

NORTHWEST PIPE CO
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 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

93-0557988

(State or other jurisdiction of incorporation or organization) (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 9,564,752

(Class)

**(Shares outstanding at October 30,
2015)**

NORTHWEST PIPE COMPANY

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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)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 635	\$ 527
Trade and other receivables, less allowance for doubtful accounts of \$555 and \$755	35,422	58,310
Costs and estimated earnings in excess of billings on uncompleted contracts	38,700	45,847
Inventories	49,161	72,779
Refundable income taxes	8,208	5,031
Deferred income taxes	4,900	5,487
Prepaid expenses and other	1,642	7,258
Total current assets	138,668	195,239
Property and equipment, less accumulated depreciation and amortization of \$84,460 and \$84,224	132,640	132,595
Goodwill	-	5,282
Other assets	12,111	18,766
Total assets	\$ 283,419	\$ 351,882
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings on line of credit	\$ 6,552	\$ -
Current portion of capital lease obligations	171	2,170
Accounts payable	10,463	15,480
Accrued liabilities	9,213	9,071
Billings in excess of costs and estimated earnings on uncompleted contracts	695	2,835
Total current liabilities	27,094	29,556
Borrowings on line of credit	-	45,587

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Capital lease obligations, less current portion	112	225
Deferred income taxes	11,012	14,015
Pension and other long-term liabilities	14,379	16,864
Total liabilities	52,597	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, 9,564,752 and 9,520,067 shares issued and outstanding	96	95
Additional paid-in-capital	117,372	116,802
Retained earnings	114,876	130,571
Accumulated other comprehensive loss	(1,522)	(1,833)
Total stockholders' equity	230,822	245,635
Total liabilities and stockholders' equity	\$ 283,419	\$ 351,882

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

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

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	\$52,335	\$116,505	\$191,046	\$301,140
Cost of sales	54,846	100,685	192,259	269,689
Gross profit (loss)	(2,511)	15,820	(1,213)	31,451
Selling, general and administrative expense	4,773	6,489	17,199	17,847
Impairment of Water Transmission goodwill	-	-	5,282	-
Operating income (loss)	(7,284)	9,331	(23,694)	13,604
Other income	24	39	82	2
Interest income	10	220	173	383
Interest expense	(195)	(457)	(898)	(1,796)
Income (loss) before income taxes	(7,445)	9,133	(24,337)	12,193
Income tax expense (benefit)	(5,930)	3,275	(8,642)	4,364
Income (loss) from continuing operations	(1,515)	5,858	(15,695)	7,829
Discontinued operations:				
Income (loss) from operations of discontinued business	-	46	-	(2,601)
Loss on sale of business	-	(1,414)	-	(13,497)
Income tax benefit	-	(531)	-	(4,378)
Loss on discontinued operations	-	(837)	-	(11,720)
Net income (loss)	\$(1,515)	\$5,021	\$(15,695)	\$(3,891)
Basic income (loss) per share				
Continuing operations	\$(0.16)	\$0.62	\$(1.64)	\$0.82
Discontinued operations	-	(0.09)	-	(1.23)
Total	\$(0.16)	\$0.53	\$(1.64)	\$(0.41)
Diluted income (loss) per share				
Continuing operations	\$(0.16)	\$0.61	\$(1.64)	\$0.82
Discontinued operations	-	(0.09)	-	(1.23)
Total	\$(0.16)	\$0.52	\$(1.64)	\$(0.41)
Shares used in per share calculations:				
Basic	9,565	9,519	9,558	9,513
Diluted	9,565	9,616	9,558	9,595

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

NORTHWEST PIPE COMPANY**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ (1,515)	\$ 5,021	\$ (15,695)	\$ (3,891)
Other comprehensive income (loss):				
Pension liability adjustment, net of tax	109	63	327	191
Deferred gain (loss) on cash flow derivatives, net of tax	15	45	(16)	-
Other comprehensive income	124	108	311	191
Comprehensive income (loss)	\$ (1,391)	\$ 5,129	\$ (15,384)	\$ (3,700)

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

NORTHWEST PIPE COMPANY**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(15,695)	\$(3,891)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	6,664	10,098
Impairment of goodwill	5,282	-
Amortization of intangible assets	410	409
Provision for doubtful accounts	(200)	(294)
Amortization of debt issuance costs	203	305
Deferred income taxes	(2,415)	1,144
Loss on sale of business	-	13,497
Stock based compensation expense	1,340	2,067
Unrealized gain on foreign currency forward contracts	(173)	(23)
Adjustments to contingent consideration	276	(1,736)
Other, net	31	25
Changes in operating assets and liabilities:		
Trade and other receivables, net	19,121	19,113
Insurance settlements	2,625	-
Costs and estimated earnings in excess of billings on uncompleted contracts, net	5,007	(7,362)
Inventories	23,946	1,435
Refundable income taxes	(3,523)	(2,815)
Prepaid expenses and other assets	1,321	1,524
Accounts payable	(4,129)	2,246
Accrued and other liabilities	(2,287)	(4,576)
Net cash provided by operating activities	37,804	31,166
Cash flows from investing activities:		
Additions to property and equipment	(7,704)	(11,619)
Proceeds from sale of business	4,300	29,791
Proceeds from sale of property & equipment	55	8
Collections on notes receivable	7,219	47
Other investing activities	-	(25)
Net cash provided by investing activities	3,870	18,202
Cash flows from financing activities:		
Tax withholdings related to net share settlements of restricted stock and performance stock awards	(423)	(1,283)
Payments on long-term debt	-	(6,357)

