CONRAD INDUSTRIES, INC.

Quarterly Financial Report

March 31, 2015

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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FORWARD-LOOKING-STATEMENTS

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

An Important Note About This Report

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

Our Annual Report and other periodic reports to shareholders are available on the Company’s website, www.ConradIndustries.Com, and at www.otcmarkets.com. Interested persons may also request copies directly from the Company; please direct requests and inquiries to Chief Financial Officer, Conrad Industries Inc., P. O. Box 790, Morgan City, LA, 70381, telephone (985) 702-0195. In particular, you should read this Quarterly Report along with our 2014 Annual Report.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

ASSETS	**March 31, 2015**	**December 31, 2014**
CURRENT ASSETS:		
Cash and cash equivalents	$ 55,323	$ 68,612
Accounts receivable, net	18,733	24,080
Costs and estimated earnings, net in excess of billings on uncompleted contracts	30,147	19,844
Inventories	14,049	13,274
Other receivables	1,066	363
Other current assets	2,899	3,225
Total current assets	122,217	129,398
PROPERTY, PLANT AND EQUIPMENT, net	61,880	61,489
TOTAL ASSETS	$ 184,097	$ 190,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,009	$ 9,918
Accrued employee costs	4,143	6,204
Accrued expenses	4,151	6,448
Billings in excess of costs and estimated earnings, net on uncompleted contracts	20,501	27,274
Total current liabilities	40,804	49,844
DEFERRED INCOME TAXES	8,922	9,195
Total liabilities	49,726	59,039
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, $0.01 par value 20,000,000 shares authorized, 7,314,837 in 2015 and 2014	73	73
Additional paid-in capital	29,104	29,104
Treasury stock at cost, 1,452,550 in 2015 and in 2014	(19,930)	(19,930)
Retained earnings	125,124	122,601
Total shareholders' equity	134,371	131,848
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 184,097	$ 190,887

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	March 31, 2015	March 31, 2014
REVENUE	$ 67,234	$ 73,350
COST OF REVENUE	60,532	61,970
GROSS PROFIT	6,702	11,380
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,000	1,854
INCOME FROM OPERATIONS	4,702	9,526
INTEREST EXPENSE	-	(6)
OTHER INCOME/(EXPENSE), NET	72	292
INCOME BEFORE INCOME TAXES	4,774	9,812
PROVISION FOR INCOME TAXES	785	3,391
NET INCOME	$ 3,989	$ 6,421
Income Per Share		
Basic	$ 0.68	$ 1.08
Diluted	$ 0.68	$ 1.08
Weighted Average Common Shares Outstanding		
Basic	5,862	5,961
Diluted	5,862	5,962

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,989	$ 6,421
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,494	1,333
Deferred income tax benefit	(418)	(107)
Loss on sale of assets	3	
Changes in assets and liabilities:		
Accounts receivable	5,347	9,953
Net change in billings related to cost and estimated earnings on uncompleted contracts	(17,076)	431
Inventory and other assets	(1,007)	542
Accounts payable, accrued expenses and other liabilities	(2,267)	(3,427)
Net cash provided by/(used in) operating activities	(9,935)	15,146
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for plant and equipment	(1,888)	(2,108)
Net cash used in investing activities	(1,888)	(2,108)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of debt	-	(67)
Dividends paid or payable	(1,466)	-
Net cash used in financing activities	(1,466)	(67)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(13,289)	12,971
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	68,612	54,891
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 55,323	$ 67,862
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	$ -	$ 6
Taxes paid	$ -	$ -

