand and profitability primarily due to decreased customer activity in the Gulf of Mexico, which we believe resulted from the Macondo incident and economic uncertainties. In 2012 we experienced a slightly higher gross profit in the repair segment resulting from an increase in production hours and a few more profitable jobs as compared to 2011, when we incurred losses on a few jobs. For 2012, 2011 and 2010, we received approximately 16.2%, 7.0%, and 10.4%, respectively, of our total revenues from customers in the offshore oil and gas industry, 7.7%, 17.3%, and 14.1% from government customers and 76.1%, 75.7%, and 75.5% from other commercial customers.

Internal Expansion

During 2012, we purchased 50 acres of land adjoining our Deepwater facility for \$5.6 million. We made repairs and upgrades to our railway launching system for \$3.7 million at our Orange facility. We did property improvements at our various locations in the amount of \$1.1 million. We replaced rental equipment with Company owned equipment and upgraded equipment to provide improved functionality and efficiency. In total \$15.3 million was spent on capital expenditures for the year ended December 31, 2012.

During 2011, we purchased real estate at our Orange location, made improvements to the yard, as well as replaced rental equipment with Company owned equipment. At our Deepwater location we refurbished one of our drydocks, and replaced rental equipment with Company owned equipment. In total these additions amounted to \$2.6 million of our total \$4.3 million of capital expenditures for 2011. In addition, a total of \$1.2 million was spent on the purchase of property, buildings improvements and plant improvements at all locations.

During 2010, we extended our bulkhead and extended our drydock at our Conrad Deepwater location. At our Orange facility we replaced a crane and made improvements to the yard. In total these additions amounted to \$2.4 million of our total \$2.9 million of capital expenditures for 2010.

During 2009, we purchased real estate at our Morgan City location, as well as replaced rental equipment with Company owned equipment. At our Conrad Aluminum facility, we also added several pieces of material handling equipment to replace rental equipment, and we extended the bulkheads. At the Conrad Deepwater facility we began the extension of bulkheads and a launching system. At our Orange Facility, we purchased three parcels of real estate and mooring barges, and added processing equipment for increased capacity and operational efficiencies. In total these additions amounted to \$4.0 million of our total \$4.6 million of capital expenditures for 2009.

During 2008, we completed a new slip at our Conrad Deepwater facility and installed the related infrastructure so that we could increase our capacity to perform additional topside work at the facility. At our Orange facility, we purchased three parcels of real estate and added several large pieces of material handling and processing equipment to give us increased capacity and operational efficiencies, as well as replaced rental equipment with Company owned equipment. At our Conrad Aluminum facility, we also added several pieces of material handling equipment to replace rental equipment. In addition, at this facility, we stabilized additional ground space and added the necessary infrastructure to increase our capacity and operational efficiencies. At our Morgan City shipyard we made

improvements to our launching system and added several pieces of equipment to increase capacity and efficiency. In total, these additions amounted to \$4.9 million of our total \$5.9 million of capital expenditures for 2008.

We expanded 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.

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 repair and conversion 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.

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 all of our six drydocks at Conrad Deepwater.

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, and on June 29, 2012 Orange Shipbuilding Company, Inc.'s name was changed to Conrad Orange Shipyard, Inc. Our parent company Conrad Industries, Inc. was incorporated in March 1998 to serve as the holding company for our wholly-owned subsidiaries, currently Conrad Shipyard, L.L.C., Conrad Orange Shipyard, Inc. 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.

Operations

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

Backlog

Our backlog as of December 31, 2012 consisted of 42 vessels: 2 Liquefied Petroleum Gas (LPG) barges, 33 30,000 BBL tank barges, 2 lift boats, a deck barge, a crane barge, and 3 mid-body extensions. Our backlog (including remaining contract revenue for projects currently in progress) as of December 31, 2012 was approximately \$120.7 million compared to \$47.1 million as of December 31, 2011. We anticipate that all of the aggregate remaining revenue from firm contracts as of December 31, 2012 will be realized during fiscal 2013. As of December 31, 2012, approximately 67.4% of our backlog related to contracts is for two commercial customers.

Construction of Vessels

We manufacture a variety of small and medium sized vessels for commercial and governmental customers. This activity accounted for 79.6%, 80.6% and 66.5% of our total revenue for 2012, 2011 and 2010, respectively. A majority 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 container barges, double-skinned tank barges, pressurized tank barges, liquefied petroleum gas barges, and deck barges for commercial customers. Additionally, we have YCs (yard carrier barges) and YONs (yard oiler Navy barges) for the U.S. Navy. We also build a variety of inland barges; including deck, crane, hopper, liquefied petroleum gas, and double skinned barges up to 30,000 BBL capacity. We have constructed a variety of barges used in the offshore oil and gas industry, including shale barges, pipe laying barges, oil and gas drilling barges, and oil and gas production barges. Our barges are also used in marine construction and are used by operators to carry liquid cargoes such as petroleum and drilling fluids, dry bulk cargoes such as aggregate, coal and wood products, deck cargoes such as machinery and equipment, and other large item cargoes such as containers and rail cars. Other barges function as cement offloaders and split-hull dump scows. We have built barges ranging from 50 feet to 400 feet in length, with as many cargo tanks, decks and support systems as necessary for the intended functions of the barges.

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

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

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

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

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 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.

Repair and Conversion Services

Repair and conversion services accounted for 20.4%, 19.4%, and 33.5% of our total revenue for 2012, 2011 and 2010, respectively. We have six drydocks, a 300 ton travel lift and dockside space capable of accommodating

vessels and barges up to 500 feet long. Our marine repair activities include shot blasting, painting, electrical system and piping repairs, propeller and shaft reconditioning and American Bureau of Shipping certified welding. Our conversion projects primarily consist of lengthening the midbodies of vessels, modifying vessels to permit their use for a different type of activity and other modifications to increase the capacity or functionality of a vessel. All U.S. Coast Guard inspected vessels and ABS classed vessels are required to undergo periodic inspections and surveys which require regular drydock examination. Non-U.S. 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 repair and conversion business tends to be seasonal, with increases in the colder months in the Gulf of Mexico during the latter part of our fourth quarter and beginning of our first quarter. During this time, vessel owners and operators tend to repair or modify their vessels as a result of or in anticipation of work during the warmer months in the Gulf of Mexico.

Customers

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

During 2012, we derived our revenue from 176 customers. No customer represented 10% or more of our revenue.

During 2011, we derived 7% of our revenue from the U.S. Army Corps of Engineers for construction of a large dredge and 10% from another customer for which we constructed 9 vessels. The remaining 83% of the revenue was attributable to 169 other customers.

During 2010, we derived 6% of our revenue from the U.S. Army for construction of a large crane barge and 14% from another customer for which we constructed 5 vessels. The remaining 80% of the revenue was attributable to 186 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, 2012, outstanding letters of credit and bonds amounted to \$8.6 million. We believe that general industry conditions lead customers to require performance bonds. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so.

Engineering

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

Materials and Supplies

The principal materials we use are standard steel shapes, steel plate and paint. Other materials used in large quantities include aluminum, steel pipe, electrical cable and fittings. We also purchase component parts such as propulsion systems, hydraulic systems, generators, auxiliary machinery and electronic equipment. Additionally, we purchase the tanks used in our LPG barges from third parties. All these materials and parts are currently available in adequate supply from domestic and foreign sources. However, in late 2003, the price of steel and steel delivery times began to increase substantially and we were experiencing challenges in finding certain steel sizes. Steel prices increased significantly during most of 2008 before declining in the latter part of 2008 and the first quarter of 2009. Prices did not fluctuate significantly in 2009. We experienced significant increases in the price of steel during 2010. Steel prices increased during 2011 approximately 10 percent. We experienced a slight decrease in steel prices in the beginning of 2012 due to a decrease in global demand for steel. Since then steel prices have remained relatively flat. All of our shipyards obtain materials and supplies by truck or rail.

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. Additionally, we purchase the tanks used in our LPG barges separately from third parties. We use job scheduling and costing systems to track progress of the construction of the vessel, allowing ourselves and the customer to remain apprised of the status of the vessel'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 ten to fifteen U.S. shipyards. The number and identity of competitors on particular projects vary greatly depending on the type of vessel and size of the project, but we generally compete with only three or four companies with respect to a particular project. We compete with approximately ten shipyards in our repair and conversion business. Competition is based primarily on price, available capacity, service, quality, and geographic proximity.

Employees

At December 31, 2012 we had 549 employees of which 80 were salaried and 469 were hourly. At December 31, 2011, we had 492 employees of which 74 were salaried and 418 were hourly. At December 31, 2010, we had 442 employees, of which 67 were salaried and 375 were hourly. In addition, we use subcontract employees to fill openings that are short-term in nature or when we cannot find people to hire. These totaled 489, 418, and 234 at December 31, 2012, 2011, and 2010, respectively. We are not a party to any collective bargaining agreements.

Insurance

We maintain insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction to our facilities and equipment. The insurance currently excludes acts of terrorism as we have determined that this coverage is not available at a reasonable cost. We generally do not have business interruption insurance. 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 coverage's currently in place include workers compensation, water pollution, automobile, and hull/property and indemnity. All policies are subject to deductibles and other coverage limitations. Due to the impact of Hurricanes Katrina and Rita in the Gulf Coast region our property insurance costs and deductibles increased significantly during 2007 and 2008. Rates have stabilized since 2009.

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.

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 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 (or other corrective action) costs less expensive than if the fill were required to be disposed of as hazardous waste. LDEQ recommended approvals of the delisting petition for rulemaking on May 2, 2012. LDEQ published the delisting as a proposed rule in the Louisiana Register on November 20, 2012, and held a public hearing on the proposed rule on December 27, 2012. The Company provided LDEQ with favorable comments, and there were no adverse comments submitted by others. It is anticipated that LDEQ will forward the final rule to the State Legislature for review by March 2013. The complete rulemaking process may take six or more months. 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.

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 or anticipated by our forward-looking statements.

Risks Related to our Business

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

In years past, adverse global and domestic economic conditions contributed to a reduction in demand and selling prices for our products and services and the delay in signing contracts by potential customers. The prices that we charge for our products and services are based on a number of factors, including the cost of material, labor cost, the cost of other components, our overhead, the demand for our products, and the capacity of our competitors.

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

The Gulf of Mexico oil and gas industry can be affected by prevailing oil and gas prices, which historically have fluctuated significantly. Low oil or gas prices or a decline in demand for oil or gas can depress offshore exploration, development and production activity and result in decreased spending by our Gulf of Mexico oil and gas industry customers. This can result in a decline in the demand for our products and services and can have a substantial negative effect on our revenues and profits. For a discussion of the impact of the 2010 Macondo incident on our business, see Management’s Discussion and Analysis, included in this report.

A decrease in drilling in shale plays or development of alternative sources of transportation for petroleum products produced from shale plays could have a material adverse impact on our new construction segment revenues and profits.

A significant portion of our backlog, approximately 68.3% at December 31, 2012, is related to the construction of tank barges for use by customers transporting petroleum products resulting from the use of horizontal drilling in conjunction with hydraulic fracturing, which has expanded the ability of producers to recover natural gas and oil from low-permeability geologic plays, particularly shale plays. Accordingly, any decline in this activity could adversely affect our new construction segment. In addition, the development of alternative sources of transportation for these petroleum products could also reduce demand for tank barges and have an adverse effect on our business, which could be material.

