

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 28, 2008.

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

(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, a non-accelerated filer, or a smaller reporting company. 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

Smaller reporting company

(Do not check if a smaller reporting company)

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 5,766,071 shares of the corporation's \$0.01 par value common stock outstanding at February 5, 2009.

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

Statements contained in this Report which 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 28, 2008 and December 30, 2007

(in thousands of dollars, except per share data)

	Three Months Ended		Nine Months Ended	
	12/28/08	12/30/07	12/28/08	12/30/07
Revenues	\$ 33,472	\$ 39,087	\$ 80,286	\$ 102,840
Operating expenses:				
Cost of revenue	22,131	26,807	55,217	74,968
Administrative and manufacturing overhead	8,703	8,822	23,846	26,441
Other insurance settlements	(21)	(17)	(65)	(50)
Total operating expenses	30,813	35,612	78,998	101,359
Operating income	2,659	3,475	1,288	1,481
Investment and other income:				
Lease income	1,085	682	3,037	3,533
Lease expense	(107)	(69)	(333)	(1,076)
Other income, net	276	179	721	607
Gain on available-for-sale securities	30	40	31	40
Total investment and other income	1,284	832	3,456	3,104
Income before income tax expense	3,943	4,307	4,744	4,585
Income tax expense	(1,337)	(1,443)	(1,605)	(1,537)
Net income	<u>\$ 2,606</u>	<u>\$ 2,864</u>	<u>\$ 3,139</u>	<u>\$ 3,048</u>
Net income per common share				
Basic	\$ 0.45	\$ 0.50	\$ 0.54	\$ 0.54
Diluted	\$ 0.45	\$ 0.50	\$ 0.54	\$ 0.54
Dividends declared per common share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.35
Weighted average shares outstanding				
Basic	5,766	5,697	5,763	5,640
Diluted	5,787	5,714	5,779	5,651
Retained earnings at beginning of period	\$ 77,287 (1)	\$ 71,524 (1)	\$ 77,330 (1)	\$ 73,031 (1)
Net income for the period	2,606	2,864	3,139	3,048
Dividends declared on common stock	(287)	(307)	(863)	(1,998)
Retained earnings at end of period	<u>\$ 79,606</u>	<u>\$ 74,081</u>	<u>\$ 79,606</u>	<u>\$ 74,081</u>

(1) Revised. See note 13 of Notes to Consolidated Financial Statements
The accompanying notes are an integral part of these statements.

TODD SHIPYARDS CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS

Balances as of December 28, 2008 and March 30, 2008

(in thousands of dollars, except per share data)

	<u>12/28/08</u>	<u>03/30/08</u>
ASSETS		
Cash and cash equivalents	\$ 5,901	\$ 12,600
Securities available-for-sale	13,095	10,655
Accounts receivable		
U.S. Government	4,584	5,259
Other	11,412	4,480
Costs and estimated profits in excess of billings on incomplete contracts	12,289	10,945
Inventory	1,625	1,580
Insurance receivable	217	217
Other current assets	5,122	4,682 (1)
Deferred taxes	480	526
<i>Total current assets</i>	<u>54,725</u>	<u>50,944</u>
Property, plant and equipment, net	32,543	30,161
Restricted cash	3,398	3,783
Deferred pension assets	16,183	17,052
Insurance receivable	8,766	8,850
Intangible assets, net	1,961	-
Goodwill	1,119	-
Other long-term assets	1,688	1,816
<i>Total assets</i>	<u>\$ 120,383</u>	<u>\$ 112,606</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accruals	\$ 10,488	\$ 8,537
Reserves for contract loss	27	182
Accrued payroll and related liabilities	1,609	2,002
Billings in excess of costs and estimated profits on incomplete contracts	8,029	3,717
Environmental and other reserves	217	217
Taxes payable other than income taxes	911	1,615
Income taxes payable	1,489	430 (1)
<i>Total current liabilities</i>	<u>22,770</u>	<u>16,700</u>
Environmental and other reserves	11,048	11,187
Accrued post retirement health benefits	8,726	9,504
Deferred taxes	4,054	4,061
Other non-current liabilities	2,388	2,358
<i>Total liabilities</i>	<u>48,986</u>	<u>43,810</u>
Stockholders' equity		
Common stock \$.01 par value, authorized 19,500,000 shares, issued 11,828,305 shares at December 28, 2008 and March 30, 2008, and outstanding 5,766,071 shares at December 28, 2008 and 5,757,621 shares at March 30, 2008	118	118
Paid-in capital	38,631	38,537
Retained earnings	79,606	77,330 (1)
Accumulated other comprehensive loss	(3,031)	(3,201)
Treasury stock (6,062,234 shares at December 28, 2008 and 6,070,684 shares at March 30, 2008)	(43,927)	(43,988)
<i>Total stockholders' equity</i>	<u>71,397</u>	<u>68,796</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 120,383</u>	<u>\$ 112,606</u>

(1) Revised. See note 13 of Notes to Consolidated Financial Statements.

The accompanying notes are an integral part of these statements.

TODD SHIPYARDS CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Periods ended December 28, 2008 and December 30, 2007

(in thousands of dollars)

	Nine Months Ended	
	12/28/08	12/30/07
OPERATING ACTIVITIES		
Net income	\$ 3,139	\$ 3,048
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,361	3,468
Gain on disposal of fixed assets	(18)	-
Gain on available-for-sale securities	(30)	(45)
Deferred pension cost	869	181
Post retirement health benefits	(778)	(678)
Deferred income taxes	39	475
Stock-based compensation	94	75
Decrease/(increase) in operating assets and liabilities		
Accounts receivable	(5,375)	1,816
Costs and estimated profits in excess of billings on incomplete contracts	(660)	137
Inventory	(20)	34
Insurance receivable	84	289
Other assets	(605)	93
Accounts payable and accruals	1,508	(4,795)
Accrued payroll and related liabilities	(393)	147
Contract loss reserve	(155)	(1,104)
Billings in excess of costs and estimated profits on incomplete contracts	4,312	1,968
Environmental and other reserves	(139)	(451)
Income taxes	1,059	(831)
Other liabilities	(498)	(479)
Net cash provided by operating activities	5,794	3,348
INVESTING ACTIVITIES		
Purchases of marketable securities	(10,614)	(2,161)
Sales of marketable securities	2,001	64
Maturities of marketable securities	6,426	2,500
Proceeds from disposal of fixed assets	6	-
Capital expenditures	(1,947)	(2,519)
Payments for acquisition	(7,948)	-
Net cash used in investing activities	(12,076)	(2,116)
FINANCING ACTIVITIES		
Restricted cash	385	(214)
Proceeds from exercise of stock options	61	-
Dividends paid on common stock	(863)	(1,692)
Net cash used in financing activities	(417)	(1,906)
Net decrease in cash and cash equivalents	(6,699)	(674)
Cash and cash equivalents at beginning of period	12,600	2,908
Cash and cash equivalents at end of the period	<u>\$ 5,901</u>	<u>\$ 2,234</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for income taxes	705	1,980

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Todd Shipyards Corporation (“we”, “us”, “our”) filed the Consolidated Financial Statements for the fiscal year ended March 30, 2008 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

In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation are included in the interim financial statements. Certain financial information that is required in the annual financial statements and prepared in accordance with accounting principles generally accepted in the United States of America may not be required for interim financial reporting purposes and may have been condensed or omitted. Our results of operations for the three and nine month periods ended December 28, 2008 are not necessarily indicative of the operating results for the full year. Our interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto included in our 2008 Annual Report on Form 10-K.

The Consolidated Financial Statements include the accounts of Todd Shipyards Corporation and our wholly owned subsidiaries Todd Pacific Shipyards Corporation (“Todd Pacific”), Everett Shipyard, Inc. (“Everett”) and TSI Management, Inc. (“TSI”). All inter-company transactions have been eliminated.

