CONRAD INDUSTRIES, INC.

Quarterly Financial Report

June 30, 2023

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," "expect," "project," 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 risks and uncertainties related to higher steel prices, other material and labor costs along with generally high inflation in the U.S. economy, labor and supply constraints, higher interest rates, our reliance on cyclical industries, our reliance on principal customers and government contracts, our ability to perform on contracts at costs consistent with estimated costs utilized in bidding for the projects, our ability to deliver projects on time, variations in quarterly revenues and earnings resulting from the percentage of completion accounting method, customer financial condition and risk of default, 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, the war in Ukraine, risk of failure of any bank in which we deposit our funds, potential resurgence of COVID-19 and its variants or the occurrence of another health crisis, and general industry and economic conditions. Certain of these risks and assumptions, and other risks and assumptions are discussed in more detail in our Annual Report, included under the heading *"Business Overview-Risk Factors."* 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

Conrad Industries, Inc. is not 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 ("SEC"), 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 2022 Annual Report.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

ASSETS	June 30, 2023	December 31, 2022
CURRENT ASSETS:		
Cash and cash equivalents	$ 34,646	$ 21,583
Contracts receivable, net	15,572	4,622
Costs and estimated gross profit in excess of billings on contracts in progress	25,735	14,396
Inventories	2,195	30,084
Other receivables	3,979	3,875
Other current assets	11,075	9,588
Total current assets	93,202	84,148
PROPERTY, PLANT AND EQUIPMENT, net	43,641	45,866
OTHER ASSETS	1,043	1,138
TOTAL ASSETS	$ 137,886	$ 131,152
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 7,298	$ 10,108
Accrued employee costs	2,081	1,808
Accrued expenses	1,155	2,392
Current maturities of long-term debt	1,500	1,500
Billings in excess of costs and estimated gross profit on contracts in progress	33,554	10,858
Total current liabilities	45,588	26,666
LONG-TERM DEBT, less current maturities	3,625	4,375
DEFERRED INCOME TAXES	1,648	2,031
OTHER NON-CURRENT LIABILITIES	792	883
Total liabilities	51,653	33,955
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, $0.01 par value 20,000,000 shares authorized, 7,314,837 issued as of June 30, 2023 and December 31, 2022	73	73
Additional paid-in capital	29,104	29,104
Treasury stock at cost, 2,296,902 shares as of June 30, 2023 and December 31, 2022	(38,892)	(38,892)
Retained earnings	95,948	106,912
Total shareholders' equity	86,233	97,197
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 137,886	$ 131,152

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
REVENUE	$ 50,229	$ 56,245	$ 127,249	$ 118,792
COST OF REVENUE	56,306	58,853	138,188	119,909
GROSS PROFIT/(LOSS)	(6,077)	(2,608)	(10,939)	(1,117)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,848	1,918	3,782	3,647
INCOME/(LOSS) FROM OPERATIONS	(7,925)	(4,526)	(14,721)	(4,764)
INTEREST EXPENSE	(55)	(62)	(105)	(125)
OTHER INCOME/(EXPENSE), NET	106	66	197	179
INCOME/(LOSS) BEFORE INCOME TAXES	(7,874)	(4,522)	(14,629)	(4,710)
PROVISION/(BENEFIT) FOR INCOME TAXES	(1,962)	(1,164)	(3,666)	(1,236)
NET INCOME/(LOSS)	$ (5,912)	$ (3,358)	$ (10,963)	$ (3,474)
Income/(loss) Per Share Basic and Diluted	$ (1.18)	$ (0.67)	$ (2.18)	$ (0.69)
Weighted Average Common Shares Outstanding Basic and Diluted	5,018	5,018	5,018	5,018

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock $0.01 Par Value		Additional Paid-in	Treasury Stock at Cost		Retained	
	Shares	Amount	Capital	Shares	Amount	Earnings	Total
BALANCE—December 31, 2020	7,315	73	29,104	2,297	(38,892)	117,891	108,176
Purchase of treasury stock	-	-	-	-	-	-	-
Stock issued	-	-	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	-	-
Net income	-	-	-	-	-	6,450	6,450
BALANCE—December 31, 2021	7,315	73	29,104	2,297	(38,892)	124,341	114,626
Purchase of treasury stock	-	-	-	-	-	-	-
Stock issued	-	-	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(17,429)	(17,429)
BALANCE—December 31, 2022	7,315	$ 73	$ 29,104	2,297	$ (38,892)	$ 106,912	$ 97,197
Purchase of treasury stock	-	-	-	-	-	-	-
Stock issued	-	-	-	-	-	-	-
Dividends on common stock	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(10,963)	(10,963)
BALANCE—June 30, 2023	7,315	$ 73	$ 29,104	2,297	$ (38,892)	$ 95,949	$ 86,233

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

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

	Six months ended June 30, 2023	Six months ended June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ (10,963)	$ (3,474)
Adjustments to reconcile net income/(loss) to cash provided by/ (used in) operating activities:		
Depreciation and amortization	2,771	2,901
Deferred provision/(benefit) for income tax	(933)	5
Loss on sale of assets	5	4
Changes in assets and liabilities:		
Contracts receivable	(10,950)	(1,316)
Net change in billings related to cost and estimated gross profit on contracts in progress	11,357	(12,765)
Inventory and other assets	26,937	(2,773)
Accounts payable, accrued expenses and other liabilities	(3,864)	(2,716)
Net cash provided by/(used in) operating activities	14,360	(20,134)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for plant and equipment	(547)	(1,136)
Net cash used in investing activities	(547)	(1,136)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of debt	(750)	(750)
Net cash used in financing activities	(750)	(750)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13,063	(22,020)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,583	58,121
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 34,646	$ 36,101
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	$ 105	$ 125
Taxes paid	$ 280	$ 338

See notes to unaudited consolidated financial statements.

CONRAD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Changes in Accounting Principles — In January 2022, the Company adopted Accounting Standards Update No. 2016-02, *"Leases" ("Topic 842").* The new accounting standard requires the recognition on the balance sheet of right-of-use assets and leases liabilities for all leases having an original term of longer than twelve months. In our adoption, the Company elected the optional transition method that allows the Company to apply the provisions of the standard at the effective date without adjusting the comparative prior periods. As allowed under the new accounting standard, the Company also elected certain practical expedients provided by the new standard, including not recording an asset or liability for leases having a term of twelve months or less. The lease asset is reflected within other noncurrent assets, and the current and noncurrent portions of the lease liability are reflected within accrued expenses and other noncurrent liabilities, respectively, on our balance sheet. See Note 6 for further discussion of our adoption of this standard and our lease assets and liabilities.

The Company has implemented processes and a lease accounting system to ensure adequate internal controls were in place to assess our contracts and enable proper accounting and reporting of financial information upon adoption.

Revenue and Cost Recognition—We are engaged in various types of construction under long-term construction contracts. In the process of performing construction contracts with our customers, the Company considers each contract to be one performance obligation, unless the circumstances dictate otherwise. Revenue is recognized as the work is performed over time and it is arrived at by determining the amount of labor hours incurred to date as it relates to total estimated labor hours after giving effect to the most recent estimates of labor hours to complete. This method is used because management considers expended labor hours to be the best available measure of progress on these contracts. Revenues from time and materials agreements are recognized on the basis of cost incurred during the period plus the fee earned.

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

The Company provides warranties for the work we perform for periods ranging from six-months to twelve-months. We do not warrant machinery and equipment furnished by other manufacturers that become part of the vessels we build, convert, or repair. The manufacturers' warranties are passed on to our customers. The warranty exposure for our workmanship, which is subject to our internal quality control programs as well as inspection by governmental agencies and customer representatives, is normally less than one percent of cost of revenue. This potential warranty exposure is recorded as a cost of the job.

