

NORTHWEST PIPE CO  
Form 10-Q  
May 06, 2015  
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**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: March 31, 2015**

**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)**

**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)**

**9,554,222**  
**(Shares outstanding at April 27, 2015)**



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**Table of Contents****Part I - Financial Information****Item 1. Financial Statements (unaudited):**

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

(Unaudited)

(In thousands, except share and per share data)

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 116	\$ 527
Trade and other receivables, less allowance for doubtful accounts of \$672 and \$755	32,128	58,310
Costs and estimated earnings in excess of billings on uncompleted contracts	52,553	45,847
Inventories	61,283	72,779
Refundable income taxes	3,925	5,031
Deferred income taxes	6,218	5,487
Prepaid expenses and other	7,087	7,258
Total current assets	163,310	195,239
Property and equipment, less accumulated depreciation and amortization of \$85,183 and \$84,224	132,848	132,595
Goodwill	5,282	5,282
Other assets	19,313	18,766
Total assets	\$ 320,753	\$ 351,882
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current portion of capital lease obligations	1,927	2,170
Accounts payable	9,421	15,480
Accrued liabilities	9,103	9,071
Billings in excess of costs and estimated earnings on uncompleted contracts	1,462	2,835
Total current liabilities	21,913	29,556
Borrowings on line of credit	24,823	45,587
Capital lease obligations, less current portion	180	225
Deferred income taxes	14,194	14,015
Pension and other long-term liabilities	16,119	16,864
Total liabilities	77,229	106,247

Commitments and contingencies (Note 6)		
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, 9,554,222 and 9,520,067 shares issued and outstanding	96	95
Additional paid-in-capital	116,697	116,802
Retained earnings	128,470	130,571
Accumulated other comprehensive loss	(1,739)	(1,833)
Total stockholders' equity	243,524	245,635
Total liabilities and stockholders' equity	\$ 320,753	\$ 351,882

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

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

(Unaudited)

(In thousands, except per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net sales	\$ 84,865	\$ 82,647
Cost of sales	80,974	78,333
Gross profit	3,891	4,314
Selling, general and administrative expense	6,974	5,440
Operating loss	(3,083)	(1,126)
Other income (expense)	44	(63)
Interest income	82	81
Interest expense	(417)	(770)
Loss before income taxes	(3,374)	(1,878)
Income tax benefit	(1,273)	(667)
Loss from continuing operations	(2,101)	(1,211)
Discontinued operations:		
Loss from operations of discontinued business		(2,662)
Loss on sale of business		(12,083)
Income tax benefit		(3,852)
Loss on discontinued operations		(10,893)
Net loss	\$ (2,101)	\$ (12,104)
Basic loss per share		
Continuing operations	\$ (0.22)	\$ (0.13)
Discontinued operations		(1.14)
Total	\$ (0.22)	\$ (1.27)
Diluted loss per share		
Continuing operations	\$ (0.22)	\$ (0.13)
Discontinued operations		(1.14)
Total	\$ (0.22)	\$ (1.27)

Shares used in per share calculations:

Basic	9,553	9,508
Diluted	9,553	9,508

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



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**NORTHWEST PIPE COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited)

(In thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net loss	\$ (2,101)	\$ (12,104)
Other comprehensive income (loss):		
Pension liability adjustment, net of tax	109	64
Deferred gain (loss) on cash flow derivatives, net of tax	(15)	2
Other comprehensive income	94	66
Comprehensive loss	\$ (2,007)	\$ (12,038)

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)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,101)	\$ (12,104)
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Depreciation	2,630	3,159
Amortization of intangible assets	149	138
Provision for doubtful accounts	(83)	(212)
Amortization of debt issuance costs	68	134
Deferred income taxes	(552)	3,108
Loss on sale of business		12,083
Stock based compensation expense	650	354
Other, net	(46)	50
<b>Changes in operating assets and liabilities:</b>		
Trade and other receivables, net	23,630	9,725
Insurance settlements	2,625	
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(8,079)	20,987
Inventories	11,502	14,477
Refundable income taxes	774	(8,187)
Prepaid expenses and other assets	(603)	(2)
Accounts payable	(5,295)	577
Accrued and other liabilities	(696)	(4,148)
<b>Net cash provided by operating activities</b>	<b>24,573</b>	<b>40,139</b>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	(3,689)	(4,964)
Proceeds from sale of business		31,609
Other investing activities	161	13
<b>Net cash (used in) provided by investing activities</b>	<b>(3,528)</b>	<b>26,658</b>
<b>Cash flows from financing activities:</b>		
Tax withholdings related to net share settlements of restricted stock and performance stock awards	(423)	(1,283)
Payments on long-term debt		(2,786)
Borrowings on line of credit	34,000	23,831
Repayments on line of credit	(54,765)	(86,559)

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Payments on capital lease obligations	(287)	(539)
Other financing activities	19	
Net cash used in financing activities	(21,456)	(67,336)
Change in cash and cash equivalents	(411)	(539)
Cash and cash equivalents, beginning of period	527	588
Cash and cash equivalents, end of period	\$ 116	\$ 49

Non-Cash Investing Activity:

Accrued property and equipment purchases	479	1,127
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**NORTHWEST PIPE COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. Basis of Presentation**

The condensed consolidated financial statements include the accounts of Northwest Pipe Company (the Company) and its subsidiaries in which the Company exercises control as of the financial statement date. Intercompany accounts and transactions have been eliminated.

