

NORTHWEST PIPE CO  
Form 10-Q  
November 15, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: September 30, 2010

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: 0-27140

**NORTHWEST PIPE COMPANY**

(Exact name of registrant as specified in its charter)

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**OREGON**  
(State or other jurisdiction of  
incorporation or organization)

**93-0557988**  
(I.R.S. Employer  
Identification No.)

**5721 SE Columbia Way**  
**Suite 200**

**Vancouver, Washington 98661**

(Address of principal executive offices and zip code)

**360-397-6250**

(Registrant's telephone number including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

**Common Stock, par value \$.01 per share**  
(Class)

**9,291,541**  
(Shares outstanding at November 8, 2010)

**Table of Contents**

**NORTHWEST PIPE COMPANY**

**FORM 10-Q**

**INDEX**

	<b>Page</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
Item 1. Financial Statements:	
<u>Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009</u>	2
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	17
<u>Item 4. Controls and Procedures</u>	18
<b><u>PART II - OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 6. Exhibits</u>	20
<u>Signatures</u>	21

**Table of Contents**

**NORTHWEST PIPE COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share and per share data)

	September 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 37	\$ 31
Trade and other receivables, less allowance for doubtful accounts of \$669 and \$793	75,723	38,733
Costs and estimated earnings in excess of billings on uncompleted contracts	46,412	37,509
Inventories	81,645	74,866
Refundable income taxes	10,284	7,029
Deferred income taxes	15,314	19,287
Prepaid expenses and other	796	2,350
Total current assets	230,211	179,805
Property and equipment, net	170,937	163,432
Goodwill	21,451	21,451
Other assets	26,883	26,549
Total assets	\$ 449,482	\$ 391,237
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 5,714	\$ 5,714
Current portion of capital lease obligations	914	408
Accounts payable	31,368	30,039
Accrued liabilities	12,957	11,630
Billings in excess of costs and estimated earnings on uncompleted contracts	10,091	9,670
Total current liabilities	61,044	57,461
Note payable to financial institution	76,513	19,403
Long-term debt, less current portion	19,214	23,501
Capital lease obligations, less current portion	8,009	8,818
Deferred income taxes	29,103	27,687
Pension and other long-term liabilities	8,187	8,068
Total liabilities	202,070	144,938
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 15,000,000 shares authorized, 9,291,541 and 9,244,977 shares issued and outstanding	93	92
Additional paid-in-capital	107,406	106,869
Retained earnings	142,280	141,928

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Accumulated other comprehensive loss	(2,367)	(2,590)
Total stockholders' equity	247,412	246,299
Total liabilities and stockholders' equity	\$ 449,482	\$ 391,237

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents**

**NORTHWEST PIPE COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except share and per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 112,770	\$ 61,377	\$ 289,277	\$ 213,786
Cost of sales	101,302	63,645	262,945	205,223
Gross profit (loss)	11,468	(2,268)	26,332	8,563
Selling, general and administrative expense	7,988	5,170	21,254	14,519
Operating income (loss)	3,480	(7,438)	5,078	(5,956)
Other expense (income)	138	238	(289)	(583)
Interest income	(243)	(147)	(709)	(410)
Interest expense	2,206	1,074	5,482	3,592
Income (loss) before income taxes	1,379	(8,603)	594	(8,555)
Provision (benefit) for income taxes	686	(3,109)	242	(3,189)
Net income (loss)	\$ 693	\$ (5,494)	\$ 352	\$ (5,366)
Basic earnings (loss) per share	\$ 0.07	\$ (0.59)	\$ 0.04	\$ (0.58)
Diluted earnings (loss) per share	\$ 0.07	\$ (0.59)	\$ 0.04	\$ (0.58)
Shares used in per share calculations:				
Basic	9,290	9,240	9,273	9,232
Diluted	9,309	9,240	9,326	9,232

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****NORTHWEST PIPE COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	Nine months ended September 30,	
	2010	2009
<b>Cash Flows From Operating Activities:</b>		
Net income (loss)	\$ 352	\$ (5,366)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,186	5,040
Amortization of intangible assets	90	89
Provision for doubtful accounts	(124)	185
Amortization of debt issuance costs	905	377
Deferred income taxes	5,389	(2,115)
Loss on disposal of property and equipment	528	974
Stock based compensation expense	594	721
Tax benefit from stock option plans	31	(53)
Changes in operating assets and liabilities:		
Trade and other receivables	(36,866)	24,561
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(8,482)	21,099
Inventories	(6,419)	23,692
Refundable income taxes	(3,255)	(1,939)
Prepaid expenses and other assets	1,620	1,014
Accounts payable	3,308	(8,003)
Accrued and other liabilities	1,668	2,138
<b>Net cash provided by (used in) operating activities</b>	<b>(35,475)</b>	<b>62,414</b>
<b>Cash Flows From Investing Activities:</b>		
Additions to property and equipment	(15,537)	(17,963)
Other investing activities	(984)	(250)
Proceeds from the sale of property and equipment	18	61
<b>Net cash used in investing activities</b>	<b>(16,503)</b>	<b>(18,152)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from sale of common stock		28
Tax withholdings related to net share settlements of restricted stock awards and performance shares	(87)	
Payments on long-term debt	(4,286)	(4,286)
Borrowings under note payable to financial institution	159,977	61,780
Payments on note payable to financial institution	(102,867)	(115,382)
Borrowings from capital lease obligations	2,865	14,767
Payments on capital lease obligations	(303)	(1,087)
Payments of debt amendment costs	(3,315)	
<b>Net cash (used in) provided by financing activities</b>	<b>51,984</b>	<b>(44,180)</b>

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Change in cash and cash equivalents	6	82
Cash and cash equivalents, beginning of period	31	90
Cash and cash equivalents, end of period	\$ 37	\$ 172
Non-cash investing activity:		
Escrow account related to capital lease financing	\$ 2,726	\$ 10,000
Accrued property and equipment purchases	1,725	4,205

The accompanying notes are an integral part of these condensed consolidated financial statements.



**Table of Contents****NORTHWEST PIPE COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The financial information as of December 31, 2009 is derived from the audited consolidated financial statements presented in the Northwest Pipe Company (the Company) Annual Report on Form 10-K for the year ended December 31, 2009. Certain information or footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair statement of the results of the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009, as presented in the Company's 2009 Annual Report on Form 10-K.

The Condensed Consolidated Financial Statements include the accounts of Northwest Pipe Company and its subsidiaries in which the Company exercises control as of the financial statement date. Intercompany accounts and transactions have been eliminated.

Northwest Pipe Asia Pte. Ltd. (NWPA), in which the Company exercises significant influence but does not control, is accounted for under the equity method of accounting. During the first nine months of 2010, the Company recorded purchases of property and equipment of \$1.5 million, net of eliminations, and rental income, included in net sales, of \$0.2 million from NWPA. At September 30, 2010, intercompany balances with NWPA included a receivable of \$0.7 million, primarily related to rental income, cash advances and the provision of management services, and a payable of \$0.4 million related to the purchases of the property and equipment.

Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2010.