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

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

Contract Receivables—Contracts receivables are carried at the outstanding amount due less an allowance for doubtful accounts, if an allowance is deemed necessary. Allowances for doubtful accounts are established when there is a basis to doubt the full collectability of the contracts receivable. On a periodic basis, the company evaluates its contracts receivable and determines the requirement for an allowance, based on its history of past write-offs, collections and current conditions. When a contract receivable is ultimately determined to be uncollectible and due diligence for collections has taken place, the contract receivable is written off.

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. No interest costs were capitalized at June 30, 2023 and December 31, 2022.

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. There was no impairment at June 30, 2023.

Inventories—At December 31, 2022, inventories consisted of eight stock vessels and steel plate and structurals, and excess job related materials and supplies. In the first quarter of 2023, we entered into contracts to sell all eight stock vessels. At June 30, 2023, inventories consisted of steel plate and structurals, and excess job related materials and supplies. Inventories are stated at the lower of cost or market (first-in, first-out basis).

Basic and Diluted Income Per Share—Basic net income per share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per share uses the weighted average number of common shares outstanding adjusted for the incremental shares attributable to dilutive outstanding options to purchase common stock. The Company did not have any dilutive outstanding options for the first six months of 2023 nor in 2022.

Fair Value of Financial Instruments—The carrying amounts of our financial instruments including cash and cash equivalents, receivables and payables approximate fair value at June 30, 2023 and December 31, 2022.

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

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

***Subsequent Events*—**In May 2009, the FASB issued ASC 855, *Subsequent Events* which establishes general standards for accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This is effective for financial periods ending after June 15, 2009. We have evaluated events subsequent to the balance sheet date through August 11, 2023, the date the financial statements were available to be issued and determined that any events or transactions occurring during that period that would require recognition or disclosure are addressed in these financial statements.

***Combined Contract*—**The Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period.

***Uninstalled Materials*—**When the Company determines there are uninstalled materials on a contract, the Company recognizes revenue for the transfer of the goods but only in the amount equal to the percentage of labor hours incurred to date as it relates to total estimates.

***Multiple Performance Obligations*—**Some of the Company's contracts may have multiple performance obligations, most commonly due to the contract covering multiple phases of a project. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using the Company's best estimate of the standalone selling price of each distinct good in the contract.

***Transaction Price*—**The nature of the Company's contracts gives rise to several types of variable consideration, including claims, awards and incentive fees. The Company includes in the contract estimates of additional revenue for submitted contract modifications or claims against the customer when the Company believes it has an enforceable right to the modification or claim, the amount can be estimated reliably, and its realization is probable. In evaluating these criteria, the Company considers the contractual/legal basis for the claim, the cause of any additional costs incurred, the reasonableness of those costs and the objective evidence available to support the claim. The Company includes award or incentive fees in the estimated transaction price when there is a basis to reasonably estimate the amount of the fee. These estimates are based on historical award experience, anticipated performance and the Company's best judgment at the time. Because of certainty in estimating these amounts, they are included in the transaction price of the contracts and the associated remaining performance obligations.

***Contract Modifications*—**Contract modifications are routine in the performance of the Company's contracts. Contracts are often modified to account for changes in the contract specifications or requirements. In most instances, contract modifications are for goods that are not distinct, and, therefore, are accounted for as part of the existing contract.

2. CONTRACTS RECEIVABLES

Receivables consisted of the following at June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Completed Contracts and Repairs	$ 3,766	$ 3,474
Contracts in Progress	12,139	1,424
Retainage	-	19
	15,905	4,917
Less: Allowance for Doubtful Accounts	(333)	(295)
	$ 15,572	$ 4,622

Included above in amounts billed is an allowance for doubtful accounts of $333,000 and $295,000 at June 30, 2023 and December 31, 2022, 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 June 30, 2023, the majority is expected to be collected within the next twelve months.

One of our significant customers was not making payments on terms agreed upon in contracts to construct two vessels which resulted in related receivables balances of $7.3 million and $15.2 million at December 31, 2020 and 2019, respectively. We entered into contracts to sell the vessels to another buyer and delivered and collected final payment for the first vessel in October 2020. We delivered and collected the final payment on the second vessel in the first quarter of 2021. In March 2019 we took legal action in accordance with our contract provisions which allow us, among other things, to sell the vessels to another buyer or buyers and recover the deficiency, if any, between the contract prices (and other amounts due under the contracts) and the amount of the selling prices plus funds already paid to us by the customer. Legal proceedings were held in December 2022, and we were awarded a $7.49 million judgment in February 2023. The judgment has been appealed to the United States Court of Appeals for the Fifth Circuit. Our financial statements at June 30, 2023 and December 31, 2022 do not include any amounts with respect to the judgment.

Costs and estimated gross profit on construction contracts in progress in excess of related billings as of June 30, 2023 and December 31, 2022 are as follows (in thousands):

	June 30, 2023	December 31, 2022
Costs incurred to date on contracts in progress	$ 255,004	$ 170,441
Estimated gross loss to date	(26,700)	(13,131)
Contracts revenue earned to date	228,304	157,310
Less billings to date	(236,123)	(153,772)
Revenue earned over billings/(excess of billings over revenue earned)	$ (7,819)	$ 3,538

The revenue earned over billings are included in the accompanying balance sheets under the following captions (in thousands):

	June 30, 2023		December 31, 2022	
Costs and estimated gross profit in excess of billings on contracts in progress	$	25,735	$	14,396
Billings in excess of cost and estimated gross profit on contracts in progress		(33,554)		(10,858)
Net excess of revenue earned over billings	$	(7,819)	$	3,538

The revenue in excess of billings primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. The revenue in excess of billings balances is transferred to receivables when the rights become unconditional. The billings in excess of revenue primarily relate to the advance consideration received from customers, for which revenue has not yet been recognized.

Significant changes in revenue in excess of billings and billings in excess of revenue balances during the period are as follows (in thousands):

	Revenue in Excess of Billings		Billings in Excess of Revenue	
Balance, December 31, 2022	$	14,396	$	10,858
Revenue recognized that was included in contract liability balance at the beginning of the period		-		(1,655)
Increases due to cash received, excluding amounts recognized as revenue during the period		-		24,351
Increases due to revenue recognized prior to billings		36,056		-
Transferred to receivables from revenue in excess recognized at the beginning of the period		(24,717)		-
Balance, June 30, 2023	$	25,735	$	33,554

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 $14.3 million for the first six months of 2023 and charges of $13.3 million for the year ended December 31, 2022 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 June 30, 2023 and December 31, 2022, approximately $24.1 million and $13.9 million respectively, of this provision are included in costs and estimated earnings, net in excess of billings on uncompleted contracts.

3. CONTRACT BACKLOG

The following schedule is a reconciliation of contract backlog (remaining performance obligations) representing approved contracts as of June 30, 2023 (in thousands):

Balance, January 1, 2023	$	244,143
Contract adjustments and new contracts awarded		192,801
Subtotal		436,944
Less contract revenue earned		(113,231)
Balance, June 30, 2023	$	323,713

The entity will recognize this revenue as the contracts are completed, which is expected to occur over the next twelve to twenty-four months.

Contract backlog does not include amounts considered variable consideration that are constrained based on the Company's assessment of probability of significant reversal.

4. OTHER RECEIVABLES

Other receivables consisted of the following at June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023		December 31, 2022	
Income tax refund	$	3,100	$	3,100
Other		879		775
Total	$	3,979	$	3,875

Substantially all of these amounts at June 30, 2023 are expected to be collected within the next twelve months.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023		December 31, 2022	
Land	$	12,832	$	12,832
Buildings and improvements		70,913		70,627
Machinery and equipment		36,747		36,666
Drydocks and bulkheads		15,427		15,412
Barges and boats		1,022		1,022
Office and automotive		2,082		2,046
Construction in progress		1,428		1,504
		140,451		140,109
Less accumulated depreciation		(96,810)		(94,243)
	$	43,641	$	45,866

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

	Useful Lives
Land	N/A
Buildings and improvements	3-40 years
Machinery and equipment	5-12 years
Drydocks and bulkheads	3-30 years
Barges and boats	10-15 years
Office and automotive	3-12 years
Construction in progress	N/A

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

6. LEASES

The Company leases office space and equipment under operating leases with various expiration dates. As discussed further in Note 1-Changes in Accounting Principles, we adopted ASU 2016-02, *"Leases"* in the first quarter of 2022. A number of the leases include one or more options to renew the lease terms or terminate the lease. The exercise of these options is at the Company's discretion and is therefore recognized on the balance sheet when it is reasonably certain the Company will exercise such options. As the Company's leases typically do not contain a readily determinable implicit rate, the Company determines the present value of the lease liability using its incremental borrowing rate at the lease commencement date.