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, 2014 is derived from the audited consolidated financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K). 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 (the SEC). 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto together with management's discussion and analysis of financial condition and results of operations contained in the Company's 2014 Form 10-K.

On March 30, 2014 the Company completed the sale of substantially all of the assets and liabilities associated with its oil country tubular goods (OCTG) business. See Note 2, Disposition of OCTG Business for further information regarding the sale. The Company's results of operations for its disposed OCTG business have been presented as discontinued operations for all periods presented within the condensed consolidated statements of operations.

Certain amounts from the prior year financial statements have been reclassified in order to conform to the current year presentation.

Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2015.

**Table of Contents****2. Disposition of OCTG Business**

On March 30, 2014 the Company completed the sale of substantially all of the assets and liabilities associated with its OCTG business, which was conducted by the Company at its manufacturing facilities in Bossier City, Louisiana and Houston, Texas, excluding the real property located in Houston, Texas. These facilities were previously included within the Company's Tubular Products Group. Total consideration of \$42.7 million was paid by the buyer, resulting in a loss on sale of \$13.5 million (\$12.1 million of which was recorded in the first quarter of 2014 and \$1.4 million of which was recorded in the third quarter of 2014). The calculation of the loss on sale included a write down of \$4.4 million of goodwill. Of the proceeds received, \$4.3 million was placed in escrow to secure the Company's indemnification obligations under the purchase agreement, \$5.0 million was used to repay capital leases related to and secured by certain assets at the Bossier City, Louisiana manufacturing facility, \$1.8 million was used to pay for transaction costs and \$1.8 million was used to pay a net working capital adjustment made in September 2014, resulting in net proceeds of \$29.8 million. In April 2015, the \$4.3 million escrow was released to the Company.

The table below presents the operating results for the Company's discontinued operations (in thousands). The operating results for the three months ended March 31, 2014 do not necessarily reflect what they would have been had the OCTG business not been classified as a discontinued operation.

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net sales	\$	\$ 22,225
Cost of sales		24,392
Gross loss		(2,167)
Selling, general and administrative expense		396
Operating loss		(2,563)
Interest expense		(99)
Loss on sale of business		(12,083)
Loss before income taxes		(14,745)
Income tax benefit		(3,852)
Loss on discontinued operations	\$	\$ (10,893)

**Table of Contents****3. Inventories**

Inventories are stated at the lower of cost or market and consist of the following (in thousands):

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Short-term inventories:</b>		
Raw materials	\$ 36,715	\$ 48,005
Work-in-process	1,474	1,741
Finished goods	20,746	20,663
Supplies	2,348	2,370
	61,283	72,779
<b>Long-term inventories:</b>		
Finished goods	1,209	1,214
<b>Total inventories</b>	<b>\$ 62,492</b>	<b>\$ 73,993</b>

Long-term inventories are recorded in other assets.

**4. 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 that 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.

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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 March 31, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Deferred compensation plan	\$ 6,805	\$ 5,548	\$ 1,257	\$
Derivatives	131		131	
Total assets	\$ 6,936	\$ 5,548	\$ 1,388	\$
<b>Financial liabilities</b>				
Contingent consideration	\$ (2,749)	\$	\$	\$ (2,749)
Derivatives	(27)		(27)	
Total liabilities	\$ (2,776)	\$	\$ (27)	\$ (2,749)

<b>Description</b>	<b>Balance at December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Deferred compensation plan	\$ 6,237	\$ 4,953	\$ 1,284	\$
Derivatives	32		32	
Total assets	\$ 6,269	\$ 4,953	\$ 1,316	\$
<b>Financial liabilities</b>				
Contingent consideration	\$ (2,679)	\$	\$	\$ (2,679)
Derivatives	(5)		(5)	
Total liabilities	\$ (2,684)	\$	\$ (5)	\$ (2,679)

The deferred compensation plan assets consist of cash and several publicly traded stock and bond mutual funds, valued using quoted market prices in active markets classified as Level 1 within the fair value hierarchy, as well as securities that are not actively traded on major exchanges, valued using the Net Asset Value ( NAV ) of the underlying investments classified as Level 2 within the fair value hierarchy.

The Company's derivatives consist of foreign currency forward contracts, which are accounted for as cash flow hedges, and are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

The contingent consideration liability is associated with the acquisition of Permalok Corporation in December 2013 and represents the probability weighted average contingent payment as a percentage of high, mid, and low revenue projections. The inputs used to measure contingent consideration are classified as Level 3 within the valuation hierarchy. The valuation is not supported by market criteria and reflects the Company's internal revenue forecasts. Changes in the fair value of the contingent consideration obligation will be reflected in cost of sales during the period the change occurs.

The net carrying amounts of cash and cash equivalents, trade and other receivables, accounts payable, accrued liabilities and borrowings on line of credit approximate fair value due to the short-term nature of these instruments.

