

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended December 31, 2006

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number 1-5109

**TODD SHIPYARDS CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

(State or other jurisdiction of incorporation or organization)

**91-1506719**

(I.R.S. Employer Identification Number)

**1801-16th Avenue SW**

**Seattle, WA**

(Address of principal executive offices)

**98134-1089**

(Zip Code)

Registrant's telephone number, including area code:

**(206) 623-1635**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

LARGE ACCELERATED FILER  ACCELERATED FILER  NON-ACCELERATED FILER

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

There were 5,638,676 shares of the corporation's \$0.01 par value common stock outstanding at February 8, 2007.

**“SAFE HARBOR” STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Statements contained in this Report that are not historical facts or information are “forward-looking statements.” Words such as “believe,” “expect,” “intend,” “will,” “should,” and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome to be materially different than stated. Such risks and uncertainties include both general economic risks and uncertainties and matters discussed in the Company’s annual report on Form 10-K which relate directly to the Company’s operations and properties. The Company cautions that any forward-looking statement reflects only the belief of the Company or its management at the time the statement was made. Although the Company believes such forward-looking statements are based upon reasonable assumptions, such assumptions may ultimately prove to be inaccurate or incomplete. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.

**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TODD SHIPYARDS CORPORATION****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

Periods Ended December 31, 2006 and January 1, 2006

(In thousands of dollars, except per share data)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>12/31/2006</u>	<u>1/1/2006</u>	<u>12/31/2006</u>	<u>1/1/2006</u>
Revenues	\$ 44,150	\$ 31,557	\$ 80,771	\$ 169,200
Operating expenses:				
Cost of revenue	31,226	22,032	55,936	125,137
Administrative and manufacturing overhead	10,278	7,824	24,511	32,708
Other insurance settlements	(17)	(73)	(69)	(207)
Total operating expenses	41,487	29,783	80,378	157,638
Operating income	2,663	1,774	393	11,562
Investment and Other Income				
Lease income	1,835	43	2,436	128
Lease expense	(1,032)	-	(1,254)	(1)
Investment and Other income	193	410	876	989
Gain on available-for-sale securities	59	-	429	13
Total Investment and Other income	1,056	453	2,487	1,129
Income before income tax expense	3,719	2,227	2,880	12,691
Income tax benefit (expense)	(1,279)	(775)	(994)	(4,340)
Net income	<u>\$ 2,440</u>	<u>\$ 1,452</u>	<u>\$ 1,887</u>	<u>\$ 8,351</u>
Net income per common share				
Basic	\$ 0.44	\$ 0.27	\$ 0.34	\$ 1.54
Diluted	\$ 0.43	\$ 0.26	\$ 0.33	\$ 1.49
Dividends declared per common share	\$ 0.15	\$ 0.10	\$ 0.45	\$ 0.30
Extraordinary dividends declared per common share	\$ -	\$ -	\$ 4.00	\$ -
Weighted average shares outstanding				
Basic	5,525	5,423	5,588	5,423
Diluted	5,637	5,617	5,708	5,600
Retained earnings at beginning of period	\$ 68,109	\$ 92,552	\$ 92,454	\$ 86,739
Net income for the period	2,440	1,452	1,887	8,351
Dividends declared on common stock	(846)	(543)	(24,637)	(1,629)
Retained earnings at end of period	<u>\$ 69,704</u>	<u>\$ 93,461</u>	<u>\$ 69,704</u>	<u>\$ 93,461</u>

The accompanying notes are an integral part of these statements.

**TODD SHIPYARDS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**Unaudited December 31, 2006 and Audited April 2, 2006**  
(In thousands of dollars except share data)

	<u>12/31/06</u>	<u>04/02/06</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 579	\$ 6,581
Securities available-for-sale	15,633	40,349
Accounts receivable		
U.S. Government	6,682	6,034
Other	3,355	4,498
Costs and estimated profits in excess of billings on incomplete contracts	16,006	12,610
Inventory	1,423	1,409
Insurance receivable	165	165
Other current assets	5,387	1,625
Deferred tax asset	791	1,344
<i>Total current assets</i>	<u>50,021</u>	<u>74,615</u>
Property, plant and equipment, net	29,618	29,893
Restricted cash	3,377	3,306
Deferred pension assets	26,609	27,199
Insurance receivable	9,605	11,203
Other long-term assets	1,001	1,039
<i>Total assets</i>	<u>\$ 120,231</u>	<u>\$147,255</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accruals	\$ 14,203	\$16,070
Accrued payroll and related liabilities	1,986	2,722
Billings in excess of costs and estimated profits on incomplete contracts	3,850	3,579
Environmental and other reserves	165	165
Taxes payable other than income taxes	980	1,535
Income taxes payable	-	283
<i>Total current liabilities</i>	<u>21,184</u>	<u>24,354</u>
Environmental and other reserves	12,062	13,994
Accrued post retirement health benefits	14,176	14,440
Deferred tax liability	5,977	6,122
Other non-current liabilities	2,371	2,632
<i>Total liabilities</i>	<u>55,770</u>	<u>61,542</u>
<b>Stockholders' equity</b>		
Common stock \$.01 par value, authorized 19,500,000 shares, issued 11,956,026 shares at December 31, 2006 and April 2, 2006, and outstanding shares 5,638,676 at December 31, 2006 and 5,524,835 at April 2, 2006.	120	120
Paid-in capital	40,392	39,625
Retained earnings	69,704	92,454
Accumulated other comprehensive income	20	155
Treasury stock (6,317,350 shares at December 31, 2006 and 6,431,191 shares at April 2, 2006).	(45,775)	(46,641)
<i>Total stockholders' equity</i>	<u>64,461</u>	<u>85,713</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 120,231</u>	<u>\$ 147,255</u>