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 all government customers accounted for approximately 7.7%, 17.3%, and 14.1% of our total revenue in 2012, 2011 and 2010, respectively. Revenue derived from U.S. government customers accounted for approximately .8%, 6.7%, and 7.5% of our total revenue in 2012, 2011 and 2010, respectively. Government contracts accounted for approximately 0.0%, 7.5%, and 41.1% of our backlog at December 31, 2012, 2011 and 2010, 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.

For 2012, 2011 and 2010, we received approximately 16.2%, 7.0%, and 10.4%, respectively, of our revenues from customers in the Gulf of Mexico oil and gas industry, 7.7%, 17.3%, and 14.1% from government customers and 76.1%, 75.7%, and 75.5% from other commercial customers.

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

From time to time we have experienced gaps in our construction schedules and have begun construction on projects that were not under contract and that we believed we could convert to contracts in a relatively short period of time within starting construction or within completion of the project. The primary goal of this strategy is to maintain operational efficiencies and revenue volume between contracted projects. More recently, we have constructed stock vessels for strategic business and marketing reasons. At December 31, 2009, we had eight stock barges under construction with approximately \$8.2 million of costs. At December 31, 2010, we had seven stock barges under construction with approximately \$9.5 million of costs. At December 31, 2011, we had eight stock barges and two tow boats under construction with approximately \$1.0 million of costs. At December 31, 2012, we had three stock barges, a recovery vessel and four tow boats under construction with approximately \$653,000 of costs. Subsequent to year end 2012, as of March 22, 2013, we had signed contracts totaling \$51.4 million, which includes the sale of four stock tow boats and three stock barges in progress at December 31, 2012. Our board has approved construction of up to \$10 million in stock barges and vessels. If we are not able to sell the stock vessels for at least cost, we would have a loss on the project. Additionally, this strategy results in a reduction in working capital available for other purposes until the stock vessels are sold.

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

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

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.

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. The decline in the economy has adversely affected some of our customers' ability to pay. During 2009, we experienced an increase in bad debt write-offs, and also experienced an increase in our allowance of doubtful accounts primarily due to the bankruptcy of two customers. If we are unable to collect any account receivable in the amount we have estimated to be collectible, we must recognize a charge to earnings that is in effect a reversal of previously recorded profits.

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.

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, 2012, 2011 and 2010, our ten largest customers collectively accounted for 63.4%, 67.8% and 62.1% 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.”

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. In the case of a termination, the government is generally required to pay us for work performed and materials purchased through the date of termination and, in some cases, pay us termination fees. Either the change or terminations of government contracts could substantially change the amount of backlog currently reported and could substantially decrease our revenue and earnings.

During the third quarter of 2011, a customer advised that it was defaulting on contracts for the construction of five-LPG tank barges, four-30,000 bbl. tank barges, two-tow boats, four-7,500 bbl. tank barges and two-10,000 BBL tank barges. Except as noted below, all vessels subject to the default were sold to other customers prior to year-end December 31, 2011 with no adverse financial impact to the Company. The two tow boats and two of the 7,500 bbl. tank barges were in the early stages of construction, the contracts were cancelled, and the material for these has been included in our inventory. The two remaining 7,500 bbl. tank barges had not been sold and the contracts had not been cancelled at December 31, 2011, but were sold in the first half of 2012. At December 31, 2011, Accrued Expenses includes \$18.5 million payable to the customer for payments made by the customer on vessel construction contracts that were cancelled in February 2012 by mutual agreement. The customer was paid in February 2012, net of an outstanding amount of \$2.3 million receivable due on a remaining contract. At December 31, 2012, the amount owed to the customer, included in Accrued Expenses, is \$877,000, related to the sale in the first half of 2012 of the two remaining vessels. 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 did not have any material adverse financial consequences due to the default.

Our backlog of \$120.7 million at December 31, 2012 was attributable to 42 projects, of which 0.0% was attributable to government projects. Our backlog of \$47.1 million at December 31, 2011 was attributable to 27 projects, of which 7.5% was attributable to two government projects. As of December 31, 2012, approximately 67.4% of our backlog related to contracts is for two commercial customers.

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

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

During the second quarter of 2011 we were affected by rising water levels along the Mississippi and Atchafalaya Rivers. The primary adverse impact was the temporary suspension of operations at our Morgan City shipyard which is located on the Atchafalaya River outside the protection of the levee system. In order to minimize the impact of the imminent flooding and decrease the amount of down time, we constructed our own levee system to protect our Morgan City shipyard. This resulted in no property and equipment damage and also allowed us to return to full operation with minimal clean-up, months sooner than otherwise. We relocated all of our production and support personnel and many of our projects to our other shipyards and continued operations at a minimally reduced level 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.

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, along with other shipyards along the Gulf coast experienced labor shortages since 2005 through much of 2008 due to the high demand in our industry for new construction and repair and conversion services. Currently, while we are not experiencing trouble finding skilled labor, market conditions appear to be improving which could lead to shortages of skilled labor in the near future. These labor shortages increase our cost of labor, could limit our production capacity, and materially decrease our earnings.

We rely on key personnel.

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

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.

Our long-term debt (including current maturities) totaled \$1.5 million at December 31, 2012, and interest is 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 \$15,000 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 2,529,847 shares of our common stock, or 42.6% of the outstanding shares of our common stock, and members of their immediate families own approximately 258,400 additional shares, which together total more than 47.0% of our outstanding common stock as of March 15, 2013. 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 2,228,306 shares or 37.5% of our common stock. If they act in concert, these holders could be able to exercise effective control over our affairs, elect our entire board of directors, and control substantially all matters submitted to a vote of our stockholders. The interests of these holders may differ from the interests of our minority stockholders, and they may vote their shares in a manner 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 5,938,287 basic shares of our common stock currently outstanding, approximately 3.3 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 2012 was 4,929 shares. The availability of a large block of stock for sale in relation to our normal trading volume can result in a decline in the market price of our common stock.

We are not a public company.

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

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

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

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

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

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

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

In addition, Delaware law restricts specified mergers and other business combinations between us and any holder of 15% or more of our common stock. Delaware law also permits the adoption of a shareholder rights plan without stockholder approval, and 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 was intended as a means to guard against abusive takeover tactics and was not in response to any particular proposal. The plan does not prohibit the board from considering any offer that it considers advantageous to stockholders.

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

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

Although a special dividend of \$2 per share was paid on December 31, 2012 to shareholders of record on December 24, 2012, we do not currently intend to pay regular dividends. Instead, 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.*
- *The price of steel may increase substantially, which can adversely affect our profits and cause potential customers to delay new construction projects. For additional information, see “Business Overview – Materials and Supplies.”*
- *Excess capacity in our industry from time to time can place downward pressure on pricing and profit margins.*
- *Our customers may require us to post bid bonds and performance bonds, which may be difficult to obtain for reasons primarily related to industry conditions or our financial condition.*
- *Federal law favoring U.S. shipyards over foreign shipyards may be modified or rescinded, resulting in greater competition from foreign shipyards that operate with lower costs.*
- *New regulations or modifications to existing regulations affecting our significant customers could decrease demand for our products and services and result in significantly lower revenues and earnings.*
- *Compliance with environmental laws and other government regulations may increase our cost of doing business.*
- *Our business involves operating hazards and risks of liability and lawsuits, and our insurance coverage may be insufficient to cover all losses that we experience.*

Properties

We conduct our operations at four shipyards, one in Morgan City, Louisiana, two in Amelia, Louisiana, and one in Orange, Texas. A majority 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 \$33.1 million of capital expenditures to add capacity and improve the efficiency of our shipyards. During 2012, we purchased 50 acres adjoining our Deepwater yard.

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 June 2017.

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 one submersible launch barge, 1,700 linear feet of steel bulkhead, five rolling cranes and a slip. During 2012, we completed filling our second slip to increase our land area for material lay down and fabrication. The buildings at the Morgan City shipyard include offices for management and support personnel as well as three large fabrication warehouses specifically designed to accommodate marine vessel construction.

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. During 2007 and 2009 we further developed our repair and new construction areas at Conrad Aluminum to give us additional capacity and improved production efficiencies.

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 1,700 linear feet of bulkhead and one slip. The facility allows us to handle vessels with deeper drafts than we have historically been able to service at our other facilities. We expanded our new construction capabilities at Conrad Deepwater during the first quarter of 2005. During 2007, we purchased a heavy lift crane and installed a crane foundation at our Deepwater facility to enable us to remove and replace lift boat legs that needed repair. This heavy lift crane has also been used by our new construction operations to install legs on liftboats. In the past we had to bring the liftboats, at an additional cost, to a third party facility to accomplish this task. During 2008, we completed development of a slip at the facility and added infrastructure to increase our capabilities for topside work.

We currently have six drydocks at Conrad Deepwater. The drydocks consist of two 120-foot by 52-foot drydock with lifting capacity of 900 tons, 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 4,000 tons and one 280-foot by 160-foot drydock with a lifting capacity of 10,000 tons. We constructed the largest drydock ourselves in 2000 and 2001 for approximately \$5.7 million. This allowed us to (1) increase our repair and conversion capacity; (2) compete by lifting larger repair 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. During 2010, we put into service an extension to our second largest drydock that increased the lifting capacity to 4,000 tons from 3,000 tons. During the first quarter of 2012, we received a grant from The U.S. Maritime Administration to construct a new section to extend our largest drydock to a length of approximately 350 feet, with a lifting capacity of 12,500 tons. The total cost of the project is \$2.482 million.

In 2012, we purchased 50 acres of property adjoining our Conrad Deepwater facility for \$5.6 million. During the fourth quarter, we renovated the existing office building at the new location and relocated our engineering department. Our current plans are to add one new construction site and upgrade the existing building for manufacturing. The expansion was approved by the board and is currently in progress. We plan to start operations at this site in June 2013.

Conrad Orange Shipyard

Our Orange, Texas shipyard is located on the Sabine River approximately 37 miles from the Gulf of Mexico on approximately 18 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/load-out systems and a marine railway with side transfer system. We acquired our Orange shipyard in 1997. During 2007 we added a second repair dolly to allow us to repair a greater number of vessels and we improved our railway system. During 2012 we made improvements and renovations to our railway launch system in the amount of \$3.7 million. On June 29, 2012, Orange Shipbuilding Company, Inc.’s name was changed to Conrad Orange Shipyard, Inc.

Legal Proceedings

For a discussion of legal proceedings, see Note 13 to our financial statements included with this report.

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

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

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

Prior to this time our stock was traded on the NASDAQ National Market System under the symbol "CNRD." As of January 10, 2013, there were 126 record holders of our common stock.

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

<u>Fiscal Year 2012</u>	<u>High</u>	<u>Low</u>
First Quarter.....	\$17.89	\$14.79
Second Quarter	18.50	14.95
Third Quarter.....	17.50	14.50
Fourth Quarter.....	20.00	17.00

<u>Fiscal Year 2011</u>	<u>High</u>	<u>Low</u>
First Quarter.....	\$14.25	\$ 9.90
Second Quarter	14.25	12.60
Third Quarter.....	13.70	12.50
Fourth Quarter.....	15.25	13.20

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. Although we paid a special dividend on December 31, 2012, we do not anticipate paying any regular 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."