#### **5. 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. Instruments that do not qualify for cash flow hedge accounting treatment are remeasured at fair value on each balance sheet date and resulting gains and losses are recognized in income. As of March 31, 2015 and December 31, 2014, all derivative contracts held by the Company were designated as hedges. As of March 31, 2015 and December 31, 2014, the total notional amount of the derivative contracts designated as hedges was \$2.5 million (CAD\$3.1 million) and \$1.3 million (CAD\$1.5 million), respectively. Derivative assets are included within prepaid expenses and other current assets and derivative liabilities are included within accrued liabilities in the condensed



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consolidated balance sheets. All of the Company's foreign currency forward contracts are subject to an enforceable master netting arrangement. The Company presents the assets and liabilities associated with its foreign currency forward contracts at their gross fair values within the condensed consolidated balance sheets.

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 cash flows of hedged items. The effective portion of these hedged items is reflected in other comprehensive income in stockholders' equity. 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.

All of the Company's Canadian forward contracts have maturities not longer than 12 months as of March 31, 2015.

For the three months ended March 31, 2015 and March 31, 2014, the gains (losses) from derivative contracts not designated as hedging instruments recognized in net sales were \$(18,000) and \$60,000, respectively. At March 31, 2015 and March 31, 2014, there was \$21,000 and \$26,000, respectively, of unrealized pretax gain on outstanding derivatives in accumulated other comprehensive loss. Substantially all of the amount in accumulated other comprehensive loss at March 31, 2015 is expected to be reclassified to net sales within the next 12 months as a result of underlying hedged transactions also being recorded in net sales. See Note 11, "Accumulated Other Comprehensive Loss" for additional quantitative information regarding derivative gains and losses.

**6. Commitments and Contingencies***Portland Harbor Superfund*

On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor Site was included on the National Priorities List at the request of the United States 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 stormwater system drains into a neighboring property's privately owned stormwater system and slip. Since the listing of the site, the Company was notified by the EPA and the Oregon Department of Environmental Quality ("ODEQ") of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). In 2008, the Company was asked to file information disclosure reports with the EPA (CERCLA 104 (e) information request). By agreement with the EPA, ODEQ is responsible for overseeing remedial investigation and source control activities for all upland sites to investigate sources and prevent future contamination to the river. A remedial investigation and feasibility study ("RI/FS") of the Portland Harbor Site has been directed by a group of 14 potentially responsible parties known as the Lower Willamette Group (the "LWG") under agreement with the EPA. The Company made a payment of \$0.2 million to the LWG in June 2007 as part of an interim settlement, and is under no obligation to make any further payment. The final draft remedial investigation ("RI") was submitted to the EPA by the LWG in fall of 2011 and the draft feasibility study ("FS") was submitted by the LWG to the EPA in March 2012. The draft FS identifies ten possible remedial alternatives which range in estimated cost from approximately \$169 million to \$1.76 billion and estimates a range of two to 28 years to implement the remedial work, depending on the selected alternative. The report does not determine who is responsible for the costs of cleanup or how the cleanup costs will be

allocated among the potentially responsible parties. As of the date of this filing, the final RI and the revised FS are pending approval of the EPA.

In 2001, groundwater containing elevated volatile organic compounds ( VOCs ) was identified in one localized area of leased property adjacent to the Portland facility furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater was consistent with the initial conclusion that the source of the VOCs is located off of Company-owned property. In February 2005, the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (the Agreement ) with ODEQ. The Company is one of many Upland Source Control Sites working with ODEQ on Source Control and is considered a medium priority site by ODEQ indicating more investigation was recommended. The Company performed RI work required under the Agreement and submitted a draft RI/Source Control Evaluation Report ( SCE ) in December 2005, a revised draft RI/SCE Report in January 2014, and a further revised RI/SCE Report in March 2015. The conclusions of the report include: (1) the VOCs found in the groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River; (2) there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments; (3) the interim remedial measure to conduct a limited excavation of soil and full paving of the site was completed; (4) a state-of-the art stormwater treatment system was installed; and (5) an area of stained soil was characterized and remediated. ODEQ is currently reviewing the March 2015 submittal.

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During the limited soil excavation, additional stained soil was discovered. At the request of ODEQ, the Company developed an additional Work Plan to characterize the nature and extent of soil and/or groundwater impacts from the staining. The Company began implementing this Work Plan in the second quarter of 2012 and submitted sampling results to ODEQ in the third quarter of 2012. Comments from ODEQ were received in November 2012. In February 2013, ODEQ clarified its comments from November 2012, and the Company completed its second round of groundwater sampling for the stained soil investigation area in May and November 2013. The results were reported to ODEQ in the January 2014 and March 2015 RI/SCE Reports.

The Company spent \$0.1 million for further Source Control work in 2014, and anticipates having to spend \$0.1 million in 2015.

Concurrent with the activities of the EPA and 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 ODEQ. The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessments and several of those parties have agreed to do so. In June 2014, the Company agreed to participate in the injury assessment process, which included funding \$0.4 million of the assessment; of this amount, \$0.2 million was paid in July 2014 and the remainder was paid in January 2015. The Company has not assumed any additional payment obligations or liabilities with the participation with the NRDA.

The Company's potential liability is a portion of the costs of the remedy the EPA will select for the entire Portland Harbor Superfund Site. The cost of that remedy is expected to be allocated among more than 100 potentially responsible parties. Because of the large number of responsible parties and the variability in the range of remediation alternatives, the Company is unable to estimate an amount or an amount within a range of costs for its obligation with respect to the Portland Harbor Site matters, and no further adjustment to the consolidated financial statements has been recorded as of the date of this filing. The Company has insurance policies for defense costs, as well as indemnification policies it believes will provide reimbursement for any share of the remediation assessed. However, the Company can provide no assurance that those policies will cover all of the costs which the Company may incur.