**2. Inventories**

Inventories are stated at the lower of cost or market and consist of the following:

	September 30, 2010	December 31, 2009
	(in thousands)	
<b>Short-term inventories:</b>		
Finished goods	\$ 14,006	\$ 14,799
Raw materials	60,900	53,335
Work-in-process	4,620	4,595
Supplies	2,119	2,137
	81,645	74,866
<b>Long-term inventories:</b>		
Finished goods	4,028	4,388
<b>Total inventories</b>	<b>\$ 85,673</b>	<b>\$ 79,254</b>

Long-term inventories are recorded in Other Assets. The lower of cost or market adjustment was \$4.8 million at September 30, 2010 and \$5.8 million at December 31, 2009.

### **3. Fair Value Measurements**

The Company records its financial assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date.

The authoritative guidance establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. These levels are: Level 1 (inputs are quoted prices in active markets for identical assets or liabilities); Level 2 (inputs are other than quoted prices that are observable, either directly or indirectly through corroboration with observable market data); and Level 3 (inputs are unobservable, with little or no market data that exists, such as internal financial forecasts). The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

**Table of Contents**

The following table summarizes information regarding the Company's financial assets and financial liabilities that are measured at fair value (in thousands):

<b>Description</b>	<b>Balance at September 30, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
Escrow account	\$ 2,726	\$ 2,726	\$	\$
Derivatives	14		14	
<b>Total Assets at Fair Value</b>	<b>\$ 2,740</b>	<b>\$ 2,726</b>	<b>\$ 14</b>	<b>\$</b>
<b>Financial Liabilities</b>				
Derivatives	\$ 255	\$	\$ 255	\$

  

<b>Description</b>	<b>Balance at December 31, 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Escrow account	\$ 5,591	\$ 5,591	\$	\$
<b>Financial liabilities</b>				
Derivatives	\$ 1,069	\$	\$ 1,069	\$

**4. Derivative Instruments and Hedging Activities**

The Company conducts business in various foreign countries, and, from time to time, settles transactions in foreign currencies. The Company has established a program that utilizes foreign currency forward contracts to offset the risk associated with the effects of certain foreign currency exposures, typically arising from sales contracts denominated in Canadian currency. These derivative contracts are consistent with the Company's strategy for financial risk management; however, prior to June 30, 2009, they did not meet the conditions under the authoritative guidance to qualify for hedge accounting treatment. Beginning in the quarter ended September 30, 2009, the Company adopted cash flow hedge accounting treatment for qualifying derivative contracts entered into subsequent to June 30, 2009 under the authoritative guidance. Instruments that do not qualify for cash flow hedge accounting treatment are re-measured at fair value on each balance sheet date and resulting gains and losses are recognized in net income. As of September 30, 2010 and December 31, 2009, the total notional amount of the derivative contracts not designated as hedges was \$1.3 million (CAD\$1.4 million) and \$5.4 million (CAD\$5.7 million), respectively. As of September 30, 2010 and December 31, 2009, the total notional amount of the derivative contracts designated as hedges was \$13.4 million (CAD\$13.9 million) and \$16.2 million (CAD\$17.0 million), respectively.

For each derivative contract entered into in which the Company seeks to obtain cash flow hedge accounting treatment, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives to specific firm commitments or forecasted transactions and designating the derivatives as cash flow hedges. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative contracts that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effective portion of these hedged items is reflected in other comprehensive income (loss). If it is determined that a derivative contract is not highly effective, or that it has ceased to be a highly effective hedge, the Company will be required to discontinue hedge accounting with respect to that derivative contract prospectively.

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Though most Canadian forward contracts have maturities not longer than 12 months at September 30, 2010, two of the Company's contracts at that date with a total notional value of \$6.3 million (CAD\$6.5 million) have maturities greater than 12 months, with the greatest maturity being 24 months.

**Table of Contents**

The balance sheet location and the fair values of derivative instruments are:

Foreign Currency Forward Contracts	September 30, 2010	December 31, 2009
	(in thousands)	
<b>Assets</b>		
Derivatives not designated as hedging instruments		
Prepaid expenses and other	\$ 14	\$
Total assets	\$ 14	\$
<b>Liabilities</b>		
Derivatives designated as hedging instruments		
Accrued liabilities	\$ 51	\$ 217
Derivatives not designated as hedging instruments		
Accrued liabilities	204	852
Total liabilities	\$ 255	\$ 1,069

The amounts of the gains and losses related to the Company's derivative contracts designated as hedging instruments for the three months ended September 30, 2010 are (in thousands):

	Pretax Loss Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount	Pretax Gain Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Loss on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
		Location	Amount	Location	Amount
<b>Derivatives in Cash Flow Hedging Relationships</b>					
Foreign currency forward contracts	\$ (24)	Net sales	\$ 5	Net sales	\$ (27)

The amounts of the gains and losses related to the Company's derivative contracts designated as hedging instruments for the nine months ended September 30, 2010 are (in thousands):

	Pretax Gain Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount	Pretax Loss Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Loss on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
		Location	Amount	Location	Amount

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### Derivatives in Cash Flow Hedging Relationships

Foreign currency forward contracts	\$	134	Net sales	\$	(8)	Net sales	\$	(29)
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For the three and nine months ended September 30, 2010, losses from our derivative contracts not designated as hedging instruments recognized in net sales were \$0.3 million and \$0.4 million, respectively. For the three and nine months ended September 30, 2009, losses from our derivative contracts not designated as hedging instruments recognized in net sales were \$1.1 million and \$3.0 million, respectively.

### 5. Commitments and Contingencies

*Securities Litigation.* On November 20, 2009, a complaint against the Company captioned *Richard v. Northwest Pipe Co. et al.*, No. C09-5724 RBL, was filed in the United States District Court for the Western District of Washington. The plaintiff is allegedly a purchaser of the Company's stock. In addition to the Company, Brian W. Dunham, the Company's former President and CEO, and Stephanie J. Welty, our current CFO, are named as defendants. The complaint alleges that defendants violated Section 10(b) of the Securities Exchange Act of 1934 by making false or misleading statements between April 23, 2008 and November 11, 2009. Plaintiff seeks to represent a class of persons who purchased the Company's stock during the same period and seeks damages for losses caused by the alleged wrongdoing.

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**Table of Contents**

A similar complaint, captioned *Plumbers and Pipefitters Local Union No. 630 Pension-Annuity Trust Fund v. Northwest Pipe Co. et al.*, No. C09-5791 RBL, was filed against the Company in the same court on December 22, 2009. In addition to the Company, Brian W. Dunham, Stephanie J. Welty and William R. Tagmyer, the Company's current Chairman of the Board, are named as defendants in the *Plumbers* complaint. In the *Plumbers* complaint, as in the *Richard* complaint, the plaintiff is allegedly a purchaser of the Company's stock and asserts that defendants violated Section 10(b) of the Securities Exchange Act of 1934 by making false or misleading statements between April 23, 2008 and November 11, 2009. Plaintiff seeks to represent a class of persons who purchased the Company's stock during that period, and seeks damages for losses caused by the alleged wrongdoing.