The accompanying notes are an integral part of these statements.

**TODD SHIPYARDS CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Periods Ended December 31, 2006 and January 1, 2006  
(in thousands of dollars)

	<b>Nine Months Ended</b>	
	<b>12/31/2006</b>	<b>1/1/2006</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,887	\$ 8,351
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	2,808	2,841
(Gain) loss on disposal of fixed assets	(25)	-
(Gain) loss on available-for-sale securities	(280)	-
Deferred pension cost	590	587
Post retirement health benefits	(264)	(435)
Deferred income tax expense	204	(137)
Stock based compensation	225	98
Changes in operating assets and liabilities		
Accounts receivable	495	8,556
Costs and estimated profits in excess of billings on incomplete contracts	(3,396)	2,667
Inventory	(14)	169
Insurance receivable	1,598	7,278
Other assets, net	(3,619)	(101)
Accounts payable and accruals	(1,867)	(7,477)
Accrued payroll and related liabilities	(736)	(868)
Billings in excess of costs and estimated profits on incomplete contracts	271	472
Environmental and other reserves	(1,932)	(7,507)
Income taxes payable	(283)	928
Other liabilities	(816)	(1,403)
Net cash provided by (used in) operating activities	(5,153)	14,019
<b>INVESTING ACTIVITIES</b>		
Purchases of marketable securities	-	(13,301)
Sales of marketable securities	23,959	22
Maturities of marketable securities	1,000	7,000
Proceeds from disposal of fixed assets	25	-
Capital expenditures	(2,534)	(4,609)
Net cash provided by (used in) investing activities	22,451	(10,888)
<b>FINANCING ACTIVITIES</b>		
Restricted cash	(71)	(644)
Proceeds from exercise of stock options	1,408	-
Dividends paid on common stock	(24,637)	(1,629)
Net cash used in financing activities	(23,300)	(2,273)
Net increase (decrease) in cash and cash equivalents	(6,002)	858
Cash and cash equivalents at the beginning of period	6,581	3,823
Cash and cash equivalents at the end of the period	\$ 579	\$ 4,681

The accompanying notes are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Todd Shipyards Corporation (the "Company") filed its Consolidated Financial Statements for the fiscal year ended April 2, 2006 with the Securities and Exchange Commission on Form 10-K. The Consolidated Financial Statements, Notes to Consolidated Financial Statements and Management's Discussion and Analysis contained in that report should be read in connection with this Form 10-Q.

### 1. BASIS OF PRESENTATION

The accompanying Consolidated Financial Statements are unaudited but in the opinion of management reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's financial position and results of operations in accordance with accounting principles generally accepted in the United States applied on a consistent basis. The accompanying consolidated balance sheet as of April 2, 2006 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year then ended.

#### Third Quarter Adjustment

Revenues for the three months ended December 31, 2006 includes revenues of \$0.3 million (pretax) which should have been recorded in the quarter ended October 1, 2006. This adjustment represents a correction to deferred revenue for additional billings recognized on a closed project. Management believes the impact of this correction is not material to either of the quarters ended October 1, 2006 or December 31, 2006.

### 2. RECENT ACCOUNTING PRONOUNCEMENTS

Effective April 3, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ("SFAS 123R"). SFAS 123R is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, supercedes APB Opinion No.25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No.95, *Statement of Cash Flows*. Generally, the approach in SFAS 123R is similar to the approach described in Statement 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company adopted this revised statement using the "modified prospective" recognition method in which compensation cost is recognized beginning on the first day of the Company's fiscal year 2007 for all share-based payments granted after the effective date and for all awards granted to employees prior to April 3, 2006 that remain unvested on the effective date. Adoption of SFAS 123R does not have a material impact on the Company's financial statements and results of operations due to the Company's election in fiscal year 2003 to apply the expense recognition provisions of Statement 123 as well as due to the relatively small number of unvested options outstanding upon adoption.