In December 2014, a federal district court approved settlements between the Company and two of its insurance carriers. The Company released its interests in the related insurance policies, and received \$2.6 million in January 2015 for reimbursement of past indemnification and defense costs incurred by the Company associated with the Portland Harbor Site, substantially all of which reduced cost of sales in 2014. Notwithstanding these settlements, the Company continues to have insurance coverage for indemnification and defense costs related to the Portland Harbor Site as described above.

### *Houston Environmental Cleanup*

In connection with the Company's sale of its OCTG business, a Limited Phase II Environmental Site Assessment was conducted at the Houston, Texas plant and completed in March 2014, which revealed the presence of VOCs in the groundwater and certain metals in the soil. In June 2014, the Company was accepted into the Texas Commission on Environmental Quality ( TCEQ ) Voluntary Cleanup Program ( VCP ) to address these issues and obtain a Certificate of Completion from TCEQ. The cost of any potential cleanup will not be covered by insurance. However, any costs incurred will be reimbursed by the purchaser of the OCTG business discussed in Note 2, *Disposition of OCTG Business* if the purchaser of the OCTG business exercises its option to purchase the property under certain circumstances after the Certificate of Completion is obtained.

While the remediation approach has not yet been determined, an initial assessment was completed in April 2015, and based on that initial assessment, the Company currently estimates the future costs associated with the VCP to be between \$0.3 million and \$2.5 million. At March 31, 2015, the Company established a \$0.4 million accrual based on the low-end estimate of future costs using a probability-weighted analysis of remediation approaches.

*All Sites*

The Company operates its facilities under numerous governmental permits and licenses relating to air emissions, storm water run-off, and other environmental matters. The Company's operations are also governed by many other laws and regulations, including those relating to workplace safety and worker health, principally the Occupational Safety and Health Act and regulations there under which, among other requirements, establish noise and dust standards. The Company believes it is in material compliance with its permits and licenses and these laws and regulations, and the Company does not believe that future compliance with such laws and regulations will have a material adverse effect on its financial position, results of operations or cash flows.

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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. To the extent that insurance does not cover legal, defense, and indemnification costs associated with a loss contingency, such costs will be expensed as incurred. 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 \$2.1 million at March 31, 2015. The stand-by letters of credit relate to workers' compensation insurance.

**7. Segment Information**

The Company's business is the manufacturing of welded steel pipe. Within this business, the Company's operations are organized into two reportable segments: the Water Transmission Group and the Tubular Products Group. These reportable segments are based on the nature of the products and the manufacturing process. The two segments represent distinct business activities, which management evaluates based on segment gross profit and operating income. Transfers between segments in the periods presented were not material.

The Water Transmission Group manufactures large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, which are primarily related to drinking water systems. 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, agriculture and industrial systems. The Tubular Products Group also manufactured and marketed OCTG products through March 30, 2014. The operating results of the OCTG business have been classified as discontinued operations and are not included in the operating results presented below.

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
<b>Net sales:</b>		
Water transmission	\$ 56,242	\$ 42,999
Tubular products	28,623	39,648
<b>Total</b>	<b>\$ 84,865</b>	<b>\$ 82,647</b>
<b>Gross profit (loss):</b>		
Water transmission	\$ 7,519	\$ 1,668
Tubular products	(3,628)	2,646
<b>Total</b>	<b>\$ 3,891</b>	<b>\$ 4,314</b>

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Operating income (loss):			
Water transmission	\$	5,633	\$ (299)
Tubular products		(4,617)	2,294
Corporate		(4,099)	(3,121)
Total	\$	(3,083)	\$ (1,126)

**Table of Contents****8. 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 (RSUs) and performance share awards (PSAs). In addition, the Company has one inactive stock option plan, the 1995 Stock Option Plan for Nonemployee Directors, under which previously granted options remain outstanding.

The Company recognizes compensation cost as service is rendered based on the fair value of the awards. The following table summarizes share-based compensation expense recorded (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Cost of sales	\$ 81	\$ 11
Selling, general and administrative expenses	569	343
<b>Total</b>	<b>\$ 650</b>	<b>\$ 354</b>

As of March 31, 2015, unrecognized compensation expense related to the unvested portion of the Company's RSUs and PSAs was \$3.4 million, which is expected to be recognized over a weighted average period of 1.5 years.

**Stock Option Awards**

A summary of the status of the Company's stock options as of March 31, 2015 and changes during the three months then ended is presented below:

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value (In thousands)</b>
Balance, January 1, 2015	38,000	\$ 26.05		
Options granted				
Options exercised				
Options cancelled				
<b>Balance, March 31, 2015</b>	<b>38,000</b>	<b>26.05</b>	<b>3.43</b>	<b>\$ 4</b>
Exercisable, March 31, 2015	38,000	26.05	3.43	\$ 4

**Restricted Stock Units and Performance Stock Awards**

A summary of the status of the Company's RSUs and PSAs as of March 31, 2015 and changes during the three months then ended is presented below:

	<b>Number of RSUs and PSAs</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance, January 1, 2015	231,215	\$ 36.34
RSUs and PSAs granted		
RSUs and PSAs vested	(49,403)	30.01
RSUs and PSAs canceled	(18,646)	31.24
Balance, March 31, 2015	163,166	38.83

RSUs and PSAs are measured at the estimated fair value on the date of grant. RSUs are service-based awards and vest according to vesting schedules, which range from immediate to ratably over a three-year period. PSAs are service-based awards that vest over a



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three-year period and have a market-based payout condition. Vesting of the market-based PSAs is dependent upon the performance of the market price of the Company's stock relative to a peer group of companies. The unvested balance of RSUs and PSAs at March 31, 2015 includes approximately 140,000 PSAs at a target level of performance; the actual number of common shares that will ultimately be issued will be determined by multiplying this number of PSAs by a payout percentage ranging from 0% to 200%.