During April 2008, our board authorized the Company to repurchase up to \$10 million of common stock using our cash on hand or generated from operations, in open market or privately negotiated transactions. We believed this approach enhanced shareholder value and provided us with flexibility to respond to potential future business opportunities and risks. The stock repurchase plan did not obligate us to acquire any particular amount of common stock, did not have an expiration date and could be amended or terminated at any time without prior notice. On August 12, 2008 our board authorized a 10b5-1 stock purchase plan which we expected would increase the amount of stock we repurchased pursuant to our share repurchase program. In November 2008, our board terminated the stock repurchase program due to uncertainties in the business environment and a desire to conserve cash. Pursuant to the plan, during the second quarter of 2008 we purchased 70,000 shares for a total of \$770,000, during the third quarter 513,000 shares for a total of \$6.3 million and subsequent to September 30, 2008 until the termination of the plan we purchased 226,000 shares for a total of \$2.4 million. During August 2010, our board authorized the Company to repurchase up to \$5 million of common stock using our cash on hand or generated from operations, in the open market or privately negotiated transactions. We purchased 38,075 shares during the third quarter of 2010 at an average price of \$7 per share. During 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 fourth quarter of 2011, we purchase 157,444 shares at an average price of \$15 per share. On January 17, 2012 our Board authorized an additional \$5 million to purchase shares of our common stock under the program. During the first quarter of 2012, we purchased 59,881 shares at an average price of \$15 per share. During the third quarter of 2012, we purchased 150,000 shares at an average price of \$15 per share. During February 2013, the board approved an increase in the stock repurchase program of \$10 million. As of March 31, 2013, \$13 million remained available under the program. The shares will be held as treasury stock.

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, 2012 are derived from our historical audited financial statements. The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this report and our consolidated financial statements and notes thereto included as an attachment to this report.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Statement of Operations Data					
Revenues	\$ 233,630	\$ 246,454	\$ 138,841	\$ 144,192	\$ 191,054
Cost of revenue	196,497	211,918	118,092	119,017	149,231
Gross profit	37,133	34,536	20,749	25,175	41,823
Selling, general and administrative expenses	6,408	5,416	4,780	6,250	5,480
Income from operations	30,725	29,120	15,969	18,925	36,343
Interest and other income (expense), net	793	817	252	612	(311)
Income before income taxes	31,518	29,937	16,221	19,537	36,032
Provision for income taxes	10,676	10,770	5,936	6,688	13,023
Net income	<u>\$ 20,842</u>	<u>\$ 19,167</u>	<u>\$ 10,285</u>	<u>\$ 12,849</u>	<u>\$ 23,009</u>
Net Income Per Common Share (1)					
Basic	\$ 3.47	\$ 3.02	\$ 1.60	\$ 2.00	\$ 3.31
Diluted	\$ 3.46	\$ 3.01	\$ 1.60	\$ 1.99	\$ 3.29
Weighted Average Common Shares Outstanding					
Basic	6,000	6,345	6,426	6,439	6,949
Diluted	6,023	6,368	6,448	6,460	6,987
Statement of Cash Flows Data					
Cash provided by operating activities	\$ 42,546	\$ 29,591	\$ 11,410	\$ 5,643	\$ 30,929
Cash used in investing activities	\$ (15,293)	\$ (4,196)	\$ (2,890)	\$ (4,676)	\$ (5,859)
Cash used in financing activities	\$ (15,294)	\$ (4,910)	\$ (2,050)	\$ (1,789)	\$ (11,227)
Other Financial Data					
Depreciation & amortization	\$ 4,067	\$ 3,619	\$ 3,459	\$ 3,324	\$ 3,020
Capital expenditures	\$ 15,293	\$ 4,302	\$ 2,901	\$ 4,676	\$ 5,892
EBITDA (2)	\$ 35,622	\$ 33,606	\$ 19,776	\$ 23,020	\$ 39,536
EBITDA margin (3)	15.2%	13.6%	14.2%	16.0%	20.7%
Operating profit margin (4)	13.2%	11.8%	11.5%	13.1%	19.0%

As of December 31,

	2012	2011	2010	2009	2008
	(In thousands)				
Balance Sheet Data					
Working capital (1)	\$ 61,316	\$ 67,079	\$ 52,888	\$ 43,248	\$ 33,503
Property, plant & equipment, net	\$ 49,650	\$ 38,438	\$ 37,760	\$ 38,318	\$ 36,948
Total assets	\$ 143,950	\$ 148,313	\$ 114,832	\$ 102,113	\$ 101,158
Long term debt, including current portion	\$ 1,487	\$ 1,754	\$ 3,035	\$ 4,823	\$ 6,612
Shareholders' equity (1)	\$ 101,281	\$ 95,466	\$ 79,928	\$ 69,905	\$ 57,056

- (1) We declared and paid a special cash dividend of \$2.00 per share in December 2012, totaling \$11.9 million.
- (2) Represents earnings before deduction of interest, taxes, depreciation and amortization. EBITDA is not a measure of cash flow, operating results or liquidity as determined by generally accepted accounting principles. We have included information concerning EBITDA as supplemental disclosure because management believes that EBITDA provides meaningful information regarding a company's historical ability to incur and service debt. EBITDA as defined and measured by us may not be comparable to similarly titled measures reported by other companies. EBITDA should not be considered in isolation or as an alternative to, or more meaningful than, net income or cash flow provided by operations as determined in accordance with generally accepted accounting principles as an indicator of our profitability or liquidity.
- (3) Represents EBITDA as a percentage of revenues.
- (4) Represents income from operations as a percentage of revenues.

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

	2012	2011	2010	2009	2008
Net cash provided by operating activities	\$ 42,546	\$ 29,591	\$ 11,410	\$ 5,643	\$ 30,929
Interest expense	37	50	96	159	484
Provision for income taxes	10,676	10,770	5,936	6,891	13,023
Deferred income tax provision (benefit)	539	(1,572)	1,175	(648)	(1,340)
Other	(19)	94	(1)	-	(2)
Changes in operating assets and liabilities	(18,157)	(5,327)	1,160	10,975	(3,558)
EBITDA	<u>\$ 35,622</u>	<u>\$ 33,606</u>	<u>\$ 19,776</u>	<u>\$ 23,020</u>	<u>\$ 39,536</u>

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

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

Overview

We specialize in the construction, repair and conversion of a wide variety of steel and aluminum marine vessels for commercial and government customers. These vessels include tugboats, ferries, liftboats, barges, 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 2012, our new construction segment accounted for 79.6% of our total revenue and our repair and conversion segment accounted for 20.4% of our total revenue. A majority of our new construction is performed indoors.

In 2012, we achieved revenues of \$233.6 million, net income of \$20.8 million, diluted earnings per share of \$3.46 million and operating cash flow of \$42.5 million, compared to revenues of \$246.5 million, net income of \$19.2 million, diluted earnings per share of \$3.01 and operating cash flow of \$29.6 million. Our vessel construction hours and gross profit were the highest in our Company's history. Our Board of Directors declared a special dividend of \$2.00 per share, paid in December 2012, totaling \$11.9 million. We spent \$3.1 million in 2012 in our stock repurchase program, and the decrease in our outstanding shares due to our stock repurchase program contributed to our increase in earnings per share. In addition, during 2012, we had \$15.9 million in capital expenditures, including \$5.6 million to purchase 50 acres of property adjoining our Conrad Deepwater facility. Our Board of Directors has approved a \$22.0 million capital expenditure program for 2013. We believe these investments in our business will improve our efficiencies and competitiveness.

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

In December 2012 and February 2013, the Company submitted claims to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program, which was approved by the court on December 21, 2012, totaling \$22.6 million. Certain of our businesses are located within the economic zones included in the class settlement and we believe that the damage calculations have been made in accordance with the guidelines established for the BP Settlement Fund; however, the claims are subject to review by the professionals responsible for processing the claims and determining the amount to be awarded for each claim. Accordingly, the amounts awarded to us may be less than the amounts we submitted and some or all of our claims may be rejected. Any award we receive will be subject to income taxes. Based on the current pace of the review process, the Company anticipates a response in the second or third quarter of 2013. No amounts related to the claims have been recorded in our financial statements at December 31, 2012.

The demand for our products and services is dependent upon a number of factors, including the economic condition of our customers and markets, the age and state of repair of the vessels operated by our customers and the relative cost to construct a new vessel as compared with repairing an older vessel. Because a large portion of our repair work is derived from the Gulf of Mexico oil and gas industry, conditions in that industry affect our repair segment. For 2012, 2011 and 2010, we received approximately 16.2%, 7.0%, and 10.4%, respectively, of our total revenues from customers in the offshore oil and gas industry, 7.7%, 17.3%, and 14.1% from government customers and 76.1%, 75.7%, and 75.5% from other commercial customers.

During 2012, we added \$253.6 million of backlog, all of which was other commercial or energy contracts. Our backlog was \$120.7 million at December 31, 2012 as compared to \$47.1 million at December 31, 2011. Subsequent to year end, as of March 22, 2013, we signed contracts totaling \$51.4 million, which includes the sales of four stock tow boats and three stock barges in progress at December 31, 2012. Other commercial contracts accounted for approximately 84.3%, 91.2%, and 58.9% of our backlog at December 31, 2012, 2011 and 2010 respectively. Government contracts accounted for approximately 0.0%, 7.5%, and 41.1% of our backlog at December 31, 2012,

2011 and 2010, respectively. Energy contracts accounted for approximately 15.7%, 1.3%, and 0.0% of our backlog at December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, approximately 67.4% of our backlog related to contracts is for two commercial customers.

During the third quarter of 2011, a customer advised that it was defaulting on contracts for the construction of numerous vessels. All vessels subject to the default were sold to other customers with no adverse financial impact to the Company. At December 31, 2011, Accrued Expenses includes \$18.5 million payable to the customer for payments made by the customer on vessel construction contracts that were cancelled in February 2012 by mutual agreement. The customer was paid in February 2012, net of an outstanding amount of \$2.3 million receivable due on a remaining contract. At December 31, 2012, the amount owed to the customer, included in Accrued Expenses, is \$877,000, related to the sale in the first half of 2012 of the two remaining vessels.

Our construction and fabrication projects in progress as of December 31, 2012 consisted of 42 vessels: 2 LPG tank barges, a deck barge, 33 tank barges, 2 lift boats, 3 mid-body extensions, and a crane barges. Our customers comprise a very diverse group that crosses a wide range of businesses including the energy sector, dredging, construction, towing, and bunkering markets. During 2012, no one customer accounted for 10% or more of our revenue.

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. More recently, we have also constructed stock vessels for strategic business and marketing reasons. At December 31, 2010, we had seven stock barges under construction with approximately \$9.5 million of costs included in inventory. At December 31, 2011, we had eight stock barges and two tow boats under construction with approximately \$1.0 million of costs included in inventory. At December 31, 2012, we had four tow boats, one recovery vessel and three stock barges under construction with an approximately \$653,000 of costs included in inventory. Our board has approved construction of up to \$10 million in stock barges and vessels.

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 repair and conversion services on a time and materials basis pursuant to which the customer pays a negotiated labor rate for labor hours spent on the project as well as the cost of materials plus a margin on materials purchased. Repair projects may take a few days to a few weeks, although some extend for a longer period.