Preparing our interim financial statements in conformity with accounting principals generally accepted in the United States of America requires us to make estimates and assumptions that may affect the amounts reported in our Consolidated Financial Statements and Notes to Consolidated Financial Statements. Actual results could differ from those estimates.

2. RECENT ACCOUNTING PRONOUNCEMENTS

SFAS 157, “Fair Value Measurements”, which defines fair value, establishes a framework for measuring fair value in accordance with accounting principals generally accepted in the United States of America and expands disclosures about fair value measurements. For financial assets and liabilities, SFAS 157 was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. See “Note 12 – Cash, Cash Equivalents, and Marketable Securities” for further discussion. In February 2008, the Financial Accounting Standards Board (“FASB”) issued Staff Position (FSP) 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 is effective for us beginning March 30, 2009.

Those assets and liabilities measured at fair value under SFAS 157 in the first three quarters of fiscal year 2009 did not have a material impact on our consolidated financial statements. In accordance with FSP 157-2, we will measure the remaining assets and liabilities no later than the first quarter of fiscal year 2010, and we are currently evaluating any impact on our consolidated financial statements.

SFAS 141, “Business Combinations” which was amended by SFAS 141R, “Business Combinations” – In December 2007, the Financial Accounting Standards Board, (“FASB”) issued SFAS 141R, which requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction at fair value as of the acquisition date. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are required to adopt SFAS 141R in fiscal year 2010. We do not currently believe this standard will have an impact on our financial condition.

SFAS 160, “Non-controlling Interest in Consolidated Financial Statements” – In December 2007, the Financial Accounting Standards Board, (“FASB”) issued SFAS 160, which requires all entities to report non-controlling interests as equity in the financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are required to adopt SFAS 160 in fiscal year 2010. We are evaluating the impact of adopting SFAS 160 on our financial statements.

EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities,”- In June 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) EITF 03-6-1, to clarify that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities. An entity must include participating securities in its calculation of basic and diluted earnings per share (EPS) pursuant to the two-class method, as described in FASB Statement 128, *Earnings per Share*.

FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We intend to adopt FSP EITF 03-6-1 effective March 30, 2009 and apply its provisions retrospectively to all prior-period EPS data presented in our financial statements.

We do not issue share-based payment awards that contain nonforfeitable rights to dividends and, as a result, we do not believe that the adoption of FSP EITF 03-6-1 will have a significant effect on our financial statements.

3. REVENUES

We recognize revenue, costs, and profit on construction and repair 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." We recognize revenue using the percentage-of-completion method which requires us to make certain estimates of the total costs to complete a project, estimates of project schedule and completion dates, estimates of the percentage at which the project is complete, estimates of award fees earned, estimates of annual overhead rates and estimates of amounts of any probable unapproved claims and/or change orders. These estimates are continuously evaluated and updated by experienced project management and accounting personnel assigned to these activities; management also reviews them on a periodic basis. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are generally reflected in the current period. We generally enter into three types of contracts: 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.

When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded as cost of revenues in the period the estimated loss is determined. We recognize revenue arising from claims when they are realized. A potential loss on a claim is recognized when the amount of the claim can be reasonably estimated and we consider that the claim loss is probable. In evaluating these criteria, we consider the contractual/legal basis for the claim, the cause of the additional cost incurred, the reasonableness of the costs and the objective evidence to support the claim.

4. RESERVES AND OTHER CONTINGENCIES

As discussed in our Form 10-K for the fiscal year ended March 30, 2008, we face significant potential liabilities in connection with the alleged presence of hazardous waste materials at our Seattle shipyard, a shipyard operation in Tacoma, Washington operated during World Wars I and II, and at additional sites used by us for disposal of alleged hazardous waste. We are named as a defendant in civil actions by parties alleging damages from past exposure to toxic substances at our facilities.

We continue to analyze environmental matters and associated liabilities for which we 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 the establishment of reserve provisions in the accompanying consolidated financial statements.

Harbor Island Site

In fiscal year 2001, we entered into a 30-year agreement with an insurance company that provides broad-based insurance coverage for the remediation of our 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 28, 2008 these limits exceed our current booked reserves of approximately \$5.0 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 our balance sheet under current liabilities. Likewise, the insurance receivable of \$0.2 million relating to these reserves is reflected in our balance sheet under current assets.

Additionally, in 2001 we 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, we entered into a Consent Decree with the EPA for the cleanup of the Shipyard 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 year 2005. We finished the pier demolition and required dredging in its entirety in fiscal year 2006. The EPA formally accepted our work at the site during the second quarter of fiscal year 2008.

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, we began discussions with the natural resource trustees ("Trustees") for the Site. Management anticipates that the Trustees will file a claim against us at some future date alleging damages to the natural resources at the Site caused by the release of hazardous substances. Our best estimate of natural resource damage liability is included in the environmental remediation reserve. The payment of any eventual claim is covered by our insurance policy, provided that aggregate policy limits have not been exceeded.

Other Environmental Sites

The Port of Tacoma, Washington filed a civil action against us during the fourth quarter of fiscal year 2008 in the United States District Court (Western District of Washington in Tacoma) for contribution under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA," commonly known as the "Superfund") and the Washington State Model Toxics Control Act ("MTCA"). We previously disclosed our involvement with the CERCLA and MTCA remediation efforts in the Hylebos Waterway of Commencement Bay in Tacoma, Washington and subsequent natural resources assessment by the statutorily named trustees ("Trustees"). A former subsidiary of ours operated a shipbuilding operation on the Hylebos Waterway under contract to the United States Navy during World War II. The contract between our subsidiary and the Navy for the operation of the shipyard site included an indemnification clause flowing from the United States Navy to our subsidiary. We have tendered any potential liability to the United States Navy pursuant to this contract. We have not had a presence at the site since 1946. We have further taken the position with the EPA and the Trustees that any potential liability that we may have had for the site was discharged in our 1987 filing under Chapter 11 of the United States bankruptcy code. The EPA did not name us as a potentially responsible party nor have the Trustees filed a claim against us for natural resource damages. The Trustees filed a claim against the United States Navy for natural resources damages caused by the Government. The Trustees and the United States Navy have entered into a consent decree resolving the claim, releasing the United States Navy from further liability in connection with the site. We appeared at the consent decree hearing in United States District Court in Tacoma, Washington in October 2007 to protect our indemnification agreement with the United States Navy. The judge approved entry of the consent decree but also ruled that the consent decree would not operate to relieve the United States Navy from any contractual indemnification obligations it may owe us. We have included our current best estimate of this potential liability in our environmental reserve and will continue to analyze this exposure as we continue discovery in this litigation.

We entered into a Consent Decree with the EPA for the clean up of the Casmalia Resources Hazardous Waste Management Facility in Santa Barbara County, California under the Resource Conservation and Recovery Act. We included an estimate of the potential liability for this site in our environmental reserve.

During fiscal year 2005, the EPA notified us that we are a potentially responsible party ("PRP") at the Malone Service Company Superfund Site ("Malone") in Galveston County, Texas. The EPA alleges that our 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 we will, based on volumes of material at the site that we generated, be eligible to participate in a "de minimus" settlement for small contributors. We have included our best estimate of the settlement amount in our environmental reserve.

During fiscal year 2005, we received notification that we, along with 55 other companies and organizations, are a potentially responsible party 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 our San Pedro shipyard (closed in 1990) caused shipyard waste to be sent to the BKK Facility during the 1970s and 1980s. Due to the uncertainties at this time we have not established a reserve for this issue.

We received notification in November 2006 regarding the discovery of sub surface oil on the property we formerly owned in Galveston, Texas. We sold the property to the Port of Galveston in 1992 and there have been several intervening owners and operators at the site since 1992. We are investigating the factual allegations and any potential liability. Due to the uncertainties at this time we have not established a reserve for this issue.