**9. 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. Internal Revenue Service examinations have been completed for years prior to 2011. With few exceptions, the Company is no longer subject to U.S. Federal, state or foreign income tax examinations for years before 2010.

The Company had \$2.3 million of unrecognized tax benefits at March 31, 2015 and December 31, 2014. The Company believes it is reasonably possible that the total amounts of unrecognized tax benefits will decrease in the following twelve months due to the expiration of certain statutes of limitations; however, actual results could differ from those currently expected. Effectively all the unrecognized tax benefits would affect the Company's effective tax rate if recognized at some point in the future.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company provided for income taxes from continuing operations at an estimated effective tax rate of 37.7% for the three months ended March 31, 2015, and estimated effective tax rate of 35.5% for the three months ended March 31, 2014.

**10. Loss per Share**

Loss per basic and diluted weighted average common share outstanding for continuing and discontinued operations were calculated as follows for the three months ended March 31, 2015 and 2014 (in thousands, except per share data):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Loss from continuing operations	\$ (2,101)	\$ (1,211)
Loss from discontinued operations		(10,893)
<b>Net loss</b>	<b>\$ (2,101)</b>	<b>\$ (12,104)</b>
Basic weighted-average common shares outstanding	9,553	9,508
Effect of potentially dilutive common shares		
Diluted weighted-average common shares outstanding	9,553	9,508
<b>Loss per basic common share</b>		
Continuing operations	\$ (0.22)	\$ (0.13)
Discontinued operations		(1.14)

Total	\$	(0.22)	\$	(1.27)
<b>Loss per diluted common share</b>				
Continuing operations	\$	(0.22)		(0.13)
Discontinued operations				(1.14)
Total	\$	(0.22)	\$	(1.27)

Due to the Company's loss from continuing operations in the three months ended March 31, 2015 and 2014, the assumed exercise of stock options and the vesting of restricted stock units and performance stock awards based on the treasury stock method had an antidilutive effect and were therefore excluded from the computation of diluted loss per share. The weighted average number of such antidilutive shares not included in the computation of diluted loss per share was 204,000 for the three months ended March 31, 2015 and 202,000 for the three months ended March 31, 2014.

**Table of Contents****11. Accumulated Other Comprehensive Loss**

The following tables summarize changes in the components of accumulated other comprehensive loss during the three months ended March 31, 2015 and March 31, 2014 (in thousands). All amounts are net of tax:

	<b>Defined Benefit Pension Items</b>	<b>Gains (Losses) on Cash Flow Hedges</b>	<b>Total</b>
Balance, December 31, 2013	\$ (1,275)	\$ 14	\$ (1,261)
Other comprehensive income before reclassifications	36	9	45
Amounts reclassified from accumulated other comprehensive income (loss)	28	(7)	21
Net current period other comprehensive income	64	2	66
Balance, March 31, 2014	\$ (1,211)	\$ 16	\$ (1,195)

	<b>Defined Benefit Pension Items</b>	<b>Gains (Losses) on Cash Flow Hedges</b>	<b>Total</b>
Balance, December 31, 2014	\$ (1,862)	\$ 29	\$ (1,833)
Other comprehensive income before reclassifications	56	61	117
Amounts reclassified from accumulated other comprehensive income (loss)	53	(76)	(23)
Net current period other comprehensive income (loss)	109	(15)	94
Balance, March 31, 2015	\$ (1,753)	\$ 14	\$ (1,739)

The following table provides additional detail about accumulated other comprehensive income (loss) components that were reclassified to the condensed consolidated statement of operations during the three months ended March 31, 2015 and 2014 (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	<b>Three Months Ended March</b>		Affected line item in the Condensed Consolidated Statement of Operations
	<b>2015</b>	<b>2014</b>	
Pension liability adjustment			
Net periodic pension cost	\$ (85)	\$ (43)	Cost of sales
Associated tax benefit	32	15	Income tax benefit

	\$ (53)	\$ (28)	Net of tax
Deferred gain on cash flow derivatives			
Gain on cash flow derivatives	\$ 122	\$ 11	Net sales
Hedge ineffectiveness	(1)		Net sales
Associated tax expense	(45)	(4)	Income tax benefit
	\$ 76	\$ 7	Net of tax
Total reclassifications for the period	\$ 23	\$ (21)	

**Table of Contents****12. Recent Accounting and Reporting Developments**

In April 2015, the FASB issued Accounting Standards Update ( ASU ) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This standard simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the update. The ASU will be effective for the Company beginning January 1, 2016 including interim periods in 2016. When implemented by the Company, the balance of debt issuance costs will be netted against the Company's borrowings on line of credit included in long-term liabilities. Implementation will be on a retrospective basis, wherein the balance sheet of each individual period presented will be adjusted to reflect the period-specific effects of applying the new guidance. The Company does not expect a material impact to the Company's financial condition, results of operations or cash flows from adoption of this guidance.