Future minimum payments under leases having initial terms of more than twelve months are as follows (in thousands):

	Minimum Payments
2023 (remaining)	$ 128
2024	240
2025	223
2026	213
2027	197
Thereafter	96
Total lease payments	$ 1,097
Less: imputed interest	(84)
Present value of lease liabilities	$ 1,013

The following table summarizes the line items in the balance sheet which include amounts for operating leases as of June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Operating lease right-of-use assets	$ 1,011	$ 1,101
Current portion of operating lease liabilities	221	219
Non-current portion of operating lease liabilities	792	882
Total operating lease liabilities	$ 1,013	$ 1,101

The operating lease right-of-use assets are reflected within other noncurrent assets, and the current and noncurrent portions of the operating lease liabilities are reflected within accrued expenses and other noncurrent liabilities, respectively, on our balance sheet. Total components of operating lease expenses for leases that are included as lease expense in the statement of operations and cash paid for interest and lease expenses for the quarter ended June 30, 2023 was $67,000 and for the quarter ended June 30, 2022 was $64,000. Weighted average lease term and discount rate as of June 30, 2023 were 4.7 years and 3.5%, respectively.

7. INSURANCE FINANCING

Included on the balance sheet in accrued expenses was insurance financing with First Insurance Funding effective June 1, 2023, with an original amount of $1.6 million, payable in ten monthly payments of $161,000. As of June 30, 2023, the payable balance was $1.4 million.

8. LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Term loan - Bank, 3.5% due November 21, 2026	$ 5,125	$ 5,875
Less current maturities	(1,500)	(1,500)
	$ 3,625	$ 4,375

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

	Amount
2023	$ 750
2024	1,500
2025	1,500
2026	1,375
	$ 5,125

The Company and its subsidiaries entered into a loan agreement on November 21, 2016, providing for a $15 million term loan and a $10 million revolving credit facility, superseding all prior loan agreements. The revolving credit facility originally set to mature on April 30, 2023 was extended to July 31, 2023. The lender has advised us that it has approved an extension of the maturity for one year. As of June 30, 2023, interest on the facility was prime rate, or one-month LIBOR plus 2.0% at the Company's option. The amendment will provide for an interest rate of WSJ Prime plus 1.0% or one-month SOFR (Secured Overnight Financing Rate) plus 3.0%, at the Company's option, subject to a 4.0% floor. The line of credit, as amended, has a sublimit of up to $10 million for letters of credit. As of June 30, 2023, no amounts were drawn on the revolving credit facility and $10 million in letters of credit were committed against the facility, leaving no amounts available to draw on the facility. The term loan has a 120-month amortization, a 3.5% fixed interest rate, and can be prepaid without penalty at any time. The loans are secured by accounts receivable, deposit accounts and chattel paper, and by two dry-docks. The loan agreement contains restrictions on mergers and liens on the collateral and the capital stock of our subsidiaries. Subject to compliance with financial covenants, the loan agreement does not restrict our ability to pay dividends, repurchase shares of common stock or incur additional indebtedness. As of June 30, 2023, the Company was not in compliance with the debt service coverage ratio covenant under our loan agreement and has received a waiver from the lender. The amendment will eliminate the debt service coverage ratio test, increase the minimum liquidity requirement to $20 million at all times, will contain a quarterly current ratio test of 2 to 1 and a quarterly total liabilities to tangible net worth test of not more than 1.25 to 1.

9. SHAREHOLDERS' EQUITY

Dividends

The declaration of future dividends is at the discretion of the Board each quarter, and will depend upon the Company's financial performance, cash requirements, outlook and other factors deemed relevant by the Board.

Treasury Stock

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. In the first and second quarters of 2023 there were no purchases of stock. As of June 30, 2023, $1.0 million remained available under the program.

Income per Share

The calculation of basic earnings per share excludes any dilutive effect of stock options, while diluted earnings per share includes the dilutive effect of stock options. The number of weighted average shares outstanding for "basic" income per share was 5,017,935 for the second quarter of 2023 and 2022. For the second quarter of 2023 and 2022 there were no stock options outstanding.

Stockholders' Rights Plan

During May 2002, we adopted a rights plan, which was amended in May 2012 and May 2022. 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, 2032, 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.

10. 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 $218,000 and $152,000 for the second quarters of 2023 and 2022, respectively. Contribution expense was $435,000 and $350,000 for the six months ended June 30, 2023 and 2022, respectively.

11. INCOME TAXES

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

	Six months ended June 30, 2023	Six months ended June 30, 2022
Current (benefit) provision	$ (2,733)	$ (1,241)
Deferred (benefit) provision	(933)	5
Total	$ (3,666)	(1,236)

Our provision for income taxes for years 2011 through 2015 included income tax benefits as a result of research and development tax credits which totaled $5.9 million in 2015. The total 2015 research and development tax credit is comprised of an estimate for 2015 of approximately $3.5 million and a credit for 2012 and 2013 for approximately $2.4 million. In 2014, we recorded a research and development tax credit of $2.1 million related to 2014 and 2011. We finalized a settlement with the IRS on tax years 2011, 2012 and 2013 on research and development tax credits. We received our refund in the third quarter of 2019 from the IRS of $2.1 million in taxes and interest of $176,000. The Company filed amended Louisiana tax returns for a refund to reflect the additional taxes paid due to the audit in the last quarter of 2019. The IRS audit of research and development tax credits for 2014 and 2015 totaling $3.1 million remains open.

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

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

	Six months ended June 30,			
	2023		2022	
	Amount	%	Amount	%
Taxes/(benefits) at Federal statutory rate	$ (3,072)	45.5	$ (989)	21.0
Non-deductible other expenses, net of non-reportable income	51	(0.8)	46	(1.0)
State income taxes/(benefits)	(645)	9.5	(293)	6.2
Total	$ (3,666)	54.2	$ (1,236)	26.2

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 June 30, 2023 and June 30, 2022 are as follows (in thousands):

	Six months ended June 30,	
	2023	2022
Deferred tax liabilities:		
Differences between book and tax basis of property, plant and equipment	$ 1,648	$ 2,141
	1,648	2,141
Deferred tax assets (included in other current assets):		
Contracts in progress	7,973	822
Accrued expenses and net operating losses not currently deductible	(16,369)	(2,928)
	(8,396)	(2,106)
Net deferred tax (assets) liabilities	$ (6,748)	$ 35

12. SALES TO MAJOR CUSTOMERS

Sales to various customers that amounted to 10 percent or more of our total revenues for the six months ended June 30, 2023 and June 30, 2022 are summarized as follows (in thousands):

	Six months ended June 30,			
	2023		2022	
	Amount	%	Amount	%
Customer A	27,768	22%	69,340	58%
Customer B	23,616	19%	345	0%
Customer C	20,706	16%	-	0%
Customer D	86	0%	12,086	10%

13. RELATED PARTY TRANSACTIONS

We purchase in the ordinary course of business certain components from Johnny's Propeller Shop, Inc. ("JPS"), a company wholly owned indirectly by John P. Conrad, Jr., Chairman of the Board of Directors, and Chief Executive Officer and members of his immediate family. Total purchases for the first six months of 2023 and 2022 were $0.6 million and $1.0 million, respectively. In addition, John P. Conrad Jr.'s son, not involved in the company, has an ownership interest in a business from which we purchased electrical components totaling $317,000 and $248,000 for the first six months of 2023 and 2022, respectively. All related party transactions were approved by the Independent Directors Committee.