Asbestos-Related Claims and Insurance

As reported in our Form 10-K for fiscal year 2008, we are named as a defendant in civil actions by parties alleging damages from past exposure to toxic substances, generally asbestos, at closed former facilities.

The cases generally include as defendants, in addition to us, 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. We assess 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 us as “malignant” claims. All others of a less medically serious nature are categorized as “non-malignant”. We are currently defending approximately 14 “malignant” claims and approximately 511 “non-malignant” claims. We, and our insurers, are vigorously defending these actions.

We have various insurance policies and agreements that provide coverage of the costs to remediate environmental sites and for the defense and settlement of bodily injury cases. These policies and agreements are primarily with two insurance companies. During the second quarter of fiscal year 2009 the AM Best credit rating for the underwriter providing the coverage for the Harbor Island Superfund Site was reduced from A+ (Superior) to A (Excellent). The primary underwriter for bodily injury cases maintains an A+ (Superior) rating. Based upon the current credit rating of both of these companies, we anticipate that both parties will be able to perform under the policy or agreement.

As of December 28, 2008, we have recorded a bodily injury liability reserve of \$5.3 million and a bodily injury insurance receivable of \$3.9 million. This compares to a previously recorded bodily injury reserve and insurance receivable of \$5.4 million and \$4.0 million, respectively, at March 30, 2008. These bodily injury liabilities and receivables are classified within our Consolidated Balance Sheet as environmental and other reserves, and insurance receivables, respectively.

Other Reserves

During the first quarter of fiscal year 2004, management recorded a reserve of \$2.5 million related to the unanticipated bankruptcy of one of our previous insurance carriers. The reserve, which reflects management’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 us due to the liquidation of the insurance carrier. Although we expect 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.

We have cumulatively paid approximately \$0.9 million and \$0.9 million in claims through December 28, 2008 and March 30, 2008, respectively, which have been charged against the reserve.

Other Contingencies

We previously reported that we received notice from the Defense Contract Audit Agency (“DCAA”) questioning the reasonableness of a payment to one of our subcontractors on the 2005 dPIA of the aircraft carrier USS John C. Stennis. During the first quarter of our fiscal year 2009 the DCAA issued its final report disapproving \$3.1 million of costs related to payments made to the subcontractor and costs incurred by us to perform work which was contracted to the subcontractor. The Navy contracting officer then issued the decision to disallow the costs and withhold the above stated amount from payments due on our current contracts with the Navy. In response, we filed a Request for Equitable Adjustment (“REA”) with the Navy contracting officer to allow the \$3.1 million in incurred costs. In the event of an unfavorable decision on our REA we will file an appeal to the Armed Services Board of Contract Appeals or directly to federal court. We established a reserve for this item in the amount of \$3.1 million and booked the resulting transaction as a reduction in revenue in the first quarter of fiscal year 2009. The Navy collected the entire amount in the second quarter of fiscal year 2009 through the non-payment of other outstanding project receivables. We continued to meet with the Navy in the third quarter of 2009 and the Navy agreed to return the \$3.1 million while they considered our REA. We agreed to supply additional information to the Navy to assist in the resolution of the REA which we have now accomplished. We re-billed the Navy for the \$3.1 million outstanding and the Navy paid the invoices in the third quarter of fiscal year 2009. There are no assurances that the Navy will agree with our REA. Our current financial statements continue to reflect a reserve for the \$3.1 million at issue.

The Navy’s Puget Sound contracting office has notified us of several instances of potential noncompliance with the Cost Accounting Standards (“CAS”) relating to our Planned Incremental Availability (“PIA”) contract to perform repair work on the aircraft carriers located in the Puget Sound. The instances under review primarily focus on our long standing allocation methods applicable to other Navy contracts and the degree to which indirect costs are allocated to work performed under our PIA contract. We believe that we have valid positions and defenses to the findings of potential noncompliance and we are responding to the notification in an effort to resolve the matter prior to action by the Navy to determine that noncompliance exists. An unfavorable outcome in this matter could have a significant impact on our cost structure with the Navy and, depending upon the scope of any retroactive relief sought by the Navy, could be material in the period recorded. At this time, we are unable to estimate our potential exposure for this item and have not established a reserve.

5. COMPREHENSIVE INCOME

We reported comprehensive income of \$2.8 million for the quarter ended December 28, 2008, which consisted of net income of \$2.6 million and a \$0.2 million unrealized gain on available-for-sale securities. For the nine months ended December 28, 2008 we reported comprehensive income of \$3.3 million, which consisted of net income of \$3.1 million and a \$0.2 million unrealized gain on available-for-sale securities.

For the third quarter of fiscal 2008 ended December 30, 2007, we reported comprehensive income of \$2.9 million, which consisted of net income of \$2.9 million. For the first nine months of fiscal year 2008, we reported comprehensive income of \$3.1 million, which consisted of net income of \$3.0 million and an 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	
	12/28/08	12/30/07	12/28/08	12/30/07
Net income	\$ 2,606	\$ 2,864	\$ 3,139	\$ 3,048
Weighted average common shares outstanding, basic	5,766	5,697	5,763	5,640
Dilutive effect of stock options on weighted average common shares	21	17	16	11
Weighted average common shares outstanding, diluted	5,787	5,714	5,779	5,651
Net income per common share, diluted	\$ 0.45	\$ 0.50	\$ 0.54	\$ 0.54

32,000 units of Stock Appreciation Rights (“SSARs”) were excluded from the calculations for the three month and nine month period ended December 28, 2008 because their affect would be anti-dilutive.

7. STOCK COMPENSATION EXPENSE

We account for stock compensation associated with the restricted stock awards, restricted stock grant agreements and performance share awards under the recognition and measurement principles of FASB Statement 123R, “Shared-Based Payment”, which requires estimating the compensation cost for all stock based awards at fair value on the date of the grant and recognition of compensation over the service period for awards expected to vest. We estimated the fair value of stock-based awards using the Black-Scholes option pricing model. We are amortizing the fair value on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. As required by FAS 123R, we estimated future forfeitures and are recognizing compensation costs only for those equity awards expected to vest. Estimating the percentage of stock awards that will ultimately vest requires judgment. We will record such amounts prospectively as an increase or decrease in stock-based compensation in the period we revise the estimates, to the extent that actual results or updated estimates differ from our current estimates. We consider many factors when estimating expected forfeitures, including historical voluntary terminations. Actual results, and future changes in estimates, may differ substantially from our current estimates.

The remaining future compensation costs relating to unvested stock-settled appreciation rights (“SSARs”) and stock grants as of December 28, 2008 is \$0.5 million, which will be recognized over a weighted average of 3.3 years, inclusive of estimated forfeitures. The stock compensation costs are being amortized on a straight-line basis over the requisite service period. The costs associated with our share-based plans are included in general and administrative expense.

During the second quarter of fiscal year 2009, pursuant to the Todd Shipyards Corporation 2003 Incentive Stock Option Plan (“2003 Plan”), we granted a total of 9,600 Restricted Stock Units (“RSUs”) to our Officers effective July 1, 2008. The fair value of these was \$14.48 per share based on the market value of the grant date. The grants vest over five years annually based on continued service through July 1, 2013. The forfeiture rate assumed on these units is zero. We assume that the Officers will continue service until their units vest. We consider the achievement of the underlying performance to be probable.

During the second quarter of fiscal year 2009, pursuant to the 2003 Plan, we granted 16,000 units of performance award shares under the 2003 Plan in the form of SSARs to our Officers. The SSARs vest ratably on continued service through July 1, 2011 and expire on July 1, 2013. The forfeiture rate assumed on these units is zero. We assume that the Officers will continue service until their units vest. We consider the achievement of the underlying performance criteria to be probable.