In August 2014, the FASB issued Accounting Standards Update ( ASU ) No. 2014-15, Presentation of Financial Statements – Going Concern. This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The Company does not expect a material impact to the Company's financial condition, results of operations or cash flows from the adoption of this guidance.

In May 2014, the FASB issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in accordance with U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for the Company beginning January 1, 2017, including interim periods in 2017, and allows for both retrospective and prospective methods of adoption.

**13. Subsequent event**

In April 2015, the Company initiated a production curtailment at its Atchison, Kansas facility. Severance related restructuring costs associated with the production curtailment are approximately \$0.5 million, and will be recorded in the second quarter.

**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 words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve 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 Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K ) and from time to time in our other SEC 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.

## **Overview**

We are a leading North American manufacturer of large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, which are primarily related to drinking water systems, and we also manufacture other welded steel pipe products for use in a wide range of applications, including energy, construction, agriculture, and industrial systems. Our pipeline systems are also used for hydroelectric power systems, wastewater systems and other applications, and we also make products for industrial plant piping

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systems and certain structural applications. These pipeline systems are produced by our Water Transmission Group from eight manufacturing facilities located in Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas; St. Louis, Missouri; Salt Lake City, Utah; and Monterrey, Mexico. Our Water Transmission Group accounted for approximately 66.3% of net sales from continuing operations in the first quarter of 2015.

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 system, 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 independently 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. In the near term, we expect strained municipal budgets will continue to impact the Water Transmission Group.

Our Tubular Products Group manufactures other welded steel products in Atchison, Kansas. The oil country tubular goods ( OCTG ) division of our business, which previously operated out of Houston, Texas and Bossier City, Louisiana, was sold on March 30, 2014 and has been classified as discontinued operations. We produce a range of products used in several different markets, including energy, construction, agriculture, and industrial 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, and general economic conditions. The worldwide turmoil in the crude oil markets, which became significant in the fourth quarter of 2014, is having a detrimental effect on the line pipe markets that the Tubular Products Group serves. In April 2015, we initiated a production curtailment at our Atchison, Kansas facility. During the period of curtailment, we will continue to sell and ship finished products and perform limited manufacturing if needed to fulfill customer orders. We will closely monitor market conditions, and at this time anticipate resuming normal operations in the second half of 2015. Our Tubular Products Group generated approximately 33.7% of net sales from continuing operations in the first quarter of 2015.

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 as its margins are highly sensitive to changes in steel costs, although margins are also influenced by the current level of imports and overall demand in the marketplace.

## **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our condensed 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. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our condensed consolidated financial statements is set forth in our 2014 Form 10-K.

## **Recent Accounting Pronouncements**

See Note 12 of the condensed consolidated financial statements in Part I Item I, Financial Statements for a description of recent accounting pronouncements, including the dates of adoption and estimated effects on financial position, results of operations and cash flows.



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

The following tables set 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 from continuing operations. The results of our OCTG business have been classified as discontinued operations and have been excluded from the tables below.

	Three months ended March 31, 2015		Three months ended March 31, 2014	
	\$	% of Net Sales	\$	% of Net Sales
Net sales				
Water Transmission	\$ 56,242	66.3%	\$ 42,999	52.0%
Tubular Products	28,623	33.7	39,648	48.0
Total net sales	84,865	100.0	82,647	100.0
Cost of sales	80,974	95.4	78,333	94.8
Gross profit	3,891	4.6	4,314	5.2
Selling, general and administrative expense	6,974	8.2	5,440	6.6
Operating loss	(3,083)	(3.6)	(1,126)	(1.4)
Other income (expense)	44		(63)	(0.1)
Interest income	82	0.1	81	0.1
Interest expense	(417)	(0.5)	(770)	(0.9)
Loss before income taxes	(3,374)	(4.0)	(1,878)	(2.3)
Income tax benefit	(1,273)	(1.5)	(667)	(0.8)
Loss from continuing operations	\$ (2,101)	(2.5)%	\$ (1,211)	(1.5)%
Gross profit (loss) as a percentage of segment net sales:				
Water Transmission		13.4%		3.9%
Tubular Products		(12.7)		6.7

**Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014**

**Net sales.** Net sales from continuing operations increased 2.7% to \$84.9 million for the first quarter of 2015 compared to \$82.6 million for the first quarter of 2014. No sales to a single customer were 10% or more of total net sales from continuing operations in the first quarter of 2015. Two customers in the Tubular Products segment accounted for 13.1% and 11.4%, respectively, of total net sales from continuing operations in the first quarter of 2014.

Water Transmission sales from continuing operations increased 30.8% to \$56.2 million for the first quarter of 2015 compared to \$43.0 million for the first quarter of 2014. The increase in sales in the first quarter of 2015 compared to the first quarter of 2014 was due to a 47% increase in tons produced, partially offset by an 11% decrease in selling price per ton. The increase in tons produced was due to ongoing work on two large projects in Texas in the first quarter of 2015. The decrease in selling prices per ton in the first quarter of 2015 was due to a change in product mix

from the first quarter of 2014. In addition, we have experienced significant competition on recent project bids, which has also contributed to decreased selling prices. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales volumes.