14. SEGMENT AND RELATED INFORMATION

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

Accordingly, we classify our business into two segments: (1) vessel construction and (2) repair and conversions. Our vessel construction segment involves the building of a new vessel, often including engineering and design, whereas our repair and conversions segment involves work on an existing vessel. Vessel construction jobs are typically of longer duration and have a much larger material component than repair and conversion jobs.

Additionally, vessel construction activities are primarily performed in shore-based buildings and dedicated work areas, whereas repair activities primarily occur on floating drydocks or on the vessel itself while afloat. Our vessel construction activities are almost always performed under fixed-price contracts accounted for under the percentage-of-completion method of accounting, whereas our repair activities are primarily performed under cost-plus-fee arrangements.

Our product offerings in vessel construction have changed over time to meet market demands and currently include large and small deck barges, single and double hull tank barges, split-hull dump scows, dredges, multi-cat tugs, LPG (liquified petroleum gas) barges, LNG (liquified natural gas) bunker vessel, lift boats, ferries, push boats, offshore tug boats and offshore support vessels. 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.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue				
Vessel construction	$ 43,710	$ 50,442	$ 113,393	$ 104,366
Repair and conversions	6,519	5,803	13,856	14,426
Total revenue	50,229	56,245	127,249	118,792
Cost of revenue				
Vessel construction	50,612	53,108	126,036	106,493
Repair and conversions	5,694	5,745	12,152	13,416
Total cost of revenue	56,306	58,853	138,188	119,909
Gross profit/(loss)				
Vessel construction	(6,902)	(2,666)	(12,643)	(2,127)
Repair and conversions	825	58	1,704	1,010
Total gross profit/(loss)	(6,077)	(2,608)	(10,939)	(1,117)
S G & A expenses	1,848	1,918	3,782	3,647
Income/(loss) from operations	(7,925)	(4,526)	(14,721)	(4,764)
Interest expense	(55)	(62)	(105)	(125)
Other income/(expense), net	106	66	197	179
Income/(loss) before income taxes	(7,874)	(4,522)	(14,629)	(4,710)
Provision/(benefit) for income taxes	(1,962)	(1,164)	(3,666)	(1,236)
Net income/(loss)	$ (5,912)	$ (3,358)	$ (10,963)	$ (3,474)

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Depreciation and amortization expense:				
Vessel construction	$ 1,039	$ 1,065	$ 2,098	$ 2,199
Repair and conversions	311	347	652	679
Included in selling, general and administrative expenses	11	12	21	23
Total depreciation and amortization expense	$ 1,361	$ 1,424	$ 2,771	$ 2,901

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Capital expenditures:				
Vessel construction	$ 351	$ 670	$ 514	$ 1,152
Repair and conversions	(9)	-	(8)	17
Other	41	-	41	(33)
Total capital expenditures	$ 383	$ 670	$ 547	$ 1,136

	June 30, 2023	December 31, 2022
Total assets:		
Vessel construction	$ 58,565	$ 66,482
Repair and conversions	25,840	25,606
Other	53,481	39,064
Total assets	$ 137,886	$ 131,152

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. All of our assets are located in the United States.

15. 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.

One of our significant customers was not making payments on terms agreed upon in contracts to construct two vessels which resulted in related receivables balances of $7.3 million and $15.2 million at December 31, 2020 and 2019, respectively. We entered into contracts to sell the vessels to another buyer and delivered and collected final payment for the first vessel in October 2020. We delivered and collected the final payment on the second vessel in the first quarter of 2021. In March 2019 we took legal action in accordance with our contract provisions which allow us, among other things, to sell the vessels to another buyer or buyers and recover the deficiency, if any, between the contract prices (and other amounts due under the contracts) and the amount of the selling prices plus funds already paid to us by the customer. Legal proceedings were held in December 2022, and we were awarded a $7.49 million judgment in February 2023. The judgment has been appealed to the United States Court of Appeals for the Fifth Circuit. Our financial statements at June 30, 2023 and December 31, 2022 do not include any amounts with respect to the judgment.

Employment Agreements— The Company's employment agreements with its executive officers expired May 31, 2022. As of August 11, 2023, the Company and the Independent Directors Committee are in the process of reviewing the Company's executive compensation program and the terms of potential replacement employment agreements. As of June 30, 2023, the minimum annual total compensation for the executive officers was $1.5 million.

Letters of Credit and Bonds**—** In the normal course of our business, we may be required to provide letters of credit to secure the payment of workers' compensation obligations. Additionally, under certain contracts we may be required to provide letters of credit and bonds to secure our performance and payment obligations, including bid and performance bonds on construction contracts. Bonds relating to these business activities amounted to $180.6 million and $178.4 million at June 30, 2023 and December 31, 2022, respectively. We had letters of credit under our revolving credit facility at June 30, 2023 and December 31, 2022 of $10.0 million. See Note 8 for additional discussion.

Higher Inflation and Interest Rates**—** Inflation reached a near 40-year high in late 2021 and has continued to be high during 2022 and 2023. In March 2022, the Federal Reserve began raising the federal funds target rate/range multiple times, from 0% to 0.25%, to 5.25% to 5.5% on July 26, 2023, contributing to rising market interest rates. Beginning in late 2020, steel prices increased sharply in part due to supply chain issues related to the COVID-19 pandemic, peaking in June and July of 2022, and have continued to remain higher than pre-pandemic levels. During 2022, we also experienced a tighter labor market and in February 2022 we significantly increased our hourly labor rates. Oil prices have been volatile during 2022 and 2023, generally rising through mid-2022 and declining thereafter until recently.

MARAD— The Company was awarded a MARAD grant in the amount of $432,376 as part of the MARAD FY 2021 Small Shipyard Grant Program. This grant will be used to purchase equipment for our Deepwater South yard. 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 $865,000 of which the Federal share for reimbursement is $432,000 and the "required portion" by the Company is $432,000. The Company must expend the required portion before any portion of the Federal share is distributed. As of June 30, 2023, we have expended $801,000, and the Company has received a partial reimbursement of $216,000. The Company has elected to receive the remaining reimbursement at the completion of the project. The Company requested and has been granted an extension of the period of performance through December 15, 2023.

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 2022 Annual Report.

Overview

We specialize in the construction, conversion and repair of a wide variety of marine vessels for commercial and government customers. These vessels include large and small deck barges, tank barges, split-hull dump scows, dredges, multi-cat tugs, LPG barges, LNG bunker vessel, lift boats, ferries, push boats, offshore tug boats 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 six months ended June 30, 2023, our new construction segment accounted for 89.1% of our total revenue and our repair and conversion segment accounted for 10.9% of our total revenue. For the year ended December 31, 2022, our new construction segment accounted for 87.1% of our total revenue and our repair and conversion segment accounted for 12.9% of our total revenue.

Net loss for the second quarter of 2023 was $5.9 million and for the six months ended June 30, 2023 was $11.0 million compared to net loss of $3.4 million for the second quarter of 2022 and $3.5 million for the six months ended June 30, 2022, primarily due to the new construction segment. New construction gross losses in the second quarter of 2023 primarily resulted from loss jobs. Our results were also adversely impacted by higher overhead allocations as we experienced lower overall volume compared to the second quarter of 2022. Gross losses in new construction included charges totaling $6.9 million in the second quarter of 2023 and $12.6 million for the first six months ended June 30, 2023, primarily relating to forward losses on three large, complex projects expected to be completed during the third quarter of 2023 and forward losses on the first five YRBM barges. As described in more detail below, we added $191 million of backlog in the first six months of 2023, and our backlog was $323.7 million at June 30, 2023.