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of Conrad Industries, Inc. and its wholly-owned subsidiaries (the "Company") which are primarily engaged in the construction, conversion and repair of a variety of marine vessels for commercial and government customers. The Company was incorporated in March 1998 to serve as the holding company for Conrad Shipyard, L.L.C. ("Conrad") and Conrad Orange Shipyard, Inc. ("Conrad Orange"). On June 29, 2012 Orange Shipbuilding Company, Inc.'s name was changed to Conrad Orange Shipyard, Inc. In addition, during the second quarter of 2003, Conrad Aluminum, L.L.C., a wholly owned subsidiary of Conrad, was organized as a vehicle to accommodate the Company's expansion into aluminum marine fabrication, repair and conversion services. New construction work and some repair work are performed on a fixed-price basis. The Company performs the majority of repair work under cost-plus-fee agreements. All significant intercompany transactions have been eliminated. In the opinion of the management of the Company, the interim consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (such adjustments consisting only of a normal recurring nature) considered necessary for a fair presentation, have been included in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company's audited 2014 consolidated financial statements and related notes. The results of operations for the three-month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

2. TRADE RECEIVABLES

Receivables consisted of the following at March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
U.S. Government:		
Amounts billed	$ 1,130	$ 1,659
Unbilled costs and estimated earnings on uncompleted contracts	-	-
	1,130	1,659
Commercial:		
Amounts billed	17,603	22,421
Unbilled costs and estimated earnings on uncompleted contracts	30,147	19,844
Total	$ 48,880	$ 43,924

Included above in amounts billed is an allowance for doubtful accounts of $924,000 and $727,000 for March 31, 2015 and December 31, 2014, respectively. Unbilled costs and estimated earnings on uncompleted contracts were not billable to customers at the balance sheet dates under terms of the respective contracts. Of the unbilled costs and estimated earnings at March 31, 2015, the majority is expected to be collected within the next twelve months.

Information with respect to uncompleted contracts as of March 31, 2015 and December 31, 2014 is as follows (in thousands):

	March 31, 2015	December 31, 2014
Costs incurred on uncompleted contracts	$ 134,477	$ 93,345
Estimated earnings, net	11,301	6,998
	145,778	100,343
Less billings to date	(136,132)	(107,773)
	$ 9,646	$ (7,430)

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

	March 31, 2015	December 31, 2014
Costs and estimated earnings, net in excess of billings on uncompleted contracts	$ 30,147	$ 19,844
Billings in excess of cost and estimated earnings, net on uncompleted contracts	(20,501)	(27,274)
Total	$ 9,646	$ (7,430)

Pursuant to SOP 81-1, Paragraph 85-89 (ASC 605-35), when the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract should be made in the period it became evident. The provision for the loss should be recorded as an additional contract cost in the income statement. The offsetting liability can be recorded on the balance sheet where related contract costs are accumulated on the balance sheet, in which case the provision may be deducted from the related accumulated costs. The Company recorded total charges of $0 for the quarter ended March 31, 2015 (and $2.7 million charges for the year ended December 31, 2014) in cost of revenue to reflect revised estimates related to anticipated losses on uncompleted vessels in progress. The offsetting credit was recorded in costs and estimated earnings, net in excess of billings on uncompleted contracts. As of March 31, 2015 and December 31, 2014, approximately $27,000 and $888,000, respectively, of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. INVENTORIES

At March 31, 2015, inventories consisted of seven stock vessels under construction, steel plate and structurals, and excess job related materials and supplies. At December 31, 2014, inventories consisted of ten stock vessels, steel plate and structurals, and excess job related materials and supplies.

4. OTHER RECEIVABLES

Other receivables consisted of the following at March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Income tax refund	$ 963	$ 357
Insurance claims receivable	103	-
Other	-	6
Total	$ 1,066	$ 363

Substantially all of these amounts at March 31, 2015 are expected to be collected within the next twelve months.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Land	$ 12,365	$ 12,198
Buildings and improvements	48,258	46,889
Machinery and equipment	30,193	29,794
Drydocks and bulkheads	15,053	15,053
Barges and boats	883	883
Office and automotive	3,041	3,016
Construction in progress	5,177	5,253
	114,970	113,086
Less accumulated depreciation	(53,090)	(51,597)
	$ 61,880	$ 61,489

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).

6. LONG-TERM DEBT

We have no long-term debt at March 31, 2015 and December 31, 2014.