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

Results of Operations

	Years Ended December 31,					
	2012		2011		2010	
Financial Data:						
Revenue						
Vessel construction	\$ 186,002	79.6%	\$ 198,586	80.6%	\$ 92,291	66.5%
Repair and conversions	47,628	20.4%	47,868	19.4%	46,550	33.5%
Total revenue	<u>233,630</u>	100.0%	<u>246,454</u>	100.0%	<u>138,841</u>	100.0%
Cost of revenue						
Vessel construction	157,719	84.8%	170,352	85.8%	81,077	87.8%
Repair and conversions	38,778	81.4%	41,566	86.8%	37,015	79.5%
Total cost of revenue	<u>196,497</u>	84.1%	<u>211,918</u>	86.0%	<u>118,092</u>	85.1%
Gross profit						
Vessel construction	28,283	15.2%	28,234	14.2%	11,214	12.2%
Repair and conversions	8,850	18.6%	6,302	13.2%	9,535	20.5%
Total gross profit	<u>37,133</u>	15.9%	<u>34,536</u>	14.0%	<u>20,749</u>	14.9%
S G & A expenses	<u>6,408</u>	2.7%	<u>5,416</u>	2.2%	<u>4,780</u>	3.4%
Income from operations	<u>30,725</u>	13.2%	<u>29,120</u>	11.8%	<u>15,969</u>	11.5%
Interest expense	(37)	0.0%	(50)	0.0%	(96)	-0.1%
Other income, net	<u>830</u>	0.4%	<u>867</u>	0.4%	<u>348</u>	0.3%
Income before income taxes	<u>31,518</u>	13.5%	<u>29,937</u>	12.1%	<u>16,221</u>	11.7%
Income tax provision	<u>10,676</u>	4.6%	<u>10,770</u>	4.4%	<u>5,936</u>	4.3%
Net income	<u>\$ 20,842</u>	8.9%	<u>\$ 19,167</u>	7.8%	<u>\$ 10,285</u>	7.4%
EBITDA (1)	<u>\$ 35,622</u>	15.2%	<u>\$ 33,606</u>	13.6%	<u>\$ 19,776</u>	14.2%
Net cash provided by operating activities	<u>\$ 42,546</u>		<u>\$ 29,591</u>		<u>\$ 11,410</u>	
Net cash used in investing activities	<u>\$ (15,293)</u>		<u>\$ (4,196)</u>		<u>\$ (2,890)</u>	
Net cash used in financing activities	<u>\$ (15,294)</u>		<u>\$ (4,910)</u>		<u>\$ (2,050)</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):

	2012	2011	2010
Net cash provided by operating activities	\$ 42,546	\$ 29,591	\$ 11,410
Interest expense	37	50	96
Provision for income taxes	10,676	10,770	5,936
Deferred income tax provision (benefit)	539	(1,572)	1,175
Other	19	(94)	(1)
Changes in operating assets and liabilities	(18,195)	(5,139)	1,160
EBITDA	<u>\$ 35,622</u>	<u>\$ 33,606</u>	<u>\$ 19,776</u>

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

During the year ended December 31, 2012, we generated revenue of \$233.6 million, a decrease of approximately \$12.8 million, or -5.2%, compared to \$246.5 million generated for 2011. The decrease was due to a \$12.6 million or 6.3% decrease in vessel construction revenue to \$186.0 million for 2012 compared to \$198.6 million for 2011 and a decrease of \$240,000 or -5% in repair and conversion revenue to \$47.6 million for 2012 compared to \$47.9 million for 2011. The decrease in revenue for the current year is primarily a result of new construction contracts having less of a material component than in 2011.

Vessel construction hours increased 22.6%, to a record high for the company, compared to 2011 and repair and conversion hours increased by 6.9% compared to 2011. Vessel construction revenue was 79.6% of total revenue compared to 80.6% for 2011 and repair and conversion revenue was 20.4% of total revenue compared to 19.4% in 2011. For 2012, 7.7% of revenue was government related, 16.2% was energy and 76.1% was other commercial. This compares to 17.3% government, 7.0% energy and 75.7% other commercial in 2011. During 2012 and 2011, approximately 75% and 68%, respectively, of our revenue came from the construction of 30,000 BBL tank barges, Ferries and LPG barges.

Gross profit was \$37.1 million (15.9% of revenue) for 2012 as compared to gross profit of \$34.5 million (14.0% of revenue) for 2011. Vessel construction gross profit increased \$49,000 for 2012 to a gross profit of \$28.3 million compared to gross profit of \$28.2 million for 2011. Repair and conversion gross profit increased \$2.6 million for 2012 to \$8.9 million compared to \$6.3 million for 2011.

Vessel construction gross profit margins increased to 15.2% for 2012, compared to gross profit margins of 14.2% for 2011. Vessel construction gross profit has increased primarily as a result of increased production hours and increased profit margins recognized for contracts performed during 2012.

Repair and conversion gross profit margins were 18.6% for 2012, compared to gross profit margins of 13.2% for 2011. Repair and conversion gross profit has increased as a result of an increase in production hours and a few more profitable jobs as compared to 2011, when we incurred losses on a few jobs.

Selling, general and administrative expenses ("SG&A") increased \$992,000, or 18.3%, to \$6.4 million (2.7% of revenue) for 2012, as compared to \$5.4 million (2.2% of revenue) for 2011. This increase in SG&A expenses was due to increases in employee related expenses, bad debt expenses, tax and licenses, computer license agreements, and other technology costs.

Interest expense decreased \$13,000 to \$37,000 for 2012 as compared to interest expense of \$50,000 for 2011. The decrease is primarily the result of a reduction in the outstanding balance of the Industrial Revenue Bonds. We expect interest expense in 2012 to be lower than 2011 due to the decrease in outstanding balances.

We had income tax expense of \$10.7 million for 2012, compared to income tax expense of \$10.8 million for 2011. The slight decrease in tax expense is primarily attributable to a decrease in the effective state income tax rate, an increase in tax credits, and an increase in other non-taxable income.

Liquidity and Capital Resources

Net cash provided by operations was \$42.5 million, \$29.6 million and \$11.4 million for 2012, 2011, and 2010 respectively. The increase in 2012 was the result of a net increase of \$13.3 million in accrued expenses and billings in excess of costs due to the cancellation of the 2011 customer default, an increase in accounts receivables of \$6.8 million due primarily to a large repair job outstanding, and offset by a decrease in inventory of \$7.0 million due to the amount of stock vessels in 2010. The increase in 2011 was primarily the result of an increase in net income, decrease in accounts receivable, a decrease in inventory, a decrease in other receivables, and an increase in accounts payable, accrued employee expense and accrued expenses offset by an increase in cost and estimated earnings in excess of billings. We had a net decrease in debt of \$267,000 for 2012, and \$1.3 million in 2011. Our working capital position was \$61.3 million and \$67.1 million at December 31, 2012 and 2011, respectively. The decrease in working capital in 2012 was primarily the result of fixed assets purchased and the special dividend paid in December 2012. Cash and cash equivalents at December 31, 2012 and 2011 were \$55.6 million and \$43.7 million,

respectively. Management continues to engage in a detailed business planning process to identify potential uses of the Company's cash.

Our net cash used in investing activities of \$15.3 million in 2012 consisted of capital expenditures, which included the purchase of 50 acres of property adjoining our Conrad Deepwater facility for \$5.6 million. Other significant capital expenditures included bulkheading, upgrade to our launch system at Orange and the purchase of machinery and equipment. Our net cash used in investing activities of \$4.3 million in 2011 was primarily capital additions and improvements to facilities and equipment at our four locations to meet increased demand and to replace leased equipment with Company owned equipment. For additional information on our internal expansion activities, see Business -- Overview -- Internal Expansion.

For 2013, the Board of Directors approved approximately \$22.0 million in capital expenditures, which includes an expansion project on the 50 acres of property adjoining our Deepwater location purchased in 2012. Other significant approved capital expenditures include bulkheading, and improvements to increase capacity and operational efficiencies. The remaining capital expenditures are for the repair and upgrade of existing facilities and purchase of machinery and equipment that will allow us to improve production efficiencies. The board has indicated to management their desire to be prudent and if conditions are not favorable to postpone the less important expenditures.

During the first quarter of 2012 the Company received a grant from The U.S. Maritime Administration to construct a new section to extend Dry Dock #6. This grant is a portion of a \$10 million appropriation by Congress for capital improvements and for maritime training programs at small shipyards. The grant funds must be spent in 2 years or less; and the Company must adhere to various recordkeeping and filing requirements. The Company must maintain title to the purchased equipment for a minimum of 2 years, and "Buy American" as much as practical. The total cost of the project is \$2.482 million of which the Federal share for reimbursement is \$1.117 million, and the "required portion" by the Company is \$1.365 million. The Company will expend the required portion before any portion of the Federal share is distributed. At December 31, 2012, the Company has spent \$1.7 million on the construction of the dry dock section. The Company has elected to receive the reimbursement at the completion of the project; therefore \$418,000 is included in "Other Receivables" at December 31, 2012.

To fill in gaps in our construction schedules, we construct stock vessels from time to time. More recently, we have also constructed stock vessels for strategic business and marketing reasons. At December 31, 2010, we had seven stock barges under construction, which were included in our inventory at a cost of \$9.5 million. At December 31, 2011, we had eight stock barges and two tow boats, which were included in our inventory at a cost of \$1.0 million. At December 31, 2012, we had three stock barges, a recovery vessel and four tow boats, which were included in our inventory at a cost of \$653,000. Our board has approved construction of up to \$10 million in stock barges to the extent management deems appropriate.

Net cash used by financing activities was \$15.3 million for 2012, which included \$267,000 for the repayment of debt, \$11.9 million for payment of a special dividend and \$3.1 million for the purchase of stock under the stock buyback program. Net cash used by financing activities was \$4.9 million for 2011 which included \$1.3 for the repayment of debt and \$3.6 million for the purchase of stock under the stock buyback program. We paid our first special dividend on December 31, 2012 of \$2.00 per share to shareholders of record on December 24, 2012, totaling \$11.9 million.. During February 2013, our Board approved an increase in our stock repurchase program of \$10 million, and as of March 22, 2013, we had \$13 million remaining available under the program. The program permits purchase of common stock in the open market or privately negotiated transactions, does not obligate us to acquire any particular amount of stock, does not have an expiration date and can be amended or terminated at any time without prior notice.

Our long term debt is described in Note 6 to our financial statements included as an attachment to this report. We have outstanding letters of credit totaling \$389,000.

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, 2012, outstanding letters of credit and bonds amounted to \$8.6 million. We believe that general industry conditions have led customers to require

performance bonds more often than in the past. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so. In addition, the cost of obtaining such bonds, letters of credit and similar obligations has increased and may continue to increase.

Our backlog was \$120.7 million at December 31, 2012 as compared to \$47.1 million at December 31, 2011 and \$89.5 million at December 31, 2010. Subsequent to year end, we signed contracts totaling \$51.4 million which includes the sales of three stock barges and four stock tow boats that was in progress at December 31, 2012.

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 2013. We further believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2014.

Directors and Executive Officers

INFORMATION ABOUT THE DIRECTORS

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year First Became a Director or</u>
J. Parker Conrad	97	Co-Chairman of the Board of Directors (Class III)	1998
John P. Conrad, Jr.	70	Co-Chairman of the Board of Directors, President and Chief Executive Officer (Class III)	1998
Cecil A. Hernandez	56	Director (Class I)	1998
Michael J. Harris	63	Director (Class II)	1998
Ogden U. Thomas, Jr.	67	Director (Class II)	2004

J. Parker Conrad founded our company and has served as Chairman of the Board from its inception in 1948 and as President from 1948 until 1994. Since March 1998, Mr. Conrad has served as Co-Chairman of the Board of Conrad Industries, Inc., our holding company formed at that time in connection with our initial public offering. Mr. Conrad is the father of John P. Conrad, Jr.