During the second quarter of fiscal year 2009, pursuant to our 2003 Plan, we granted 5,250 RSUs to our Board of Directors with restrictions that lapse by month through July 13, 2011, based on continued service. The fair value was \$14.12 based on the grant date. The forfeiture rate assumed on these units is zero. We assume that the Directors will continue service until their units vest. We consider the achievement of the underlying performance to be probable.

During the nine-month period ended December 30, 2007, pursuant to the 2003 Plan, we granted a total of 6,000 RSUs to members of our Board of Directors with restrictions that lapse monthly through August 22, 2010 based on continued service. The fair value of these was \$21.98 based on the market value at the grant date. As of June 29, 2008, we had \$0.1 million unrecognized compensation expense for RSUs granted to our Directors. We further granted a total of 16,000 RSUs to our Officers. The restrictions on the grants lapse on an annual basis over the required service period through July 1, 2012. The fair value of these was \$21.02 based on the market value at the grant date. The forfeiture rate assumed on these units is zero. We assume the Board members and Officers will continue service until their units vest. We consider the achievement of the underlying performance to be probable.

Determining Fair Value - We calculated the fair value of the above mentioned SSARs using the Black-Scholes pricing model. We then amortize the fair value on a straight-line basis over the requisite vesting period of the awards. The following assumptions were used to compute fair value of the stock options granted for the period ended December 28, 2008.

	Nine Months Ended December 28, 2008
Expected volatility	16.63%
Expected term (in years)	4
Risk-free interest rate	3.65%
Expected dividend	1.4%
Fair value per share	\$2.38

8. PENSIONS AND OTHER POSTRETIREMENT BENEFIT PLANS

Nonunion Pension Plan - We sponsor the Todd Shipyards Corporation Retirement System (the "Retirement System"), a non-contributory defined benefit plan under which non-union employees are covered. The benefits are based on years of service and the employee's compensation before retirement. Our 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. As of April 10, 2007, new employees are not eligible to enter the plan. Under a provision of the Omnibus Budget Reform Act of 1990 ("OBRA '90") we expect to transfer the maximum allowable by law in excess pension assets from the Retirement System into a fund to pay fiscal year 2009 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.

Pension Benefits (in thousands of dollars)	Three Months Ended		Nine Months Ended	
	12/28/08	12/30/07	12/28/08	12/30/07
Components of net periodic (benefit) cost				
Service cost	\$ 157	\$ 198	\$ 471	\$ 593
Interest cost on projected benefit obligation	419	410	1,257	1,229
Expected return on plan assets	(758)	(850)	(2,274)	(2,550)
Amortization of prior service cost	151	17	453	50
Recognized actuarial loss	3	2	9	9
Net periodic (benefit) before asset transfer	(28)	(223)	(84)	(669)
Asset transfer	318	283	954	849
Net periodic cost	<u>\$ 290</u>	<u>\$ 60</u>	<u>\$ 870</u>	<u>\$ 180</u>

Post Retirement Health Insurance Program - We sponsor a retiree health care plan that provides post retirement medical benefits to former full-time exempt employees, and their spouses, who meet specified criteria. We terminated post retirement health benefits for any employees retiring subsequent to May 15, 1988. These benefits are funded monthly through the payment of group health

insurance premiums. Because such benefit obligations do not accrue to current employees, 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	
	12/28/08	12/30/07	12/28/08	12/30/07
Components of net periodic benefit				
Interest cost on projected benefit obligation	\$ 158	\$ 154	\$ 474	\$ 463
Recognized actuarial gain	(99)	(97)	(297)	(292)
Net periodic cost before 401h transfer	59	57	177	171
Transfer of assets for payment of retiree medical benefits (401(h) Plan)	(318)	(283)	(954)	(849)
Net periodic benefit	\$ (259)	\$ (226)	\$ (777)	\$ (678)

Union Pension Plans - Operating Shipyard - We participate in several multi-employer defined benefit and/or defined contribution pension plans, which provide benefits to our collective bargaining employees. The expense under these plans totaled \$0.5 million and \$0.9 million for the quarters ended December 28, 2008 and December 30, 2007, respectively.

Additional Cash Flow Information – In previous periods, the well-funded status of the pension plan both eliminated the need for additional contributions by us and covered the costs of our post-retirement medical plan through provisions of Section 401(h) of the Internal Revenue Code. We cannot assure that the pension plan will remain sufficiently over-funded to preclude additional contributions by us or to continue our past practice of using pension plan assets to fund the costs of our post-retirement medical plan under Section 401(h) of the Internal Revenue Code.

9. INCOME TAXES

We record income taxes using the liability method in accordance with SFAS 109, “Accounting for Income Taxes.” Deferred income taxes are recognized for temporary differences - the differences between the GAAP financial statement carrying amounts of assets and liabilities and those elected for use in the tax return. The tax effect of these temporary differences are reported as deferred income tax assets and liabilities on the balance sheet, measured using enacted laws and income tax rates that are currently in effect. A valuation allowance is recorded to reduce deferred tax assets when realization of the tax benefit is unlikely.

In June 2006, the FASB issued an interpretation of SFAS 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS 109. FIN 48, “Accounting for Uncertainty in Income Taxes”, 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

There were no unrecognized tax benefits under FIN 48 as of December 28, 2008 or March 30, 2008.

No interest or penalties were recognized during the three and nine month periods ended December 28, 2008. We have adopted a policy whereby penalties incurred in connection with tax matters will be classified as general and administrative expenses, and interest assessments incurred in connection with tax matters will be classified as interest expense.

Tax years that remain open for examination by federal taxing authorities include 2006, 2007 and 2008.

10. LEASING ACTIVITIES

Lease Income and Lease Expense

During the quarter ended September 28, 2008, we entered into a 10 year lease with a tenant for a combination of shop and office space in a building on our Seattle shipyard site. Subject to certain provisions of the lease, the tenant has options to lease additional space from us, terminate the lease earlier than 10 years or extend the lease for an additional 5 year term. The gross rents payable under the lease over ten years net of improvement costs are estimated to be \$2.6 million.

We entered into an agreement on January 9, 2006 for the lease of certain facilities and provision of related services to Kiewit-General in connection with the construction of the Hood Canal Floating Bridge.

We recorded lease income of \$1.1 million and related lease expenses of \$0.1 million for the third quarter of fiscal year 2009.

11. BUSINESS ACQUISITION

On March 31, 2008 we completed our acquisition of the assets of Everett Shipyard, Inc. ("Everett"). Everett performs ship repair work for a range of government and commercial customers, including the United States Navy and Washington State Ferries, at two locations in Everett, Washington. The assets acquired include Everett's interest in a 1,000 ton dry dock. We anticipate that the acquisition of Everett will be accretive to our earnings in the long term. Everett has assumed the collective bargaining agreements with the International Brotherhood of Boilermakers, Local 104 and the United Brotherhood of Carpenters, Local 1184. The new yard employs the workforce previously employed by the previous owner.

We have included Everett's operating results in our income statements from the date of acquisition. We have excluded pro forma operating results, as if the two companies had been combined for the first quarter of our fiscal year 2008, as the financial results for Everett would not have a material impact on the comparability of our previously filed results when compared to pro forma results of the combined entities.

Our total purchase price of \$8.4 million consisted of the following components:

Purchase Price (in millions of dollars)	
Merger consideration	\$ 7.9
Purchase price payable	0.2
Acquisition-related transaction costs	0.3
Total purchase price	<u>\$ 8.4</u>

Certain aspects of the purchase price and purchase price allocations are preliminary and have been made using initial estimates. These estimates are the responsibility of management. Adjustments of the purchase price may be made in accordance with the terms of the Purchase Agreement. In addition, finalization of these initial estimates may result in adjustments to the allocation of the purchase price if the adjustments are determined within one year of the purchase date. In accordance with the terms of the Purchase Agreement dated January 19, 2008, \$0.8 million has been held in escrow as of December 28, 2008, and will be released to Todd or to the seller as specified in the Purchase Agreement terms.