The *Richard* action and the *Plumbers* action were consolidated on February 25, 2010. Plumbers and Pipefitters Local No. 630 Pension-Annuity Trust Fund was appointed lead plaintiff in the consolidated action. Defendants and lead plaintiff subsequently agreed that defendants do not need to respond to either of the two outstanding complaints, and that a consolidated amended complaint will be filed within 45 days of the Company having completed the filing of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (the September 30, 2009 Form 10-Q) and its 2009 Form 10-K with the SEC. The parties also have stipulated to a briefing schedule for motions to dismiss to be filed after the filing of a consolidated amended complaint. The Company intends to vigorously defend itself against these claims. This securities litigation is at a very early stage and, at this time, it is not possible to predict its outcome. Therefore, the Company has not accrued any charges related to this litigation.

On March 3, 2010, the Company was served with a derivative complaint, captioned *Ruggles v. Dunham et al.*, No. C10-5129 RBL, and filed in the United States District Court for the Western District of Washington. The plaintiff in this action is allegedly a current shareholder of the Company's. The Company is a nominal defendant in this litigation. Plaintiff seeks to assert, on the Company's behalf, claims against Brian W. Dunham, Stephanie J. Welty, William R. Tagmyer, Keith R. Larson, Wayne B. Kingsley, Richard A. Roman, Michael C. Franson and Neil R. Thornton. The asserted basis of the claims is that defendants breached fiduciary duties to the Company by causing the Company to make improper statements between April 23, 2008 and August 7, 2009. Plaintiff seeks to recover, on the Company's behalf, damages for losses caused by the alleged wrongdoing.

The Company and the defendants have entered into an agreement with plaintiff in the *Ruggles* action. Pursuant to that agreement, neither the Company nor the defendants are required to respond to the current complaint. Plaintiffs may file an amended complaint within 60 days of the Company having completed the filing of its September 2009 Form 10-Q and its 2009 Form 10-K with the SEC. The parties have agreed on a briefing schedule for motions to dismiss to be filed after the filing of an amended complaint. It should also be noted that derivative claims by their nature do not seek to recover damages from us, but purport instead to seek to recover damages for the benefit of us. This litigation is at a very early stage and, at this time, it is not possible to predict its outcome. Therefore, the Company has not accrued any charges related to this litigation.

**SEC Investigation.** On March 8, 2010, the staff of the Enforcement Division of the SEC issued a formal order of investigation and a subpoena for the production of documents. The Company is cooperating with the SEC, but does not know when the inquiry and investigation will be resolved or what, if any, actions the SEC may require as part of that resolution. Any action by the SEC or other governmental agency could result in civil or criminal sanctions against the Company and/or certain of its current or former officers, directors and/or employees. The investigation is at an early stage and, at this time, it is not possible to predict its outcome. Therefore, the Company has not accrued any charges related to this investigation.

**Environmental Litigation.** On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor was included on the National Priorities List at the request of the U.S. Environmental Protection Agency (the EPA). While the Company's Portland, Oregon manufacturing facility does not border the Willamette River, an outfall from the facility's storm water system drains into a neighboring property's privately owned slip. The Company and over 100 other parties have been notified by the EPA and the Oregon Department of Environmental Quality (the ODEQ) of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). As of September 2010, more than 280 potentially responsible parties on and nearby the river have been asked to file information disclosure reports with the EPA. By agreement with the EPA, the ODEQ is charged with ensuring that all upland sites have source control to prevent future contamination to the river. A remedial investigation and feasibility study of the Portland Harbor is currently being directed by a group of potentially responsible parties known as the Lower Willamette Group (the LWG). The Company made a payment of \$175,000 to the LWG in June 2007 as part of an interim settlement, and is under no obligation to make any further payment. A draft remedial investigation report was submitted to the EPA by the LWG in the fall of 2009. The feasibility study is underway and is expected to be completed by the LWG in 2011.

In 2001, groundwater containing elevated organic compounds (VOCs) was identified in one localized area of the Company's property furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater is consistent with the initial conclusion that the source of the VOCs is located off of Company-owned property. On January 25, 2005, the Company entered





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## Table of Contents

into a Voluntary Agreement for Remedial Investigation and Source Control Measures ( Agreement ) with the ODEQ. The Company is one of 84 Upland Source Control Sites working with the ODEQ on Source Control and is ranked a medium priority. The Company performed Remedial Investigation work required under the Agreement and submitted a draft Remedial Investigation/Source Control Evaluation Report on December 30, 2005. The conclusions of the report indicate that the VOCs found in the groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River. The report also indicates there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments.

Also, based on the remedial investigation and reporting required under the Portland, Oregon manufacturing facility's National Pollutant Discharge Elimination System permit for storm water, the Company and the ODEQ have identified a possible source of small amounts of polynuclear aromatic compounds and polychlorinated biphenyls and have periodically identified trace amounts of zinc in storm water. Storm water from the Portland, Oregon manufacturing facility site is discharged to a neighboring property's privately owned slip, as is storm water from surrounding industrial properties. The slip was historically used for shipbuilding and subsequently for ship breaking and metal recycling. Studies of the river sediments have revealed concentration of polynuclear aromatic compounds, polychlorinated biphenyls and zinc which are common constituents in urban storm water discharges. To minimize the zinc traces in its storm water, the Company painted a substantial part of the Portland facility's roofs in 2009 at a cost of \$364,000. In addition, paving improvements were made at the Portland facility at a cost of \$215,000. Total spending on environmental capital projects at the Portland facility was \$603,000 in 2009. Based on National Pollutant Discharge Elimination System storm water sampling, the painting seems to have reduced the zinc in the storm water runoff. In June 2009, under the ODEQ Agreement, the Company submitted a Final Supplemental Work Plan to evaluate and assess soil and storm water, and further assess groundwater risk. The Company is working with the City of Portland and the ODEQ to facilitate further soil and storm water source control measures.

Concurrent with the activities of the EPA and the ODEQ, the Portland Harbor Natural Resources Trustee Council ( Trustees ) sent some or all of the same parties, including the Company, a notice of intent to perform a Natural Resource Damage Assessment ( NRDA ) for the Portland Harbor Site to determine the nature and extent of natural resource damages under CERCLA section 107. The Trustees for the Portland Harbor Site consist of representatives from several Northwest Indian Tribes, three federal agencies and one state agency. The Trustees act independently of the EPA and the ODEQ, but the Company expects their assessment will be coordinated with the remedial investigation and feasibility study work underway at the Portland Harbor Site. In 2009 the Trustees completed phase one of their three-phase NRDA. Phase one of the NRDA consisted of environmental studies to fill gaps in the information available from the EPA, and development of a framework for evaluating, quantifying and determining the extent of injuries to the natural resource and the resulting damages. Phase two of the NRDA began in 2010 and consists largely of implementing the framework developed in phase one.

The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessments. In 2009, one of the Tribal Trustees (the Yakima Nation) resigned and has requested funding from the same parties to support its own assessment. The Company has not assumed any payment obligation or liability related to either request. The extent of the Company's obligation with respect to Portland Harbor matters is not known, and no further adjustment to the consolidated financial statements has been recorded as of September 30, 2010.

The Company operates under numerous governmental permits and licenses relating to air emissions, storm-water run-off and other environmental matters. In September and October of 2009 the Company received several notices of violation and notices to comply from the Mohave Desert Air Quality Management District ( District ) for violations of permitted particulate matter emissions limits and other violations at its Adelanto, California facility. The Company is negotiating with the District to settle these matters, and believes that resolution of these matters will not result in material adverse effects on its business, financial condition, results of operations or cash flows.

