

NORTHWEST PIPE CO
Form 10-Q/A
April 27, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q/A

x Amendment No. 1

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

For the quarterly period ended: March 31, 2011

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

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(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)

9,371,111
(Shares outstanding at April 23, 2012)

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EXPLANATORY NOTE

In this Quarterly Report Amendment No. 1 on Form 10-Q/A for the quarter ended March 31, 2011 (the "March 2011 Form 10-Q/A"), Northwest Pipe Company (the "Company") is restating its previously reported unaudited condensed consolidated financial statements as of March 31, 2011, and for the three months ended March 31, 2011 and March 31, 2010 as filed with the Securities and Exchange Commission (the "SEC") on May 10, 2011 (the "Original Filing") in Part I Item 1, "Financial Statements" to correct material errors identified in such previously issued financial statements. In this filing, the Company is also updating Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" to reflect the effects of the restatement as it relates to March 31, 2011, and the three months ended March 31, 2011 and March 31, 2010. Except as required to reflect the effects of the restatement, no additional modifications or updates to the consolidated financial statements or data in this Form 10-Q/A have been made to the consolidated financial statements or data for the three months ended March 31, 2011 or March 31, 2010 as filed in the Original Filing.

For further detail on the financial statement impacts and the adjustments made as a result of the restatement, see Note 13 of the Condensed Consolidated Financial Statements in Part I Item 1, "Financial Statements."

Concurrent with the filing of this March 2011 Form 10-Q/A, the Company is filing its Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K"), which contains restated financial statements as of and for the years ended December 31, 2010 and December 31, 2009. The December 31, 2010 condensed consolidated balance sheet included in this March 2011 Form 10-Q/A reflects the restated information included in our 2011 Form 10-K. The Company is also concurrently filing its amended Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2011 and its Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, which include the restatement of financial statements as of and for the three and six months ended June 30, 2011 and 2010 and as of and for the three and nine months ended September 30, 2010, respectively.

Ineffectiveness of Internal Control over Financial Reporting and Disclosure Controls and Procedures

The Company has determined that certain material weaknesses in its internal controls continued to exist as of March 31, 2011. For a description of the material weaknesses in its internal control over financial reporting and its plan to remediate those material weaknesses, see Part I Item 4, "Controls and Procedures" of this report. In addition, as a result of the existence of material weaknesses in our internal controls, we have also concluded that our disclosure controls and procedures were not effective as of March 31, 2011.

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NORTHWEST PIPE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	March 31, 2011 As Restated	December 31, 2010 As Restated
Assets		
Current assets:		
Cash and cash equivalents	\$ 77	\$ 51
Trade and other receivables, less allowance for doubtful accounts of \$1,784 and \$2,151	71,438	66,474
Costs and estimated earnings in excess of billings on uncompleted contracts	54,439	45,533
Inventories	93,601	80,887
Refundable income taxes	11,182	15,099
Deferred income taxes	5,402	6,293
Prepaid expenses and other	1,994	2,163
 Total current assets	 238,133	 216,500
Property and equipment, net	155,867	154,274
Goodwill	21,451	21,451
Other assets	22,423	22,658
 Total assets	 \$ 437,874	 \$ 414,883
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 5,714	\$ 5,714
Current portion of capital lease obligations	3,324	3,257
Accounts payable	40,332	28,463
Accrued liabilities	12,553	11,448
Billings in excess of costs and estimated earnings on uncompleted contracts	15,303	14,808
 Total current liabilities	 77,226	 63,690
Note payable to financial institution	77,454	68,000
Long-term debt, less current portion	15,000	17,786
Capital lease obligations, less current portion	14,847	15,705
Deferred income taxes	15,022	14,582
Pension and other long-term liabilities	8,834	8,828
 Total liabilities	 208,383	 188,591
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 15,000,000 shares authorized, 9,307,422 and 9,298,156 shares issued and outstanding	93	93
Additional paid-in-capital	107,782	107,578
Retained earnings	123,409	120,477
Accumulated other comprehensive loss	(1,793)	(1,856)

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Total stockholders' equity	229,491	226,292
Total liabilities and stockholders' equity	\$ 437,874	\$ 414,883

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)