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

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

Cecil A. Hernandez has been a director of Conrad Industries since March 1998. Mr. Hernandez joined Conrad Industries in January 1998 and served as Vice President-Finance and Administration and Chief Financial Officer of Conrad Industries from 1998 until 2002. During August 2004, Mr. Hernandez returned to Conrad and served as Chief Operating Office and interim CFO until February 2005, at which time, he assumed the position of Executive Vice-President and Chief Financial Officer. From October 2002 to August 2004, Mr. Hernandez served as the President of Summit Management Group, L.L.C., a company formed by John P. Conrad, Jr. and his immediate family. Mr. Hernandez founded Hernandez & Blackwell CPAs in 1983 and served as its Managing Partner until December 1997. Hernandez & Blackwell CPAs merged with Darnall Sikes & Frederick CPAs in 1996.

Additionally, Mr. Hernandez provided accounting and consulting services for Conrad Industries as the outside Certified Public Accountant from 1993 until 1997. From 1982 to 1983, Mr. Hernandez served as Assistant Controller for Oceaneering International, a publicly traded diving company. Mr. Hernandez was employed by the international accounting firm Deloitte Haskins & Sells (now Deloitte & Touche LLP) from 1979 to 1982.

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

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

<u>Name</u>	<u>Age</u>	<u>Position with Conrad Industries</u>
J. Parker Conrad	97	Co-Chairman of the Board
John P. Conrad, Jr.....	70	President, Chief Executive Officer and Co-Chairman of the Board
Cecil A. Hernandez.....	56	Executive Vice President, Chief Financial Officer and Secretary
Terry T. Frickey.....	68	Vice President, Chief Operating Officer

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

Terry T. Frickey became Vice President and Chief Operating Officer of Conrad Industries in February 2005. Mr. Frickey served as Vice-President and General Manager of the Bollinger Houston shipyard prior to joining Conrad. Between 1999 and 2003 he was Manager of Repair Operations for the LEEVAC Industries Repair Group. Between 1994 and 1998 he served as President of Calcasieu Shipyard. From 1991 to 1994 he was President of Service Marine Industries, Inc. in Morgan City, Louisiana. He served as Chairman of the Shipbuilders Council of America in 2001.

Independent Directors Committee

We have two independent directors, as independence is defined by The NASDAQ Stock Market: Mr. Harris and Mr. Thomas. Messrs. Harris and Thomas serve on our Independent Directors Committee, which has the functions described in the Independent Directors Committee Charter, a copy of which was included with our 2012 proxy statement. These functions include being directly responsible for the appointment, compensation, retention and oversight of the work of our independent auditors and approving all compensation and benefits provided to, and any employment agreement with, an executive officer of our company.

Executive Compensation

Summary Compensation Table

The following table provides summary information concerning compensation paid or accrued during the last three fiscal years to our Chief Executive Officer and to each of our other executive officers (each, a “Named Executive Officer” and, together, the “Named Executive Officers”). Except as noted below for fiscal years 2010, 2011 and 2012, none of the Named Executive Officers received perquisites, the aggregate value of which exceeded \$10,000.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>		<u>All Other Compensation</u>
		<u>Salary</u>	<u>Bonus (1)</u>	
J. Parker Conrad	2012	\$ 126,335	\$ 87,839	—
<i>Co-Chairman of the Board</i>	2011	121,000	80,600	—
	2010	121,000	51,725	—

John P. Conrad, Jr.....	2012	344,469	598,764	\$ 12,133 (3)
<i>President, Chief Executive Officer and</i>	2011	330,000	549,300	13,638
<i>Co-Chairman of the Board</i>	2010	330,000	330,725	11,915
Cecil A. Hernandez.....	2012	200,977	349,343	13,087 (3)
<i>Executive Vice President, Chief Financial</i>	2011	192,500	320,400	10,323
<i>Officer and Secretary</i>	2010	192,500	192,900	10,745
Terry T. Frickey.....	2012	200,977	349,343	18,956 (2)
<i>Vice President and Chief</i>	2011	192,500	320,400	18,390 (2)
<i>Operating Officer</i>	2010	192,500	192,900	13,107 (3)

- (1) Represents bonuses paid in 2013, 2012 and 2011 with respect to fiscal 2012, 2011 and 2010, respectively.
- (2) Represents \$4,250 paid by us under our 401(k) plan and \$14,706 paid by us under our auto allowance program in 2012. Represents \$3,765 paid by us under our 401(k) plan and \$14,625 paid by us under our auto allowance program in 2011.
- (3) Represents amounts paid by us under our auto allowance program.

Option Grants During 2012

There were no options granted during the fiscal year ended December 31, 2012.

There were 27,200 and 24,000 options outstanding and exercisable with a weighted average exercise price of \$2.76 and \$2.74 at December 31, 2011 and December 31, 2012, respectively. For additional information, see Note 7 to our financial statements in the attachment.

Directors' Compensation

Our directors who are employees do not receive any compensation for service on our Board of Directors or any committee. Our directors are, however, reimbursed for expenses incurred in connection with attending each Board and committee meeting. Directors who are not our employees receive a fee of \$20,400 annually, plus \$1,350 for attendance at each Board of Directors meeting and \$500 for each committee meeting attended.

Agreements with Directors and Executive Officers

We have employment and non-competition agreements with Messrs. Conrad, Conrad, Jr., Hernandez and Frickey. These agreements were extended for one year beginning April 1, 2013 and the base salaries for Messrs. Conrad and Conrad, Jr., Mr. Hernandez and Mr. Frickey remained the same.

The agreements provide that the company will pay base salaries of \$128,300 to Mr. Conrad, \$349,800 to Mr. Conrad, Jr., \$204,100 to Mr. Hernandez and \$204,100 to Mr. Frickey. Each of the agreements with Messrs. Conrad, Conrad, Jr., Hernandez and Frickey provide for employment through March 31, 2014 and for annual extensions thereafter, subject to the parties' mutual agreement.

In addition, Messrs. Conrad, Jr., Hernandez and Frickey receive a monthly automobile allowance of \$525, automobile insurance, and reimbursement for fuel and maintenance expenses.

The agreements also provide that each executive will be reimbursed for out-of-pocket business expenses and that each executive is eligible to participate in all benefit plans and programs as are maintained from time to time by us. The agreements prohibit the executives from competing with us during the term of their employment and for a period of two years, in the case of Messrs. Conrad and Conrad, Jr. and one year, in the case of Mr. Hernandez and Mr. Frickey, after the termination of their employment. The agreements also prohibit the executives from disclosing our confidential information and trade secrets.

Each agreement is terminable by us for "cause" upon ten days' written notice to the executive, and without "cause" by us upon the approval of a majority of our Board of Directors. Each agreement may also be terminated by the

executive for “good reason” and, in the case of Messrs. Conrad and Conrad, Jr., may be terminated by the executive for any reason upon 30 days written notice to us.

In the event the employment of Mr. Conrad or Conrad, Jr. is terminated by us without “cause” or is terminated by Mr. Conrad or Conrad, Jr. for “good reason,” Mr. Conrad or Conrad, Jr. (as the case may be) will be entitled to receive his base salary for one year at the rate then in effect, payable in monthly installments during the twelve months following the date of termination. In addition, the time period during which Mr. Conrad or Conrad, Jr. (as the case may be) will be restricted from competing with us will be shortened from two years to one year. In the event the employment of Mr. Hernandez or Mr. Frickey is terminated by us without “cause” or is terminated by Mr. Hernandez or Mr. Frickey for “good reason,” Mr. Hernandez or Mr. Frickey, will be entitled to receive a payment equal to their base salary for one year at the rate then in effect, payable in monthly installments during the twelve months following the date of termination.

The agreements also provide that if, within two years following a change in control of the Company, the executive’s employment is terminated by us other than for “cause” or by the executive for “good reason,” or the executive is terminated by us within six months before a change in control at the request of the acquirer in anticipation of the change in control, the executive will be entitled to receive a lump sum severance amount equal to three years’ base salary at the rate then in effect payable no earlier than six months following termination date. In addition, the provisions that restrict the executive’s competition with us will no longer apply and, if any payment to an executive is deemed to be subject to the 20% excise tax on excess parachute payments, such executive will be made “whole” on a net after-tax basis.

A “change in control” is generally defined to occur upon (1) the acquisition by any person (other than the Company, a benefit plan of the Company, or a member of the Conrad family) of 30% or more of our total voting power within a 12-month period; (2) the consummation of a merger, recapitalization, reorganization, consolidation or sale of substantially all of our assets; (3) the approval by our stockholders of a liquidation or dissolution of the Company; or (4) a change in a majority of the members of our Board of Directors within a 12-month period. Moreover, a “parachute payment” is generally defined as any payment made by us in the nature of compensation that is contingent on a change in control of the Company and includes the present value of the accelerations of vesting and the payment of options and other deferred compensation amounts upon a change in control. If the aggregate present value of the parachute payments to certain individuals, including executives, equals or exceeds three times that individual’s “base amount” (generally, the individual’s average annual compensation from the company for the five calendar years ending before the date of the change in control), then all parachute payment amounts in excess of the base amount are “excess” parachute payments. An individual will be subject to a 20% excise tax on excess parachute amounts and we will not be entitled to a tax deduction for such payments.

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

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

The following table presents certain information, as of March 15, 2013, regarding the beneficial ownership of our common stock (which includes shares that may be acquired upon the exercise of stock options vesting within 60 days) by:

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

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

<u>Beneficial Owner</u>	<u>Number of Shares</u>	<u>Stock Options</u>	<u>% of Total Outstanding (including options)</u>
John Parker Conrad Family, L.L.C.....	1,043,267	—	17.6%
J. Parker Conrad(1).....	95,495	—	1.6%
John P. Conrad, Jr.(2).....	2,126,338	—	35.8%
Katherine C. Court(3).....	1,446,776	—	24.4%
Terry T. Frickey	—	—	—
Michael J. Harris.....	6,000	—	*
Cecil A. Hernandez.....	93,968	2,000	1.6%
Ogden U. Thomas, Jr.....	2,000	—	*
All directors and executive officers as a group(4) (6 persons)	2,228,306	2,000	37.5%

* Less than one percent.

- (1) Represents shares held by The Conrad Family Foundation, of which Messrs. Conrad and Conrad, Jr. act as trustees.
- (2) Includes 374,216 shares held by The John P. Conrad, Jr. Trust for which Mr. Conrad, Jr. exercises sole voting and investment control as Trustee for the trust. Also includes 95,495 shares held by The Conrad Family Foundation, of which Messrs. Conrad and Conrad, Jr. act as co-trustees. Also includes 1,043,267 shares held by the John Parker Conrad Family, L.L.C., of which John P. Conrad, Jr. and Katherine C. Court are the sole managers.
- (3) Includes 203,740 shares held by The Katherine C. Court Trust and 199,769 shares held by The James P. Court Trust. Ms. Court exercises sole voting and investment control over these shares as Trustee for each of these trusts. Also includes 1,043,267 shares held by the John Parker Conrad Family, L.L.C., of which John P. Conrad, Jr. and Katherine C. Court are the sole managers. The address of Ms. Court is 1501 Front Street, Morgan City, Louisiana, 70381.
- (4) Excludes shares beneficially owned by Katherine C. Court, who is the daughter of Mr. Conrad and the sister of Mr. Conrad, Jr.