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of its business. The Company maintains insurance coverage against potential claims in amounts that are believed to be adequate. The Company believes that it is not presently a party to any other litigation, the outcome of which would have a material adverse effect on its business, financial condition, results of operations or cash flows.

*Guarantees.* The Company has entered into certain stand-by letters of credit that total \$18.7 million at September 30, 2010. The stand-by letters of credit relate to workers' compensation insurance and certain suppliers.

## **6. Segment Information**

The Company's operations are organized in two reportable segments, the Water Transmission Group and the Tubular Products Group, which are based on the nature of the products and the manufacturing process. The Water Transmission Group manufactures large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems.



**Table of Contents**

These products are also used for hydroelectric power systems, wastewater systems and other applications. In addition, the Water Transmission Group makes products for industrial plant piping systems and certain structural applications. The Tubular Products Group manufactures and markets smaller diameter, electric resistance welded steel pipe used in a wide range of applications, including energy, construction, agricultural and traffic signpost systems. These two segments represent distinct business activities, which management evaluates based on segment gross profit. Transfers between segments in the periods presented were not material.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
<b>Net sales:</b>				
Water Transmission	\$ 59,323	\$ 46,997	\$ 168,068	\$ 161,266
Tubular Products	53,447	14,380	121,209	52,520
Total	\$ 112,770	\$ 61,377	\$ 289,277	\$ 213,786
<b>Gross profit (loss):</b>				
Water Transmission	\$ 7,242	\$ 422	\$ 18,906	\$ 13,201
Tubular Products	4,226	(2,690)	7,426	(4,638)
Total	\$ 11,468	\$ (2,268)	\$ 26,332	\$ 8,563

**7. Share-based Compensation**

The Company has one active stock incentive plan for employees and directors, the 2007 Stock Incentive Plan, which provides for awards of stock options to purchase shares of common stock, stock appreciation rights, restricted and unrestricted shares of common stock, restricted stock units and performance awards. In addition, the Company has two inactive stock option plans, the 1995 Stock Option Plan for Nonemployee Directors and the Amended 1995 Stock Incentive Plan, under which previously granted options remain outstanding.

The Company recognizes compensation cost as service is rendered based on the fair value for the awards. The following summarizes share-based compensation expense recorded:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Cost of sales	\$ 3	\$ 51	\$ 38	\$ 118
Selling, general and administrative expenses	44	271	555	603
Total	\$ 47	\$ 322	\$ 593	\$ 721

As of September 30, 2010 unrecognized compensation expense related to the unvested portion of the Company's restricted stock units and performance awards was \$249,000, which is expected to be recognized over a weighted average period of 1.3 years.

**Table of Contents****Stock Option Awards**

A summary of the status of the Company's stock options as of September 30, 2010 and changes during the nine months then ended is presented below:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2010	213,103	\$ 15.26		
Options granted	24,000	24.15		
Options exercised or exchanged	(87,671)	13.63		
Options canceled	(4,223)	17.90		
Balance, September 30, 2010	145,209	17.64	2.98	\$ 315
Exercisable, September 30, 2010	145,209	17.64	2.98	\$ 315

The total intrinsic value, defined as the difference between the current market value and the grant price, of options exercised or exchanged during the three and nine months ended September 30, 2010 was \$18,000 and \$800,000, respectively.

**Restricted Stock Units and Performance Awards**

A summary of the status of the Company's restricted stock units and performance awards as of September 30, 2010 and changes during the nine months then ended is presented below:

	Number of Restricted Stock Units and Performance Awards	Weighted Average Grant Date Fair Value
Unvested restricted stock units and performance awards at January 1, 2010	127,487	\$ 41.66
Restricted stock units and performance awards granted		
Restricted stock units and performance awards vested	(16,658)	47.27
Restricted stock units and performance awards canceled	(10,008)	40.85
Unvested restricted stock units and performance awards at September 30, 2010	100,821	40.82

Restricted stock units (RSU's) and performance stock awards (PSA's) are measured at market value on the date of grant. RSU's are service-based awards and generally vest equally over a three-year period. PSA's are performance and service-based awards. PSA's are awarded at the end of a three-year performance period, if certain performance objectives are met, and vest equally over a two-year period. The Company recognizes compensation expense related to the performance awards based on the probable outcome of the performance conditions.

**8. Income Taxes**

The Company files income tax returns in the United States Federal jurisdiction, in a limited number of foreign jurisdictions, and in many state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state or foreign income tax examinations for years before 2004.

The Company had \$0.2 million of unrecognized tax benefits at September 30, 2010 and December 31, 2009 which would reduce the effective tax rate in a future period if recognized. The Company does not believe it is reasonably possible the total amounts of unrecognized tax benefits will change significantly in the following twelve months; however, actual results could differ from those currently expected.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company provided for income taxes at estimated effective tax rates of 49.8% and 40.7% for the three and nine month periods ended September 30, 2010, respectively, and estimated effective tax benefit rates of 36.1% and 37.3%, respectively, for the three and nine month periods ended September 30, 2009.

**Table of Contents****9. Comprehensive Income (Loss)**

Comprehensive income (loss) is reconciled to net income (loss) for the three and nine months ended September 30, 2010 and 2009 as follows (in thousands):

	<b>Three Months Ended September 30, 2010</b>		<b>Nine Months Ended September 30, 2009</b>	
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Net income (loss)	\$ 693	\$ (5,494)	\$ 352	\$ (5,366)
Pension liability adjustment	44	328	132	328
Unrealized loss on derivative financial instruments	(18)	(72)	91	(72)
Total comprehensive income (loss)	\$ 719	\$ (5,238)	\$ 575	\$ (5,110)

**10. Earnings (Loss) per Share**

Basic earnings per share are computed using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share assumes the vesting of restricted stock units, performance awards and in the money options, provided in each case the effect is dilutive. Incremental shares of 19,490 and 53,369 for the three and nine months ended September 30, 2010, respectively, were used in the calculations of diluted earnings per share. Share-based awards of 75,403 and 33,049, respectively, were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2010 because the effect of their inclusion would be antidilutive. Due to the net loss position for the three and nine months ended September 30, 2009, share-based awards of 134,002 and 141,133, respectively, were excluded from the computation of diluted net loss per share because the effect of their inclusion would be antidilutive.

**11. Recent Accounting and Reporting Developments**

In January 2010, the FASB issued authoritative guidance which requires new disclosures and clarifies existing disclosure requirements for fair value measurements. Specifically, the changes require disclosure of transfers into and out of Level 1 and Level 2 (as defined in the accounting guidance) fair value measurements, and also require more detailed disclosure about the activity within Level 3 (as defined) fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the disclosures about purchases, sales, issuances and settlements of Level 3 assets and liabilities, which is effective for fiscal years beginning after December 15, 2010. As this guidance only requires expanded disclosures, the adoption will not impact the Company's consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition for multiple element arrangements. These amendments modify the criteria for recognizing revenue and require enhanced disclosures for multiple element-deliverable revenue arrangements. This guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward Looking Statements**

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Report contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 and Section 21E of the Exchange Act that are based on current expectations, estimates and projections about our business, management's beliefs, and assumptions made by management. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, forecasts, should, could, and variations of such expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve

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risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements as a result of a variety of important factors. While it is impossible to identify all such factors, those that could cause actual results to differ materially from those estimated by us include changes in demand and market prices for our products, product mix, bidding activity, the timing of customer orders and deliveries, production schedules, the price and availability of raw materials, excess or shortage of production capacity, international trade policy and regulations and other risks discussed in our 2009 Form 10-K and from time to time in our other Securities and Exchange Commission filings and reports. Such forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report. If we do update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect thereto or with respect to other forward-looking statements.