Tubular Products sales from continuing operations decreased 27.8% to \$28.6 million in the first quarter of 2015 compared to \$39.6 million in the first quarter of 2014. The sales decrease in the first quarter of 2015 compared to the first quarter of 2014 was due to a 27% decrease in tons sold and a 2% decrease in selling price per ton. We sold 28,300 tons in the first quarter of 2015 compared to 39,000 tons in the first quarter of 2014. The decrease in tons sold was primarily due to decreased demand for line pipe with the worldwide downturn in crude oil prices. Energy pipe sales volume decreased 41% from 31,400 tons in the first quarter of 2014 to 18,500 tons in the first quarter of 2015.

**Gross profit.** Gross profit decreased 9.8% to \$3.9 million (4.6% of total net sales from continuing operations) in the first quarter of 2015 compared to \$4.3 million (5.2% of total net sales from continuing operations) in the first quarter of 2014.

Water Transmission gross profit increased \$5.9 million, or 350.8%, to \$7.5 million (13.4% of segment net sales from continuing operations) for the first quarter of 2015 compared to \$1.7 million (3.9% of segment net sales from continuing operations) for the first quarter of 2014. The increase in gross profit as a percent of net sales in the first quarter of 2015 compared to the first quarter of 2014 was due to the mix of projects produced. The most significant factor in the increase in gross profit for the first quarter of 2015 was the increased volume described above coupled with historically low demand in the first quarter of 2014.

Gross profit from Tubular Products decreased \$6.3 million, or 237.1%, to a \$3.6 million gross loss (negative 12.7% of segment net sales from continuing operations) in the first quarter of 2015 compared to a \$2.6 million gross profit (6.7% of segment net sales from continuing operations) in the first quarter of 2014. Gross profit was negatively impacted by lower volume due to the lower demand

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discussed above. In addition, we had an unfavorable sales mix and recorded a lower of cost or market inventory adjustment of \$2.8 million in the first quarter of 2015.

***Selling, general and administrative expenses.*** Selling, general and administrative expenses increased \$1.5 million to \$7.0 million (8.2% of total net sales from continuing operations) for the first quarter of 2015 compared to \$5.4 million (6.6% of total net sales from continuing operations) for the first quarter of 2014. The increase for the first quarter of 2015 compared to the first quarter of 2014 was primarily due to \$0.7 million in higher professional fees (principally related to the 2014 audit), the \$0.4 million environmental reserve related to the Houston property, and \$0.2 million in higher stock incentive plan expense.

***Interest expense.*** Interest expense from continuing operations was \$0.4 million for the first quarter of 2015 compared to \$0.8 million for the first quarter of 2014. The decrease in interest expense primarily was a result of lower average borrowings and lower capital lease balances during the first quarter of 2015 compared to the first quarter of 2014.

***Income Taxes.*** The tax benefit from continuing operations was \$1.3 million in the first quarter of 2015 (an effective tax rate of 37.7%) compared to a tax benefit of \$0.7 million in the first quarter of 2014 (an effective tax benefit rate of 35.5%). 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 all situations.

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

Our principal sources of liquidity generally include operating cash flows and our bank credit agreement ( Credit Agreement ). From time to time our long-term capital needs may be met through the issuance of long-term debt or additional equity. Our principal uses of liquidity generally include capital expenditures, working capital and debt service. The 2014 condensed consolidated statement of cash flows includes discontinued operations.

As of March 31, 2015, our working capital (current assets minus current liabilities) was \$141.4 million compared to \$165.7 million as of December 31, 2014. The primary reason for the decrease in working capital was a decrease in trade and other receivables due to faster collections and lower sales and billings in the first quarter compared to the fourth quarter of 2014. Net cash provided by operating activities in the first quarter of 2015 was \$24.6 million. Cash from operating activities was primarily the result of fluctuations in working capital accounts, primarily a decrease in trade receivables, inventories, and insurance settlements received in January 2015, partially offset by an increase in costs and estimated earnings in excess of billings on uncompleted contracts.

Fluctuations in our working capital accounts result from timing differences between production, shipment, invoicing, and collection, as well as changes in levels of production and costs of materials. We typically have a relatively large investment in working capital, as we generally pay for materials, labor, and other production costs in the initial stages of a project, while payments from our customers are generally received after finished product is delivered. Our revenues in the Water Transmission segment are recognized on a percentage-of-completion method; therefore, cash receipts typically occur subsequent to when revenue is recognized and the elapsed time between when revenue is recorded and when cash is received 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 by project, and from period to period.

Net cash used in investing activities in the first quarter of 2015 was \$3.5 million, primarily due to additions to property plant and equipment. Capital expenditures during the first quarter of 2015 were primarily standard capital replacement. Capital expenditures in 2015 are expected to be approximately \$12 million to \$13 million for standard capital replacement.

Net cash used by financing activities in the first quarter of 2015 was \$21.5 million, primarily from net repayments of \$20.8 million under our Credit Agreement that was driven by the decrease in working capital discussed above.