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, 2016. 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 March 31, 2015 and December 31, 2014. The Loan Agreement is secured by accounts receivable, accounts, documents and chattel paper delivered to the lender and proceeds of the foregoing. The Loan Agreement 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 and repurchasing stock 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 January 5, 2015 permitted the initiation of a quarterly dividend of $.25 per share during the first quarter of 2015 and permits the purchase of up to $20 million of stock. At March 31, 2015 and December 31, 2014, we were in compliance with all covenants. At March 31, 2015 and December 31, 2014 we had no letters of credit under the Loan Agreement.

7. SHAREHOLDERS' EQUITY

Income per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. The number of weighted average shares outstanding for "basic" income per share was 5,862,287 and 5,961,287 for the three months ended March 31, 2015 and 2014, respectively. During the quarter ended March 31, 2015, there were no stock options outstanding. The number of weighted average shares outstanding for "diluted" income per share was 5,862,287 and 5,962,229 for the three months ended March 31, 2015 and 2014, 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.

Special Cash Dividend

The Company paid a $1.00 per share special dividend on its common stock on January 5, 2015 to shareholders of record on December 23, 2014, totaling $5.9 million. The Company paid a $2.00 per share special dividend on its common stock on December 17, 2013 to shareholders of record on December 3, 2013, totaling $11.9 million.

Dividend

The Company initiated a quarterly dividend of $0.25 per share during the first quarter of 2015. It was paid on April 14, 2015 to shareholders of record on March 24, 2015. Declaration of dividends is at the discretion of the Board each quarter, and will depend upon the Company's financial performance, cash requirements, outlook and other factors deemed relevant by the Board.

8. SEGMENT AND RELATED INFORMATION

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

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

Our product offerings in vessel construction have changed over time to meet market demands and currently include large and small deck barges, single and double hull tank barges, lift boats, ferries, push boats, offshore tug boats and offshore support vessels including aluminum crew boats. Our repair work involves maintenance and repair of existing vessels, which is often required as a result of periodic inspections required by the U.S. Coast Guard, the American Bureau of Shipping and other regulatory agencies. Our conversion projects primarily consist of lengthening the midbodies of vessels, modifying vessels to permit their use for a different type of activity and other modifications to increase the capacity or functionality of a vessel. Our aluminum new construction and repair/conversion business is not considered a separate operating segment but rather a part 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" in our audited 2014 consolidated financial statements. Intersegment sales and transfers are not significant.

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

	Three Months Ended March 31,	
	2015	2014
Revenue		
Vessel construction	$ 58,103	$ 59,985
Repair and conversions	9,131	13,365
Total revenue	67,234	73,350
Cost of revenue		
Vessel construction	52,088	50,364
Repair and conversions	8,444	11,606
Total cost of revenue	60,532	61,970
Gross profit		
Vessel construction	6,015	9,621
Repair and conversions	687	1,759
Total gross profit	6,702	11,380
S G & A expenses	2,000	1,854
Income from operations	4,702	9,526
Interest expense	-	(6)
Other income/(expense), net	72	292
Income before income taxes	4,774	9,812
Provision for Income tax	785	3,391
Net income	$ 3,989	$ 6,421

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

	Three Months Ended March 31,	
	2015	2014
Depreciation and amortization expense:		
Vessel construction	$ 875	$ 729
Repair and conversions	564	524
Included in selling, general and administrative expenses	55	80
Total depreciation and amortization expense	$ 1,494	$ 1,333

	Three Months Ended March 31,	
	2015	2014
Capital expenditures:		
Vessel construction	$ 1,640	$ 1,378
Repair and conversions	242	540
Other	6	190
Total capital expenditures	$ 1,888	$ 2,108

Total assets by segment are as follows as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Total assets:		
Vessel construction	$ 76,761	$ 68,847
Repair and conversions	41,781	43,699
Other	65,555	78,341
Total assets	$ 184,097	$ 190,887

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.