On September 30, 2006, the Financial Accounting Standards Board (FASB) issued the new Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"). This new standard amends FASB Statements No. 87, 88, 106, and 132(R), all of which provide accounting guidance for pensions and other postretirement benefits. The objectives of this statement are for an employer to (a) recognize the over funded or under funded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur, and (b) measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The effective dates of the two objectives are for fiscal years ending after December 15, 2006 and December 15, 2008, respectively. Regarding the recognition requirement, the Company plans to adopt SFAS 158 as of its fiscal year end on April 1, 2007. The estimated impact of this adoption is an approximate \$6.0 million; net of tax, reduction in accumulated other comprehensive income and an approximate \$8.6 million reduction in deferred pension assets. Regarding the measurement date requirement, the Company currently uses a measurement date consistent with the requirements of this standard.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Regarding the recognition requirement, the Company plans to adopt FIN 48 as of its fiscal year beginning April 1, 2007. The Company is currently evaluating the impact of FIN 48 on its consolidated results of operations and financial condition.

### **3. REVENUES**

The Company recognizes revenue, costs, and profit on construction contracts in accordance with Statement of Position No. 81-1 (SOP No. 81-1), "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." The Company enters into government cost-type contracts, time and materials contracts, and fixed price contracts.

The ship repair business consists of individual and short duration repair events, some of which are exercised by the Government under its various multi-ship, multi-option contracts. Consequently, operating results for any period presented are not necessarily indicative of results that may be expected in any other period.

### **4. ENVIRONMENTAL AND OTHER RESERVES**

As discussed in the Company's Form 10-K for the fiscal year ended April 2, 2006, the Company faces liabilities in connection with the alleged presence of hazardous waste materials at its Seattle shipyard and at two additional sites used by the Company for disposal of alleged hazardous waste. Parties alleging damages from past exposure to toxic substances at Company facilities have also named the Company as a defendant in civil actions.

The Company continues to analyze environmental matters and associated liabilities for which it may be responsible. No assurance can be given as to the existence or extent of any environmental liabilities until such analysis has been completed. The eventual outcome of all environmental matters cannot be determined at this time; however, the analyses of the known matters have progressed sufficiently to warrant establishment of reserve provisions in the accompanying consolidated financial statements.

#### **Harbor Island Site**

In fiscal year 2001, the Company entered into a 30-year agreement with an insurance company that provides broad-based insurance coverage for the remediation of the Company's operable units at the Harbor Island Superfund Site ("Site").

The agreement provides coverage for the known liabilities in an amount not to exceed the policy limits. As of December 31, 2006, these policy limits exceed the Company's current booked reserves of approximately \$4.5 million. Included in the reserves are sediment remediation costs for Harbor Island of \$0.2 million that are expected to occur in the next 12 months. These costs are reflected in the Company's balance sheet under current liabilities. Likewise, the insurance receivable of \$0.2 million relating to these reserves is reflected in the Company's balance sheet under current assets.

Additionally, in fiscal year 2001 the Company entered into a 15-year agreement for coverage of any new environmental conditions discovered at the Seattle shipyard property that would require environmental remediation.

During the fourth quarter of fiscal year 2003, the Company and the EPA entered into a Consent Decree for the cleanup of the Shipyards Sediments Operable Unit (the "SSOU"), which was subsequently approved by the Department of Justice.

Remediation of the SSOU began in the second quarter of fiscal 2005. The Company finished the pier demolition and required dredging in its entirety in fiscal year 2006.

Under the Federal Superfund law, potentially responsible parties may have liability for damages to natural resources in addition to liability for remediation. During fiscal year 2003, the Company began discussions with the natural resource trustees ("Trustees") for the Site. The Company anticipates that the Trustees will file a claim against the Company at some future date alleging damages to the natural resources at the Site caused by the release of hazardous substances. The best estimate of the Company's natural resource damage liability is included in the environmental remediation reserve. The payment of any eventual claim is covered by the aforementioned insurance policy, provided that aggregate policy limits have not been exceeded.

#### **Other Environmental Sites**

The Company was notified in November 2006 regarding the discovery of sub surface oil on the property formerly owned by the Company in Galveston, Texas. The subject property was sold by the Company to the Port of Galveston in 1992 and there have been several intervening owners and operators at the site since 1992. The Company is investigating the factual allegations and any potential liability. Due to the uncertainties at this time the Company has not established a reserve.