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Borrowings on line of credit	77,750	184,081
Repayments on line of credit	(116,785)	(225,351)
Payments on capital lease obligations	(2,127)	(1,002)
Other financing activities	19	28
Net cash used in financing activities	(41,566)	(49,884)
Change in cash and cash equivalents	108	(516)
Cash and cash equivalents, beginning of period	527	588
Cash and cash equivalents, end of period	\$635	\$72
Non-Cash Investing Activity:		
Accrued property and equipment purchases	\$356	\$222

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

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 and 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 and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2015.

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 and nine months ended September 30, 2014 do not necessarily reflect what they would have been had the OCTG business not been classified as a discontinued operation.

	Three Months Ended		Nine Months Ended	
	September 30, 2014		September 30, 2014	
Net sales	\$ -		\$ 22,225	
Cost of sales	(46)	24,331	
Gross profit (loss)	46		(2,106)
Selling, general and administrative expense	-		396	
Operating income (loss)	46		(2,502)
Interest expense	-		(99)
Loss on sale of business	(1,414)	(13,497)
Loss before income taxes	(1,368)	(16,098)
Income tax benefit	(531)	(4,378)
Loss on discontinued operations	\$ (837)	\$ (11,720)

3. Inventories

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

	September 30, 2015	December 31, 2014
Short-term inventories:		
Raw materials	\$ 39,074	\$ 48,005
Work-in-process	2,088	1,741
Finished goods	5,560	20,663
Supplies	2,439	2,370
Total short-term inventories	49,161	72,779
Long-term inventories:		
Finished goods	886	1,214
Total inventories	\$ 50,047	\$ 73,993

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.

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

Description	Balance at September 30,			
	2015	Level 1	Level 2	Level 3
Financial assets				
Deferred compensation plan	\$ 6,316	\$5,028	\$1,288	\$-
Derivatives	185	-	185	-
Total assets	\$ 6,501	\$5,028	\$1,473	\$-
Financial liabilities				
Contingent consideration	\$ (2,955)	\$-	\$-	\$(2,955)

Description	Balance at December 31,			
	2014	Level 1	Level 2	Level 3
Financial assets				
Deferred compensation plan	\$ 6,237	\$4,953	\$1,284	\$-
Derivatives	32	-	32	-
Total assets	\$ 6,269	\$4,953	\$1,316	\$-
Financial liabilities				
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.

If required as part of its annual goodwill impairment assessment, the Company calculates the business enterprise value of applicable reporting units. This calculation uses a weighted average of income and market approaches, and is classified as Level 3 in the valuation hierarchy. The income approach is primarily driven by inputs from the Company's internal financial forecasts. The market approach incorporates inputs from market participant data, as well as inputs derived from Company assumptions. In the second quarter of 2015, this analysis resulted in the impairment of Water Transmission goodwill of \$5.3 million.

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 September 30, 2015 and December 31, 2014, all derivative contracts held by the Company were designated as hedges. As of September 30, 2015 and December 31, 2014, the total notional amount of the derivative contracts designated as hedges was \$3.4 million (CAD\$4.6 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 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 September 30, 2015.

For both the three and nine months ended September 30, 2015, gains from derivative contracts not designated as hedging instruments recognized in net sales totaled \$0.2 million. For the three and nine months ended September 30, 2014, gains from derivative contracts not designated as hedging instruments recognized in net sales were \$0.2 million and \$0.1 million, respectively. At September 30, 2015 and September 30, 2014, there was \$18,000 of unrealized pretax gain on outstanding derivatives in accumulated other comprehensive loss. Substantially all of the amount in accumulated other comprehensive loss at September 30, 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 2015 draft FS identifies six possible remedial alternatives which range in estimated cost from approximately \$790 million to \$2.5 billion and estimates it will take up to 18 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. In May 2015, and subsequently in August and October 2015, the Company received the EPA’s and ODEQ’s comments, respectively, requesting additional information and modifications to the revised RI/SCE Report. The Company is working with consultants to address the comments and questions from the EPA and ODEQ.

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 less than \$0.2 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 Issue

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 final remediation approach has not yet been determined, the Company has completed an initial assessment and currently estimates the future costs associated with the VCP to be between \$0.2 million and \$2.4 million. At September 30, 2015, the Company has a \$0.3 million accrual for remediation costs based on the low-end estimate of future costs using a probability-weighted analysis of remediation approaches and estimates closure of the issue to occur between the first quarter of 2017 and the third quarter of 2018.

The proposed remediation approach includes a municipal ordinance to prevent consumption of shallow groundwater from beneath the property, thereby eliminating the need for more costly remediation measures. Site assessment and monitoring activities are currently underway to satisfy the requirements of the City of Houston and TCEQ for implementation of the municipal ordinance.