	Three Months Ended March 31,	
	2011	2010
	As Restated	As Restated
Net sales	\$ 111,458	\$ 80,382
Cost of sales	96,690	72,193
Gross profit	14,768	8,189
Selling, general and administrative expense	7,289	6,911
Operating income	7,479	1,278
Other expense (income)	113	(655)
Interest income		(214)
Interest expense	2,618	1,570
Income before income taxes	4,748	577
Provision for income taxes	1,816	89
Net income	\$ 2,932	\$ 488
Basic earnings per share	\$ 0.32	\$ 0.05
Diluted earnings per share	\$ 0.31	\$ 0.05
Shares used in per share calculations:		
Basic	9,304	9,249
Diluted	9,344	9,342

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

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(Unaudited)

(In thousands)

	Three months ended March 31,	
	2011	2010
	As Restated	As Restated
Cash Flows From Operating Activities:		
Net income	\$ 2,932	\$ 488
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,191	3,288
Amortization of intangible assets	30	63
Provision for doubtful accounts	(365)	(391)
Equity in earnings of unconsolidated subsidiary, net of dividends received	113	(694)
Amortization of debt issuance costs	510	225
Deferred income taxes	1,331	(726)
Loss on disposal of property and equipment	16	7
Stock based compensation expense	218	493
Tax benefit from stock option plans		(122)
Unrealized loss on foreign currency forward contracts	386	(51)
Changes in operating assets and liabilities:		
Trade and other receivables, net	(4,599)	(11,415)
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(8,411)	(8,280)
Inventories	(13,157)	(5,791)
Refundable income taxes	3,917	995
Prepaid expenses and other assets	193	550
Accounts payable	10,553	4,603
Accrued and other liabilities	787	1,179
Net cash used in operating activities	(2,355)	(15,579)
Cash Flows From Investing Activities:		
Additions to property and equipment	(3,555)	(6,067)
Proceeds from the sale of property and equipment	71	19
Other investing activities		(252)
Net cash used in investing activities	(3,484)	(6,300)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock	36	
Tax withholdings related to net share settlements of restricted stock awards and performance shares	(50)	(83)
Payments on long-term debt	(2,786)	(2,786)
Borrowings under note payable to financial institution	49,267	56,714
Payments on note payable to financial institution	(39,813)	(31,545)
Borrowings from capital lease obligations		1,561
Payments on capital lease obligations	(789)	(607)
Payments of debt amendment costs		(1,388)
Net cash provided by financing activities	5,865	21,866

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Change in cash and cash equivalents	26	(13)
Cash and cash equivalents, beginning of period	51	31
Cash and cash equivalents, end of period	\$ 77	\$ 18
Non-cash investing activity:		
Escrow account related to capital lease financing	\$ 2,726	\$ 4,030
Accrued property and equipment purchases	2,284	1,287

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

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

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company is filing this March 2011 Form 10-Q/A concurrently with the filing of its amended Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2011, its Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, and with the Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K). The financial information as of December 31, 2010 is derived from the audited consolidated financial statements presented in the Northwest Pipe Company (the Company) 2011 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. 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 2011 Form 10-K.

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

Northwest Pipe Asia Pte. Ltd. (NWPA), in which the Company exercises significant influence but does not control, is accounted for under the equity method of accounting. During the first three months of 2011, the Company recorded purchases of property and equipment from NWPA of \$0.2 million, net of eliminations. At March 31, 2011, intercompany balances with NWPA included a receivable of \$16,000. See Note 12 of the Condensed Consolidated Financial Statements for discussion of subsequent events related to NWPA.

Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2011.

2. Inventories

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

	March 31, 2011	December 31, 2010
	(in thousands)	
Short-term inventories:		
Raw materials	\$ 70,662	\$ 58,610
Work-in-process	2,382	2,521
Finished goods	18,258	17,566
Supplies	2,299	2,190
	93,601	80,887
Long-term inventories:		
Finished goods	2,997	2,554
Total inventories	\$ 96,598	\$ 83,441

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Long-term inventories are recorded in other assets. The lower of cost or market adjustment was \$4.0 million at March 31, 2011 and \$4.5 million at December 31, 2010.