In February 2023, we were awarded a $7.49 million judgment in a suit we filed in 2019 against a customer that defaulted on contracts to construct two vessels. The judgment has been appealed to the United States Court of Appeals for the Fifth Circuit. Our financial statements for 2022 and the first six months of 2023 do not include any amounts with respect to the judgment. For additional information, see Notes 2 and 15 included in this report and *2022 Annual Report - Notes 2 and 15 of Financial Statements*.

At June 30, 2023, we had cash and cash equivalents of $34.6 million compared to $21.6 million at December 31, 2022. Working capital was $47.6 million at June 30, 2023 compared to $57.5 million at December 31, 2022. Total debt was $5.1 million and $5.9 million at June 30, 2023 and December 31, 2022, respectively. As of June 30, 2023, no amounts were drawn on our $10 million revolving credit facility and two $5 million letters of credit were committed against the facility, leaving no amounts available to draw under the facility. For additional information regarding our long-term debt, see Note 8.

Our results for the six months ended June 30, 2023 reflect a continued challenging operating environment, including challenges associated with continued high steel prices, inflationary price increases in other materials and equipment, supply chain disruptions, a tight labor market resulting in difficulties in retaining and hiring direct labor and rising interest rates during 2022 and the first six months of 2023. In February 2022, we significantly increased our hourly labor rates. In new construction, we continue to experience a soft market particularly for energy transportation projects and projects related to the offshore oil and gas industry; however, demand in the infrastructure and government markets helped offset a portion of the adverse impact. We believe that, largely as a result of high steel prices, other inflationary cost increases and higher interest rates, many new construction customers have delayed new orders. The repair sector is showing signs of improving market conditions in the Gulf of Mexico from an uptick in activity and in the inland transportation market as operators are experiencing improved day rates. The infrastructure market also continues to be a bright spot as profitable jobs in the infrastructure market enhanced results in our repair and conversion segment and helped offset some of the adverse impact in our new construction segment. We continue to experience pricing pressure in both segments, which has intensified due to high steel prices and higher interest rates. These factors negatively impacted our results for 2022 and may continue to negatively impact our financial performance through the remainder of 2023.

Beginning in late 2020 and throughout 2021, steel prices increased sharply, primarily due to supply issues caused by the COVID-19 pandemic. While steel prices appeared to be softening in the beginning of 2022, the Russian invasion of Ukraine beginning on February 24, 2022 drove steel prices higher, ultimately peaking in June and July of 2022. Prices began to decline in August of 2022 and appeared to stabilize in early 2023, and availability improved. In March 2023, prices began to increase, have continued to increase through April 2023, and seemed to have stabilized in June 2023. However, current price levels remain significantly higher than pre-pandemic prices. Accordingly, much uncertainty remains regarding future steel prices. For additional information, see our *2022 Annual Report – Business Overview – Material and Supplies*.

Although we face substantial uncertainties in our markets, we believe we are well-positioned to take advantage of opportunities when market fundamentals improve due to our shipyard capacity, our investments in improving our shipyards' capabilities and efficiencies, and our experienced team. Bid activity in 2023 has been relatively strong, although uneven, inland tank barge utilization has been high, there is increased government funding available for infrastructure and military projects and pandemic concerns continue to recede; however, economic uncertainty including concerns regarding continued rising inflation and interest rates could adversely affect us. We are actively exploring projects in the offshore wind industry particularly as it moves into the Gulf of Mexico. We believe some delayed customer orders will move forward if steel prices stabilize or our customers' business opportunities or fleet replacement needs require the vessels. We are also optimistic about opportunities in our repair and conversions segment.

In March 2022, we were awarded a contract by the U.S. Navy for the design and construction of a Yard, Repair, Berthing and Messing ("YRBM") barge, with options for an additional seven barges. The YRBM barges provide a temporary home away from home and workplace for U.S. service men and women whose vessels are in port for repairs and/or maintenance. The fixed-price contract, a small business set-aside, has a potential value of over $140 million if all options are exercised by the U.S. Navy. In July 2022, the U.S. Navy exercised options for two additional YRBM barges, in August 2022 exercised an option for the fourth YRBM barge and in June 2023 exercised an option for the fifth YRBM barge bringing the total contracts awarded to date to $89.4 million. We expect to deliver the first YRBM barge to the U.S. Navy in early 2024, the three additional YRBM barges in 2024 and the fifth YRBM barge in 2025. Due to rapidly rising inflation since the time of our fixed-price bid, we have recorded substantial forward losses on the first five vessels.

In June of 2022, one of our major customers exercised the option to construct a second 6,500-cubic yard capacity trailing suction hopper dredge, which is now the largest contract in our company's history. The first 6,500-cubic yard capacity dredge, which was awarded in 2020 and was at that time the largest contract in our history, is scheduled for delivery prior to the end of third quarter 2023. We have also recently been awarded four 180 ft. cargo/passenger ferries and two large deck barges, one 286 ft. and one 365 ft., both for repeat customers.

In recent years, we have been actively pursuing and have been successful in obtaining opportunities to produce different types of vessels for new markets. Some of these vessels are larger, take longer to start production and take longer to complete than the types of vessels we have constructed more often in the past. For example, as noted above, we have been awarded the two largest contracts in our history, to construct two 6,500-cubic-yard capacity trailing suction hopper dredges. In 2021, we were awarded a 500-cubic yard split-hull hopper dredge, three large split-hull dump scows, which utilize hydraulic systems to open and close the barge's hull, and two multi-purpose tugs. In recent years, we have also constructed barges larger than those we constructed historically, including 55,000 and 80,000 barrel tank barges, and articulated tug barges (ATBs) consisting of a large tank barge and a related tug that is positioned in a notch in the stern of the barge, enhancing the maneuverability of the barge. We also successfully constructed the first LNG bunker barge for the marine market in North America, delivered in 2018, and although the project was not profitable, we believe we have enhanced our knowledge, processes and procedures to enable us to perform profitably on future similar large projects. We believe our capital improvement program at our Deepwater South yard has strengthened our ability to compete for these types of projects. Additionally, in 2022, we were awarded a contract by the U.S. Navy to construct YRBM barges, discussed in greater detail above. While these types of larger projects can entail additional risk, they can also supply us with a more consistent backlog for a longer period of time.

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

During the first six months of 2023 and for the year ended December 31, 2022, we received approximately 0.0% of our total revenues from customers in the Gulf of Mexico oil and gas industry, 24.0% and 7.8% from government customers and 76.0% and 92.2% from other commercial customers.

During the first six months of 2023, we added $191.0 million of backlog, as compared to $198.8 million added in the first six months of 2022. Our backlog was $323.7 million at June 30, 2023, $244.1 million at December 31, 2022 and $245.1 million at June 30, 2022. Our backlog as of June 30, 2023 consisted of 31 vessels: five YRBM barges, five ferries, three LPG barges, three spud barges, four 30,000 bbl tank barges, two 6,500-cubic-yard capacity trailing suction hopper dredges, two multi-cat tugs, two ice class tugs, four deck barges, one drydock, and one towboat. As of June 30, 2023 and December 31, 2022, approximately 27.4% and 47.7%, respectively, of our backlog related to contracts for one commercial customer, most of which related to the two 6,500-cubic-yard capacity trailing suction hopper dredges for Great Lakes Dredge and Dock, with the first scheduled for delivery in the third quarter of 2023 and the second to be delivered in 2025. We expect to complete approximately 32.3% of our backlog at June 30, 2023 during the remainder of 2023. Our management team is focused on effectively executing our backlog and on obtaining additional backlog.

From time to time, we have experienced gaps in our construction schedules and began construction on projects that were not under contract, but we believed we could convert to contracts in a relatively short period of time within starting construction or within completion of the project. The primary goal of this strategy is to maintain operational efficiencies and revenue volumes between contracted projects. We have also constructed stock vessels for strategic business and marketing reasons. The ultimate selling price and timing of the sales of stock vessels can have an impact on our revenue, profitability, and working capital. At June 30, 2023 we did not have any stock vessels under construction. At December 31, 2022, we had eight stock vessels under construction and during the first quarter of 2023, we entered into contracts to sell all eight vessels. Stock vessels contributed approximately 19% of our labor hours in new construction in 2022. Management does not intend to construct additional stock vessels during 2023 at this time.