We anticipate that our existing cash and cash equivalents, cash flows expected to be generated by operations, and amounts available to borrow under our Credit Agreements will be adequate to fund our working capital and capital requirements for the foreseeable future. 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. 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***

At March 31, 2015, our debt consisted of \$24.8 million in borrowings pursuant to our \$165 million Credit Agreement. The Credit Agreement bears interest at rates related to LIBOR plus 1.75% to 2.75%, or the lending institution's prime rate, plus 0.75% to 1.75%. We were able to borrow at LIBOR plus 2.00% under the Credit Agreement at March 31, 2015. Due to an improved Consolidated

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Total Leverage Ratio, we will be able to borrow at LIBOR plus 1.75% under the Credit Agreement upon submission of our covenants in the second quarter of 2015. Borrowings under the Credit Agreement are collateralized by substantially all of our personal property. The Credit Agreement will expire on October 24, 2017. At March 31, 2015, we had \$80.5 million available to borrow under the Credit Agreement while remaining in compliance with our financial covenants, net of outstanding letters of credit. The Credit Agreement bears interest at a weighted average rate of 2.23% at March 31, 2015.

The Credit Agreement places 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 requires us to be in compliance with certain financial covenants. The results of our financial covenants as of March 31, 2015 are below:

The Consolidated Total Leverage Ratio must not be greater than 3.5:1.0. Our ratio as of March 31, 2015 is 0.83:1.0.

The Consolidated Tangible Net Worth must be greater than \$214.4 million. Our Tangible Net Worth as of March 31, 2015 is \$234.9 million.

The Consolidated Fixed Charge Coverage Ratio must not be less than 1.25:1.0. Our ratio at March 31, 2015 is 4.59:1.0

As of March 31, 2015, we are in compliance with all financial covenants.

We had a total of \$2.1 million in capital lease obligations outstanding at March 31, 2015. The weighted average interest rate on all of our capital leases is 9.55%. Our capital leases are for certain equipment used in the manufacturing process.

## **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 2014 Form 10-K.

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

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

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ( 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 Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period. Based on their evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of March 31, 2015 because of the material weakness in our internal control over financial reporting described below. Notwithstanding the material weakness described below, our management has concluded that the consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America for each of the periods presented herein.

*Material Weakness Previously Identified*

We previously identified and disclosed in our Annual Report on Form 10-K for the period ended December 31, 2014, a material weakness in our internal control over financial reporting related to our impairment assessment of goodwill that still exists as of March 31, 2015. As a result, management has concluded that the Company's internal control over financial reporting was not effective as of March 31, 2015.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness in our internal controls over financial reporting as of March 31, 2015 is:

We did not design and maintain effective controls over our impairment assessment of goodwill. Specifically, we did not design and maintain effective controls related to the critical review of assumptions, data inputs and results of the goodwill impairment analysis, and the identification of changes in events and circumstances that indicate it is more likely than not that a goodwill impairment has occurred between annual impairment tests.

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The control deficiency did not result in any adjustments to our annual or interim consolidated financial statements for any period; however, the control deficiency could result in misstatements to the goodwill and impairment of goodwill account balances and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, we have determined that this control deficiency constitutes a material weakness.

### **Plans for Remediation of Material Weakness**

In response to the material weakness described above, our management, with the oversight from the Audit Committee of our Board of Directors, is in the process of remediating the underlying causes of the material weakness. As of March 31, 2015, the Company has made progress on several of the actions identified in its Plan of Remediation identified in our Annual Report on Form 10-K for the period ended December 31, 2014. The Company has enhanced its process documentation and initiated the design of new procedures related to the review of assumptions and data inputs used in the goodwill impairment assessment process. The Company has completed its design and implementation of controls specifically related to the evaluation of changes in events and circumstances which occur between annual impairment tests. These steps resulted in improvements to the process, but the Company recognizes additional steps related to the design, implementation, and evaluation of its control procedures are necessary to remediate this material weakness.

We will take the following further actions in order to remediate this material weakness as soon as practicable:

Review, expand, and enhance documentation of the processes and controls related to the impairment assessment of goodwill.

Design, document, and implement additional control procedures related to the review of the assumptions and data inputs used in the analysis, as well as review of the results of the goodwill impairment analysis.

Test and evaluate the design and operating effectiveness of the control procedures.

Conclude on the effectiveness of the remediation plan.

We believe these additional internal controls, when fully designed, implemented, and operating, will be effective in remediating the material weakness described above. As these controls predominantly operate on an annual or an as needed basis, as in the case of an interim triggering event, this material weakness is not likely to be remediated until at least December 31, 2015. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address the material weakness or determine to modify the remediation plan described above. Until the remediation steps set forth above are fully implemented, the material weakness described above will continue to exist.

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

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Part II Other Information**

**Item 1. Legal Proceedings**

Information required by this Item 1 is contained in Note 6 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**

In addition to the other information set forth in this report, the factors discussed in Part I Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 could materially affect our business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. There are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial, that may also materially adversely affect our business, financial condition, or operating results.



**Table of Contents****Item 6. Exhibits**

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

<b>Exhibit</b>	<b>Description</b>
<b>Number</b>	<b>Description</b>
10.1	Northwest Pipe 2015 Short-term Incentive Plan dated as of February 26, 2015, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on March 16, 2015*
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* This exhibit constitutes a management contract or compensatory plan or arrangement.

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**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: May 6, 2015

NORTHWEST PIPE COMPANY

By: /s/ Scott Montross  
Scott Montross  
Director, President and Chief Executive  
Officer

By: /s/ Robin Gantt  
Robin Gantt  
Senior Vice President and Chief Financial  
Officer  
(Principal Financial Officer)