We have made cash payments of \$7.9 million for the nine months ended December 28, 2008. This included acquisition costs of \$7.1 million and escrow deposits of \$0.8 million.

Preliminary Purchase Price Allocation

Our preliminary purchase price allocation of Everett's net tangible and identifiable intangible assets is based upon the estimated fair value of those assets as of March 31, 2008. We allocated the excess of the purchase price over identifiable intangible and net tangible assets to goodwill. The following table presents the preliminary allocation of the total purchase price consideration:

Purchase Price Allocation (in millions of dollars)	
Accounts receivable	\$ 0.9
Revenue in excess of billing	0.7
Property and equipment	3.8
Other intangible assets	2.2
Goodwill	1.1
Total assets	<u>\$ 8.7</u>
Accounts payable and accrued liabilities	<u>(0.3)</u>
Total purchase price allocation	<u><u>\$8.4</u></u>

Tangible Assets Acquired and Liabilities Assumed

We have estimated the fair value of certain tangible assets acquired and liabilities assumed. Some of these estimates are subject to change, particularly those estimates relating to the goodwill and other intangible assets. Adjustments to goodwill and other intangible assets may be required during the purchase price allocation period.

Intangible Assets

We recorded \$1.1 million of goodwill. In addition, we recorded \$2.2 million of acquired intangible assets in our financial statements. The acquired intangible assets include non-compete agreements, trade name and customer base.

Intangible Assets

	Net Book Value (in millions)	Useful Life (in years)
Customer relationships	\$1.4	9
Non-compete agreements	0.6	5
Trade name	0.2	15
Goodwill	1.1	indefinite
Total intangible assets	<u>\$3.3</u>	

The related amortization expense reflected in our income statement was \$0.1 million for the quarter ending December 28, 2008 and \$0.0 million for the quarter ending December 30, 2007, respectively. The related amortization expense reflected in our income statement was \$0.2 million for the nine month period ended December 28, 2008 and \$0.0 million for the nine month period ended December 31, 2007. We expect the annual amortization expense for intangible assets to be \$0.3 million for each of the next five years.

12. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

As of December 28, 2008 and March 30, 2008 our cash, cash equivalents, and marketable securities primarily consisted of cash, government and government agency securities, money market funds and other investment grade securities. Such amounts are recorded at fair value.

Effective April 1, 2008, we adopted SFAS 157, which clarified the definition of fair value, prescribes methods of measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonable available assumptions made by other market participants. These valuations require significant judgment.

The following table summarizes, by major security type, our assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy as of December 28, 2008:

(in thousands of dollars)	Cash	Level 1 Estimated Fair Value	Level 2 Estimated Fair Value	Level 3 Estimated Fair Value	Total Estimated Fair Value
Cash	\$ 5,901	-	-	-	\$ 5,901
Money Market Funds	-	3,349	-	-	3,349
US Government and Agency Securities	-	1,870	6,731	-	8,601
Corporate Debt Securities	-	-	4,134	-	4,134
Total	\$ 5,901	\$ 5,219	\$ 10,865	\$ -	\$ 21,985

13. CORRECTION OF PRIOR PERIOD MISSTATEMENTS

During the current quarter ended December 28, 2008, we discovered an error in how we reported several funds that were held by one of our health insurance carriers. These funds are held in a premium stabilization fund account (the "PSF Account") and an incurred but not reported claims reserve account (the "IBNR Reserve"). Although these funds were not previously reported on our balance sheet, management has determined that they are reportable assets and that their value should be included in our consolidated financial statements and would have reduced our past insurance expenses.

Accordingly, management has determined that our accumulated retained earnings were understated by \$2.9 million as of April 3, 2006, and net income was overstated by \$71,000 and understated by \$7,000 as of the end of fiscal years ending April 1, 2007 and March 30, 2008, respectively. For the three and nine months ending December 28, 2008 and December 30, 2007, the error had no impact on reported cash flows from operating, financing or investing activities and is considered immaterial to previously reported results of operations. Since the cumulative impact of correcting this error would be material to the results of the current quarter ended December 28, 2008, we applied the guidance of Staff Accounting Bulletin No. 108 (“SAB 108”). This guidance requires that the prior period financial statements be corrected, even though such revisions previously were, and continue to be, immaterial to the prior period financial statements. As the accounting for the PSF Account and IBNR Reserves is based on annual reporting that we receive in the fourth quarter of each fiscal year, the misstatements only impact the balances during the fourth quarter of each prior fiscal year.

We intend to establish a Voluntary Employees Benefit Trust (the “VEBA Trust”) to fund health benefits for retired employees by the end of fiscal year 2009 and transfer a portion of the funds held by one of our health insurance providers into the VEBA Trust to pay future health benefits for certain retired employees. The value of the funds expected to be transferred is approximately \$2.7 million.

We have also discovered that the annual amounts transferred in prior periods from the Todd Shipyards Corporation Retirement System defined benefit plan (the “Retirement Plan”) to fund health benefits for certain retired employees did not consider the funds available in the PSF Account and IBNR Reserve. We calculate the amount to transfer from the Retirement Plan based on the requirements provided by Section 420 of the Internal Revenue Code (the “Section 420 Transfer”). In the fourth quarter of fiscal 2009, we intend to make a contribution to the Retirement Plan of approximately \$2.1 million, in order to return \$1.1 million of principal and \$1.0 million of accrued interest to the Retirement Plan. We are still determining any potential tax implications from this matter.

The following tables represent the impact of the misstatements discussed above on our income statements and balance sheets for all of the prior periods (in thousands except per share amounts):

	<u>Income/ (Expense)</u>	<u>Income Tax Provision</u>	<u>Net Income</u>	<u>Basic EPS</u>	<u>Diluted EPS</u>
Fiscal year 2007	\$ (11)	\$ (60)	\$ (71)	\$ (0.01)	\$ (0.02)
Fiscal year 2008	81	(74)	7	-	-
Nine months ended December 28, 2008	-	-	-	-	-
Cumulative	\$ 70	\$ (134)	\$ (64)		

	<u>Other Current Assets</u>	<u>Taxes Payable</u>	<u>Retained Earnings</u>
Adjustment to Retained Earnings as of April 3, 2006	\$ 3,033	\$ (144)	\$ (2,889)
Fiscal year 2007	3,022	(204)	(2,818)
Fiscal year 2008	3,104	(279)	(2,825)
Nine months ended December 28, 2008	-	-	-

	<u>Other Current Assets</u>			<u>Income Taxes Payable</u>			<u>Retained Earnings</u>		
	<u>Reported</u>	<u>Adjustment</u>	<u>Revised</u>	<u>Reported</u>	<u>Adjustment</u>	<u>Revised</u>	<u>Reported</u>	<u>Adjustment</u>	<u>Revised</u>
Adjustment to Retained Earnings as of April 3, 2006	\$ 1,625	\$ 3,033	\$ 4,658	\$ 283	\$ 144	\$ 427	\$ 92,454	\$ 2,889	\$ 95,343
Fiscal year 2007	3,485	3,022	6,507	754	204	958	70,212	2,818	73,030
Fiscal year 2008	1,578	3,104	4,682	151	279	430	74,505	2,825	77,330
Nine months ended December 28, 2008	-	-	-	-	-	-	-	-	-
	<u>Income/(Expense)</u>			<u>Income Tax Provision</u>			<u>Net Income</u>		
	<u>Reported</u>	<u>Adjustment</u>	<u>Revised</u>	<u>Reported</u>	<u>Adjustment</u>	<u>Revised</u>	<u>Reported</u>	<u>Adjustment</u>	<u>Revised</u>
Fiscal year 2007	\$ 125,504	\$ (11)	\$ 125,493	\$ 1,636	\$ 60	\$ 1,696	\$ 6,578	\$ (71)	\$ 6,507
Fiscal year 2008	139,804	81	139,885	3,320	74	3,394	3,240	7	3,247
Nine months ended December 28, 2008	-	-	-	-	-	-	-	-	-

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

We derive a significant portion of our revenues from work performed under our contracts with the U.S. Navy ("Navy") and the U.S. Coast Guard ("Coast Guard"). Work under such contracts is scheduled by and at the convenience of the Navy and the Coast Guard.