3. Fair Value Measurements

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

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

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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):

	Balance at March 31, 2011	Level 1	Level 2	Level 3
Description				
Financial Assets				
Escrow account	\$ 2,726	\$ 2,726	\$	\$
Deferred compensation plan assets	4,584	4,584		
Total Assets	\$ 7,310	\$ 7,310	\$	\$
Financial Liabilities				
Derivatives	\$ (1,011)	\$	\$ (1,011)	\$

	Balance at December 31, 2010	Level 1	Level 2	Level 3
Description				
Financial Assets				
Escrow account	\$ 2,726	\$ 2,726	\$	\$
Deferred compensation plan assets	4,560	4,560		
Total Assets	\$ 7,286	\$ 7,286	\$	\$
Financial Liabilities				
Derivatives	\$ (622)	\$	\$ (622)	\$

The escrow account, consisting of a money market mutual fund, is valued using quoted market prices in active markets classified as Level 1 within the fair value hierarchy. The deferred compensation plan assets consists 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. The Company's derivatives consist of foreign currency 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, and are 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 net carrying amounts of cash and cash equivalents, trade and other receivables, refundable income taxes, accounts payable, accrued liabilities and note payable to financial institution approximate fair value due to the short-term nature of these instruments. Similarly, the Company believes the carrying value of its long-term debt also approximates fair value in that the interest rates and scheduled maturities applicable of the outstanding borrowings approximate interest rates and terms available for the same or similar loans.

4. Derivative Instruments and Hedging Activities

The Company conducts business in various foreign countries, and, from time to time, settles transactions in foreign currencies. The Company has established a program that utilizes foreign currency forward contracts to offset the risk associated with the effects of certain foreign currency exposures, typically arising from sales contracts denominated in Canadian currency. These derivative contracts are consistent with the Company's strategy for financial risk management. The Company uses cash flow hedge accounting treatment for qualifying foreign currency forward contracts. The Company initially reports any gain or loss on the effective portion of a cash flow hedge as a component of other comprehensive income and subsequently reclassifies any gain or loss to net sales when the hedged revenues are recorded. Instruments that do not qualify for cash flow hedge accounting treatment are re-measured at fair value on each balance sheet date and resulting gains and losses are recognized in net income. As of March 31, 2011 and December 31, 2010, the total notional amount of the derivative contracts not designated as hedges was \$1.0 million (CAD\$1.0 million) and \$1.3 million (CAD\$1.3 million), respectively. As of March 31, 2011 and December 31, 2010,

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the total notional amount of the derivative contracts designated as hedges was \$16.3 million (CAD\$15.8 million) and \$15.1 million (CAD\$15.0 million), respectively.

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

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Though most Canadian forward contracts have maturities not longer than 12 months at March 31, 2011, two of the Company's contracts at that date with a total notional value of \$3.6 million (CAD\$3.4 million) have maturities greater than 12 months, with the greatest maturity being 18 months.

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

	March 31, 2011	December 31, 2010
(in thousands)		
Foreign Currency Forward Contracts		
Liabilities		
Derivatives designated as hedging instruments		
Accrued liabilities	\$ 320	\$ 317
Derivatives not designated as hedging instruments		
Accrued liabilities	691	305
Total liabilities	\$ 1,011	\$ 622

The amounts of the gains and losses related to the Company's derivative contracts designated as hedging instruments for the three months ended March 31, 2011 and March 31, 2010 are (in thousands):

	March 31, 2011				
	Pretax Loss Recognized in Comprehensive Income on Effective Portion of Derivative Amount	Pretax Loss Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Loss on Ineffective Portion of Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
Derivatives in Cash Flow Hedging Relationships		Location	Amount	Location	Amount
Foreign currency forward contracts	\$ (253)	Net sales	\$ (248)	Net sales	\$ (25)

	March 31, 2010					
	Pretax Loss Recognized in Comprehensive Income on Effective Portion of Derivative Amount	Pretax Loss Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Gain on Ineffective Portion of Derivative and Amount Excluded from Effectiveness Testing Recognized in Income		
Derivatives in Cash Flow Hedging Relationships		Location	Amount	Location	Amount	
Foreign currency forward contracts	\$ (134)	Net sales	\$ (104)	Net sales	\$ 20	

At March 31, 2011, the effective portion of our cash flow hedges was a pretax loss of \$287,000, all of which is expected to be reclassified from comprehensive income to net sales within the next 12 months.

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For the three months ended March 31, 2011, losses from our derivative contracts not designated as hedging instruments recognized in net sales were \$0.2 million. For the three months ended March 31, 2010, losses from our derivative contracts not designated as hedging instruments recognized in net sales were \$0.4 million.