9. COMMITMENTS AND CONTINGENCIES

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

Environmental Matters— In 2006, the Company reported to the Louisiana Department of Environmental Quality (the “LDEQ”) that the deposit of fill material in 1986 in one of its slips at Morgan City, Louisiana, may have constituted the unauthorized disposal of solid and/or hazardous waste. The source of the fill was Marine Shale Processors, which federal courts later found to be a sham recycler. The Company did not know until 2006 that the fill material could be something other than a non-regulated aggregate product. On December 7, 2006, the LDEQ agreed to accept the Company’s plan with respect to the proper classification, delisting and later corrective action of the fill material. The Company submitted its plan to delist the fill as a hazardous waste to the LDEQ on May 31, 2007, and implemented the LDEQ approved sampling and analysis plan in early 2010. The data confirmed that the fill was appropriately classified as not hazardous. LDEQ in rulemaking approved Company’s delisting petition on September 20, 2014. Accordingly, the fill is now classified as solid waste, which may 1.) be removed to a solid waste landfill and the slip area backfilled or 2.) be closed in place subject to deed recordation, possible monitoring, and a LDEQ closure order. These options will be considered by LDEQ in reviewing a Company Corrective Action Plan (CAP) submitted to LDEQ for consideration in March 2015, and which CAP favored option #2 (closure in place). 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 May 31, 2015, and which provide for extensions at the end of the term, subject to the parties' mutual agreement. As of March 31, 2015, the minimum annual total compensation under these agreements was $913,100.

In May 2014, the Company adopted a long-term incentive compensation program for certain key employees who are not directors, under which a maximum of approximately $3 million in aggregate may be paid by the Company during a three-year period. These costs are accrued and expensed monthly over the vesting periods of the individual awards and are approximately $100,200 per month until April 30, 2016 and $39,000 per month thereafter until April 30, 2017.

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 $72.9 million and $51.2 million at March 31, 2015 and December 31, 2014, respectively.

BP Claim **–** In December 2012 and February 2013, the Company submitted Business Economic Loss claims totaling $22.6 million to the BP Settlement Fund in accordance with the Deepwater Horizon Court-Supervised Settlement Program. Certain of our businesses are located within the economic zones included in the class settlement, and we believe that the damage calculations have been made in accordance with the guidelines established for the BP Settlement Fund; however, the amounts awarded to us may be less than the amounts we submitted and some or all of our claims may be rejected. Conrad's claims have been under formal review by the BP Claims Administrator. Since June 2013, these claims have been in moratoria review, which is an automatic secondary review of the claims for certain types of industries (including shipyards) in order to ensure that the losses are related to the BP oil spill and not the federal government's moratorium on offshore drilling that followed the BP oil spill. We believe that the supporting documentation establishes that Conrad's claims are not related to the moratorium.

BP and class counsel have been unable to agree on the criteria to be used to evaluate whether claims are moratoria related. Class counsel has petitioned the court to authorize the Claims Administrator to begin processing moratoria related claims, and BP has opposed these efforts. The court has not yet rendered a decision on this issue.

Additionally, BP has contested a number of issues related to the Settlement Agreement, and many of these issues have been heard by the U.S. Fifth Circuit Court of Appeals. One issue that reached the Fifth Circuit concerns the Claims Administrator's acceptance of accounting calculations that do not involve a matching of revenues and expenses, which BP believes results in damages being paid to claimants whose losses are unrelated to the BP oil spill. However, this accounting issue should not affect Conrad because Conrad's claims are based on an accrual-based method which matches revenues and expenses.

The same Fifth Circuit panel that addressed the claim calculation method also issued a subsequent order on March 3, 2014, wherein the majority found that the Settlement Agreement does not require claimants to submit evidence that a Business Economic Loss claim arose as a result of the oil spill. Therefore, the Fifth Circuit appears to have clarified that claimants need not establish causation in order to recover under the Settlement Agreement.

BP also appealed to the Fifth Circuit the issue of the district court's certification of the plaintiff class. A separate Fifth Circuit panel subsequently ruled that the class certification was valid.

With respect to these Fifth Circuit panel decisions, BP has requested an en banc hearing from the Fifth Circuit, which was denied.