We currently hold a Multi-Ship/Multi-Option cost-type contract ("CVN contract") for the non-nuclear repair work on the aircraft carriers home ported or stationed in Puget Sound. We were first awarded the CVN contract in 1999 and completed our second five year contract during the third quarter of fiscal year 2009. During the second quarter of fiscal year 2009, we were awarded a new five-year contract to continue our work on the aircraft carriers through 2013.

In July 2007 we, as prime contractor, commenced negotiations with the Washington State Department of Transportation, Ferry Division ("WSF") for the terms and conditions of a contract to build up to four 144 auto ferries. We concluded those negotiations and executed the prime contract with WSF in December 2007. The contract is issued in two parts. Part A provides for the design of the ferries and Part B will dictate the terms of the actual construction of the ferries. Part A of the contract was awarded for \$2.3 million that will be shared between us, our primary subcontractor, and Guido Perla & Associates of Seattle, Washington, who will provide ferry design services. We reached agreement on the terms and conditions of a subcontract with Martinac Shipbuilding of Tacoma, Washington in December 2007 to be a subcontractor to us. Once the design and cost estimate are complete, we will negotiate a price and delivery schedule for Part B of the contract, covering the construction of the ferries, with WSF. The current timetable discussed between us and WSF would project contract execution of Part B during the winter of 2008-09. There are no assurances that we will reach agreement with WSF on a price for construction of the ferries, a mutually acceptable delivery schedule, or that the necessary funding will be available from the State of Washington to build any or all of the ferries.

On December 1, 2008 we were awarded a \$65.5 million firm fixed price contract from WSF for the construction of one 64 – Auto Ferry. The ferry, to be built in our Seattle shipyard, is scheduled to be delivered 18 months after the Notice to Proceed was issued by WSF on January 5, 2009. Our newly acquired Everett Shipyard, Inc. is a major subcontractor on the project.

ACQUISITION OF ASSETS OF EVERETT SHIPYARD, INC.

On March 31, 2008, we acquired the assets of Everett Shipyard, Inc. ("Everett"). Everett performed ship repair work for a range of government and commercial customers, including the United States Navy and Washington State Ferries, at two locations in Everett, Washington.

The assets acquired include Everett's interest in a 1,000 ton dry dock. Everett and our Seattle shipyard do not generally compete for the same contracts. Everett has assumed the collective bargaining agreements with the International Brotherhood of Boilermakers, Local 104 and the United Brotherhood of Carpenters, Local 1184. The new yard employs the workforce previously employed by the former owner.

OPERATING RESULTS

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

Revenue - Our third quarter 2009 revenues of \$33.5 million reflects a \$5.6 million or 14% decrease from the same period last fiscal year. The quarter to quarter decrease largely results from lower ship repair volumes. Cost-type work decreased by 65% from the same period last fiscal year due to the timing of Navy and Coast Guard work. Firm fixed price work increased by 85% from the same period last fiscal year.

Revenue for the first nine months of fiscal year 2009 was \$80.3 million, which reflects a \$22.6 million decrease or 22% from the same period in fiscal year 2008. The year to date decrease largely results from lower Navy ship repair volumes. We previously reported that we received a notice from DCAA questioning the reasonableness of a payment to one of our subcontractors for work performed on the aircraft carrier USS John C. Stennis in fiscal year 2005. We established a reserve for this item in the amount of \$3.1 million and booked the resulting transaction as a reduction in revenue in the first quarter of fiscal year 2009.

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 2009 was \$22.1 million, or 66% of revenue. Cost of revenue during the third quarter of fiscal year 2008 was \$26.8 million, or 69% of revenue. The decrease in the cost of revenue in the third quarter of fiscal year 2009 is primarily attributable to a change in volumes versus the same period in the prior year. The decrease in the cost of revenue as a percentage of revenue in fiscal year 2009 is primarily driven by a quarter-on-quarter increase in the relative profitability of work performed in fiscal year 2009.

Cost of revenue during the first nine months of fiscal year 2009 was \$55.2 million, or 69% of revenue. During the comparable period in fiscal year 2008, cost of revenue was \$75.0 million, or 73% of revenue. The decreases in the cost of revenue in the first three quarters of fiscal year 2009 are primarily attributable to a change in volumes versus the same period in the prior year. The decrease in the cost of revenue as a percentage of revenue in the first nine months of fiscal year 2009 versus the prior year are primarily attributable to the increase in the relative profitability of the work performed in the current year.

Administrative and Manufacturing Overhead Expense - Overhead costs for administrative and manufacturing activities were \$8.7 million, or 26% of revenue, for the third quarter of fiscal year 2009. During the same period of fiscal year 2008, administrative and manufacturing overhead costs were \$8.8 million, or 23% of revenue. The \$0.1 million decrease in administrative and manufacturing overhead is attributable to the volume decrease in the third quarter of fiscal year 2009 and cost containment measures implemented by us in the current fiscal year.

Administrative and manufacturing overhead costs for the first nine months of fiscal year 2009 were \$23.8 million, or 30% of revenue. During the same period of fiscal year 2008, administrative and manufacturing overhead costs were \$26.4 million, or 26% of revenue. The \$2.6 million decrease is the result of lower volumes during the first nine months of fiscal year 2009 versus the same period in the prior year and cost containment measures mentioned above. But for the need to establish the \$3.1 million revenue reserve (discussed above) in the first quarter of fiscal year 2009, the administrative and manufacturing overhead expense as a percentage of revenue in fiscal year 2009 would have been 29%.

Investment & Other Income - Investment and other income (including gain on available-for-sale securities) was \$1.3 million for the third quarter of fiscal year 2009 and \$3.5 million for the nine months ended December 28, 2008. During the same periods in fiscal year 2008 investment and other income was \$0.8 million and \$3.1 million, respectively. Investment and other income in fiscal years 2009 and 2008 has been impacted favorably by contracts to lease certain facilities and provide related services to Kiewit-General in connection with their construction of the Hood Canal Floating Bridge.

Income Taxes - Our effective income tax rate was 34% in the quarters of both fiscal year 2009 and 2008. In the third quarter of fiscal 2009 we recorded \$1.3 million of expense associated with federal income tax. During the same period in fiscal 2008 we recorded \$1.4 million in federal income tax expense.

Our effective income tax rate was 34% in the first nine months of both fiscal years 2009 and 2008. We recorded \$1.6 million in federal tax expense in the first nine months of fiscal year 2009, and \$1.5 million in federal income tax expense in the first nine months of fiscal year 2008.

LIQUIDITY AND CAPITAL RESOURCES

Management anticipates that our cash, cash equivalents and marketable securities position, anticipated fiscal year 2009 cash flow, access to credit facilities and, if necessary, capital markets, taken together, will provide sufficient liquidity to fund operations for fiscal year 2009. 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 28, 2008 was \$32.0 million, a decrease of \$2.3 million, or 7%, from the working capital reported at the end of fiscal year 2008. The overall decrease is due to a decrease in cash of \$6.7 million, primarily due to the cash outlay for the acquisition of Everett. Accounts receivable increased \$6.2 million, accounts payable increased \$1.8 million and sales in excess of billings increased \$1.3 million, primarily due to the timing of work and the conclusion of several large fixed price projects in the first nine months of fiscal year 2009.