## **Table of Contents**

### **Overview**

Our Water Transmission Group is the leading North American manufacturer of large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems. Our products are also used for hydroelectric power systems, wastewater systems and other applications. We also make products for industrial plant piping systems and certain structural applications. These products are produced in the following manufacturing facilities strategically located across the United States and Mexico: Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas; Pleasant Grove, Utah and Monterrey, Mexico. The operations of the Pleasant Grove, Utah facility were temporarily suspended in February 2009 and restarted in June 2010. We have also invested in Northwest Pipe Asia, located in Singapore. Northwest Pipe Asia has established temporary operations in Batam, Indonesia to produce structural piling to be supplied to a construction project in Singapore. Our Water Transmission Group accounted for approximately 58% of net sales in the first nine months of 2010.

Our water infrastructure products are generally sold to installation contractors, who include our products in their bids to municipal agencies or privately-owned water companies for specific projects. Within the total pipeline, our products best fit the larger-diameter, higher-pressure applications. We believe our sales are substantially driven by spending on new water infrastructure with additional spending on water infrastructure upgrades, replacements, and repairs. Pricing of our water infrastructure products is largely determined by the competitive environment in each regional market, and the regional markets generally operate independent of each other.

We operate our water transmission business with a long-term time horizon. Projects are often planned for many years in advance, and are sometimes part of fifty-year build out plans. However, in the near-term, we expect strained municipal budgets will impact the Water Transmission Group.

Our Tubular Products Group manufactures other welded steel products in three facilities: Atchison, Kansas; Houston, Texas; and Bossier City, Louisiana. We produce a range of products used in several different markets. We currently make energy pipe, standard pipe, structural pipe, and traffic signpost systems, which are sold to distributors and used in many different applications. Our Tubular Products Group's sales volume is typically driven by energy spending, non-residential construction spending, highway spending and general economic conditions. In 2009, the tubular products industry experienced an oversaturation of imported pipe and a collapse of natural gas prices in a very short time frame. In addition, non-residential construction declined. These factors had a severe negative impact on all of our tubular products. We believe the greatest potential for significant sales growth in our Tubular Products Group is through our energy products. Our Tubular Products Group generated approximately 42% of net sales in the first nine months of 2010.

Purchased steel represents a substantial portion of our cost of sales, and changes in our selling prices often correlate directly to changes in steel costs. This correlation is the greatest in our Tubular Products Group. Gross profit in our tubular products group is highly sensitive to changes in steel costs, although the current level of demand in the marketplace and its impact on selling prices also impacts gross profit.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. As discussed in our Form 10-Q for the quarter ended June 30, 2010, we performed an interim goodwill impairment analysis as of June 30, 2010 and determined no impairment had occurred. A description of all other critical accounting policies and related judgments and estimates that affect the preparation of our consolidated financial statements is set forth in our Annual Report on Form 10-K for the year ended December 31, 2009.

### **Recent Accounting Pronouncements**

See Note 11 of the Condensed Consolidated Financial Statements in Part I Item I, Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial position, results of operations and cash flows.





**Table of Contents****Results of Operations**

The following table sets forth, for the period indicated, certain financial information regarding costs and expenses expressed as a percentage of total net sales and net sales of our business segments.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales				
Water Transmission	52.6%	76.6%	58.1%	75.4%
Tubular Products	47.4	23.4	41.9	24.6
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	89.8	103.7	90.9	96.0
Gross profit (loss)	10.2	(3.7)	9.1	4.0
Selling, general and administrative expense	7.1	8.4	7.3	6.8
Operating income (loss)	3.1	(12.1)	1.8	(2.8)
Other (income) expense	0.1	0.4	(0.1)	(0.3)
Interest income	(0.2)	(0.2)	(0.2)	(0.2)
Interest expense	2.0	1.7	1.9	1.7
Income (loss) before income taxes	1.2	(14.0)	0.2	(4.0)
Provision (benefit) for income taxes	0.6	(5.0)	0.1	(1.5)
Net income (loss)	0.6%	(9.0)%	0.1%	(2.5)
Gross profit (loss) as a percentage of segment net sales:				
Water Transmission	12.2%	0.9%	11.2%	8.2%
Tubular Products	7.9	(18.7)	6.1	(8.8)

**Three Months and Nine Months Ended September 30, 2010 Compared to Three Months and Nine Months Ended September 30, 2009**

**Net sales.** Net sales increased 83.7% to \$112.8 million for the third quarter of 2010 compared to \$61.4 million for the third quarter of 2009 and increased 35.3% to \$289.3 million in the first nine months of 2010 from \$213.8 million in the first nine months of 2009. No single customer accounted for 10% or more of total net sales in the third quarter of 2009, the first nine months of 2010, or the first nine months of 2009. Two customers, one in the Water Transmission segment and one in the Tubular Products segment, accounted for 11.5% and 11.9%, respectively, of total net sales in the third quarter of 2010.

Water Transmission sales increased by 26.2% to \$59.3 million in the third quarter of 2010 from \$47.0 million in the third quarter of 2009 and increased 4.2% to \$168.1 in the first nine months of 2010 from \$161.3 million in the first nine months of 2009. The increase in sales in the third quarter of 2010 compared to the third quarter of 2009 was due to a 17% increase in selling prices per ton and an 8% increase in volume. The increase in sales the first nine months of 2010 as compared to the first nine months of 2009 was due to a 17% increase in volume which was partially offset by an 11% decrease in selling prices per ton. The decrease in selling prices per ton in the first nine months of 2010 was due to a competitive bidding environment and a decline in steel prices. Lower steel costs generally lead to lower contract values. Steel prices are discussed further in the gross profit analysis below. The increase in volume resulted from improved orders. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales volumes.

Tubular Products sales increased 271.7% to \$53.4 million in the third quarter of 2010 from \$14.4 million in the third quarter of 2009 and increased 130.8% to \$121.2 million in the first nine months of 2010 from \$52.5 million in the first nine months of 2009. The sales increase in the third quarter of 2010 as compared to the third quarter of 2009 was due to a 228% increase in tons sold and a 13% increase in selling price per

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ton. The sales increase in the first nine months of 2010 compared to the same period in 2009 was due to a 148% increase in volume which was partially offset by a 7% decrease in selling prices per ton. The most significant increase in demand was the result of increases in natural gas drilling operations, with energy pipe representing 95% and 93% of the total Tubular Product volume increase in the third quarter and first nine months of 2010, respectively. While demand increased, selling prices per ton decreased as the volume of imported energy pipe increased early in 2010. As import duties imposed by the U.S. government took effect in 2010, the volume of imported energy pipe decreased in the second and third quarters of 2010, which caused sales prices per ton to rise. We sold very little energy pipe in the third quarter and the first nine months of 2009, and the significant volumes in 2010 led to a 2,453% increase in energy pipe tons sold in the third quarter of 2010 as compared to the third quarter of 2009. Energy pipe tons sold also increased substantially in the first nine months of 2010 compared to the same period in 2009 with a 1,142% increase. Selling prices per ton on energy pipe increased 24% in the third quarter of 2010 compared to the third quarter of 2009, and decreased 36% in the first nine months of 2010 compared to the same period in 2009.