The district court has allowed the claims process to resume. BP's application to the U. S. Supreme Court to stay the process pending BP's filing and the disposition of a petition for a Writ of Certiorari to the U. S. Supreme Court was denied. BP also requested that the U. S. Supreme Court review the merits of the underlying Fifth Circuit rulings. That request also was denied.

At this time there is still no clear indication as to when the parties may reach an agreement on the parameters for moratoria claim review. Accordingly, even though the claims review process has resumed, Conrad's claims are still likely delayed due to the fact that they remain in moratoria review. In addition, BP has initiated additional levels of "fraud review," and is aggressively challenging pending claims, which is slowing down the processing of claims.

We cannot predict the timing of the resolution of this matter or whether Conrad will ultimately receive any award. Any award we receive will be subject to income taxes. No amounts related to the claims have been recorded in our financial statements at March 31, 2015 or December 31, 2014.

10. SUBSEQUENT EVENT

In May 2015, Scott J. Theriot was appointed Executive Vice President and Chief Operating Officer and entered into an employment contract providing for employment through May 31, 2016 and annual exclusions thereafter, subject to the parties' mutual agreement. The Company also entered into a similar contract with Daniel Conrad, Senior Vice President.

In addition, our former Chief Operating Officer, Terry T. Frickey assumed the position of Executive Vice President – Business and Product Development.

As of June 1, 2015 the minimum annual total compensation under employment agreements with all executives is $1.1 million.

In May 2015, the Independent Directors Committee made awards under the Company's long-term incentive plan to John P. Conrad, Jr., Cecil A. Hernandez, Daniel T. Conrad, Scott J. Theriot and another employee pursuant to which if such officers remain employed for a five year period for Messrs. Conrad, Jr., Hernandez and D. Conrad and for a four year period for the other officer and employee, they will receive lump sum cash payments totaling $2.3 million. If employment terminates prior to vesting, the award is forfeited, except accelerated vesting occurs upon death or disability, and termination by the Company without cause or by the officer for good reason, as defined in the plan. These costs will be accrued and expensed monthly over the vesting periods of the individual awards and are approximately $40,000 per month until May 12, 2019 and $32,000 per month thereafter until May 12, 2020.

In May, the Company declared a quarterly dividend of $0.25 per share of common stock. The dividend is payable on June 16, 2015 to shareholders of record on May 26, 2015.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes to consolidated financial statements included elsewhere in this report, and should be read in conjunction with our 2014 Annual Report.

Overview

We specialize in the construction, conversion and repair of a wide variety of steel and aluminum marine vessels for commercial and government customers. These vessels include tugboats, ferries, liftboats, barges, aluminum crew/supply vessels and other offshore support vessels. We operate five shipyards: one in Morgan City, Louisiana, three in Amelia, Louisiana and one in Orange, Texas. For the three months ended March 31, 2015 our new construction segment accounted for 86.4% of our total revenue and our repair and conversion segment accounted for 13.6% of our total revenue. For the year ended December 31, 2014, our new construction segment accounted for 78.2% of our total revenue and our repair and conversion segment accounted for 21.8% of our total revenue.

During March 2015, we entered into a contract to construct the first LNG bunker barge to be built for the marine market in North America. The barge is scheduled for delivery in early 2016. We have been actively pursuing increased opportunities to produce different types of vessels for new markets. Some of these vessels, including the LNG bunker barge, are larger, take longer to start production and take longer to complete than vessels we have constructed in the past. Some may require additional capital expenditures.

While we remain optimistic about the long-term prospects for our business, we must also take note of near-term risks. We have experienced a decline in demand for inland tank barges primarily used to transport petroleum products produced from shale plays, and believe that customers are delaying orders for larger projects. We have experienced a softer repair market, which we believe is due primarily to the decline in crude oil prices. Our stock vessel inventory has increased. These factors negatively impacted our results for the first quarter of 2015, and we currently expect these factors to negatively impact our financial performance during 2015, compared to 2014.