Certain Relationships and Related Transactions

During 2012, we purchased in the ordinary course of business certain components from Johnny's Propeller Shop, Inc. in the aggregate amount of approximately \$4.2 million. Johnny's Propeller Shop is a wholly-owned subsidiary of Summit Management Group, L.L.C., which is owned by John P. Conrad, Jr., our President, Chief Executive Officer and Co-Chairman of the Board, and members of his immediate family. Mr. Conrad is currently the Operating Manager of Summit Management Group. We believe that such transactions were made on a competitive basis at market prices. The transactions have been approved by the Independent Directors Committee.

Annual Incentive Plan

We have established an annual incentive plan under which our key employees may be awarded cash bonuses based upon the achievement of certain performance goals. The executive bonus pool is generally a percentage of EBITDA, and the management pool is generally a percentage of gross profit. The Company must achieve a minimum return on equity as determined by the Board before bonuses under the plan can be paid. The payment of any bonuses is at the discretion of the Board, which may increase or decrease bonus amounts determined under the plan formulas. The payment of bonuses to executive officers must be approved by the Independent Directors Committee.

Financial Statements

Our audited Financial Statements for the year ended December 31, 2012 are included as an attachment to this Annual Report.

2012 Quarterly Results of Operations

	Quarters ended							
	March 31, 2012		June 30, 2012		September 30, 2012		December 31, 2012	
Financial Data:								
Revenue								
Vessel construction	\$ 42,387	81.6%	\$ 46,857	81.3%	\$ 49,240	78.5%	\$ 47,518	77.5%
Repair and conversions	<u>9,533</u>	25.2%	<u>10,808</u>	28.0%	<u>13,500</u>	31.5%	<u>13,787</u>	35.9%
Total revenue	<u>51,920</u>	137.2%	<u>57,665</u>	149.3%	<u>62,740</u>	146.5%	<u>61,305</u>	159.6%
Cost of revenue								
Vessel construction	37,837	89.3%	38,632	82.4%	42,834	87.0%	38,416	80.8%
Repair and conversions	<u>7,908</u>	83.0%	<u>9,034</u>	83.6%	<u>11,620</u>	86.1%	<u>10,216</u>	74.1%
Total cost of revenue	<u>45,745</u>	120.9%	<u>47,666</u>	123.4%	<u>54,454</u>	127.1%	<u>48,632</u>	126.6%
Gross profit								
Vessel construction	4,550	10.7%	8,225	17.6%	6,406	13.0%	9,102	19.2%
Repair and conversions	<u>1,625</u>	17.0%	<u>1,774</u>	16.4%	<u>1,880</u>	13.9%	<u>3,571</u>	25.9%
Total gross profit	6,175	16.3%	9,999	25.9%	8,286	19.3%	12,673	33.0%
S G & A expenses	<u>1,346</u>	3.6%	<u>1,725</u>	4.5%	<u>1,511</u>	3.5%	<u>1,826</u>	4.8%
Income from operations	4,829	12.8%	8,274	21.4%	6,775	15.8%	10,847	28.2%
Interest expense	(10)	0.0%	(10)	0.0%	(9)	0.0%	(8)	0.0%
Other income/(expense), net	<u>78</u>	0.2%	<u>24</u>	0.1%	<u>57</u>	0.1%	<u>671</u>	1.7%
Income before income taxes	4,897	12.9%	8,288	21.5%	6,823	15.9%	11,510	30.0%
Income tax provision	<u>1,726</u>	4.6%	<u>2,947</u>	7.6%	<u>2,452</u>	5.7%	<u>3,551</u>	9.2%
Net income	<u>\$ 3,171</u>	8.4%	<u>\$ 5,341</u>	13.8%	<u>\$ 4,371</u>	10.2%	<u>\$ 7,959</u>	20.7%
EBITDA	<u>\$ 5,861</u>	15.5%	<u>\$ 9,275</u>	24.0%	<u>\$ 7,877</u>	18.4%	<u>\$ 12,609</u>	32.8%
Net cash provided by (used for)								
operating activities	<u>\$ (7,018)</u>		<u>\$ 8,994</u>		<u>\$ 14,429</u>		<u>\$ 26,141</u>	
Net cash used in investing activities	<u>\$ (3,607)</u>		<u>\$ (8,010)</u>		<u>\$ (1,383)</u>		<u>\$ (2,293)</u>	
Net cash used in financing activities	<u>\$ (967)</u>		<u>\$ (66)</u>		<u>\$ (2,317)</u>		<u>\$ (11,944)</u>	

SUPPLEMENTAL SELECTED QUARTERLY FINANCIAL DATA

Consolidated operating results for the four quarters of 2012 and 2011 were as follows (in thousands, except per share data):

	Quarter Ended			
	<u>March 31,</u>	<u>June 30,</u>	<u>September 30,</u>	<u>December 31,</u>
Fiscal 2012				
Revenue	\$ 51,920	\$ 57,185	\$ 62,740	\$ 61,305
Gross profit	6,175	9,519	8,286	12,673
Net income	3,171	5,341	4,371	7,959
Net income per share:				
Basic	0.52	0.87	0.74	1.34
Diluted	0.52	0.87	0.74	1.33
Fiscal 2011				
Revenue	\$ 63,045	\$ 58,802	\$ 61,895	\$ 62,712
Gross profit	7,202	9,579	6,749	11,006
Net income	3,720	5,196	3,455	6,796
Net income per share:				
Basic	0.58	0.81	0.54	1.09
Diluted	0.58	0.81	0.53	1.09

Section II

Consolidated Financial Report

CONRAD INDUSTRIES, INC.

AND SUBSIDIARIES

Consolidated Financial Report

December 31, 2012

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Shareholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-23



E. Larry Sikes, CPA/PFS, CVA, CFP®
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 Eugene H. Darnall, III, CPA
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 Chad M. Bailey, CPA

INDEPENDENT AUDITOR'S REPORT

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

Kathleen T. Darnall, CPA
 Kevin S. Young, CPA
 Adam J. Curry, CPA, CFP®
 Christy S. Dew, CPA, MPA
 Blaine M. Crochet, CPA, M.S.
 Rachel W. Ashford, CPA
 Veronica L. LeBleu, CPA, MBA
 Kyle P. Saltzman, CPA
 Christine Guidry, Berwick, CPA, MBA
 Brandon L. Porter, CPA
 Christine H. Ford, CPA
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 Elise B. Faucheaux, CPA
 Nicole B. Bruchez, CPA, MBA
 Brandon R. Dunphy, CPA
 Seth C. Norris, CPA
 W. Kyle George, CPA, MBA
 Mary Catherine Hollier, CPA
 Scott D. Hayes, CPA, MBA
 Ryan Earles, CPA
 Jenifer Zaunbrecher, CPA
 Robert C. Darnall, CPA, M.S.

We have audited the accompanying consolidated financial statements of Conrad Industries, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 2012, 2011, and 2010, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Conrad Industries, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years ended December 31, 2012, 2011, and 2010, in accordance with accounting principles generally accepted in the United States of America.

Darnall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana

March 8, 2013

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

<u>ASSETS</u>	December 31, <u>2012</u>	December 31, <u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 55,609	\$ 43,650
Accounts receivable, net	13,312	23,735
Costs and estimated earnings, net in excess of billings on uncompleted contracts	18,994	37,293
Inventories	2,106	2,318
Other receivables	674	286
Other current assets	<u>3,580</u>	<u>2,563</u>
Total current assets	94,275	109,845
PROPERTY, PLANT AND EQUIPMENT, net	49,650	38,438
OTHER ASSETS	<u>25</u>	<u>30</u>
TOTAL ASSETS	<u>\$ 143,950</u>	<u>\$ 148,313</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 9,807	\$ 9,055
Accrued employee costs	4,558	3,780
Accrued expenses	6,878	21,438
Current maturities of long-term debt	267	267
Billings in excess of costs and estimated earnings, net on uncompleted contracts	<u>11,449</u>	<u>8,226</u>
Total current liabilities	32,959	42,766
LONG-TERM DEBT, less current maturities	1,220	1,487
DEFERRED INCOME TAXES	8,490	7,694
OTHER NON-CURRENT LIABILITIES	<u>-</u>	<u>900</u>
Total liabilities	<u>42,669</u>	<u>52,847</u>
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 2012 and in 2011	73	73
Additional paid-in capital	29,039	29,039
Treasury stock at cost, 1,352,550 in 2012 and 1,142,669 in 2011	(16,730)	(13,580)
Retained earnings	<u>88,899</u>	<u>79,934</u>
Total shareholders' equity	<u>101,281</u>	<u>95,466</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 143,950</u>	<u>\$ 148,313</u>

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

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Year Ended December 31,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUE	\$ 233,630	\$ 246,454	\$ 138,841
COST OF REVENUE	<u>196,497</u>	<u>211,918</u>	<u>118,092</u>
GROSS PROFIT	37,133	34,536	20,749
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>6,408</u>	<u>5,416</u>	<u>4,780</u>
INCOME FROM OPERATIONS	30,725	29,120	15,969
INTEREST EXPENSE	(37)	(50)	(96)
OTHER INCOME/(EXPENSE), NET	<u>830</u>	<u>867</u>	<u>348</u>
INCOME BEFORE INCOME TAXES	31,518	29,937	16,221
PROVISION FOR INCOME TAXES	<u>10,676</u>	<u>10,770</u>	<u>5,936</u>
NET INCOME	<u>\$ 20,842</u>	<u>\$ 19,167</u>	<u>\$ 10,285</u>
Income Per Share:			
Basic	<u>\$ 3.47</u>	<u>\$ 3.02</u>	<u>\$ 1.60</u>
Diluted	<u>\$ 3.46</u>	<u>\$ 3.01</u>	<u>\$ 1.60</u>
Weighted Average Common Shares Outstanding:			
Basic	<u>6,000</u>	<u>6,345</u>	<u>6,426</u>
Diluted	<u>6,023</u>	<u>6,368</u>	<u>6,448</u>

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

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock \$0.01 Par Value		Additional Paid-in Capital	Treasury Stock at Cost		Retained Earnings	Total
	Shares	Amount		Shares	Amount		
BALANCE—December 31, 2009	7,287	73	29,035	850	(9,685)	50,482	69,905
Purchase of treasury stock	-	-	-	38	(266)	-	(266)
Stock issued	4	-	4	-	-	-	4
Net income	-	-	-	-	-	10,285	10,285
BALANCE—December 31, 2010	7,291	73	29,039	888	(9,951)	60,767	79,928
Purchase of treasury stock	-	-	-	255	(3,629)	-	(3,629)
Net income	-	-	-	-	-	19,167	19,167
BALANCE—December 31, 2011	7,291	73	29,039	1,143	(13,580)	79,934	95,466
Purchase of treasury stock	-	-	-	210	(3,150)	-	(3,150)
Dividends on common stock	-	-	-	-	-	(11,877)	(11,877)
Net income	-	-	-	-	-	20,842	20,842
BALANCE—December 31, 2012	7,291	\$ 73	\$ 29,039	1,353	\$ (16,730)	\$ 88,899	\$ 101,281

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

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 20,842	\$ 19,167	\$ 10,285
Adjustments to reconcile net income to cash provided by/ (used for) operating activities:			
Depreciation and amortization	4,067	3,619	3,459
(Gain)/loss on sale of assets	19	(94)	1
Deferred income tax provision/(benefit)	(539)	1,572	(1,175)
Changes in assets and liabilities:			
Accounts receivable	10,423	3,644	1,206
Net change in billings related to cost and estimated earnings on uncompleted contracts	21,522	(25,931)	(4,612)
Inventory and other assets	142	7,462	237
Accounts payable, accrued expenses and other liabilities	(13,930)	20,152	2,009
Net cash provided by operating activities	42,546	29,591	11,410
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures for plant and equipment	(15,293)	(4,302)	(2,901)
Proceeds from sale of assets	-	106	11
Net cash used in investing activities	(15,293)	(4,196)	(2,890)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal repayments of debt	(267)	(1,281)	(1,788)
Increase in additional paid in capital	-	-	4
Payment of dividends on common stock	(11,877)	-	-
Purchase of treasury stock	(3,150)	(3,629)	(266)
Net cash used in financing activities	(15,294)	(4,910)	(2,050)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,959	20,485	6,470
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	43,650	23,165	16,695
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 55,609	\$ 43,650	\$ 23,165
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:			
Interest paid, net of capitalized interest	\$ 37	\$ 50	\$ 96
Taxes paid	\$ 10,985	\$ 7,650	\$ 6,575

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation—The consolidated financial statements include the accounts of Conrad Industries, Inc. and its wholly-owned subsidiaries (the “Company”) which are primarily engaged in the construction, conversion and repair of a variety of marine vessels for commercial and government customers. New construction work and some repair work 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 time and materials agreements are recognized on the basis of cost incurred during the period plus the fee earned.