5. Commitments and Contingencies

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

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

The *Richard* action and the *Plumbers* action were consolidated on February 25, 2010. Plumbers and Pipefitters Local No. 630 Pension-Annuity Trust Fund was appointed lead plaintiff in the consolidated action. Defendants and lead plaintiff subsequently agreed that defendants did not need to respond immediately to either of the two outstanding complaints, and that a consolidated amended complaint would be filed within 45 days of us having completed the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 and our 2009 Form 10-K with the SEC. A consolidated amended complaint was filed by the plaintiff on December 21, 2010, and our motion to dismiss was filed on February 25, 2011, as were similar motions filed by the individual defendants. Under the scheduling order currently in effect, briefing on those motions will conclude by May 24, 2011. We intend to vigorously defend ourselves against these claims. This securities litigation is at an early stage and, at this time, it is not possible to predict its outcome. Therefore, we have not accrued any charges related to this litigation.

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

Neither the Company nor the defendants are required to respond to the current complaint. Pursuant to an agreement among the parties, the Court on February 15, 2011, entered an Order staying the *Ruggles* action until after the same Court has ruled on the motions to dismiss the securities class action described above. Any amended complaint in the *Ruggles* action would be due within 45 days after such a ruling. It should also be noted that derivative claims by their nature do not seek to recover damages from us, but purport instead to seek to recover damages for the benefit of us. This litigation is at a very early stage and, at this time, it is not possible to predict its outcome. Therefore, we have not accrued any charges related to this litigation.

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

Environmental Litigation. On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor was included on the National Priorities List at the request of the U.S. Environmental Protection Agency (the "EPA"). While the Company's Portland, Oregon manufacturing facility does not border the Willamette River, an outfall from the facility's storm water system drains into a neighboring property's privately owned slip. The Company and approximately 140 other parties have been notified by the EPA and the Oregon Department of Environmental Quality (the "ODEQ") of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). As of March 2011, approximately 326 entities on and nearby the river have been asked to file information disclosure reports with the EPA. By agreement with the EPA, the ODEQ is responsible with overseeing remedial investigation and source control activities for all upland sites to prevent future contamination to the river. A remedial investigation and feasibility study of the Portland Harbor is currently being directed by a group of potentially responsible parties known as the Lower Willamette Group (the "LWG"). The Company made a payment of \$175,000 to the LWG in June 2007 as part of an interim settlement, and is under no obligation to make any further payment. A draft remedial investigation report was submitted to the EPA by the LWG in the fall of 2009; the final remediation investigation is expected to be complete in 2011. The feasibility study is underway, and a draft is expected to be completed by the LWG in 2011.

In 2001, groundwater containing elevated organic compounds ("VOCs") was identified in one localized area of the Company's property furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater is consistent with the initial conclusion that the source of the VOCs is located off of Company-owned property. In February 2005, the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures ("Agreement") with the ODEQ. The Company is one of 90 Upland Source Control Sites working with the ODEQ on Source Control and is ranked a medium priority. The Company performed Remedial Investigation work required under the

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Agreement and submitted a draft Remedial Investigation/Source Control Evaluation Report on December 30, 2005. The conclusions of the report indicated that the VOCs found in the groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River. The report also indicated there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments. In 2009, the ODEQ requested the Company to revise its Remedial Investigation/Source Control Evaluation Report to include recent information available related to nearby properties. ODEQ approved the Company's remediation plan in August 2010.

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Also, based on the remedial investigation and reporting required under the Portland, Oregon manufacturing facility's National Pollutant Discharge Elimination System permit for storm water, the Company and the ODEQ have identified small amounts of polynuclear aromatic compounds and polychlorinated biphenyls and have periodically identified trace amounts of zinc in storm water. Storm water from the Portland, Oregon manufacturing facility site is discharged to a neighboring property's privately owned slip, as is storm water from surrounding industrial properties. The slip was historically used for shipbuilding and subsequently for ship breaking and metal recycling. Studies of the river sediments have revealed concentration of polynuclear aromatic compounds, polychlorinated biphenyls and zinc, which are common constituents in urban storm water discharges. To minimize the zinc traces in its storm water, the Company painted a substantial part of the Portland facility's roofs and made certain paving improvements at the Portland facility. In June 2009, under the ODEQ Agreement, the Company submitted a Final Supplemental Work Plan to evaluate and assess soil and storm water, and further assess groundwater risk. The Company is working with the City of Portland and the ODEQ to facilitate further soil and storm water source control measures. Expected expenditures in 2011 are approximately \$1.9 million to address these issues.