During the third quarter of fiscal year 2005, the Company, along with 55 other companies and organizations, was notified that it is a potentially responsible party ("PRP") at the BKK Landfill Facility in West Covina, California. The site is the subject of an

investigation and remedial order from the California Department of Toxic Substances Control. It is alleged that the Company's San Pedro shipyard (closed in 1990) caused shipyard waste to be sent to the BKK Facility during the 1970s and 1980s. The Company is investigating these allegations and is unable to estimate its exposure at this time.

During the second quarter of fiscal year 2005, the EPA notified the Company that it is a PRP at the Malone Service Company Superfund Site ("Malone") in Galveston County, Texas. The EPA alleges that the Company's Galveston shipyard, which ceased operations in 1990, was the generator of waste materials that were delivered, through independent transport companies, to the Malone site. The EPA has further indicated that the Company will, based on volumes of material at the site believed to have been generated by the Company, be eligible to participate in a "de minimus" settlement for small contributors. The Company has included its best estimate of the settlement amount in its environmental reserve.

#### **Asbestos-Related Claims**

As reported in the Company's Form 10-K for its fiscal year 2006, the Company has been named as a defendant in civil actions by parties alleging damages from past exposure to toxic substances, generally asbestos, at closed former Company facilities.

The cases generally include as defendants, in addition to the Company, other ship builders and repairers, ship owners, asbestos manufacturers, distributors and installers, and equipment manufacturers and arise from injuries or illnesses allegedly caused by exposure to asbestos or other toxic substances. The Company assesses claims as they are filed and as the cases develop, analyzing them in two different categories based on severity of illness. Based on current fact patterns, certain diseases including mesothelioma, lung cancer and fully developed asbestosis are categorized by the Company as "malignant" claims. All others of a less medically serious nature are categorized as "non-malignant". The Company is currently defending approximately 22 "malignant" claims and approximately 546 "non-malignant" claims. The Company and its insurers are vigorously defending these actions.

As of December 31, 2006 the Company has recorded a bodily injury liability reserve of \$6.8 million and a bodily injury insurance receivable of \$5.3 million. This compares to a previously recorded bodily injury reserve and insurance receivable of \$7.3 million and \$5.5 million, respectively, at April 2, 2006. These bodily injury liabilities and receivables are classified within the Company's Consolidated Balance Sheets as environmental and other reserves, and insurance receivables, respectively.

#### **Other Reserves**

During the first quarter of fiscal year 2004, the Company recorded a reserve of \$2.5 million related to the unanticipated bankruptcy of one of its previous insurance carriers. The reserve, which reflects the Company's best estimate of the known liabilities associated with unpaid workers compensation claims arising from the two-year coverage period commencing October 1, 1998, is subject to change as additional facts are uncovered. These claims have reverted to the Company due to the liquidation of the insurance carrier. Although the Company expects to recover at least a portion of these costs from the liquidation and other sources, the amount and the timing of any such recovery cannot be estimated currently and therefore no estimate of amounts recoverable is included in the current financial results.

Since establishing the reserve, the Company has paid approximately \$0.7 million and \$0.6 million in claims as of December 31, 2006 and April 2, 2006, respectively, which have been charged against the reserve.

### **5. COMPREHENSIVE INCOME**

The Company reported a comprehensive income of \$2.4 million for the quarter ended December 31, 2006 which consisted of net income of \$2.4 million and a net unrealized gain in available-for-sale securities of \$0.01 million recorded in accumulated other comprehensive income. For the nine month period then ended, the Company reported a comprehensive income of \$1.8 million, which consisted of net income of \$1.9 million and a net unrealized loss on available-for-sale securities of \$0.1 million.

During the same period of fiscal year 2006, the Company reported a comprehensive income of \$1.4 million for the quarter ended January 1, 2006, which consisted of net income of \$1.5 million and a decrease in net unrealized gains on available-for-sale marketable securities of \$0.1 million. For the nine month period then ended, the Company reported comprehensive income of \$8.5 million, which consisted of net income of \$8.4 million and a net unrealized gain on available-for-sale securities of \$0.1 million.

## 6. NET INCOME PER SHARE

The following table represents the calculation of net income per common equivalent share – diluted.

(in thousands of dollars, except per share data)	Three Months Ended		Nine Months Ended	
	12/31/2006	1/1/2006	12/31/2006	1/1/2006
Net income	\$ 2,440	\$ 1,452	\$ 1,887	\$ 8,351
Weighted average common shares outstanding	5,525	5,423	5,588	5,423
Dilutive effect of stock options on weighted average common shares	112	194	120	177
Weighted average common shares outstanding	5,637	5,617	5,708	5,600
Net income per common share diluted	\$ 0.43	\$ 0.26	\$ 0.33	\$ 1.49

## 7. PENSIONS AND OTHER POSTRETIREMENT BENEFIT PLANS

**Nonunion Pension Plan** - The Company sponsors the Todd Shipyards Corporation Retirement System (the “Retirement System”), a non-contributory defined benefit plan under which all nonunion employees are covered. The benefits are based on years of service and the employee’s compensation before retirement. The Company’s funding policy is to fund such retirement costs as required to meet allowable deductibility limits under current Internal Revenue Service regulations. The Retirement System plan assets consist principally of common stocks and Government and corporate obligations.