Although bid activity has been good and we are pursuing many opportunities, we have not signed contracts as anticipated which is leading to gaps in our production schedules. 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. We also construct stock vessels for strategic business and marketing reasons. At December 31, 2014, we had ten stock vessels which were included inventory at a cost of $11.7 million. At March 31, 2015 we had seven stock vessels included in inventory with approximately $12.3 million in costs. Our board has recently increased our authorization from up to $10 million, to currently up to $20 million in inventory costs for stock barges and vessels. The stock vessel program impacted our results for the first quarter of 2015, and the ultimate selling price and timing of the sale of the stock vessels could have an impact on our revenue, profitability, and working capital in the future.

During the first three months of 2015 and for the year ended December 31, 2014, we received approximately 26.8% and 35.3%, respectively, of our total revenues from customers in the offshore oil and gas industry, 2.5% and 2.7% from government customers and 70.7% and 62.0% from other commercial customers.

During the first three months of 2015, we added $52.5 million of backlog, as compared to $59.3 million added in the first three months of 2014, which includes double-skinned tank barges, deck barges and the LNG bunker barge. Our backlog was $171.9 million at March 31, 2015, $180.2 million at December 31, 2014 and $155.8 million at March 31, 2014. As of March 31, 2015 approximately 1.4% of backlog revenue is related to the repair segment.

We can experience significant changes in the price of steel due to the global demand. For additional information about steel prices, see our 2014 Annual Report.

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

Our new construction projects generally range from one month to 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, and some of our contracts for conversion and repair, whether commercial or governmental, are fixed-price contracts under which we retain all cost savings on completed contracts but are liable for all cost overruns. We develop our bids for a fixed price project by estimating the amount of labor hours and the cost of materials necessary to complete the project and then bid the projects in order to achieve a sufficient profit margin to justify the allocation of our resources to such project. Our revenues therefore may fluctuate from period to period based on, among other things, the aggregate amount of materials used in projects during a period and whether the customer provides materials and equipment. We perform many of our 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.

In May 2015, Scott J. Theriot was appointed Executive Vice President and Chief Operating Officer and entered into an employment contract providing for employment through May 31, 2016 and annual exclusions thereafter, subject to the parties' mutual agreement. The Company also entered into a similar contract with Daniel Conrad, Senior Vice President. In addition, our former Chief Operating Officer, Terry T. Frickey assumed the position of Executive Vice President – Business and Product Development.

In May 2015, the Independent Directors Committee made awards under the Company's long-term incentive plan to John P. Conrad, Jr., Cecil A. Hernandez, Daniel T. Conrad, Scott J. Theriot, and another employee pursuant to which if such officers remain employed for a five year period for Messrs. Conrad, Jr., Hernandez and D. Conrad and for a four year period for the other officer and employee, they will receive lump sum cash payments totaling $2.3 million. If employment terminates prior to vesting, the award is forfeited, except accelerated vesting occurs upon death or disability, and termination by the Company without cause or by the officer for good reason, as defined in the plan. These costs will be accrued and expensed monthly over the vesting periods of the individual awards and are approximately $40,000 per month until May 12, 2019 and $32,000 per month thereafter until May 12, 2020.

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Results of Operations

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

Conrad Industries, Inc. Summary Results of Operations

(In thousands)

	Three Months Ended March 31,			
	2015		2014	
Financial Data:				
Revenue				
Vessel construction	$ 58,103	86.4%	$ 59,985	81.8%
Repair and conversions	9,131	13.6%	13,365	18.2%
Total revenue	67,234	100.0%	73,350	100.0%
Cost of revenue				
Vessel construction	52,088	89.6%	50,364	84.0%
Repair and conversions	8,444	92.5%	11,606	86.8%
Total cost of revenue	60,532	90.0%	61,970	84.5%
Gross profit				
Vessel construction	6,015	10.4%	9,621	16.0%
Repair and conversions	687	7.5%	1,759	13.2%
Total gross profit	6,702	10.0%	11,380	15.5%
S G & A expenses	2,000	3.0%	1,854	2.5%
Income from operations	4,702	7.0%	9,526	13.0%
Interest expense	-	0.0%	(6)	0.0%
Other income/(expense), net	72	0.1%	292	0.4%
Income before income taxes	4,774	7.1%	9,812	13.4%
Income tax provision	785	1.2%	3,391	4.6%
Net income	$ 3,989	5.9%	$ 6,421	8.8%
EBITDA (1)	$ 6,268	9.3%	$ 11,151	15.2%
Net cash provided by/(used in) operating activities	$ (9,935)		$ 15,146	
Net cash used in investing activities	$ (1,888)		$ (2,108)	
Net cash used in financing activities	$ (1,466)		$ (67)	