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

The Company provides warranties for the work we perform for periods ranging from 90 days to two years. We do not warrant machinery and equipment furnished by other manufacturers that become part of the vessels we build, convert, or repair. The manufacturers’ warranties are passed on to our customers. The warranty exposure for our workmanship, which is subject to our internal quality control programs as well as inspection by governmental agencies and customer representatives, is normally less than one percent of cost of revenue. This potential warranty exposure is recorded as a cost of the job pursuant to Statement of Position (“SOP”) 81-1 (ASC 605-35) Accounting For Performance of Construction-Type and Certain Production Type Contracts.

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

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, and on deposit. Short-term investments with original maturities of over three months are also considered cash and cash equivalents because they can be easily liquidated without penalties.

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, 2012, 2011 and 2010, no interest costs were capitalized.

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

Inventories—At December 31, 2012, inventories consisted of three stock barges, a recovery vessel and four tow boats, steel plate and structurals, and excess job related materials and supplies. At December 31, 2011, inventories consisted of eight stock barges and two tow boats, steel plate and structurals, and excess job related materials and supplies. Inventories are stated at the lower of cost (first-in, first-out basis) or market.

Basic and Diluted Income Per Share—Basic net income per share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per share uses the weighted average number of common shares outstanding adjusted for the incremental shares attributable to dilutive outstanding options to purchase common stock.

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, 2012 and 2011.

In September 2006, the FASB issued ASC 820-10 which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement, which is effective for fiscal years beginning after November 15, 2007, applies to most FASB pronouncements that require fair value measurement but does not in itself require any new fair value measurements. We evaluated the provisions of ASC 820-10 and have determined there is no significant impact on our consolidated financial statements.

In February 2007, the FASB issued ASC 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statements No. 115*. ASC 825-10 permits all entities to choose, at specified election dates, to measure many eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We have evaluated the provisions of ASC 825-10 and have determined there is no significant impact on our consolidated financial statements.

Income Taxes—Income taxes are accounted for using the asset and liability method. Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements at the enacted statutory rate to be in effect when the taxes are paid.

In July 2006, the FASB issued ASC 740-10-50, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting and disclosure for uncertain tax positions, as defined. ASC 740-10-50 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. On January 1, 2007, we adopted the provisions of ASC 740-10-50. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements.

Stock-Based Compensation—In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (R) (ASC 718), 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, prior to January 1, 2006, we accounted for share-based payments to employees using the intrinsic value method and, as such, generally recognized no compensation expense for employee stock options.

We adopted SFAS No. 123(R) effective January 1, 2006 using the modified-prospective method. Under this method, we record compensation expense at fair value for all awards granted after the date of adoption of SFAS 123(R). In addition, we record compensation expense at fair value (as previous awards continue to vest) for the unvested portion of previously granted stock option awards that were outstanding as of the date of adoption. Prior periods’ financial statements are not restated. As no employee stock options were granted in the current period and all stock awards are vested, the adoption of SFAS No. 123 (R) had no impact on our results of operations for the years ended December 31, 2012, 2011 and 2010. The impact on future periods will be dependent on levels of share based payments granted in the future.

Subsequent Events—In May 2009, the FASB issued ASC 855, Subsequent Events which establishes general standards for accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This is effective for financial periods ending after June 15, 2009. We have evaluated events subsequent to the balance sheet through March 8, 2013, the date the financial statements were available to be issued.

2. RECEIVABLES

Receivables consisted of the following at December 31, 2012 and 2011 (in thousands):

	December 31, <u>2012</u>	December 31, <u>2011</u>
U.S. Government:		
Amounts billed	\$ -	\$ 2,380
Unbilled costs and estimated earnings on uncompleted contracts	<u>-</u>	<u>1,158</u>
	-	3,538
Commercial:		
Amounts billed	13,312	21,355
Unbilled costs and estimated earnings on uncompleted contracts	<u>18,994</u>	<u>36,135</u>
Total	<u>\$ 32,306</u>	<u>\$ 61,028</u>

Included above in amounts billed is an allowance for doubtful accounts of \$488,000 and \$313,000 at December 31, 2012 and 2011 respectively.

Unbilled costs and estimated earnings on uncompleted contracts were not billable to customers at the balance sheet dates under terms of the respective contracts. Of the unbilled costs and estimated earnings at December 31, 2012, substantially all is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of December 31, 2012 and 2011 is as follows (in thousands):

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Costs incurred on uncompleted contracts	\$ 81,866	\$ 115,423
Estimated earnings, net	<u>10,104</u>	<u>17,353</u>
	91,970	132,776
Less billings to date	<u>(84,425)</u>	<u>(103,709)</u>
	<u>\$ 7,545</u>	<u>\$ 29,067</u>

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

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Costs and estimated earnings, net in excess of billings on uncompleted contracts	\$ 18,994	\$ 37,293
Billings in excess of cost and estimated earnings, net on uncompleted contracts	<u>(11,449)</u>	<u>(8,226)</u>
Total	<u>\$ 7,545</u>	<u>\$ 29,067</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 charges of \$627,000 for the twelve months ended December 31, 2012 (\$2.2 million in 2011) in cost of revenues to reflect revised estimates related to anticipated losses on certain uncompleted vessels in progress. The offsetting credit was recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of December 31, 2012 and December 31, 2011, approximately \$80,575 and \$665,000, respectively, of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. OTHER RECEIVABLES

Other receivables consisted of the following at December 31, 2012 and 2011 (in thousands):

	December 31, <u>2012</u>	December 31, <u>2011</u>
Insurance claims receivable	\$ -	\$ 47
Quality Jobs Program Rebate	244	236
MARAD grant reimbursement	418	-
Other	<u>12</u>	<u>3</u>
Total	<u>\$ 674</u>	<u>\$ 286</u>

Substantially all of these amounts at December 31, 2012 are expected to be collected within the next twelve months.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2012 and 2011 (in thousands):

	December 31, <u>2012</u>	December 31, <u>2011</u>
Land	\$ 11,707	\$ 5,909
Buildings and improvements	36,947	32,051
Machinery and equipment	24,306	22,157
Drydocks and bulkheads	11,953	11,953
Barges and boats	883	883
Office and automotive	3,214	3,031
Construction in progress	<u>3,030</u>	<u>947</u>
	92,040	76,931
Less accumulated depreciation	<u>(42,390)</u>	<u>(38,493)</u>
	<u>\$ 49,650</u>	<u>\$ 38,438</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

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. ACCRUED EXPENSE

At December 31, 2011, Accrued Expenses included \$18.5 million payable to a customer for payments made by the customer on vessel construction contracts that were cancelled in February 2012 by mutual agreement. The customer was paid in February 2012, net of an outstanding amount owed of \$2.3 million on a remaining contract. At December 31, 2012, the amount owed to the customer, that was included in Accrued Expenses, was \$877,000, related to the sale of the remaining vessels in the first half of 2012.

Initially, the customer advised that it was defaulting on contracts for the construction of five-LPG tank barges, four-30,000 bbl. tank barges, two-tow boats, four-7,500 bbl. tank barges and two-10,000 bbl. tank barges. Except as noted below, all vessels subject to the default were sold to other customers prior to December 31, 2011 with no adverse financial impact to the Company. The two tow boats and two of the 7,500 bbl. tank barges were in the early stages of construction, the contracts were cancelled, and the material for these has been included in our inventory. The two remaining 7,500 bbl. tank barges had not been sold and the contracts had not been cancelled at December 31, 2011, but were sold in the first half of 2012. 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 did not have any material adverse financial consequences due to the default.

6. LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2012 and 2011 (in thousands):

	December 31,	December 31,
	<u>2012</u>	<u>2011</u>
Industrial revenue bonds - St. Mary Parish, variable interest rate (2.209% at December 31, 2012), due August 1, 2018	\$ 1,487	\$ 1,754
Less current maturities	<u>(267)</u>	<u>(267)</u>
	<u>\$ 1,220</u>	<u>\$ 1,487</u>

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

	<u>Amount</u>
2013	\$ 267
2014	267
2015	267
2016	267
2017	267
Thereafter	<u>152</u>
	<u>\$ 1,487</u>

We have a Loan Agreement that governs our Revolving Credit Facility. Our Revolving Credit Facility permits us to borrow up to \$10 million and matures April 30, 2014. 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 December 31, 2012 and 2011. 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. The bank granted a waiver that allowed us to pay a special dividend on December 31, 2012. At December 31, 2012, we were in compliance with all covenants. At December 31, 2012 and 2011 we had letters of credit totaling \$389,000.

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's 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 and sustain them 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 in subsequent years. We have been in discussions with the State of Louisiana. In our discussions, it was agreed that, regardless of meeting the job creation and payroll requirements, we would earn a pro-rata portion of the grant based on the composite percentage of actual jobs and actual payroll to required jobs and required payrolls for the years 2004 through 2012. No amounts were amortized into income for the years 2004 through 2010.

As a result of our discussion with the State, we amortized \$600,000 into income for 2011 and the liability was reduced to \$900,000 and included in "Other Non-Current Liabilities" at December 31, 2011. In the fourth quarter of 2012 an additional \$190,000 was amortized into income using the ratio of monthly payroll targets achieved over the total payroll targets of the grant. At December 31, 2012, the remaining liability of \$710,000 is included under the caption "Accrued Expenses". We have received indications from the State that any unearned amounts due under the grant must be repaid in 2013. We believe the State has not properly considered the benefits gained by the State from the project financed by the grant, and believe that no amounts are due. We are in negotiations with the State regarding the amount due, if any.

The equipment purchased with the grant proceeds is owned by St. Mary Parish and is being leased to us for a term that expired December 31, 2012, 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. On December 28, 2012, the company exercised its option to purchase all the equipment leased under the lease. The purchase price is equal to the amount owed under the EDAP agreement; however, this amount is in discussion, and has not yet been determined. The transaction is being accounted for as a financing and therefore the assets are included in our property, plant and equipment.