Under a provision of the Omnibus Budget Reform Act of 1990 (“OBRA ‘90”) the Company will transfer approximately \$1.3 million in excess pension assets from its Retirement System into a fund to pay fiscal year 2007 retiree medical benefit expenses. OBRA ‘90 was modified by the Work Incentives Improvement Act of 1999 and subsequently updated April 10, 2004 by the Pension Funding Equity Act (HR-3108) to extend annual excess asset transfers through the fiscal year ending March 30, 2014.

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	12/31/06	01/01/06	12/31/06	01/01/06
Components of net periodic benefit cost				
Service cost	\$ 200	\$ 174	\$ 599	\$ 523
Interest cost on projected benefit obligation	403	390	1,209	1,169
Expected return on plan assets	(824)	(843)	(2,472)	(2,528)
Amortization of prior service cost	3	3	9	8
Recognized actuarial loss	110	102	331	307
Net periodic (benefit) cost before asset transfer	(108)	(174)	(324)	(521)
Asset transfer	305	369	914	1,107
Contributions for key employees	-	-	-	-
Net periodic cost	\$ 197	\$ 195	\$ 590	\$ 586

**Post Retirement Group Health Insurance Program** - The Company sponsors a defined benefit retirement health care plan that provides post retirement medical benefits to former full-time exempt employees, and their spouses, who meet specified criteria. The Company terminated post retirement health benefits for any employees retiring subsequent to May 15, 1988.

The retirement health care plan contains cost-sharing features such as deductibles and coinsurance. These benefits are funded monthly through the payment of group health insurance premiums.

Because such benefit obligations do not accrue for current employees of the Company, there is no current year service cost component of the accumulated post retirement health benefit obligation.

Other Post Retirement Benefits (in thousands of dollars)	Three Months Ended		Nine Months Ended	
	12/31/06	01/01/06	12/31/06	01/01/06
Components of net periodic benefit cost				
Interest cost on projected benefit obligation	\$ 217	\$ 224	\$ 651	\$ 672
Recognized actuarial loss	-	-	-	-
Net periodic benefit cost before 401h transfer	217	224	651	672
Transfer of assets for payment of retiree medical benefits (401(h) Plan)	(305)	(369)	(914)	(1,107)
Net periodic benefit	\$ (88)	\$ (145)	\$ (263)	\$ (435)

**Union Pension Plans - Operating Shipyard** - The Company participates in several multi-employer defined benefit and/or defined contribution pension plans, which provide benefits to the Company's collective bargaining employees. The expense under these plans totaled \$0.8 million and \$1.8 million for the quarter and nine months ended December 31, 2006, respectively.

During the same period of fiscal year 2006, the expense for these plans totaled \$0.8 million and \$3.4 million, respectively.

## 8. LEASING ACTIVITIES

### Lease Income and Lease Expense

The Company entered into a lease on January 9, 2006, to provide facility support on the Hood Canal Bridge Construction Project. The lease's duration is anticipated to continue until early 2009. Lease income and Lease expense from all facility rentals have been reported separately due to the materiality of the revenue and expenses associated with this lease. The Company's has recorded lease income of \$1.8 million and related lease expenses of \$1.0 million for the third quarter.

Lease income and related lease expenses for the first nine months of fiscal year 2007 was \$2.4 million and \$1.3 million, respectively.

## ITEM 2. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Notes to Consolidated Financial Statements are an integral part of Management's Discussion and Analysis of Financial Condition and Results of Operations and should be read in conjunction herewith.

### OVERVIEW

The Company derives a significant portion of its revenues from work performed under its contracts with the United States Navy ("Navy") and the United States Coast Guard ("Coast Guard"). Work under such contracts is scheduled by and at the convenience of the Navy and the Coast Guard. Coast Guard work on the Polar Class Icebreakers as well as work on submarine contracts for Electric Boat Corporation ("EB") contributed significantly to the amount of work performed in the first three quarters of fiscal year 2007.

### OPERATING RESULTS

All comparisons within the following discussion are to the corresponding period in the previous year, unless otherwise stated.

**Revenue** - The Company's third quarter revenue of \$44.2 million reflects an increase of \$12.6 million (40%) from the same period last fiscal year. The quarter to quarter increase largely results from higher work volumes primarily attributable to work for the Navy on the USS Abraham Lincoln NIMITZ-class aircraft carrier.