(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 (used in) operating activities to EBITDA for the periods presented (in thousands):

	Three months ended March 31,	
	2015	2014
Net cash provided by/(used in) operating activities	$ (9,935)	$ 15,146
Interest expense	-	6
Provision for income taxes	785	3,391
Deferred income tax provision	418	107
Other	(3)	-
Changes in operating assets and liabilities	15,003	(7,499)
EBITDA	$ 6,268	$ 11,151

Revenue for the first quarter of 2015 decreased $6.1 million, or (-8.3%), to $67.2 million compared to $73.4 million generated for the same period in 2014. The decrease was a result of a $1.9 million (-3.1%) decrease in vessel construction revenue and a decrease of $4.2 million (-31.7%) in repair and conversion revenue for the first quarter of 2015 compared to the same period in 2014. The decrease in revenue is primarily a result of the decline in oil prices and an increase in stock barges in progress and not sold.

Vessel construction hours for the first quarter of 2015 decreased .7%, when compared to the same period in 2014. Repair and conversion hours decreased 35.1% for the first quarter of 2015 when compared to the same period in 2014.

For the three months ended March 31, 2015, vessel construction revenue was 86.4% of total revenue compared to 81.8% for the same period in 2014 and repair and conversion revenue was 13.6% of total revenue compared to 18.2% for the same period in 2014. For the first quarter of 2015, 2.5% of revenue was government related, 26.8% was energy and 70.7% was other commercial. This compares to 0% government, 33.9% energy and 66.1% other commercial for the same period in 2014.

Gross profit was $6.7 million (10.0% of revenue) for the first quarter of 2015 compared to gross profit of $11.4 million (15.5% of revenue) for the same period of 2014. Vessel construction gross profit decreased $3.6 million for the first quarter of 2015 compared to the first quarter of 2014. Repair and conversion gross profit decreased $1.1 million or (-61.0%) for the first quarter of 2015 compared to the first quarter of 2014.

Vessel construction gross profit margins decreased to 10.4% for the quarter of 2015, compared to gross profit margins of 16.0% for the same period of the prior year. Vessel construction gross profit margins decreased primarily due to the impact of the stock vessel program, and lower margin jobs.

Repair and conversion gross profit margins decreased to 7.5% for the first quarter of 2015, compared to gross profit margins of 13.2% for the same period of 2014. Repair and conversion gross profit decreased primarily as a result of lower margin jobs, a decrease in customer activity, and increased pricing pressure, which we believe is due to the decline in crude oil prices.

Selling, general and administrative expenses (“SG&A”) increased to $2.0 million (3.0% of revenue) for the first quarter of 2015, as compared to $1.9 million (2.5% of revenue) for the same period in 2014. The increase for the quarter was primarily due to an increase in bad debts expense, mainly in the repair segment.

Interest expense decreased $6,000 for the quarter as compared to the same period of the prior year. The decrease is due to the reduction in the outstanding balances of the Industrial Revenue Bonds. As a result of the payoff of our Industrial Revenue Bonds in June 2014, we had no long-term debt outstanding as of March 31, 2015.

We had income tax expense of $785,000 for the first quarter of 2015 compared to income tax expense of $3.4 million for the same period in 2014. The decrease in tax expense is primarily attributable to the decrease in income from operations as discussed above and an $831,000 research and development tax credit in the first quarter of 2015. With respect to the tax credit estimate for the remainder of the year we expect to record $2.5 million ratably over the next three quarters of 2015.