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.

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 September 30, 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.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2015	2014	2015	2014
	(in thousands)			
Net sales:				
Water transmission	\$39,792	\$76,857	\$134,479	\$182,061
Tubular products	12,543	39,648	56,567	119,079
Total	\$52,335	\$116,505	\$191,046	\$301,140
Gross profit (loss):				
Water transmission	\$(725)	\$16,559	\$8,049	\$29,718
Tubular products	(1,786)	(739)	(9,262)	1,733
Total	\$(2,511)	\$15,820	\$(1,213)	\$31,451
Operating income (loss):				
Water transmission (1)	\$(2,384)	\$14,429	\$(2,566)	\$23,673
Tubular products	(2,298)	(1,155)	(11,169)	550
Corporate	(2,602)	(3,943)	(9,959)	(10,619)
Total	\$(7,284)	\$9,331	\$(23,694)	\$13,604

(1) Operating loss for the Water Transmission Group for the nine months ended September 30, 2015 includes the write-off of Water Transmission goodwill of \$5.3 million in the second quarter of 2015.

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of sales	\$116	\$62	\$296	\$154
Selling, general and administrative expenses	91	820	1,044	1,913
Total	\$207	\$882	\$1,340	\$2,067

As of September 30, 2015, unrecognized compensation expense related to the unvested portion of the Company's RSUs and PSAs was \$1.7 million, which is expected to be recognized over a weighted average period of 1.1 years.

Stock Option Awards

A summary of the status of the Company's stock options as of September 30, 2015 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, 2015	38,000	\$ 26.05			
Options granted	-	-			
Options exercised	(2,000)	22.07			
Options cancelled	(4,000)	28.42			
Balance, September 30, 2015	32,000	26.00	3.54	\$ -	
Exercisable, September 30, 2015	32,000	26.00	3.54	\$ -	

Restricted Stock Units and Performance Stock Awards

A summary of the status of the Company's RSUs and PSAs as of September 30, 2015 and changes during the nine months then ended is presented below:

	Number of RSUs	Weighted Average
	and PSAs	Grant Date Fair Value
Balance, January 1, 2015	231,215	\$ 36.34
RSUs and PSAs granted	-	-
RSUs and PSAs vested	(49,403)	30.01
RSUs and PSAs canceled	(50,707)	35.93
Balance, September 30, 2015	131,105	38.88

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 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 September 30, 2015 includes approximately 113,000 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%.

Stock Awards

For the nine months ended September 30, 2015 and 2014, stock awards of 10,464 and 9,150 shares, respectively, were granted to non-employee directors, which vested immediately upon issuance. The Company recorded compensation expense based on the fair market value per share of the awards on the grant date of \$21.02 and \$36.07 in 2015 and 2014, respectively.

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 2011. The Company is currently under Colorado income tax audit for the years 2009 to 2013. It is reasonably possible that the Company will close the audit within the next 12-month period. Such resolution is not anticipated to have a significant impact on our results of operations. There are no other income tax audits in progress.

The Company had \$4.7 million and \$2.3 million of unrecognized tax benefits at September 30, 2015 and December 31, 2014, respectively. 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 79.7% and 35.5% for the three and nine months ended September 30, 2015, and an estimated effective tax rate of 35.9% and 35.8% for the three and nine months ended September 30, 2014, respectively.

The Company completed a research and development (R&D) tax credit study for 2014 in the third quarter of 2015, resulting in a significantly higher credit than previously estimated; therefore, a discrete benefit of \$2.5 million was recorded, which affected the Company's effective tax benefit rate in the third quarter of 2015. In the first nine months ended September 30, 2015, after considering the guidance for accounting for income taxes, and weighing the positive and negative evidence including the Company's recent history of cumulative losses, the Company recorded a \$1.9 million valuation allowance on a portion of its deferred tax assets, primarily related to state net operating loss carry forwards and state credits.

The effective tax rate for the nine months ended September 30, 2015 includes the impact of the recognition of R&D tax credits (which increased the effective benefit rate) as well as the non-deductibility of expense related to the impairment of goodwill and the valuation allowance recorded (both of which decreased the effective benefit rate).

10. Income (loss) per Share

Income (loss) per basic and diluted weighted average common share outstanding for continuing and discontinued operations were calculated as follows for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per share data):

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Income (loss) from continuing operations	\$(1,515)	\$5,858	\$(15,695)	\$7,829
Income (loss) from discontinued operations	-	(837)	-	(11,720)
Net income (loss)	\$(1,515)	\$5,021	\$(15,695)	\$(3,891)
Basic weighted-average common shares outstanding	9,565	9,519	9,558	9,513
Effect of potentially dilutive common shares (1)	-	97	-	82
Diluted weighted-average common shares outstanding	9,565	9,616	9,558	9,595
Income (loss) per basic common share				
Continuing operations	\$(0.16)	\$0.62	\$(1.64)	\$0.82
Discontinued operations	-	(0.09)	-	(1.23)
Total	\$(0.16)	\$0.53	\$(1.64)	\$(0.41)
Income (loss) per diluted common share				
Continuing operations	\$(0.16)	\$0.61	\$(1.64)	\$0.82
Discontinued operations	-	(0.09)	-	(1.23)
Total	\$(0.16)	\$0.52	\$(1.64)	\$(0.41)

(1) Represents the effect of the assumed exercise of stock options and the vesting of restricted stock units and performance stock awards, based on the treasury stock method.