Revenues for the first nine months of fiscal year 2007 of \$80.8 million reflect a decrease of \$88.4 million (52%) from the comparable period of fiscal year 2006. The revenue decrease in the first nine months of fiscal year 2007 is primarily attributable to reductions in Navy and Coast Guard volumes. The majority of the Company's Navy work volumes, as measured by direct labor hours, are associated with short-term (less than six months) vessel availabilities executed under multi-year option contracts. In the first nine

months of the prior year, revenues were favorably impacted by overhaul work on the aircraft carrier USS Stennis, post shakedown availability work on the destroyer USS Momsen, the scheduled service availability (docking) of the frigate USS Ford and the planned maintenance availability (docking) of the Coast Guard Polar Sea icebreaker, all of which completed prior to the current fiscal year. In contrast, the first nine months of the current year coincided with planning and overhaul work on the aircraft carrier USS Lincoln and lower volumes associated with work for the Coast Guard on the Polar Star and Healy icebreakers.

The ship repair business consists of individual and short duration repair events, some of which are exercised by the Government under its various multi-ship, multi-option contracts. Consequently, operating results for any period presented are not necessarily indicative of results that may be expected in any other period.

**Cost of Revenue** - Cost of revenue during the third quarter of fiscal year 2007 was \$31.2 million, or 71% of revenue. Cost of revenue during the third quarter of fiscal year 2006 was \$22.0 million, or 70% of revenue. The increase in cost of revenue in the third quarter of fiscal year 2007 is primarily attributable to an increase in Navy and Ship Repair work volumes.

Cost of revenue during the first nine months of fiscal year 2007 was \$55.9 million, or 69% of revenue. During the comparable period in fiscal year 2006, cost of revenue was \$125.1 million, or 74% of revenue. The decrease in cost of revenue is primarily driven by the aforementioned volume reductions versus the same period in the prior year. The decrease in the cost of revenue as a percentage of revenue when compared to the third quarter of fiscal year 2006 is primarily attributable to higher overhead reimbursement rates which affect cost-type revenues.

**Administrative and manufacturing overhead expense** - Overhead costs for administrative and manufacturing activities were \$10.3 million, or 23% of revenue, for the third quarter of fiscal year 2007. During the same period of fiscal year 2006, administrative and manufacturing overhead costs were \$7.8 million, or 25% of revenue. The \$2.4 million increase in administrative and manufacturing overhead is primarily attributable to volume increases in the third quarter of fiscal 2007 versus the same period in the prior fiscal year.

Administrative and manufacturing overhead costs for the first nine months of fiscal year 2007 were \$24.5 million, or 30% of revenue. During the same period of fiscal year 2006, administrative and manufacturing overhead costs were \$32.7 million, or 19% of revenue. The \$8.2 million decrease is the result of lower volumes during the first nine months of fiscal 2007 versus the same period in the prior year. The increases in administrative and manufacturing costs as a percentage of revenue is attributable to the fixed nature of many of these costs.

**Investment and Other Income** - Investment and other income was \$1.1 million for the third quarter of fiscal year 2007. During the same period in fiscal year 2006, investment and other income was \$0.5 million. Investment and other income were \$2.5 million and \$1.1 million during the first nine months of fiscal year 2007 and fiscal year 2006, respectively.

The increase in lease income and expense is due primarily to the lease of certain facilities to be used in connection with the construction of the Hood Canal Floating Bridge.

**Income Taxes** - The Company's effective income tax rate was 35% in the third quarters of both fiscal year 2007 and 2006. In the third quarter of fiscal 2007, the Company recorded \$1.3 million in federal income tax expense. During the same period of fiscal 2006, the Company recorded \$0.8 million in federal income tax expense.

The Company recorded \$1.0 million in federal tax benefit in the first nine months of fiscal year 2007. During the same period of fiscal year 2006 the Company recorded \$4.3 million in expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company anticipates that its cash, cash equivalents and marketable securities position, anticipated fiscal year 2007 cash flow, access to credit facilities and if necessary capital markets, taken together, will provide sufficient liquidity to fund operations for fiscal year 2007. Accordingly, shipyard capital expenditures are expected to be financed from working capital. Changes in the composition and/or timing of projected work could cause planned capital expenditures and repair and maintenance expenditures to change.

### **Working Capital**

Working capital at December 31, 2006 was \$28.8 million, a decrease of \$21.4 million or 43% from the working capital reported at the end of fiscal year 2006. This decrease is primarily attributable to the funding of an extraordinary cash dividend of \$4.00 per share which totaled approximately \$22.1 million (discussed below). A reduction in cash of \$6 million, a decrease in securities available-for-sale of \$25 million and a reduction in costs in excess of billings of \$3.4 million were offset by decreases in accounts payable and other accruals of \$5.1 million.