Liquidity and Capital Resources

Net cash used in operating activities was $9.9 million for the first quarter of 2015 compared to net cash provided by operating activities of $15.1 million for the same period in 2014. The decrease in cash flow from the prior year quarter is due to an increase in cost and estimated earnings in excess of billings on uncompleted contracts and a decrease in billings in excess of cost and estimated earnings on uncompleted contracts, offset by a decrease in accounts receivable. The decrease in cash flow compared to the prior year three months is primarily due to the increase in inventory from the stock vessels. Our working capital position was $81.6 million at March 31, 2015 compared to $79.6 million at December 31, 2014. Cash and cash equivalents at March 31, 2015 and December 31, 2014 were $55.3 million and $68.6 million, respectively. Management continues to engage in a detailed business planning process to identify the best uses of the Company's cash.

Our net cash used in investing activities of $1.9 million for the three months ended March 31, 2015 reflected capital expenditures for facility improvements, equipment and machinery purchases. Other significant approved capital expenditures include improvements to increase capacity and operational efficiencies. For 2015, our Board of Directors has approved $27.3 million in capital expenditures, which includes the continued improvements at our Deepwater South facility in the amount of $16.7 million. The additional improvements at Deepwater South will continue to enhance our ability to build larger vessels.

To fill in gaps in our construction schedules, we construct stock vessels from time to time. We have also constructed stock vessels for strategic business and marketing reasons. At December 31, 2014, we had ten stock vessels which were included inventory at a cost of $11.7 million. At March 31, 2015 we have seven stock vessels included in inventory with approximately $12.3 million in costs. Our board has recently increased our authorization from up to $10 million, to currently up to $20 million in inventory costs for stock vessels. The stock vessel program impacted our results for the first quarter of 2015, and the ultimate selling price and timing of the sale could have an impact on our revenue, profitability, and working capital in the future.

Net cash used by financing activities was $1.5 million for the three months ended March 31, 2015 which was for the payment of dividends. For the first quarter of 2014, $67,000 was used for the repayment of debt, which was paid off in June 2014. Our long term debt is described in Note 6 to our financial statements.

We paid a special dividend on January 5, 2015 of $1.00 per share to shareholders of record on December 23, 2014, totaling $5.9 million. The Company initiated a quarterly dividend of $0.25 per share during the first quarter of 2015. It was paid on April 14, 2015 to shareholders of record on March 24, 2015, totaling $1.5 million. The Board has declared a dividend of $.25 per share payable June 16, 2015 to shareholders of record on May 26, 2015. Declaration of the dividends is at the discretion of the Board each quarter, and will depend upon the Company's financial performance, cash requirements, outlook and other factors deemed relevant by the Board.

During December 2014, our Board approved an increase in our stock repurchase program to $20 million. The program permits purchase of common stock in the open market or privately negotiated transactions, does not obligate us to acquire any particular amount of stock, does not have an expiration date and can be amended or terminated at any time without prior notice. During April 2015, we purchased 65,507 shares at an average price of $31 per share. As of April 30, 2015, $18 million remained available under the program.

In the normal course of our business, we are required to provide letters of credit as security for our workers compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations. Bonds relating to these business activities amounted to $72.9 million and $51.2 million at March 31, 2015 and December 31, 2014, respectively. We believe that general industry conditions have led customers to require performance bonds more often than in the past. Although we believe that in the future we will be able to obtain bonds, letters of credit, and similar obligations on terms we regard as acceptable, there can be no assurance we will be successful in doing so. In addition, the cost of obtaining such bonds, letters of credit and similar obligations has increased and may continue to increase.

We believe that our existing working capital, cash flow from operations and bank commitments will be adequate to meet our working capital needs for operations and capital expenditures through 2015. We further believe that, barring unforeseen circumstances, we should have sufficient resources to meet our cash needs through 2016.