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**Table of Contents**

**Gross profit.** Gross profit increased 605.6% to \$11.5 million (10.2% of total net sales) in the third quarter of 2010 from a loss of \$2.3 million (-3.7% of total net sales) in the third quarter of 2009 and increased 207.5% to \$26.3 million (9.1% of total net sales) in the first nine months of 2010 from \$8.6 million (4.0% of total net sales) in the first nine months of 2009.

Water Transmission gross profit increased \$6.8 million, or 1,616%, to \$7.2 million (12.2% of segment net sales) in the third quarter of 2010 from \$0.4 million (0.9% of segment net sales) in the third quarter of 2009 and \$5.7 million, or 43.2%, to \$18.9 million (11.2% of segment net sales) in the first nine months of 2010 from \$13.2 million (8.2% of segment net sales) in the first nine months of 2009. Our gross profit was impacted by the higher sales discussed above and fluctuations in materials cost per ton, including steel. Our Water Transmission materials cost per ton increased by 11% in the third quarter of 2010 compared to the third quarter of 2009, and decreased 5% in the first nine months of 2010 compared to the first nine months of 2009. In the third quarter of 2010, Water Transmission gross profit includes a nonrecurring decrease in our health care costs of \$0.6 million. In addition, the increase in gross profit from the prior year was partly due to the impacts of an inventory lower of cost or market adjustment, which increased by \$3.2 million in the third quarter of 2009 compared to a nominal change in the third quarter of 2010. The lower of cost or market adjustment increased \$3.1 million in the first nine months of 2009 compared to a decrease of \$0.4 million in the first nine months of 2010.

Gross profit from Tubular Products increased to \$4.2 million (7.9% of segment net sales) in the third quarter of 2010 from a loss of \$2.7 million (-18.7% of segment net sales) in the third quarter of 2009 and increased to \$7.4 million (6.1% of segment net sales) in the first nine months of 2010 from a loss of \$4.6 million (-8.8% of segment net sales) in the first nine months of 2009. As noted above, demand for our tubular products increased significantly, particularly for our energy products which had minimal sales revenue of \$1.1 million in the third quarter of 2009 and increased 3,057% to \$36.0 million in the third quarter of 2010 and increased to \$70.5 million in the first nine months of 2010 from \$8.8 million in the same period of 2009. The significant increase in volume contributed to the increase in gross profit in 2010, as the market conditions led to higher production which allowed us to recover more of our fixed costs than in the same periods in 2009. The increased margins were partially offset by higher steel costs per ton of 21% in the third quarter of 2010 compared to the third quarter of 2009 and 13% in the first nine months of 2010 compared to the first nine months of 2009. The increase in gross profit from the prior year was also impacted by our inventory lower of cost or market adjustment, which increased by \$2.0 million in the third quarter of 2009 compared to a \$0.6 million decrease in the third quarter of 2010. The lower of cost or market adjustment increased \$2.0 million in the first nine months of 2009 compared to a decrease of \$0.6 million in the first nine months of 2010.

**Selling, general and administrative expenses.** Selling, general and administrative expenses increased to \$8.0 million (7.1% of total net sales) in the third quarter of 2010 from \$5.2 million (8.4% of total net sales) in the third quarter of 2009 and increased to \$21.3 million (7.3% of total net sales) in the first nine months of 2010 from \$14.5 million (6.8% of total net sales) in the first nine months of 2009. In the third quarter of 2010 as compared to the third quarter of 2009, professional fees increased \$2.1 million, primarily associated with the investigation of certain accounting matters. In addition, tubular products sales commission expense increased \$0.5 million with the increase in tubular products sales volume and annual wage increases added another \$0.4 million. In the first nine months of 2010 as compared to the first nine months of 2009, professional fees increased \$5.3 million, primarily associated with the investigation of certain accounting matters. In addition, tubular products sales commission expense increased \$1.0 million with the increase in tubular products sales volume, and annual wage increases added another \$0.6 million.

**Interest expense.** Interest expense was \$2.2 million in the third quarter of 2010 and \$1.1 million in the third quarter of 2009 and \$5.5 million in the first nine months of 2010 and \$3.6 million in the first nine months of 2009. Higher average borrowings and higher average interest rates increased interest expense in the third quarter of 2010 compared to the third quarter of 2009. Although average borrowings were approximately the same in the first nine months of 2010 and 2009, higher average interest rates led to increased interest expense.

**Income Taxes.** The tax provision was \$0.7 million in the third quarter of 2010, which reflects an effective tax rate of 49.8%, which exceeds our statutory rate of 35% due primarily to state taxes and the relationship of permanent income tax deductions and tax credits to estimated pre-tax income for the year 2010. The tax provision was \$0.2 million for the first nine months of 2010 (an effective tax rate of 40.7%). When pre-tax earnings move between loss and income positions, the effective income tax rate can change significantly depending on the relationship of permanent income tax deductions and tax credits to estimated pre-tax income or loss. Accordingly, the comparison of effective rates between periods is not meaningful in those situations.

The tax benefit for the third quarter of 2009 was \$3.1 million (an effective tax rate of 36.1%), while the year to date 2009 tax benefit was \$3.2 million (an effective tax rate of 37.3%).



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**Table of Contents****Liquidity and Capital Resources*****Sources and Uses of Cash***

Our principal sources of liquidity generally include operating cash flow and our bank credit agreement. Our principal uses of liquidity generally include capital expenditures, working capital and debt service. Information regarding our cash flows for the nine months ended September 30, 2010 is presented in our condensed consolidated statements of cash flows contained in this September Form 10-Q, and is further discussed below.

As of September 30, 2010, our working capital (current assets minus current liabilities) was \$169.2 million as compared to \$122.3 million as of December 31, 2009.

Net cash used in operating activities in the first nine months of 2010 was \$35.5 million. This was primarily the result of fluctuations in our working capital accounts, which result from timing differences between production, shipment and invoicing of our products, as well as changes in levels of production and costs of materials. We typically have a relatively large investment in working capital, as we are generally obligated to pay for goods and services early in the project while cash is not received until much later in the project. Our revenues in the water transmission segment are recognized on a percentage-of-completion method; therefore, there is little correlation between revenue and cash receipts and the elapsed time can be significant. As such, our payment cycle is a significantly shorter interval than our collection cycle, although the effect of this difference in the cycles may vary from period to period.

Net cash used in investing activities in the first nine months of 2010 was \$16.5 million, primarily for capital expenditures. The most significant capital project incurring costs in the first nine months of 2010 was the preparation of the facility in Bossier City, Louisiana to manufacture oil country tubular goods.

Net cash provided by financing activities in the first nine months of 2010 was \$52.0 million, which resulted primarily from net borrowings of \$57.1 million under our Credit Agreement, partially offset by long-term debt payments of \$4.3 million.