## **Capital Expenditures**

Capital expenditures of \$0.6 million for the third quarter of fiscal year 2007 and \$2.5 million for the first nine months of fiscal year 2007 were attributable to planned improvements to the Seattle shipyard facility and investments in equipment.

## **Credit Facility**

Shortly after the end of fiscal year 2006, the Company re-negotiated certain terms of its \$10.0 million revolving credit facility. The credit facility, which is renewable on a bi-annual basis, provides the Company with greater flexibility in funding its operational cash flow needs. Borrowings on the line of credit have an interest rate, at management's discretion, of either the prime rate or LIBOR rate plus 1.5%. Furthermore, the Company has certain financial debt covenants that it must meet in order to maintain this line of credit. Todd is in compliance with all debt covenants and had no outstanding borrowings as of December 31, 2006 and April 2, 2006, respectively.

## **Dividends**

At a special meeting of the Company's shareholders held on May 23, 2006, shareholders approved proposed amendments to the Company's incentive stock compensation plans. On March 24, 2006, the Board of Directors approved the payment of an extraordinary cash dividend of \$4.00 per share, or an aggregate of approximately \$22.1 million. Payment of the dividend was subject to shareholder approval of an amendment to the Company's incentive stock compensation plans that would allow adjustments to equity compensation awards to offset the impact of extraordinary transactions, including non-recurring cash dividends or distributions. Shareholders of record as of June 5, 2006 were entitled to receive the extraordinary dividend which was paid on June 20, 2006. The amendments approved by the Company's shareholders and the adjustments approved by Todd's Board of Directors were intended to create parity for the Company and the option holder such that before-dividend and post-dividend values of the options are economically equivalent.

In addition to the extraordinary dividend of \$4.00 per share mentioned above, the Board of Directors increased the quarterly dividend, payable June 23, 2006, from \$0.10 to \$0.15 per share. In fiscal years 2006 and 2005, the Company paid quarterly dividends of \$0.10 per share.

On June 23, 2006, the Company paid a dividend of fifteen cents (\$0.15) per share to all shareholders of record as of June 8, 2006. On September 26, 2006, the Company paid a dividend of fifteen cents (\$0.15) per share to all shareholders of record as of September 8, 2006. On December 22, 2006, the Company paid a dividend of fifteen cents (\$0.15) per share to all shareholders of record as of December 6, 2006. In each case the amount of the dividend paid was \$0.8 million.

On December 14, 2006, the Company declared a dividend of fifteen cents (\$0.15) per share to be paid on March 23, 2007 to all shareholders of record as of March 8, 2007. The estimated amount of this dividend is \$0.8 million.

## **ENVIRONMENTAL MATTERS AND OTHER CONTINGENCIES**

As reflected in the balance sheet and discussed in Note 4 to the financial statements, the Company has provided total aggregate reserves of \$12.2 million at December 31, 2006 for its contingent environmental and bodily injury liabilities. As of April 2, 2006, the Company had recorded aggregate reserves of \$14.2 million. The \$1.9 million decrease in aggregate reserves during the first nine months of fiscal 2007 is comprised of a \$1.4 million reduction in Harbor Island Superfund Site reserves due to recent remediation activities and a \$0.5 million reduction in bodily injury liabilities due to claims activity during this period. Due to the complexities and extensive history of the Company's environmental and bodily injury matters, the amounts and timing of future expenditures are uncertain. As a result, there can be no assurance that the ultimate resolution of these environmental and bodily injury matters will not have a material adverse effect on the Company's financial position, cash flows or results of operations.

The Company has various insurance policies and agreements that provide coverage on the costs to remediate certain environmental sites and for the defense and settlement of bodily injury cases. These policies and agreements are primarily with two insurance companies. Based upon the current credit ratings of both of these companies, the Company anticipates that both parties will be able to perform under the terms of their respective policy or agreement.

As of December 31, 2006, the Company has recorded aggregate assets of \$9.9 million related to its reserves for environmental and bodily injury liabilities. As of April 2, 2006, the Company had recorded aggregate assets of \$11.4 million. The \$1.5 million decrease in these assets is a result of receipts for the Harbor Island remediation currently in progress of \$1.2 million and a decrease in recoveries related to bodily injuries of \$0.3 million. These assets reflect receivables under contractual arrangements with the insurance companies to share costs for certain environmental and other matters, as well as amounts deposited to securitize certain

remediation activities. Amounts recoverable from insurance companies are recorded within the Company's Consolidated Balance Sheets as insurance receivables and, in the case of reimbursements currently due, as a current asset. Amounts held in security deposits are recorded within the Company's Consolidated Balance Sheets as restricted cash.