Due to the Company's loss from continuing operations in the three and nine month periods ended September 30, 2015, the assumed exercise of stock options and the vesting of restricted stock units and performance stock awards using the treasury stock method would have 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 163,000 and 185,000 for the three and nine month periods ended September 30, 2015, respectively.

In both the three and nine month periods ended September 30, 2014, there were 65,000 shares from the assumed exercise of stock options and the vesting of restricted stock units and performance stock awards using the treasury stock method that were excluded from the calculation of diluted earnings per share because to include these shares

would have had an antidilutive effect.

11. Accumulated Other Comprehensive Loss

The following tables summarize changes in the components of accumulated other comprehensive loss during the nine months ended September 30, 2015 and September 30, 2014 (in thousands). All amounts are net of tax:

	Defined Benefit	Gains (Losses) on	Total
	Pension Items	Cash Flow	
		Hedges	
Balance, December 31, 2013	\$(1,275)	\$ 14	\$(1,261)
Other comprehensive income (loss) before reclassifications	107	1	108
Amounts reclassified from accumulated other comprehensive income (loss)	84	(1)	83
Net current period other comprehensive income (loss)	191	-	191
Balance, September 30, 2014	\$(1,084)	\$ 14	\$(1,070)

	Defined Benefit Pension Items	Gains (Losses) on Cash Flow Hedges	Total
Balance, December 31, 2014	\$(1,862)	\$ 29	\$(1,833)
Other comprehensive income (loss) before reclassifications	167	76	243
Amounts reclassified from accumulated other comprehensive income (loss)	160	(92)	68
Net current period other comprehensive income (loss)	327	(16)	311
Balance, September 30, 2015	\$(1,535)	\$ 13	\$(1,522)

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 nine months ended September 30, 2015 and 2014 (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Nine Months Ended September 30, 2015 2014	Amount reclassified from Accumulated Other Comprehensive Income (Loss)	Affected line item in the Condensed Consolidated Statement of Operations
Pension liability adjustment			
Net periodic pension cost	\$ (255)	\$ (130)	Cost of sales
Associated tax benefit	95	46	Income tax expense (benefit)
	(160)	(84)	Net of tax
Deferred gain on cash flow derivatives			
Gain on cash flow derivatives	148	4	Net sales
Hedge ineffectiveness	(1)	(2)	Net sales
Associated tax expense	(55)	(1)	Income tax expense (benefit)
	92	1	Net of tax
Total reclassifications for the period	\$ (68)	\$ (83)	

12. Recent Accounting and Reporting Developments

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, 2018, including interim periods in 2018, and allows for both retrospective and prospective methods of adoption. The effective dates listed above reflect the FASB’s final decision made in July 2015 to delay implementation of the ASU by one year. The Company is still evaluating the effect this standard will have on the Company’s financial position, results of operations or cash flows from adoption of this guidance.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern.” This Update 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 position, results of operations or cash flows from the adoption of this guidance.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis." The changes in this Update revise consolidation analysis and affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. The changes become effective for the Company on January 1, 2016. The Company has determined that these changes will not have a material impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This update 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 related to term debt will be netted against the Company's term debt included in long-term liabilities. Debt issuance costs related to the Company's revolving line of credit will continue to be classified as a deferred charge and amortized over the term of the revolving line of credit arrangement. The Company currently does not have any term debt. 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 position, results of operations or cash flows from adoption of this guidance.

In April 2015, the FASB issued ASU 2015-04, "Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets." For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. It also provides a similar practical expedient for significant events that happens in an interim period that would otherwise require a re-measurement. The amendments in this update permits using the month-end that is closest to the date of the significant event. The ASU will be effective for the Company beginning January 1, 2016. The Company does not expect a material impact to the Company's financial position, results of operations or cash flows from adoption of this guidance.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU will be effective for the Company beginning January 1, 2016. The Company does not expect a material impact to the Company's financial position, results of operations or cash flows from adoption of this guidance.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." As a result of this Update, companies will be required to measure inventory at the lower of cost and net realizable value. This is a change from the prior requirement to value inventory at the lower of cost or market. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Inventory valued using the LIFO or retail inventory method is exempt from this Update. The ASU will be effective for the Company beginning January 1, 2017. The Company is in the process of evaluating the Update to determine its expected future effect on the Company's financial position, results of operations or cash flows from adoption of this guidance.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." This update eliminates the requirement to restate prior period financial statements for measurement period adjustments in a business combination. The new guidance requires that the cumulative impact of a measurement adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The ASU will be effective for the Company beginning January 1, 2016. The Company does not expect a material impact to the Company's financial position, results of operations or cash flows from adoption of this guidance.