We anticipate that our existing cash and cash equivalents, cash flows expected to be generated by operations, and amounts available under our credit agreements will be adequate to fund our working capital and capital requirements for at least the next twelve months. We also expect to continue to rely on cash generated from operations and other sources of available funds to make required principal payments under our long term debt during 2010. To the extent necessary, we may also satisfy capital requirements through additional bank borrowings, senior notes, term notes, subordinated debt, and capital and operating leases, if such resources are available on satisfactory terms. See the discussion below under **Line of Credit and Long-Term Debt** for a discussion of recent developments regarding compliance with the terms of our line of credit and long-term debt agreements. We have from time to time evaluated and continue to evaluate opportunities for acquisitions and expansion. Any such transactions, if consummated, may use a portion of our working capital or necessitate additional bank borrowings or other sources of funding.

***Line of Credit and Long-Term Debt***

We had the following significant components of debt at September 30, 2010: a \$125.0 million Credit Agreement, under which \$76.5 million was outstanding; \$8.6 million of Series A Term Note, \$6.0 million of Series B Term Notes, \$7.1 million of Series C Term Notes and \$3.2 million of Series D Term Notes.

The Credit Agreement expires on May 31, 2012, and bears interest at rates related to LIBOR plus 2.50% to 4.50%, or the lending institution's prime rate, plus 1.50% to 3.50%. Borrowings under the Credit Agreement are collateralized by substantially all of our personal property.

During the first 10 months of 2010, we entered into amendments to our Amended and Restated Credit Agreement ( **Credit Agreement** ) and Amended and Restated Note Purchase and Private Shelf Agreement ( **Note Purchase Agreement** ). The amendments, among other things, reduced the aggregate availability of our Credit Agreement to \$110 million in June 2010 from \$150 million at December 31, 2009, increased interest rates charged on outstanding balances and waived compliance with certain covenants in the Agreements for the year ended December 31, 2009 and the quarters ended March 31, 2010 and June 30, 2010. Once the Company delivers to the lenders its financial statements and Compliance Certificate for the period ended September 30, 2010, the availability will increase to \$117.5 million. Upon delivery of the March 31, 2011 Compliance Certificate, amounts available under our Credit Agreement will increase to \$125 million. In addition, the amendments changed the definitions, method of application and amounts of certain covenants. At September 30, 2010, we had \$76.5 million outstanding under the Credit

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Agreement bearing interest at a weighted average rate of 5.40%. At September 30, 2010, we had an additional net borrowing capacity under the credit facility of \$14.8 million.

**Table of Contents**

The Series A Term Note in the principal amount of \$8.6 million matures on February 25, 2014 and requires annual payments in the amount of \$2.1 million plus interest of 10.50% paid quarterly on February 25, May 25, August 25 and November 25. The Series B Term Notes in the principal amount of \$6.0 million mature on June 21, 2014 and require annual payments in the amount of \$1.5 million plus interest of 10.22% paid quarterly on March 21, June 21, September 21 and December 21. The Series C Term Notes in the principal amount of \$7.1 million mature on October 26, 2014 and require annual payments of \$1.4 million plus interest of 9.11% paid quarterly on January 26, April 26, July 26 and October 26. The Series D Term Notes in the principal amount of \$3.2 million mature on January 24, 2015 and require annual payments in the amount of \$645,000 plus interest of 9.07% paid quarterly on January 24, April 24, July 24 and October 24. The Series A Term Note, the Series B Term Notes, the Series C Term Notes, and the Series D Term Notes (together, the Term Notes ) are collateralized by accounts receivable, inventory and certain equipment.

We had \$8.9 million of capital leases outstanding at September 30, 2010, under which certain equipment used in the manufacturing process is leased. The average interest rate on the capital leases is 5.72%.

Our capital lease outstanding as of September 30, 2010 includes an agreement entered into as of September 2009 to finance our Bossier City, Louisiana facility (the Financing Arrangement ). As part of the Financing Arrangement, a \$10 million escrow account was provided for the Company by a local government entity through a financial institution and funds are released upon qualifying purchase requisitions. As we purchase equipment for the facility, we enter into a sale-leaseback transaction with the governmental entity as part of the Financing Arrangement. As of September 30, 2010, \$2.7 million was held in the escrow account, which is included in other assets, as a result of proceeds from the Financing Arrangement. The Financing Arrangement requires us to meet certain loan covenants, measured at the end of each fiscal quarter. These loan covenants follow the covenants required by our Credit Agreement.

The Credit Agreement, the Note Purchase Agreement and certain of our leases place various restrictions on our ability to, among other things; incur certain additional indebtedness, create liens or other encumbrances on assets, and incur additional capital expenditures. The Credit Agreement, Note Purchase Agreement, and certain of our leases require us to be in compliance with certain financial covenants. Our 2009 operating results led us to commence discussions in the fourth quarter of 2009 with our bank creditors to obtain waivers of our financial covenants as of December 31, 2009, March 31, 2010 and June 30, 2010. As a result of these discussions, covenant waivers were obtained and we entered into amendments to our Credit Agreement and Note Purchase Agreement.

The amendments changed the definition, method of application and amounts of the covenants related to the Consolidated Fixed Charge Coverage Ratio, Consolidated Senior Leverage Ratio, Consolidated Total Leverage Ratio, Consolidated Tangible Net Worth, Asset Coverage Ratio, Minimum Consolidated EBITDA, and Maximum Consolidated Rental and Operating Lease Expense. The results of our financial covenants as of September 30, 2010 are below.

The Consolidated Senior Leverage Ratio must not be greater than 12.75:1.0. Our ratio as of September 30, 2010 is 6.36:1.0.

The Consolidated Total Leverage Ratio must not be greater than 12.75:1.0. Our ratio as of September 30, 2010 is 6.36:1.0.

The Consolidated Tangible Net Worth must be greater than \$193.3 million. Our tangible net worth as of September 30, 2010 is \$225.7 million.

The Asset Coverage Ratio cannot be less than 1.0:1.0. Our ratio as of September 30, 2010 is 1.7:1.0.

The Minimum Consolidated EBITDA cannot be less than \$3.6 million for the quarter ended September 30, 2010. Our Consolidated EBITDA is \$7.1 million.

In accordance with the requirements, the Maximum Consolidated Rental and Operating Lease Expense will next be calculated as of December 31, 2010 and the Consolidated Fixed Charge Coverage Ratio will next be calculated as of June 30, 2011. Based on our business plan and forecasts of operations, we believe we will remain in compliance with our amended covenants in 2010.



**Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future material effect on our financial position, results of operations or cash flows.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

For a discussion of the Company's market risk associated with foreign currencies and interest rates, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" in Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. For the nine months ended September 30, 2010, there has been no material change in market risk factors.

## **Table of Contents**

### **Item 4. Controls and Procedures**

#### **Audit Committee Investigation and Restatement**

As previously disclosed in public filings, the Audit Committee, with the assistance of independent professionals retained by the Audit Committee, conducted an investigation of certain accounting matters, including certain revenue recognition practices. In addition, at the direction of the Audit Committee, an external consulting firm was retained to assist in performing certain related analyses of our accounting practices and previously issued consolidated financial statements.