Capital Expenditures

Capital expenditures of \$1.4 million for the third quarter and \$1.9 million for the first nine months of fiscal year 2009 were attributable to planned improvements to the Seattle shipyard facility. These capital expenditures were offset by a favorable determination by the Washington State Department of Revenue regarding sales tax that was previously capitalized with the construction costs for a pier trestle, which resulted in a \$0.2 million decrease of the total capitalized cost for the construction of a pier trestle which was recognized in a prior quarter of the current year.

Credit Facility

In the third quarter of fiscal year 2009, we extended our \$10.0 million revolving credit facility through July 2010. As of December 28, 2008, we have a letter of credit outstanding of \$0.5 million, reducing our available credit facilities to \$9.5 million. The credit facility, which is renewable on an annual basis, provides us with greater flexibility in funding our 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, we have certain financial debt covenants that it must meet in order to maintain this line of credit. We are in compliance with all debt covenants and had no outstanding borrowings as of December 28, 2008 and March 30, 2008, respectively.

Dividends

On September 22, 2008 and on December 23, 2008 we paid dividends of five cents (\$0.05) per share to all shareholders of record as of September 5, 2008 and December 8, 2008, respectively. The cumulative amount of dividends paid on a year-to-date basis as of December 28, 2008 was \$0.9 million. Our Board of Directors announced a dividend of five cents (\$0.05) per share to be paid on March 20, 2009 to all shareholders of record as of March 5, 2009.

Correction of Prior Period Misstatements

During the current quarter ended December 28, 2008, we discovered an error in how we reported several funds that were held by one of our health insurance carriers. These funds are held in a premium stabilization fund account (the "PSF Account") and an incurred but not reported claims reserve account (the "IBNR Reserve"). Although these funds were not previously reported on our balance sheet, management has determined that they are reportable assets and that their value should be included in our consolidated financial statements and would have reduced our past insurance expenses.

Accordingly, management has determined that our accumulated retained earnings were understated by \$2.9 million as of April 3, 2006, and net income was overstated by \$71,000 and understated by \$7,000 as of the end of fiscal years ending April 1, 2007 and March 30, 2008, respectively. For the three and nine months ending December 28, 2008 and December 30, 2007, the error had no impact on reported cash flows from operating, financing or investing activities and is considered immaterial to previously reported results of operations. Since the cumulative impact of correcting this error would be material to the results of the current quarter ended December 28, 2008, we applied the guidance of Staff Accounting Bulletin No. 108 ("SAB 108"). This guidance requires that the

prior period financial statements be corrected, even though such revisions previously were, and continue to be, immaterial to the prior period financial statements. As the accounting for the PSF Account and IBNR Reserves is based on annual reporting that we receive in the fourth quarter of each fiscal year, the misstatements only impact the balances during the fourth quarter of each prior fiscal year.

We intend to establish a Voluntary Employees Benefit Trust (the "VEBA Trust") to fund health benefits for retired employees by the end of fiscal year 2009 and transfer a portion of the funds held by one of our health insurance providers into the VEBA Trust to pay future health benefits for certain retired employees. The value of the funds expected to be transferred is approximately \$2.7 million.

We have also discovered that the annual amounts transferred in prior periods from the Todd Shipyards Corporation Retirement System defined benefit plan (the "Retirement Plan") to fund health benefits for certain retired employees did not consider the funds available in the PSF Account and IBNR Reserve. We calculate the amount to transfer from the Retirement Plan based on the requirements provided by Section 420 of the Internal Revenue Code (the "Section 420 Transfer"). In the fourth quarter of fiscal 2009, we intend to make a contribution to the Retirement Plan of approximately \$2.1 million, in order to return \$1.1 million of principal and \$1.0 million of accrued interest to the Retirement Plan. We are still determining any potential tax implications from this matter. See Note 13 for further details.

RESERVES AND OTHER CONTINGENCIES

As reflected in the balance sheet and discussed in Note 4 to the financial statements, we have provided total aggregate reserves of \$11.2 million at December 28, 2008 for our contingent environmental and bodily injury liabilities. As of March 30, 2008, we had recorded aggregate reserves of \$11.4 million. All of the decrease from the prior period bodily injury liabilities relates to the settlement of bodily injury claims. Due to the complexities and extensive history of our 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 our financial position, cash flows or results of operations.

We have various insurance policies and agreements that provide coverage of the costs to remediate environmental sites and for the defense and settlement of bodily injury cases. These policies and agreements are primarily with two insurance companies. During the second quarter of fiscal year 2009 the AM Best credit rating for the underwriter providing the coverage for the Harbor Island Superfund Site was reduced from A+ (Superior) to A (Excellent). The primary underwriter for bodily injury cases maintains an A+ (Superior) rating as of the quarter ended December 28, 2008. Based upon the current credit rating of both of these companies, we anticipate that both parties will be able to perform under the policy or agreement.

As of December 28, 2008, we have recorded aggregate assets of \$9.0 million related to our reserves for environmental and bodily injury liabilities. As of March 30, 2008, we recorded aggregate assets of \$9.1 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 our 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 our Consolidated Balance Sheets as restricted cash.

We previously reported that we received notice from the DCAA questioning the reasonableness of a payment to one of our subcontractors on the 2005 dPIA of the aircraft carrier USS John C. Stennis. During the first quarter of our fiscal year 2009 the DCAA issued its final report disapproving \$3.1 million of costs related to payments made to the subcontractor and costs incurred by us to perform work which was contracted to the subcontractor. The Navy contracting officer then issued the decision to disallow the costs and withhold the above stated amount from payments due on our current contracts with the Navy. In response, we filed a Request for Equitable Adjustment ("REA") with the Navy contracting officer to allow the \$3.1 million in incurred costs. In the event of an unfavorable decision on our REA we will file an appeal to the Armed Services Board of Contract Appeals or directly to federal court. We established a reserve for this item in the amount of \$3.1 million and booked the resulting transaction as a reduction in revenue in the first quarter of fiscal year 2009. The Navy collected the entire amount in the second quarter of fiscal year 2009 through the non-payment of other outstanding project receivables. We continued to meet with the Navy in the third quarter of 2009 and the Navy agreed to return the \$3.1 million while they considered our REA. We agreed to supply additional information to the Navy to assist in the resolution of the REA which we have now accomplished. We re-billed the Navy for the \$3.1 million outstanding and the Navy paid the invoices in the third quarter of fiscal year 2009. There are no assurances that the Navy will agree with our REA. Our current financial statements continue to reflect a reserve for the \$3.1 million at issue.

The Navy's Puget Sound contracting office has notified us of several instances of potential noncompliance with the Cost Accounting Standards ("CAS") relating to our Planned Incremental Availability ("PIA") contract to perform repair work on the aircraft carriers located in the Puget Sound. The instances under review primarily focus on our long standing allocation methods applicable to other

Navy contracts and the degree to which indirect costs are allocated to work performed under our PIA contract. We believe that we have valid positions and defenses to the findings of potential noncompliance and we are responding to the notification in an effort to resolve the matter prior to action by the Navy to determine that noncompliance exists. An unfavorable outcome in this matter could have a significant impact on our cost structure with the Navy and, depending upon the scope of any retroactive relief sought by the Navy, could be material in the period recorded. At this time, we are unable to estimate our potential exposure for this item.

BACKLOG

At December 28, 2008 our firm shipyard backlog consisted of approximately \$89.5 million of repair and overhaul work. Our backlog at March 30, 2008 was approximately \$12.0 million. The increase in the backlog of work at the end of the first nine months of fiscal year 2009 is primarily due to the timing of commercial and Government ship repair projects and the award of a contract to build one new 64-Auto Ferry for Washington State Ferries.