13. Restructuring

In April 2015, the Company initiated a production curtailment at its Atchison, Kansas facility within the Tubular Products Group. Severance related restructuring costs associated with the production curtailment were approximately \$0.5 million. The entire amount was incurred and paid during the second quarter of 2015, and is included in Cost of sales for that period.

14. Goodwill

At December 31, 2014, the Company's Goodwill of \$5.3 million related entirely to its Water Transmission Group reporting unit. GAAP requires that goodwill of a reporting unit shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Due to Water Transmission market conditions, the Company determined that its Water Transmission Group goodwill may have been impaired at June 30, 2015, and completed the first step of the two-step quantitative goodwill impairment test. In the first step, business enterprise value of the reporting unit was calculated by using a combination of income and market approaches, and compared to the carrying value. As the carrying value of the Water Transmission Group reporting unit exceeded the calculated enterprise value, the Company determined it was appropriate to proceed to the second step of the quantitative impairment test.

As a result of the analysis performed at that date, the Company's best estimate of the ultimate result of the second step of the goodwill quantitative impairment test was that all of the Water Transmission Group goodwill was impaired. Therefore, the Water Transmission Group goodwill was completely written off as of June 30, 2015. There was no adjustment to that estimate upon completion of the measurement of the impairment loss in the three month period ending September 30, 2015.

15. Related Party Transaction

In the second quarter of 2015, the Company engaged Raymond James & Associates, an affiliate of Eagle Asset Management, to provide investment banking services related to a possible disposition of the Company's Tubular Products business. Eagle Asset Management was a substantial stockholder of the Company (owning more than 10 percent of the Company's common stock) until September 30, 2015, when Eagle Asset Management reported that it then owned less than 5 percent of the Company's common stock.

Approximately \$17,000 of reimbursable expenses was incurred by Raymond James during the nine month period ended September 30, 2015, of which \$12,000 was paid by September 30, 2015. Professional fees payable to Raymond James will be contingent upon completion of a future transaction, which may or may not occur.

16. Subsequent Event

On October 26, 2015, the Company entered into a Loan and Security Agreement (the "Agreement") with Bank of America, N.A. The Agreement provides for revolving loans and letters of credit in the aggregate amount of up to \$60 million, subject to a borrowing base. The borrowing base is calculated by applying various advance rates to eligible accounts receivable, costs and expected earnings in excess of billings, inventories, and fixed assets, subject to various exclusions, adjustments, and sublimits.

Borrowings under the Agreement will bear interest at rates related to LIBOR plus 1.75% to 2.25%, or at Bank of America's prime rate plus 0.75% to 1.25%. The Agreement will expire on October 25, 2018. Borrowings under the

Agreement are secured by substantially all of the Company's assets.

As of October 26, 2015, the Company had no outstanding borrowings under the Agreement, but did have two outstanding letters of credit issued under the Agreement, in the aggregate amount of \$2.1 million. A copy of the 2015 Credit Agreement was filed as an exhibit to the Form 8-K the Company filed on October 29, 2015.

In conjunction with entering into the Loan and Security Agreement, the Company terminated the Second Amended and Restated Credit Agreement dated as of October 24, 2012. The Company expects to incur incremental interest expense of approximately \$0.4 million during the fourth quarter of 2015 related to the write-off of unamortized financing costs associated with the terminated agreement.

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 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, price and volume of imported product, 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 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 70% of net sales from continuing operations in the first nine months 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. The price of steel also affects Water Transmission product pricing. 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, the market share volume of imported product 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 have continued to sell and ship finished products and have performed limited manufacturing as needed to fulfill customer orders. In July 2015, we announced that we are in the process of exploring the sale of the Tubular Products Group in order to focus the Company’s efforts on the Water Transmission business. Our Tubular Products Group generated approximately 30% of net sales from continuing operations in the first nine months 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, as well as import levels 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.

Valuation of Goodwill

See Note 14 of the condensed consolidated financial statements in Part I—Item I, “Financial Statements” for discussion of the impairment of Water Transmission Group goodwill as of June 30, 2015.

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.

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 September 30, 2015		Three months ended September 30, 2014		
	\$ (in thousands)	% of Net Sales	\$ (in thousands)	% of Net Sales	
Net sales					
Water Transmission	\$ 39,792	76.0	% \$ 76,857	66.0	%
Tubular Products	12,543	24.0	39,648	34.0	
Total net sales	52,335	100.0	116,505	100.0	
Cost of sales	54,846	104.8	100,685	86.4	
Gross profit (loss)	(2,511)	(4.8)	15,820	13.6	
Selling, general and administrative expense	4,773	9.1	6,489	5.6	
Operating income (loss)	(7,284)	(13.9)	9,331	8.0	
Other income	24	-	39	-	
Interest income	10	-	220	0.2	
Interest expense	(195)	(0.3)	(457)	(0.4)	
Income (loss) before income taxes	(7,445)	(14.2)	9,133	7.8	
Income tax expense (benefit)	(5,930)	(11.3)	3,275	2.8	