Based upon consideration of the issues identified in the Audit Committee investigation and the related accounting analyses, and after discussions with management, the Audit Committee concluded that our previously issued consolidated financial statements contained material errors and should be restated. We also identified material weaknesses in internal control over financial reporting for such periods.

#### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

In connection with the preparation of this September 2010 Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. As described below, management has identified material weaknesses in our internal controls over financial reporting, which is an integral component of our disclosure controls and procedures. As a result of those material weaknesses, our CEO and CFO have concluded that, as of September 30, 2010, our disclosure controls and procedures were not effective.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2010 that materially affected or are reasonably likely to materially affect our internal control over financial reporting. However, as described below under Plans for Remediation of Material Weaknesses, we have subsequently dedicated significant resources to support our efforts to improve the control environment and to remedy the control weaknesses described herein.

#### **Management's Report on Internal Control over Financial Reporting**

In connection with management's assessment of our internal control over financial reporting described in our 2009 Form 10-K, management has identified the following deficiencies that constituted individually, or in the aggregate, material weaknesses in our internal control over financial reporting as of September 30, 2010:

We did not maintain an effective control environment, which is necessary for effective internal control over financial reporting, as evidenced by: (i) an insufficient number of personnel with an appropriate level of GAAP knowledge and experience or ongoing training in the application of GAAP commensurate with the Company's financial reporting requirements, and (ii) insufficient number of personnel appropriately qualified to perform an appropriately detailed review of the accounting for nonroutine transactions, which resulted in erroneous or unsupported judgments regarding the proper application of GAAP. This control environment weakness also contributed to the additional material weaknesses described below.

We did not have effective controls to ensure regular validation of management assumptions used in certain of our accounting estimates. Specifically, the Company did not have sufficient controls in place to ensure that the assumptions included in our method of allocating manufacturing overhead variances and indirect support costs to projects in our Water Transmission segment were properly supported by underlying verifiable data.

We did not have effective controls to ensure that the Company maintained complete and accurate business documentation to support certain revenue, property and equipment, foreign exchange and vendor claim transactions, including related assumptions and estimates.

## **Table of Contents**

We did not have effective controls over certain accounting system calculations in response to changes in assumptions regarding property and equipment and other items. Specifically, the Company did not have sufficient controls in place to properly identify and validate the changes in assumptions underlying the calculations.

We did not have effective controls over certain spreadsheets. Specifically, the Company did not have sufficient review procedures in place to ensure an accurate preparation of spreadsheets used to support the calculation of steel inventory value and standard to actual cost adjustments within the Tubular Products segment.

We did not have effective controls over our cash flow statements. Specifically, we did not have proper preparation and review procedures in place to ensure an accurate preparation of our consolidated statements of cash flows as required by GAAP.

We did not maintain effective controls to ensure timely internal notification of business transactions and decisions requiring accounting entries. Specifically, our sales and human resources teams and plant personnel did not communicate to our accounting staff all of the information necessary to make accurate accounting determinations for certain accounts receivable and accrued liability balances.

The material weaknesses described above resulted in misstatements of the aforementioned accounts and disclosures that resulted in a material misstatement in our previously issued annual and interim consolidated financial statements.

### **Plans for Remediation of Material Weaknesses**

Our Board, the Audit Committee and management are adding resources and developing and implementing new processes and procedures to remediate, among other things, the material weaknesses that existed in our internal control over financial reporting, and our disclosure controls and procedures, as of September 30, 2010.

Subsequent to August 31, 2010, we are developing a remediation plan (the Remediation Plan ) to address the material weaknesses for each of the affected areas presented above. The Remediation Plan will ensure that each area affected by a material control weakness is put through a comprehensive remediation process. The Remediation Plan entails a thorough analysis which includes the following phases:

Define and assess each control deficiency: ensure a thorough understanding of the as is state, process owners, and procedural or technological gaps causing the deficiency. This work is underway for all identified areas;

Design and evaluate a remediation action for each control deficiency for each affected area: validate or improve the related policy and procedures; evaluate skills of the process owners with regards to the policy and adjust as required. The Remediation Plan will require an assessment of all control failures; we expect that many of the recent improvements will provide an appropriate starting point for the specific action plans;

Implement specific remediation actions: train process owners, allow time for process adoption and adequate transaction volume for next steps;

Test and measure the design and effectiveness of the remediation actions; test and provide feedback on the design and operating effectiveness of the controls; and,

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Management review and acceptance of completion of the remediation effort. Additionally, we are evaluating and enhancing our entity level controls as part of our Remediation Plan. The following are steps we have taken in this process:

In March 2010, our Board of Directors appointed a new Chief Executive Officer, and in August 2010, we hired a Director of Compliance and Controls to direct our remediation efforts.

In August 2010, our Board of Directors elected a new, independent member to join the Board of Directors.

We have implemented a new sub-certification process with our management group in order to demonstrate a clear commitment to corporate integrity and compliance and a duty to report financial irregularities.

We have undertaken an effort to enhance existing and adopt new, written policies and procedures; specifically, we have focused on our cost-to-cost percentage-of-completion revenue recognition method to describe more clearly our guiding principles related to the accounting for our Water Transmission contracts.

**Table of Contents**

The Remediation Plan will be administered by our Director of Compliance and Controls and will involve key leaders from across the organization, including the CEO and CFO. Each specific area of action within the Remediation Plan will be assigned an owner who will coordinate the resources required for timely completion of the remediation activities. The Director of Compliance and Controls will report quarterly and as needed to the Audit Committee of our Board of Directors on the progress made toward completion of the Remediation Plan.

We believe the steps taken to date have improved the effectiveness of our internal control over financial reporting; however, we have not completed the corrective processes and procedures identified herein. Accordingly, as we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above, we will perform additional procedures prescribed by management including the use of manual mitigating control procedures and employ any additional tools and resources deemed necessary to ensure that our financial statements continue to be fairly stated in all material respects.

**Part II Other Information****Item 1. Legal Proceedings**

Information required by this Item 1 is contained in Note 5 to the Condensed Consolidated Financial Statements, Part I - Item 1, Financial Statements of this report, under the caption Commitments and Contingencies. The text under such caption is incorporated by reference into this Item 1.

**Item 1A. Risk Factors**

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 6. Exhibits**

(a) The exhibits filed as part of this Report are listed below:

**Exhibit**

<b>Number</b>	<b>Description</b>
10.1	Fifth Amendment and Limited Consent to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of July 23, 2010 by and among Northwest Pipe Company and Prudential Investment Management, Inc. and certain affiliates, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on July 29, 2010
10.2	Sixth Amendment to Amended and Restated Credit Agreement dated July 30, 2010 by and among Northwest Pipe Company and Bank of America, N.A., as Administrative Agent, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on August 5, 2010
10.3	Sixth Amendment and Temporary Waiver to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of July 30, 2010 by and among Northwest Pipe Company and Prudential Investment Management, Inc. and certain affiliates, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on August 5, 2010
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements 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.

Dated: November 15, 2010

NORTHWEST PIPE COMPANY

By: /s/ RICHARD A. ROMAN  
Richard A. Roman  
President and Chief Executive Officer

By: /s/ STEPHANIE J. WELTY  
Stephanie J. Welty  
Senior Vice President, Chief Financial Officer  
(Principal Financial Officer)