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

The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessments. In 2009, one of the Tribal Trustees (the Yakima Nation) resigned and has requested funding from the same parties to support its own assessment. The Company has not assumed any payment obligation or liability related to either request. The extent of the Company's obligation with respect to Portland Harbor matters is not known, and no further adjustment to the consolidated financial statements has been recorded as of March 31, 2011.

We operate our facilities under numerous governmental permits and licenses relating to air emissions, storm water run-off, and other environmental matters. Our 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. We believe we are in material compliance with our permits and licenses and these laws and regulations, and we do not believe that future compliance with such laws and regulations will have a material adverse effect on our 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. 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 \$11.2 million at March 31, 2011. The stand-by letters of credit relate to workers' compensation insurance and equipment financing.

Table of Contents**6. Segment Information**

The Company's operations are organized in two reportable segments, the Water Transmission Group and the Tubular Products Group, which are based on the nature of the products and the manufacturing process. The Water Transmission Group manufactures large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems. These products are also used for hydroelectric power systems, wastewater systems and other applications. In addition, the Water Transmission Group makes products for industrial plant piping systems and certain structural applications. The Tubular Products Group manufactures and markets smaller diameter, electric resistance welded steel pipe used in a wide range of applications, including energy, construction, agricultural and traffic signpost systems. These two segments represent distinct business activities, which management evaluates based on segment gross profit and operating income. Transfers between segments in the periods presented were not material.

	Three months ended March 31,	
	2011	2010
	(in thousands)	
Net sales:		
Water Transmission	\$ 58,645	\$ 52,685
Tubular Products	52,813	27,697
Total	\$ 111,458	\$ 80,382
Gross profit:		
Water Transmission	\$ 9,894	\$ 6,174
Tubular Products	4,874	2,015
Total	\$ 14,768	\$ 8,189
Operating income (loss):		
Water Transmission	\$ 8,261	\$ 3,873
Tubular Products	3,849	1,445
Corporate	(4,631)	(4,040)
Total	\$ 7,479	\$ 1,278

7. Share-based Compensation

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

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

	Three months ended March 31,	
	2011	2010
	(in thousands)	
Cost of sales	\$ 5	\$ 27
Selling, general and administrative expenses	213	466
Total	\$ 218	\$ 493

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As of March 31, 2011, unrecognized compensation expense related to the unvested portion of the Company's restricted stock units and performance awards was \$321,000, which is expected to be recognized over a weighted average period of 1.2 years.

Table of Contents**Stock Option Awards**

A summary of the status of the Company's stock options as of March 31, 2011 and changes during the three 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, 2011	145,209	\$ 17.64		
Options granted				
Options exercised or exchanged	(2,215)	15.97		
Options canceled				
Balance, March 31, 2011	142,994	17.67	2.48	\$ 875
Exercisable, March 31, 2011	142,994	17.67	2.48	\$ 875

The total intrinsic value, defined as the difference between the current market value and the grant price, of options exercised or exchanged during the three months ended March 31, 2011 was \$17,000.

Restricted Stock Units and Performance Awards

A summary of the status of the Company's restricted stock units and performance awards as of March 31, 2011 and changes during the three months then ended is presented below:

	Number of Restricted Stock Units and Performance Awards	Weighted Average Grant Date Fair Value
Unvested restricted stock units and performance awards at January 1, 2011	55,843	\$ 37.00
Restricted stock units and performance awards granted	18,000	23.79
Restricted stock units and performance awards vested	(14,980)	37.66
Restricted stock units and performance awards canceled	(8,254)	37.97
Unvested restricted stock units and performance awards at March 31, 2011	50,609	31.95

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

8. Income Taxes

The Company files income tax returns in the United States Federal jurisdiction, in a limited number of foreign jurisdictions, and in many state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state or foreign income tax examinations for years before 2007.

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The Company had \$125,000 of unrecognized tax benefits at March 31, 2011 and December 31, 2010. The Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will change significantly in the following twelve months; however, actual results could differ from those currently expected.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company provided for income taxes at estimated effective tax rates of 38.3% and 15.4% for the three month periods ended March 31, 2011 and March 31, 2010, respectively.