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

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

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

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 June 30,				Six months ended June 30,			
	2023		2022		2023		2022	
Financial Data:								
Revenue								
Vessel construction	$ 43,710	87.0%	$ 50,442	89.7%	$ 113,393	89.1%	$ 104,366	87.9%
Repair and conversions	6,519	13.0%	5,803	10.3%	13,856	10.9%	14,426	12.1%
Total revenue	50,229	100.0%	56,245	100.0%	127,249	100.0%	118,792	100.0%
Cost of revenue								
Vessel construction	50,612	115.8%	53,108	105.3%	126,036	111.1%	106,493	102.0%
Repair and conversions	5,694	87.3%	5,745	99.0%	12,152	87.7%	13,416	93.0%
Total cost of revenue	56,306	112.1%	58,853	104.6%	138,188	108.6%	119,909	100.9%
Gross profit/(loss)								
Vessel construction	(6,902)	-15.8%	(2,666)	-5.3%	(12,643)	-11.1%	(2,127)	-2.0%
Repair and conversions	825	12.7%	58	1.0%	1,704	12.3%	1,010	7.0%
Total gross profit/(loss)	(6,077)	-12.1%	(2,608)	-4.6%	(10,939)	-8.6%	(1,117)	-0.9%
S G & A expenses	1,848	3.7%	1,918	3.4%	3,782	3.0%	3,647	3.1%
Income/(loss) from operations	(7,925)	-15.8%	(4,526)	-8.0%	(14,721)	-11.6%	(4,764)	-4.0%
Interest expense	(55)	-0.1%	(62)	-0.1%	(105)	-0.1%	(125)	-0.1%
Other income/(expense), net	106	0.2%	66	0.1%	197	0.2%	179	0.2%
Income/(loss) before income taxes	(7,874)	-15.7%	(4,522)	-8.0%	(14,629)	-11.5%	(4,710)	-4.0%
Provision/(benefit) for income taxes	(1,962)	-3.9%	(1,164)	-2.1%	(3,666)	-2.9%	(1,236)	-1.0%
Net income/(loss)	$ (5,912)	-11.8%	$ (3,358)	-6.0%	$ (10,963)	-8.6%	$ (3,474)	-2.9%
EBITDA (1)	$ (6,458)	-12.9%	$ (3,036)	-5.4%	$ (11,753)	-9.2%	$ (1,684)	-1.4%
Net cash provided by/(used in) operating activities	$ 12,014		$ (6,236)		$ 14,360		$ (20,134)	
Net cash used in investing activities	$ (383)		$ (670)		$ (547)		$ (1,136)	
Net cash used in financing activities	$ (375)		$ (375)		$ (750)		$ (750)	

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

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Net cash provided by/(used in) operating activities	$ 12,014	$ (6,236)	$ 14,360	$ (20,134)
Interest expense	55	62	105	125
Provision/(benefit) for income taxes	(1,962)	(1,164)	(3,666)	(1,236)
Deferred income tax provision	583	(20)	933	(5)
Other	-	-	(5)	(4)
Changes in operating assets and liabilities	(17,148)	4,322	(23,480)	19,570
EBITDA	$ (6,458)	$ (3,036)	$ (11,753)	$ (1,684)

Revenue for the second quarter of 2023 decreased $6.0 million, or 10.7%, to $50.2 million compared to $56.2 million generated for the second quarter of 2022, while revenue for the first six months of 2023 reflected an increase of $8.5 million or 7.1% compared to the same period in 2022. The decrease in 2023 second quarter revenue was due to a $6.7 million, or 13.3%, decrease in new construction revenue offset by an increase of $0.7 million, or 12.3%, in repair and conversion revenue. Vessel construction revenue decreased as a result of lower overall volume and product mix. Although hours were slightly lower, repair and conversion revenue increased due to a slight improvement in market conditions in the commercial sector and favorable timing of projects in relation to drydock availability.

Vessel construction hours for the second quarter of 2023 decreased 32.1%, when compared to the same period in 2022 and decreased 29.8% for the first six months of 2023, compared to the same period in 2022. Repair and conversion hours decreased 3.0% for the second quarter of 2023, and decreased 15.5% for the first six months of 2023 when compared to the same periods in 2022.

For the six months ended June 30, 2023, vessel construction revenue was 89.1% of total revenue compared to 87.9% for the same period in 2022 and repair and conversion revenue was 10.9% of total revenue compared to 12.1% for the same period in 2022. For the first six months of 2023, 24.0% of revenue was government related, 0.0% was energy and 76.0% was other commercial. This compares to 4.8% government, 0.0% energy and 95.2% other commercial for the same period in 2022.

Gross loss for the second quarter of 2023 increased to $6.1 million (12.1% of revenue) compared to gross loss of $2.6 million (4.6% of revenue) for the second quarter of 2022. Gross loss for the first six months of 2023 was $10.9 million compared to gross loss of $1.1 million for the first six months of 2022. Vessel construction gross loss was $6.9 million for the second quarter of 2023 compared to gross loss of $2.7 million for the second quarter of 2022. Vessel construction gross loss was $12.6 million for the first six months of 2023 compared to gross loss of $2.1 million for the first six months of 2022. The vessel construction gross losses in 2023 primarily resulted from loss jobs. In addition, our results were adversely impacted by higher overhead allocations due to lower overall volume. During the first six months of 2023, we recorded higher charges for expected losses on backlog projects, as described above. Repair and conversion gross profit was $825,000 or 12.7%, for the second quarter of 2023 compared to gross profit of $58,000 for the second quarter of 2022. For the first six months of 2023, repair and conversion gross profit was $1.7 million compared to $1.0 million for the first six months of 2022. The increase in gross profit in the repair and conversion segment was primarily as a result of improving commercial market conditions and project mix.

Vessel construction gross loss margins were 15.8% for the second quarter of 2023, compared to gross loss margins of 5.3% for the same period of the prior year. Vessel construction gross losses in the first six months of 2023 primarily resulted from the forward losses recorded during the period as described above.

Repair and conversion gross profit margins increased to 12.7% for the second quarter of 2023, compared to gross profit margins of 1.0% for the same period of 2022. Repair and conversion gross profit margins increased in the second quarter of 2023 primarily as a result of product mix and slightly higher margin jobs.

Selling, general and administrative expenses ("SG&A") decreased $70,000, or 3.6% for the second quarter of 2023, and increased $135,000, or 3.7% for the first six months of 2023, compared to the same periods in 2022. The increase for the six months ended June 30, 2023, was primarily as a result of increases in employee related expenses and IT licensing costs. SG&A expenses were $3.8 million (3.0% of revenue) for the first six months of 2023 compared to $3.6 million (3.1% of revenue) for the same period in 2022 and were $1.8 million (3.7% of revenue) for the second quarter of 2023 compared to $1.9 million (3.4% of revenue) for the second quarter of 2022.

Interest expense decreased to $55,000 for the second quarter of 2023. The decrease is due to the reduction in the outstanding balance of the term loan. Interest expense decreased to $105,000 for the six months ended June 30, 2023, as compared to $125,000 for the same period of 2022. The decrease is due to the reduction in the outstanding balance of the term loan.

We had other income of $106,000 in the second quarter of 2023 compared to $66,000 in the second quarter of 2022. We had other income of $197,000 in the first half of 2023 compared to $179,000 in the first half of 2022. The change in other income is primarily related to vendor discounts.

We had an income tax benefit of $1.9 million for the second quarter and $3.7 million for the first half of 2023 compared to an income tax benefit of $1.2 million for the second quarter and first half of 2022. The change in income tax expense is primarily attributable to the decrease in net income in the second quarter and first half of 2023.