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Income (loss) from continuing operations	\$ (1,515)	(2.9)%	\$5,858	5.0	%
Gross profit (loss) as a percentage of segment net sales:					
Water Transmission		(1.8)%		21.5	%
Tubular Products		(14.2)		(1.9)

	Nine months ended September 30, 2015		Nine months ended September 30, 2014		
	\$ (in thousands)	% of Net Sales	\$ (in thousands)	% of Net Sales	
Net sales					
Water Transmission	\$ 134,479	70.4	% \$ 182,061	60.5	%
Tubular Products	56,567	29.6	119,079	39.5	
Total net sales	191,046	100.0	301,140	100.0	
Cost of sales	192,259	100.6	269,689	89.6	
Gross profit	(1,213)	(0.6)	31,451	10.4	
Selling, general and administrative expense	17,199	9.0	17,847	5.9	
Impairment of Water Transmission goodwill	5,282	2.8	-	-	
Operating income (loss)	(23,694)	(12.4)	13,604	4.5	
Other income (expense)	82	-	2	-	
Interest income	173	0.1	383	0.1	
Interest expense	(898)	(0.4)	(1,796)	(0.6))
Income (loss) before income taxes	(24,337)	(12.7)	12,193	4.0	
Income tax expense (benefit)	(8,642)	(4.5)	4,364	1.4	
Income (loss) from continuing operations	\$(15,695)	(8.2)%	\$7,829	2.6	%
Gross profit (loss) as a percentage of segment net sales:					
Water Transmission		6.0	%	16.3	%
Tubular Products		(16.4))	1.5	

Three Months and Nine Months Ended September 30, 2015 Compared to Three Months and Nine Months Ended September 30, 2014

Net sales. Net sales from continuing operations decreased 55.1% to \$52.3 million for the third quarter of 2015 compared to \$116.5 million for the third quarter of 2014 and decreased 36.6% to \$191.0 million for the first nine months of 2015 compared to \$301.1 million for the first nine months of 2014. Two customers in the Water Transmission segment accounted for 24.1% and 15.0%, respectively, of total net sales from continuing operations in the third quarter of 2015. One of the same customers in the Water Transmission segment had 10.3% of total net sales from continuing operations in the first nine months of 2015. One customer in the Water Transmission segment accounted for 27.1% of total net sales from continuing operations in the third quarter of 2014. The same customer in the Water Transmission segment accounted for 18.4% of total net sales from continuing operations in the first nine months of 2014.

Water Transmission sales from continuing operations decreased 48.2% to \$39.8 million for the third quarter of 2015 compared to \$76.9 million for the third quarter of 2014 and decreased 26.1% to \$134.5 million for the first nine months of 2015 compared to \$182.1 million for the first nine months of 2014. The decrease in sales in the third quarter of 2015 compared to the third quarter of 2014 was due to a 35% decrease in tons produced and a 21% decrease in selling price per ton. The decrease in tons produced was due to reduced demand and project timing. The decrease in

selling prices per ton in the third quarter of 2015 was due to a 19% decrease in steel costs per ton. Lower material costs generally lead to lower contract values and, therefore, lower net sales as contractors and municipalities are aware of the input costs and market conditions. The decrease in sales in the first nine months of 2015 compared to the first nine months of 2014 was due to a 24% decrease in tons produced and a 3% decrease in average selling price per ton. The decrease in tons produced was due to reduced demand and project timing. The decrease in selling prices per ton in the first nine months of 2015 was due to a 15% decrease in steel costs per ton. This was partially offset by a change in product mix, which included more downstream fabrication work. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales volumes.

Tubular Products sales from continuing operations decreased 68.4% to \$12.5 million in the third quarter of 2015 compared to \$39.6 million in the third quarter of 2014. The sales decrease in the third quarter of 2015 compared to the third quarter of 2014 was due to a 57% decrease in tons sold and a 27% decrease in selling price per ton. We sold 17,200 tons in the third quarter of 2015 compared to 39,700 tons in the third quarter of 2014. The decrease in tons sold was primarily due to decreased demand for line pipe as a result of the worldwide downturn in crude oil prices and large volumes of imported pipe. Energy pipe sales volume decreased 69% from 27,600 tons in the third quarter of 2014 to 8,600 tons in the third quarter of 2015. The decrease in selling price was due to a change in product mix. Tubular Products sales from continuing operations decreased 52.5% to \$56.6 million in the first nine months of 2015 compared to \$119.1 million in the first nine months of 2014. The sales decrease in the first nine months of 2015 compared to the first nine months of 2014 was due to a 47% decrease in tons sold from 119,600 tons to 63,200 tons and a 10% decrease in selling price per ton. The decrease in tons sold in the first nine months of 2015 was due to the decreased demand for line pipe due to lower oil prices in the first nine months of 2015 compared to the comparable period in 2014. The decrease in selling price per ton was due to a change in product mix and a decrease in steel costs per ton. We are experiencing continued pricing pressures from imported pipe in 2015. Energy pipe sales volume decreased 59% from 90,400 tons in the first nine months of 2014 to 37,200 tons in the first nine months of 2015.