LABOR RELATIONS

During the second quarter of fiscal year 2009 we completed our negotiations for a new collective bargaining agreement with the Puget Sound Metal Trades Council (the bargaining umbrella for all unions at Todd Pacific Shipyards). The five-year agreement ratified by our workforce provides for an average increase in wages and benefits of 4.5% per year with an expiration date of July 31, 2013. We believe our relationship with our labor unions is stable.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls Over Financial Reporting. As required by Rule 13a-15(d) of the Exchange Act, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated our internal controls over financial reporting and determined that there were no changes that occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits

- No. 31.1 Certification of Chief Executive Officer in accordance with Rule 13a-14a or 15d-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- No. 31.2 Certification of Chief Financial Officer in accordance with Rule 13a-14a or 15d-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- No. 32.1 Certification of Chief Executive Officer pursuant to Rule 14(b) 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 Rule 14(b) 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 5, 2009 announcing financial results for our quarterly period ended December 28, 2008 (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 5, 2009

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-Q of Todd Shipyards Corporation;
2. Based on my knowledge, this 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 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 officer(s) 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 control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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; and
 - 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 (the registrant's fourth fiscal quarter in the case of the annual report) 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 officer(s) 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 control 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 control over financial reporting.

Date: February 5, 2009

/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 annual report on Form 10-Q of Todd Shipyards Corporation;
2. Based on my knowledge, this 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 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 officer(s) 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 control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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; and
 - 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 (the registrant's fourth fiscal quarter in the case of the annual report) 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 officer(s) 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 control 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 control over financial reporting.

Date: February 5, 2009

/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 (“we”, “us”, “our”) on Form 10-Q for the quarter ended 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 our operations.

Date: February 5, 2009

/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 (“we”, “us”, “our”) on Form 10-Q for the quarter ended 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 our operations.

Date: February 5, 2009

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

**TODD SHIPYARDS CORPORATION
ANNOUNCES QUARTERLY FINANCIAL RESULTS FOR
DECEMBER 28, 2008**

VIA FACSIMILE
TOTAL PAGES – 3

CONTACT: HILARY PICKEREL
SHAREHOLDER RELATIONS
(206) 623-1635 Ext. 106

SEATTLE, WASHINGTON...February 5, 2009...Todd Shipyards Corporation (“we”, “us” or “our”) (NYSE:TOD) announced financial results for the third quarter ended December 28, 2008. For the quarter, we reported net income of \$2.6 million or \$0.45 per diluted share on revenue of \$33.5 million. For the prior year third quarter ended December 30, 2007, we reported net income of \$2.9 million or \$0.50 per diluted share on revenue of \$39.1 million.

Our third quarter revenue of \$33.5 million reflects a decrease of \$5.6 million or 14% from the same period last fiscal year. The quarter to quarter decrease largely results from lower volumes of ship repair activity versus the same period in the prior year.

For the quarter ended December 28, 2008, we reported operating income of \$2.7 million. In the prior year quarter ended December 30, 2007, we reported operating income of \$3.5 million. The decrease in operating income in the third quarter of fiscal versus the third quarter of the prior year primarily results from the decreases in ship repair volumes versus the prior year.

We reported investment and other income of \$1.3 million and \$0.8 million for the quarters ended December 28, 2008 and December 30, 2007, respectively.

For the third quarter ended December 28, 2008, we reported an income before income taxes of \$3.9 million and recorded \$1.3 million of federal income tax expense, resulting in net income for the period of \$2.6 million. For the prior year third quarter ended December 30, 2007, we reported income before income taxes of \$4.3 million and recorded federal income tax expense of \$1.4 million, resulting in net income reported for the period of \$2.9 million.

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

Statements contained in this Release which 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 matters which relate directly to the Company’s operations and properties and are discussed in the Company’s filings with the Securities & Exchange Commission, as well as general economic risks and uncertainties. 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.

The results of operations are as follows:

TODD SHIPYARDS CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

Periods ended December 28, 2008 and December 30, 2007

(in thousands of dollars, except per share data)

	Three Months Ended		Nine Months Ended	
	12/28/08	12/30/07	12/28/08	12/30/07
Revenues	\$ 33,472	\$ 39,087	\$ 80,286	\$ 102,840
Operating expenses:				
Cost of revenue	22,131	26,807	55,217	74,968
Administrative and manufacturing overhead	8,703	8,822	23,846	26,441
Other insurance settlements	(21)	(17)	(65)	(50)
Total operating expenses	30,813	35,612	78,998	101,359
Operating income	2,659	3,475	1,288	1,481
Investment and other income	1,254	792	3,425	3,064
Gain on available-for-sale securities	30	40	31	40
Income before income tax expense	3,943	4,307	4,744	4,585
Income tax expense	(1,337)	(1,443)	(1,605)	(1,537)
Net income	<u>\$ 2,606</u>	<u>\$ 2,864</u>	<u>\$ 3,139</u>	<u>\$ 3,048</u>
Net income per common share				
Diluted	\$ 0.45	\$ 0.50	\$ 0.54	\$ 0.54
Weighted average shares outstanding				
Diluted	5,787	5,714	5,779	5,651

A copy of our financial statements for the quarter ended December 28, 2008 will be filed with the Securities & Exchange Commission as part of its quarterly report on Form 10-Q. Our Form 10-Q should be read in conjunction with this earnings report.

TODD SHIPYARDS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

December 28, 2008 and March 30, 2008

(in thousands of dollars)

	<u>12/28/08</u>	<u>03/30/08</u>
ASSETS		
Cash and cash equivalents	\$ 5,901	\$ 12,600
Securities available-for-sale	13,095	10,655
Accounts receivable		
U.S. Government	4,584	5,259
Other	11,412	4,480
Costs and estimated profits in excess of billings on incomplete contracts	12,289	10,945
Inventory	1,625	1,580
Insurance receivable	217	217
Other current assets	5,122	4,682
Deferred taxes	480	526
<i>Total current assets</i>	<u>54,725</u>	<u>50,944</u>
Property, plant and equipment, net	32,543	30,161
Restricted cash	3,398	3,783
Deferred pension assets	16,183	17,052
Insurance receivable	8,766	8,850
Intangible assets, net	1,961	-
Goodwill	1,119	-
Other long-term assets	1,688	1,816
<i>Total assets</i>	<u>\$ 120,383</u>	<u>\$ 112,606</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accruals	\$ 10,488	\$ 8,537
Reserves for contract loss	27	182
Accrued payroll and related liabilities	1,609	2,002
Billings in excess of costs and estimated profits on incomplete contracts	8,029	3,717
Environmental and other reserves	217	217
Taxes payable other than income taxes	911	1,615
Income taxes payable	1,489	430
<i>Total current liabilities</i>	<u>22,770</u>	<u>16,700</u>
Environmental and other reserves	11,048	11,187
Accrued post retirement health benefits	8,726	9,504
Deferred taxes	4,054	4,061
Other non-current liabilities	2,388	2,358
<i>Total liabilities</i>	<u>48,986</u>	<u>43,810</u>
Stockholders' equity		
Common stock \$.01 par value, authorized 19,500,000 shares, issued 11,828,305 shares at December 28, 2008 and March 30, 2008, and outstanding 5,766,071 shares at December 28, 2008 and 5,757,621 shares at March 30, 2008	118	118
Paid-in capital	38,631	38,537
Retained earnings	79,606	77,330
Accumulated other comprehensive loss	(3,031)	(3,201)
Treasury stock (6,062,234 shares at December 28, 2008 and 6,070,684 shares at March 30, 2008)	(43,927)	(43,988)
<i>Total stockholders' equity</i>	<u>71,397</u>	<u>68,796</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 120,383</u>	<u>\$ 112,606</u>

A copy of our financial statements for the quarter ended December 28, 2008 will be filed with the Securities & Exchange Commission as part of its quarterly report on Form 10-Q. Our Form 10-Q should be read in conjunction with this earnings report.