Liquidity and Capital Resources

Net cash provided by operating activities was $14.4 million for the first six months of 2023 compared to net cash used in operations of $20.1 million for the same period in 2022. The increase in cash flow from the prior year period is primarily due to a reduction in inventory from the sale of eight stock vessels and an increase in the net change in billings on contracts in progress, partially offset by an increase in accounts receivable. Our working capital position was $47.6 million at June 30, 2023 compared to $57.5 million at December 31, 2022. Cash and cash equivalents at June 30, 2023 and December 31, 2022 were $34.6 million and $21.6 million, respectively. Management continues to engage in a detailed business planning process in assessing the Company's cash position and potential resources in light of the challenging operating environment, new types of projects being pursued, and the Company's capital expenditure program.

Our net cash used in investing activities was $547,000 for the first six months of 2023, and reflected capital expenditures for facility improvements and machinery purchases. Other significant approved capital expenditures include improvements to increase capacity and operational efficiencies. For 2023, our Board of Directors approved $1.6 million in capital expenditures; however, due to the challenging operating environment we will monitor our capital expenditures closely. As of June 30, 2023, we had no material commitments for capital expenditures.

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. As of June 30, 2023, we did not have any stock vessels under construction. Management does not intend to construct additional stock vessels during 2023 at this time.

Net cash used in financing activities for the first six months of 2023 and 2022 was $750,000 for repayment of debt. Our board did not declare a dividend during the first two quarters of 2023 or 2022. 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. For additional information on our common stock dividends, see pages 17 and 20 of our 2022 Annual Report.

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. In the first and second quarters of 2023 there were no purchases of stock. As of June 30, 2023, $1.0 million remained available for future repurchases under our stock repurchase program. For additional information on our stock repurchase program, see page 20 of our 2022 Annual Report.

Our long-term debt is described in Note 8 of our financial statements.

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, including bid and performance bonds on construction contracts. Bonds and letters of credit relating to these business activities amounted to $190.6 million and $188.4 million at June 30, 2023 and December 31, 2022, respectively. We believe that general industry conditions have led customers to require performance bonds and letters of credit more often than in the past. In addition, government contracts typically require bid and 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, in recent periods, due primarily to our recent financial performance and market conditions, we have experienced challenges in obtaining bid and performance bonds or letters of credit on construction contracts. Bonds or letters of credit that we may obtain in the future may have higher costs or require additional collateral.

We believe that our existing working capital and projected cash flow from operations will enable us to meet our cash obligations for at least the next 12 months. Our cash forecasts are subject to change depending on changes in steel, other material and labor costs, the extent to which we experience unanticipated overruns in material costs and labor hours necessary to complete fixed-priced projects, our ability to add profitable backlog and repair work, evolving implications of the war in Ukraine, the extent to which we must extend favorable terms to customers in order to obtain contracts, the impacts of economic conditions, including inflation and rising interest rates, on our customers, employees, subcontractors and suppliers and any potential resurgence of COVID-19 or its variants. For a discussion of material risks that may impact our business, please refer to *"Risk Factors"* in our 2022 Annual Report.

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

Conrad Industries, Inc.

A Delaware Corporation

1100 Brashear Ave., Suite 200, Morgan City, LA 70380

(985) 702-0195
http://www.conradindustries.com
investors@conradindustries.com
3730

Quarterly Report

For the period ending June 30, 2023 **(the "Reporting Period")**

Outstanding Shares
The number of shares outstanding of our Common Stock was:

5,017,935 as of June 30, 2023

5,017,935 as of March 31, 2023

5,017,935 as of December 31, 2022

Shell Status
Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Change in Control
Indicate by check mark whether a Change in Control[1] of the company has occurred over this reporting period:

Yes: ☐ No: ☒

[1] "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;
(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;
(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or
(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

1) Name and address(es) of the issuer and its predecessors (if any)

In answering this item, provide the current name of the issuer any names used by predecessor entities, along with the dates of the name changes.

Conrad Industries, Inc.

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years; Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

A Delaware corporation since March 1998 and its current standing is active.

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception:

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None in the last 12 months. The Company considers strategic transactions and will disclose such considerations or transactions when appropriate.

The address(es) of the issuer's principal executive office:

1100 Brashear Ave., Suite 200, Morgan City, LA 70380

The address(es) of the issuer's principal place of business:
☒ *Check if principal executive office and principal place of business are the same address:*

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: ☒ Yes: ☐ If Yes, provide additional details below:

2) Security Information

Transfer Agent

Name: American Stock Transfer & Trust Company, LLC
Phone: (800) 937-5449
Email: ASTfinancial.com
Address: 6201 15th Avenue
Brooklyn, NY 11219

Publicly Quoted or Traded Securities:

The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.

Trading symbol:	CNRD	
Exact title and class of securities outstanding:	Common Stock	
CUSIP:	208305102	
Par or stated value:	$0.01	
Total shares authorized:	20,000,000	as of date: June 30, 2023
Total shares outstanding:	5,017,935	as of date: June 30, 2023
Total number of shareholders of record:	104	as of date: January 12, 2023

All additional class(es) of publicly quoted or traded securities (if any):

N/A

Other classes of authorized or outstanding equity securities:

The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g. preferred shares). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.

Exact title and class of the security:	Preferred Stock	
CUSIP (if applicable):	N/A	
Par or stated value:	$0.01	
Total shares authorized:	5,000,000	as of date: June 30, 2023
Total shares outstanding (if applicable):	None	as of date: June 30, 2023
Total number of shareholders of record (if applicable):	None	as of date: January 12, 2023

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:

The description of the Company's securities herein is qualified by reference to the terms of the Company's certificate of incorporation, bylaws, and stockholders' rights plan, copies of which are available to investors upon request to the Company, and to the provisions of the Delaware General Corporation Law.

1. **For common equity, describe any dividend, voting and preemption rights.**

Dividends
The holders of Common Stock are entitled to receive dividends if, and when such dividends are declared by the Board of Directors out of assets legally available therefor, after payment of dividends required to be paid on shares of Preferred stock, if any. Upon liquidation or dissolution, holders of Common Stock are entitled to share ratably in all net assets available for distribution to stockholders, after payment of any liquidation preferences to holders of Preferred Stock, if any.

Voting Rights and Preemptive Rights
Each share of Common Stock entitles the holder to one vote in all elections of directors and on all other matters duly submitted to shareholders for their vote or consent. The shares of Common Stock do not have cumulative voting rights. The holders of Common Stock do not have preemptive rights.

Stockholders' Rights Plan

During May 2002, we adopted a rights plan, which was amended in May 2012 and May 2022. 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, 2032, 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.

2. **For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

Preferred Stock may be issued from time to time in one or more series and in such amounts as may be determined by the Board of Directors. The voting powers, designations, preferences and relative, participating, optional or other special rights, including dividend, redemption and conversion rights, and liquidation preference, if any, and the qualifications, limitations or restrictions thereof, if any, of the Preferred Stock of each series will be fixed by the Board of Directors at the time of issuance.

3. **Describe any other material rights of common or preferred stockholders.**

The description of the Company's securities herein is qualified by reference to the terms of the Company's certificate of incorporation, bylaws, and stockholders' rights plan, copies of which are available to investors upon request to the Company, and to the provisions of the Delaware General Corporation Law.

4. **Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.**

At the Company's annual meeting of stockholders on August 8, 2023, the stockholders approved an amendment to the Company's certificate of incorporation to add an officer exculpation provision. The amendment was filed with the Delaware Secretary of State and became effective on August 8, 2023. For additional information, see the Company's proxy statement for its 2023 annual meeting of stockholders.

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period**.