Gross profit. Gross profit decreased 115.9% to a \$2.5 million gross loss (negative 4.8% of total net sales from continuing operations) in the third quarter of 2015 compared to \$15.8 million gross profit (13.6% of total net sales from continuing operations) in the third quarter of 2014 and decreased 103.9% to a \$1.2 million gross loss (negative 0.6% of total net sales from continuing operations) in the first nine months of 2015 compared to \$31.5 million (10.4% of total net sales from continuing operations) in the first nine months of 2014.

Water Transmission gross profit decreased \$17.3 million, or 104.4%, to a \$0.7 million gross loss (negative 1.8% of segment net sales from continuing operations) for the third quarter of 2015 compared to \$16.6 million (21.5% of segment net sales from continuing operations) for the third quarter of 2014 and decreased \$21.7 million, or 72.9%, to \$8.0 million (6.0% of segment net sales from continuing operations) in the first nine months of 2015 compared to \$29.7 million (16.3% of segment net sales from continuing operations) in the first nine months of 2014. The decrease in gross profit as a percent of net sales in the third quarter and first nine months of 2015 compared to the third quarter and first nine months of 2014 was due to the mix of projects produced. We have experienced significant competition on recent project bids, which has also contributed to decreased gross profit. Another significant factor in the decrease in gross profit for the third quarter of 2015 was the decreased volume described above, which had a negative effect on the fixed portion of our cost of goods sold as a percent of sales. In addition, we had \$0.4 million in higher conversion costs related to steel quality issues in the third quarter of 2015. We do not know if we will be able to recover these costs. Also, rapidly decreasing coil costs caused us to take \$1.1 million and \$1.6 million of lower of cost or market inventory adjustments in the three and nine months ended September 30, 2015, respectively.

Gross profit from Tubular Products decreased \$1.1 million, to a \$1.8 million gross loss (negative 14.2% of segment net sales from continuing operations) in the third quarter of 2015 compared to a \$0.7 million gross loss (negative 1.9% of segment net sales from continuing operations) in the third quarter of 2014 and decreased \$11.0 million to a \$9.3 million gross loss (negative 16.4% of segment net sales from continuing operations) in the first nine months of 2015 compared to \$1.7 million gross profit (1.5% of segment net sales from continuing operations) in the first nine months of 2014. Gross profit in the quarter and nine months ended September 30, 2015 was negatively impacted by lower volume due to the lower demand and high levels of imported pipe discussed above. The decrease in gross profit and gross profit as a percent of net sales from continuing operations in the first nine months of 2015 was partially offset by a 15% decrease in steel coil cost per ton. Also contributing to the gross loss in the first nine months of 2015 was \$0.5 million in severance expense due to the production curtailment.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased 26.4% to \$4.8 million (9.1% of total net sales from continuing operations) for the third quarter of 2015 compared to \$6.5 million (5.6% of total net sales from continuing operations) for the third quarter of 2014 and decreased \$0.6 million, or 3.6%, to \$17.2 million (9.0% of net sales from continuing operations) in the first nine months of 2015 compared to \$17.8 million (5.9% of net sales from continuing operations) in the first nine months of 2014. The decrease for the third quarter of 2015 compared to the third quarter of 2014 was primarily due to \$0.8 million in lower stock incentive plan expense, a \$0.4 million reduction in wages and benefits due to lower headcount and a \$0.3 million decrease in travel and entertainment expense. The decrease for the first nine months of 2015 compared to the first nine months of 2014 was due primarily to \$0.8 million in lower stock incentive plan expense and a \$0.4 million decrease in travel and entertainment expense, partially offset by increased professional fees related to our financial statement audit and other professional services.

Impairment of Water Transmission goodwill. Due to Water Transmission market conditions, we determined that our Water Transmission Group goodwill may have been impaired at June 30, 2015, and completed the first step of the two-step quantitative goodwill impairment test. In the first step, business enterprise value of the reporting unit was calculated by using a combination of income and market approaches, and compared to the carrying value. As the carrying value of the Water Transmission Group reporting unit exceeded the calculated enterprise value, we determined it was appropriate to proceed to the second step of the quantitative impairment test. An external consultant was retained to assist us with this process.

As a result of the analysis performed through June 30, 2015, our best estimate of the ultimate result of the second step of the goodwill quantitative impairment test was that all of the Water Transmission Group goodwill would be impaired. Therefore, the Water Transmission Group goodwill of \$5.3 million was completely written off as of June 30, 2015. There was no adjustment to that estimate upon completion of the measurement of the impairment loss in the three month period ending September 30, 2015.

Interest expense. Interest expense from continuing operations was \$0.2 million for the third quarter of 2015 compared to \$0.5 million for the third quarter of 2014 and decreased to \$0.9 million for the first nine months of 2015 compared to \$1.8 million for the first nine months of 2014. The decrease in interest expense primarily was a result of lower average borrowings and lower capital lease balances during the third quarter and first nine months of 2015 compared to the third quarter and first nine months of 2014.