## **BACKLOG**

At December 31, 2006 the Company's firm shipyard backlog consisted of approximately \$48 million of repair and overhaul work. The Company's backlog at April 2, 2006 was approximately \$72 million. The decrease in the backlog work at the end of the third quarter of fiscal year 2007 is primarily due to the completion of work on several Coast Guard and Navy vessels and a reduction in the scope of work scheduled for the USS Lincoln.

## **LABOR RELATIONS**

The Company operates under a collective bargaining agreement with the Puget Sound Metal Trades Council (the bargaining umbrella for all unions at Todd Pacific Shipyards) which was ratified by the rank and file in November 2005. The three-year agreement, which was retroactive to August 1, 2005, will expire on July 31, 2008. The agreement provides for increases in the wages and fringe benefits of approximately 4.3% per year.

## **ITEM 4. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures.** The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Our chief executive officer and our chief financial officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our chief executive officer and our chief financial officer, as of the end of the period covered by this report, that our disclosure controls and procedures were ineffective because of the material weakness discussed below.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f), as of December 31, 2006. This assessment identified a control deficiency within reconciliation procedures related to the Company's monthly closing process relating to revenue recognition and work in process on completed fixed price contracts. Although the dollar amount at issue was not material to the Company's financial statements, management concluded that the deficiency in the closing procedures and controls constituted a material weakness in the Company's internal control over financial reporting.

In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Because of the material weakness described above, management believes that, as of December 31, 2006, the Company's internal control over financial reporting was not effective based on those criteria.

Since the discovery of the material weakness in internal controls described above, management is strengthening the Company's internal controls over financial reporting and is taking various actions to improve the Company's internal controls including, but not limited to, implementing additional procedures and levels of review to improve reconciliation procedures and policies and generally strengthen the closing process.

The Company has assigned a high priority to remediating the material weakness in the Company's internal control over financial reporting.

**(b) Changes in Internal Controls Over Financial Reporting.** There have been no changes in our internal controls over financial reporting during the nine months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Subsequent to the end of the quarter, after discovering a material weakness in internal controls over financial reporting in the Company's reconciliation procedures, the Company made changes in its internal controls over financial reporting during the fourth quarter of fiscal 2007 ending April 1, 2007 in order to address the material weakness identified. The Company plans to take further remediation steps by the end of the fourth quarter of fiscal 2007 to confirm that effective controls are in place and continue to operate as designed.

## **PART II. OTHER INFORMATION**

### **ITEM 5. OTHER INFORMATION**

Pursuant to the requirements of paragraph 12(a) of Section 303A of the New York Stock Exchange (“NYSE”) Listed Company Manual, the Company submitted CEO Compliance Certifications to the NYSE in both 2006 and 2005. Further, the Company filed certifications of its CEO and its CFO with the Securities and Exchange Commission pursuant to, and in the form required by, Rule 13a-14(d) under the Securities Exchange Act of 1934 as exhibits to its most recently filed Form 10-K.

### **ITEM 6. EXHIBITS**

#### (a) Exhibits

- No. 31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- No. 31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- No. 32.1 Certification of Chief Executive Officer pursuant to Section 302 and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code. (furnished herewith)\*
- No. 32.2 Certification of Chief Financial Officer pursuant to Section 302 and section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code. (furnished herewith)\*
- No. 99.1 Press Release dated February 8, 2006 announcing financial for the Company’s quarterly period ended December 31, 2006 (furnished herewith)\*

\*Notwithstanding any incorporation of this Quarterly Report on Form 10-Q in any other filing by the Registrant, Exhibits furnished herewith and designated with an asterisk (\*) shall not be deemed incorporated by reference to any other filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 unless specifically otherwise set forth therein.

## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TODD SHIPYARDS CORPORATION  
Registrant

/s/ Berger A. Dodge  
Berger A. Dodge  
Chief Financial Officer and Treasurer  
February 8, 2007

## Exhibit 31.1

### CERTIFICATION

I, Stephen G. Welch, President and Chief Executive Officer of Todd Shipyards Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Todd Shipyards Corporation;
2. Based on my knowledge, this quarterly report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 8, 2007

/s/ Stephen G. Welch  
Stephen G. Welch,  
President and Chief Executive Officer

## Exhibit 31.2

### CERTIFICATION

I, Berger A. Dodge, Chief Financial Officer and Treasurer of Todd Shipyards Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Todd Shipyards Corporation;
2. Based on my knowledge, this quarterly report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 8, 2007

/s/ Berger A. Dodge  
Berger A. Dodge,  
Chief Financial Officer and Treasurer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Todd Shipyards Corporation (the "Company") on Form 10-Q for the quarter ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 8, 2007

/s/ Stephen G. Welch  
Stephen G. Welch,  
President and Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Todd Shipyards Corporation (the "Company") on Form 10-Q for the quarter ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 8, 2007

/s/ Berger A. Dodge  
Berger A. Dodge,  
Chief Financial Officer and Treasurer