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:
No: ☒ Yes: ☐ (If yes, you must complete the table below)

Shares Outstanding as of Second Most Recent Fiscal Year End: Opening Balance Date January 1, 2021 Common: 5,017,935 Preferred: 0			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	**Transaction type (e.g., new issuance, cancellation, shares returned to treasury)**	**Number of Shares Issued (or cancelled)**	**Class of Securities**	**Value of shares issued ($/per share) at Issuance**	**Were the shares issued at a discount to market price at the time of issuance? (Yes/No)**	**Individual/ Entity Shares were issued to.** ***You must disclose the control person(s) for any entities listed.**	**Reason for share issuance (e.g. for cash or debt conversion) -OR- Nature of Services Provided**	**Restricted or Unrestricted as of this filing.**	**Exemption or Registration Type.**
______	______	______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______	______	______
Shares Outstanding on Date of This Report: Ending Balance Ending Balance: Date June 30, 2023 Common: 5,017,935 Preferred: 0									

Example: A company with a fiscal year end of December 31st, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2021 through December 31, 2022 pursuant to the tabular format above.

Use the space below to provide any additional details, including footnotes to the table above:

____

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: ☒ Yes: ☐ (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance ($)	Principal Amount at Issuance ($)	Interest Accrued ($)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder. *You must disclose the control person(s) for any entities listed.	Reason for Issuance (e.g. Loan, Services, etc.)
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______
______	______	______	______	______	______	______	______

Use the space below to provide any additional details, including footnotes to the table above:

_____

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations.
(Please ensure that these descriptions are updated on the Company's Profile on www.otcmarkets.com).

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

Conrad Industries specializes in the construction, repair and conversion of a wide variety of marine vessels, including barges, tug boats, tow boats, dredges, ferries, and lift boats. Through our subsidiaries, we operate five shipyards in Louisiana and Texas that serve a variety of customers and markets. For the quarter ended June 30, 2023, 0.0 percent of our total revenue was related to the Gulf of Mexico oil and gas industry, 76.0 percent was related to other commercial markets, and 24.0 percent was government related. For additional information regarding our business operations, please see Section I of our 2022 Annual Report – *"Business Overview,"* beginning on page 5.

B. List any subsidiaries, parent company, or affiliated companies.

Conrad Industries, Inc. is the parent company for our business. Our wholly-owned subsidiaries, are Conrad Shipyard, L.L.C., Conrad Orange Shipyard, Inc., Conrad Shipyard Amelia, L.L.C. and Conrad LNG, L.L.C. For additional information regarding our subsidiaries, please see Section I of our 2022 Annual Report – *"Business Overview,"* beginning on page 5.

C. Describe the issuers' principal products or services.

Conrad Industries specializes in the construction, repair and conversion of marine vessels at its shipyards in Louisiana and Texas. The Company serves a variety of markets. For additional information regarding our products and principal markets, please see Section I of our 2022 Annual Report – *"Business Overview,"* beginning on page 5.

5) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

Through our subsidiaries, we own and operate five shipyards: one in Morgan City, Louisiana, three in Amelia, Louisiana, and one in Orange, Texas. For a detailed description of our facilities, please see Section I of our 2022 Annual Report – *"Properties,"* beginning on page 18.

Our term loan and revolving credit facility are secured by accounts receivable, deposit accounts and chattel paper, and by two dry-docks.

6) Officers, Directors, and Control Persons

Using the table below, please provide information, as of the period end date of this report, regarding any officers, or directors of the company, individuals or entities controlling more that 5% of any class of the issuers securities, or any person that performs a similar function, regardless of the number of shares they own. **If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity in the note section.**

Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Names of All Officers, Directors and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity
John P. Conrad, Jr.	Chief Executive Officer and Chairman of the Board / Owner of more than 5%	Berwick, Louisiana	991,375	Common	19.8%	_____
Katherine C. Court	Owner of more than 5%	Round Mountain, Texas	521,634	Common	10.4%	_____
Johnny & Mary Lou Conrad Family, LLC	Owner of more than 5%	Morgan City, Louisiana	260,816	Common	5.2%	Edward Leonard & John P. Armato, as Co-Trustees of the Johnny & Mary Lou Conrad 2009 Trust
Johnny & Mary Lou Conrad 2009 Trust	Owner of more than 5%	Morgan City, Louisiana	255,600	Common	5.1%	Edward Leonard & John P. Armato, as Co-Trustees
Cecil A. Hernandez	President and Secretary; Director	Berwick, Louisiana	50,968	Common	1.0%	_____

Michael J. Harris	Director	Memphis, Tennessee	6,670	Common	_____	_____
Ogden U. Thomas, Jr.	Director	Patterson, Louisiana	2,000	Common	_____	_____
Daniel T. Conrad	Senior Vice President; Director	Morgan City, Louisiana	1,200	Common	_____	_____
Larry J. Callais	Director	Berwick, Louisiana	None	_____	_____	_____
Brett T. Wolbrink	Executive Vice President and Chief Operating Officer	Sulphur, Louisiana	None	_____	_____	_____
Scott A. Thomas	Vice President, Chief Financial Officer and Assistant Secretary	Patterson, Louisiana	None	_____	_____	_____

7) Legal/Disciplinary History

A. Identify whether any of the persons or entities listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

No

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

No

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

No

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

No

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject.

Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

For information regarding legal proceedings, please see Notes 2 and 15 to our audited financial statements for the year ended December 31, 2022 and Notes 2 and 15 to our unaudited financial statements for the quarter ended June 30, 2023.

8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Securities Counsel (must include Counsel preparing Attorney Letters).

Name: Jones Walker, LLP
Address 1: 445 North Boulevard, Suite 800
Address 2: Baton Rouge, Louisiana 70802
Phone: (225) 248-2000
Email: drousseau@joneswalker.com

Accountant or Auditor

Name: Jeremy C. Meaux, CPA
Firm: Darnall, Sikes & Frederick
Address 1: 2000 Kaliste Saloom Road
Address 2: Lafayette, Louisiana 70508
Phone: (337) 232-3312
Email: jeremym@dsfcpas.com

Investor Relations

Name: None
Firm:
Address 1:
Address 2:
Phone:
Email:

All other means of Investor Communication:

Twitter: N/A
Discord: N/A
LinkedIn N/A
Facebook: N/A
[Other] N/A

Other Service Providers
Provide the name of any other service provider(s) that **that assisted, advised, prepared, or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

Name: None
Firm:

Nature of Services:
Address 1:
Address 2:
Phone:
Email:

9) Financial Statements

A. The following financial statements were prepared in accordance with:

☐ IFRS
☒ U.S. GAAP

B. The following financial statements were prepared by (name of individual)[2]:

Name:	Scott A. Thomas
Title:	Vice President, Chief Financial Officer and Assistant Secretary
Relationship to Issuer:	Employee

Describe the qualifications of the person or persons who prepared the financial statements:

Scott A. Thomas became Vice President, Chief Financial Officer and Assistant Secretary of the Company in July 2022. Prior to joining the Company, Mr. Thomas served as Vice President of Finance at Twin Brothers Marine since June 2020 and as Chief Financial Officer/Vice President of Finance and Administration at Intermoor Inc., from October 2004 until April 2020. In his early career, Mr. Thomas worked as an Accounting Manager for Technip Offshore, the previous owner of InterMoor. Prior to Technip, Mr. Thomas was a Business Analyst for Houma-based Cross Group and a Marine Logistics Coordinator for Leevac Marine/Hornbeck Offshore. Mr. Thomas is a graduate of University of Louisiana at Lafayette with a Bachelor of Science degree in Accounting and a Master of Business Administration degree.

Provide the following financial statements for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

a. Audit letter, if audited;
b. Balance Sheet;
c. Statement of Income;
d. Statement of Cash Flows;
e. Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
f. Financial Notes

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

[2] The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

The certifications shall follow the format below:

I, John P. Conrad, Jr. and Cecil A. Hernandez certify that:

1. I have reviewed this Disclosure Statement for ;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 14, 2023

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

/s/ Cecil A. Hernandez
President and Secretary,
and member of the Board

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

Principal Financial Officer:

I, Scott A. Thomas certify that:

1. I have reviewed this Disclosure Statement for ;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 14, 2023

/s/ Scott A. Thomas
Vice President, Chief Financial Officer and Assistant Secretary

(Digital Signatures should appear as "/s/ [OFFICER NAME]")