Income taxes. The tax benefit from continuing operations was \$5.9 million in the third quarter of 2015 (an effective tax benefit rate of 79.7%) compared to tax expense from continuing operations of \$3.3 million in the third quarter of 2014 (an effective tax rate of 35.9%) and tax benefit of \$8.6 million in the first nine months of 2015 (an effective tax benefit rate of 35.5%) compared to tax expense of \$4.4 million in the first nine months of 2014 (an effective tax rate of 35.8%).

The Company completed a research and development (R&D) tax credit study for 2014 in the third quarter of 2015, resulting in a significantly higher credit than previously estimated; therefore, a discrete benefit of \$2.5 million was recorded, which affected the Company's effective tax benefit rate in the third quarter of 2015. In the first nine months of 2015, after considering the guidance for accounting for income taxes, and weighing the positive and negative evidence including our recent history of cumulative losses, we recorded a \$1.9 million valuation allowance on a portion of our deferred tax assets, primarily related to state net operating loss carry forwards and state credits.

The effective tax rate for the nine months ended September 30, 2015 includes the impact of the recognition of R&D tax credits (which increased the effective benefit rate) as well as the non-deductibility of expense related to the impairment of goodwill and the valuation allowance recorded (both of which decreased the effective benefit rate). 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 September 30, 2015, our working capital (current assets minus current liabilities) was \$111.6 million compared to \$165.7 million as of December 31, 2014. The primary reasons for the decrease in working capital were decreases in trade and other receivables, inventories and costs and estimated earnings in excess of billings on uncompleted contracts due to lower sales, billings and production in 2015 compared to 2014. In addition, our Tubular Products inventories have decreased following the production curtailment at the Atchison plant which began in April 2015. Net

cash provided by operating activities in the first nine months of 2015 was \$37.8 million. Cash from operating activities was primarily the result of fluctuations in working capital accounts that included a decrease in trade receivables and inventories.

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 provided by investing activities in the first nine months of 2015 was \$3.9 million. Capital expenditures of \$7.7 million during the first nine months of 2015 were primarily standard capital replacement and are expected to be approximately \$9.0 million for 2015. Offsetting the cash used for additions to property plant and equipment was \$4.3 million provided by an escrow that was released to the Company in April 2015 related to the March 2014 disposition of the OCTG business and \$7.2 million collected on a note receivable.

Net cash used by financing activities in the first nine months of 2015 was \$41.6 million, primarily from net repayments of borrowings on our line of credit of \$39.0 million that were 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.

Borrowings on Line of Credit

At September 30, 2015, our debt consisted primarily of \$6.6 million in borrowings pursuant to our Amended and Restated Credit Agreement dated October 24, 2012 (the "2012 Credit Agreement"). As disclosed in our Form 8-K filed on October 13, 2015, we were not in compliance with two financial covenants for the fiscal quarter ended September 30, 2015, and entered into a Temporary Waiver Agreement with our lenders.

On October 26, 2015, the Company entered into a Loan and Security Agreement (the "Agreement") with Bank of America, N.A. The Agreement provides for revolving loans and letters of credit in the aggregate amount of up to \$60 million, subject to a borrowing base. The borrowing base is calculated by applying various advance rates to eligible accounts receivable, costs and expected earnings in excess of billings, inventories, and fixed assets, subject to various exclusions, adjustments, and sublimits.

Borrowings under the Agreement will bear interest at rates related to LIBOR plus 1.75% to 2.25%, or at Bank of America's prime rate plus 0.75% to 1.25%. The Agreement will expire on October 25, 2018. Borrowings under the Agreement are secured by substantially all of the Company's assets. On October 26, 2015, there were no outstanding borrowings under the 2012 Credit Agreement, and we had a borrowing capacity of \$39.1 million, net of outstanding letters of credit, under the Agreement.

In conjunction with entering into the Loan and Security Agreement, the Company terminated the Second Amended and Restated Credit Agreement dated as of October 24, 2012. The Company expects to incur incremental interest expense of approximately \$0.4 million during the fourth quarter of 2015 related to the write-off of unamortized financing costs associated with the terminated agreement.

Capital Leases

We had a total of \$0.3 million in capital lease obligations outstanding at September 30, 2015. The weighted average interest rate on all of our capital leases is 7.22%. Our capital leases are for mobile equipment used at our manufacturing facilities.

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.

In connection with the preparation of this Quarterly Report on Form 10-Q for the period ended September 30, 2015, 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, 2015. As a result of the assessment, our CEO and CFO have concluded that, as of September 30, 2015, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

In the quarter ended September 30, 2015, we completed our review of the processes and controls related to the impairment assessment of goodwill. We expanded and enhanced our documentation, and designed, documented and implemented additional control procedures related to the review of the assumptions, data inputs and results of the goodwill impairment analysis. We have also designed and implemented enhanced review controls addressing 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. These changes remediated our previously identified material weakness in our impairment assessment of goodwill and have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the

Exchange Act).

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.

Item 6. Exhibits

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

Exhibit Number	Description
10.1	Temporary Waiver Agreement (incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on October 13, 2015)
10.2	Loan and Security Agreement (incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on October 29, 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

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 5, 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, Chief Financial
Officer and Corporate Secretary
(Principal Financial Officer)