7. SHAREHOLDERS' EQUITY

Special Cash Dividend

The Company paid a \$2.00 per share special dividend on its common stock on December 31, 2012 to shareholders of record on December 24, 2012, totaling \$11.9 million.

Treasury Stock

In August 2010, the Company's Board of Directors authorized management to repurchase up to \$5.0 million of its outstanding common stock. The stock repurchase plan did not obligate management to acquire any particular amount of common stock, did not have an expiration date and could be amended or terminated at any time without prior notice. Pursuant to the plan, during the third quarter of 2010 the Company purchased 38,075 shares for a total of \$266,525. 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 fourth quarter of 2011, we purchase 157,444 shares at an average price of \$15 per share. During the first quarter of 2012, we purchased 59,881 shares at an average price of \$15 per share. During the third quarter of 2012, we purchased 150,000 shares at an average price of \$15 per share. During February 2013, the board approved an increase in

the stock repurchase program of \$10 million. As of March 31, 2013, \$13 million remained available under the program. The shares will be held as treasury stock.

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 6,000,417, 6,345,167 and 6,426,319 for the years ended December 31, 2012, 2011 and 2010 respectively. The number of weighted average shares outstanding for “diluted” income per share was 6,022,920, 6,367,717 and 6,447,822 for the years ended December 31, 2012, 2011 and 2010 respectively.

Stockholders’ Rights Plan

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

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

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

Stock Option Plan

In May 2002, we established the 2002 Stock Plan, which was amended in November 2005 (the “Stock Plan”). The Stock Plan permits the granting of any or all of the following types of awards: stock options, restricted stock, and various other stock-based awards. All officers and employees of, and any consultants to us or any affiliate are eligible for participation in all awards under the Stock Plan. 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, 2012, 2011 and 2010:

	<u>Weighted Avg. Price</u>	<u>Number of Options</u>
Outstanding at December 31, 2009	2.94	39,000
Granted	-	-
Forfeited	3.17	(5,800)
Exercised	<u>2.12</u>	<u>(2,000)</u>
Outstanding at December 31, 2010	2.95	31,200
Granted	-	-
Forfeited	-	-
Exercised	<u>4.22</u>	<u>(4,000)</u>
Outstanding at December 31, 2011	2.76	27,200
Granted	-	-
Forfeited	2.95	(3,200)
Exercised	<u>-</u>	<u>-</u>
Outstanding at December 31, 2012	<u>2.76</u>	<u>24,000</u>
Exercisable at December 31, 2012	<u>2.74</u>	<u>24,000</u>
Exercisable at December 31, 2011	<u>2.76</u>	<u>27,200</u>
Exercisable at December 31, 2010	<u>2.95</u>	<u>31,200</u>

The following table summarizes information about stock options outstanding at December 31, 2012:

<u>Exercise Price Range Per Share</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$2.24 - \$2.95	24,000	.85 years	\$ 2.74	24,000	\$ 2.74

The Company has not granted options since 2004 and all outstanding options are currently vested. As a result of the deregistering and delisting of the Company's common stock in March 2005, the Company will not be able to issue freely tradable stock upon exercise of stock options. Shares issued will be considered "restricted stock" and cannot be resold unless an exemption is available under the Securities Act of 1933, as amended (the "1933 Act") and applicable state securities laws for the resale, as evidenced to the satisfaction of the Company, or unless the resale is registered under the 1933 Act and applicable state securities laws. Employees should be able to take advantage of the exemption provided by Rule 144 under the 1933 Act to resell shares acquired upon exercise of an option but will be required to hold and not resell the stock for one year after the exercise date.

There were 31,200, 27,200, and 24,000 options outstanding and exercisable with a weighted average exercise price of \$2.95, \$2.76 and \$2.74 at December 31, 2010, 2011 and 2012, respectively.

8. 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 \$237,000, \$210,000 and \$189,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

9. INCOME TAXES

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current (benefit) provision	\$ 11,215	\$ 9,198	\$ 7,111
Deferred (benefit) provision	<u>(539)</u>	<u>1,572</u>	<u>(1,175)</u>
Total	<u>\$ 10,676</u>	<u>\$ 10,770</u>	<u>\$ 5,936</u>

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):

	<u>2012</u>		<u>2011</u>		<u>2010</u>	
	Amount	%	Amount	%	Amount	%
Taxes at Federal statutory rate	\$ 10,716	34.0	\$ 10,144	33.9	\$ 5,677	35.0
Special Deductions and Credits	(744)	(2.4)	(615)	(2.1)	(397)	(2.4)
Non-deductible penalties	-	-	-	-	7	-
Non-deductible other expenses, net of non-reportable income	(109)	(0.3)	106	0.4	107	0.7
State income taxes	<u>813</u>	<u>2.6</u>	<u>1,135</u>	<u>3.8</u>	<u>542</u>	<u>3.3</u>
Total	<u>\$ 10,676</u>	<u>33.9</u>	<u>\$ 10,770</u>	<u>36.0</u>	<u>\$ 5,936</u>	<u>36.6</u>

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, 2012 and 2011 are as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Deferred tax liabilities:		
Differences between book and tax basis		
of property, plant and equipment	\$ 8,515	\$ 7,724
Capitalized Intangibles	<u>(25)</u>	<u>(30)</u>
	<u>8,490</u>	<u>7,694</u>
Deferred tax assets (included in other current assets):		
Contracts in progress	(1,292)	(108)
Accrued expenses not currently deductible	<u>(1,130)</u>	<u>(979)</u>
	<u>(2,422)</u>	<u>(1,087)</u>
Net deferred tax liabilities	<u>\$ 6,068</u>	<u>\$ 6,607</u>

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, 2012, 2011 and 2010 are summarized as follows (in thousands):

	<u>2012</u>		<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Customer A	14,288	6%	25,503	10%	577	0%
Customer B	-	0%	45	0%	19,779	14%

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, President and Chief Executive Officer. Total purchases for the three years ended December 31, 2012, 2011, and 2010 were \$4,230,000, \$2,465,000, and \$1,667,000, 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, executive compensation expense, interest expense, other income, net and income taxes are not allocated to the segments. Accounting policies are the same as those described in Note 1, "Summary of Significant Accounting Policies". Intersegment sales and transfers are not significant.

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

	Year Ended December 31,		
	2012	2011	2010
Revenue			
Vessel construction	\$ 186,002	\$ 198,586	\$ 92,291
Repair and conversions	<u>47,628</u>	<u>47,868</u>	<u>46,550</u>
Total revenue	<u>233,630</u>	<u>246,454</u>	<u>138,841</u>
Cost of revenue			
Vessel construction	157,719	170,352	81,077
Repair and conversions	<u>38,778</u>	<u>41,566</u>	<u>37,015</u>
Total cost of revenue	<u>196,497</u>	<u>211,918</u>	<u>118,092</u>
Gross profit			
Vessel construction	28,283	28,234	11,214
Repair and conversions	<u>8,850</u>	<u>6,302</u>	<u>9,535</u>
Total gross profit	37,133	34,536	20,749
Selling, general and administrative expenses	<u>6,408</u>	<u>5,416</u>	<u>4,780</u>
Income from operations	30,725	29,120	15,969
Interest expense	(37)	(50)	(96)
Other income/(expense), net	<u>830</u>	<u>867</u>	<u>348</u>
Income before income taxes	31,518	29,937	16,221
Provision for Income tax	<u>10,676</u>	<u>10,770</u>	<u>5,936</u>
Net income	<u>\$ 20,842</u>	<u>\$ 19,167</u>	<u>\$ 10,285</u>

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

	Years Ended December 31,		
	2012	2011	2010
Depreciation and amortization expense:			
Vessel construction	\$ 2,081	\$ 1,653	\$ 1,483
Repair and conversions	1,833	1,841	1,817
Included in selling, general and administrative expenses	<u>153</u>	<u>125</u>	<u>159</u>
Total depreciation and amortization expense	<u>\$ 4,067</u>	<u>\$ 3,619</u>	<u>\$ 3,459</u>

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

	Years Ended December 31,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total assets:			
Vessel construction	\$ 35,483	\$ 65,600	\$ 51,435
Repair and conversions	46,250	33,862	33,510
Other	<u>62,217</u>	<u>48,851</u>	<u>29,887</u>
 Total assets	 <u><u>\$ 143,950</u></u>	 <u><u>\$ 148,313</u></u>	 <u><u>\$ 114,832</u></u>
Capital expenditures:			
Vessel construction	\$ 7,267	\$ 2,924	\$ 1,887
Repair and conversions	7,626	932	1,006
Other	<u>400</u>	<u>446</u>	<u>8</u>
 Total capital expenditures	 <u><u>\$ 15,293</u></u>	 <u><u>\$ 4,302</u></u>	 <u><u>\$ 2,901</u></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 and Puerto Rico. All of our assets are located in the United States.

13. 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 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 had 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 confirmed that the fill was appropriately classified as not hazardous, the LDEQ proceeded to delist the fill through a rule-making process, which, when and if completed, should make the Company's disposal (or other corrective action) costs less expensive than if the fill were required to be disposed of as hazardous waste. LDEQ recommended approvals of the delisting petition for rulemaking on May 2, 2012. LDEQ published the delisting as a proposed rule in the Louisiana Register on November 20, 2012, and held a public hearing on the proposed rule on December 27, 2012. The Company provided LDEQ with favorable comments, and there were no adverse comments submitted by others. It is anticipated that LDEQ will forward the final rule to the State Legislature for review by March 2013. The complete rulemaking process may take six or more months. 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, 2013 which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of December 31, 2012, the minimum annual total compensation under these agreements was \$886,300.

Construction Commitments — During the first quarter of 2012 the Company received a grant from The U.S. Maritime Administration to construct a new section to extend Dry Dock #6. This grant is a portion of a \$10 million appropriation by Congress for capital improvements and for maritime training programs at small shipyards. The grant funds must be spent in 2 years or less, and the company must adhere to various recordkeeping and filing requirements. The Company must maintain title to the purchased equipment for a minimum of 2 years, and "Buy American" as much as practical. The total cost of the project is \$2.482 million of which the Federal share for reimbursement is \$1.117 million, and the "required portion" by the Company is \$1.365 million. The Company must expend the required portion before any portion of the Federal share is distributed. At December 31, 2012, the Company has spent \$1.7 million on the construction of the dry dock section. The Company has elected to receive the reimbursement at the completion of the project; therefore, \$418,000 is included in "Other Receivables at December 31, 2012.

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 \$8.6 million and \$60.5 million at December 31, 2012 and 2011, respectively.

BP Claim – In December 2012 and February 2013, the Company submitted claims to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program, which was approved by the court on December 21, 2012, totaling \$22.6 million. Certain of our businesses are located within the economic zones included in the class settlement and we believe that the damage calculations have been made in accordance with the guidelines established for the BP Settlement Fund; however, the claims are subject to review by the professionals responsible for processing the claims and determining the amount to be awarded for each claim. Accordingly, the amounts awarded to us may be less than the amounts we submitted and some or all of our claims may be rejected. Any award we receive will be subject to income taxes. Based on the

current pace of the review process, the Company anticipates a response in the second or third quarter of 2013. No amounts related to the claims have been recorded in our financial statements at December 31, 2012.