Table of Contents**9. Comprehensive Income**

Comprehensive income is reconciled to net income and includes all changes in stockholders' equity for the three months ended March 31, 2011 and 2010 except those resulting from investment by and distribution to stockholders as follows:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Net income	\$ 2,932	\$ 488
Pension liability adjustment, net of tax	44	44
Unrealized gain (loss) on derivative financial instruments, net of tax	19	(30)
Total comprehensive income	\$ 2,995	\$ 502

10. Earnings per Share

Earnings per basic and diluted weighted average common share outstanding was calculated as follows for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Net income (in thousands)	\$ 2,932	\$ 488
Basic weighted-average common shares outstanding	9,304,481	9,249,240
Effect of potentially dilutive common shares ⁽¹⁾	39,339	92,772
Diluted weighted-average common shares outstanding	9,343,820	9,342,012
Earnings per common share:		
Earnings per basic common share	\$ 0.32	\$ 0.05
Earnings per diluted common share	\$ 0.31	\$ 0.05
Antidilutive shares not included in diluted common share calculation	45,600	13,117

- (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.

11. Recent Accounting and Reporting Developments

In December 2010, the FASB issued amendments that modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit 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. These amendments were effective January 1, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

12. Subsequent Events
Northwest Pipe Asia

On April 1, 2011, the Company sold its interest in NWPA for \$0.8 million. Under the terms of the sales agreement, \$0.3 million was due at signing, \$0.3 million is due on or before June 30, 2011 and \$0.2 million is due on or before August 18, 2011.

Commitments and Contingencies

On August 26, 2011 the Court denied all defendants motions to dismiss in the consolidated Richard action and the Plumbers action, and the Company filed its answer to the consolidated amended complaint on October 24, 2011. The parties have conducted limited discovery and participated in an initial settlement mediation on January 30, 2012, with additional sessions anticipated in the future. By agreement of the parties, no further discovery will take place until after the mediation process is exhausted. The Company intends to vigorously defend itself against these claims.

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On September 23, 2011, the Company was served with a derivative complaint, captioned *Grivich v. Dunham, et al.*, No. 11-2-03678-6 (Grivich), and filed in the Superior Court of Washington for Clark County. The plaintiff in this action is allegedly a current shareholder of the Company. The Company is a nominal defendant in this litigation. Plaintiff seeks to assert, on the Company's behalf, claims against Brian W. Dunham, Stephanie J. Welty, William R. Tagmyer, Keith R. Larson, Wayne B. Kingsley, Richard A. Roman, Michael C. Franson and Neil R. Thornton. The asserted basis of the claims is that defendants breached fiduciary duties to the Company between April 2, 2007 and the date of the Complaint. Plaintiff seeks to recover, on the Company's behalf, damages for losses caused by the alleged wrongdoing.

On October 14, 2011, another derivative complaint, captioned *Richard v. Dunham, et al.*, No. 11-2-04080-5 (Richard Deriv.), was filed in the Superior Court of Washington for Clark County. The plaintiff in this action is allegedly a current shareholder of the Company. The Company is a nominal defendant in this litigation. Plaintiff seeks to assert, on the Company's behalf, claims against Brian W. Dunham, Stephanie J. Welty, William R. Tagmyer, Keith R. Larson, Wayne B. Kingsley, Richard A. Roman, Michael C. Franson and Neil R. Thornton. The asserted basis of the claims is that defendants breached fiduciary duties to the Company between April 2, 2007 and the date of the Complaint. Plaintiff seeks to recover, on the Company's behalf, damages for losses caused by the alleged wrongdoing.

An amended complaint in the Ruggles action was filed on November 10, 2011, and the defendant responded to the complaint by filing a motion to dismiss, which motion is still pending. The derivative parties participated in the initial settlement mediation described above and will participate in any follow up sessions. It should also be noted that derivative claims by their nature do not seek to recover damages from the Company, but purport instead to seek to recover damages for the benefit of the Company. These cases are at a very early stage and, at this time, it is not possible to predict their outcome. Therefore, the Company has not accrued any charges related to them.

Amended and Restated Credit Agreement

On March 29, 2012 the Company entered into an amendment to the Company's current Amended and Restated Credit Agreement which is recorded as Note payable to financial institution on the balance sheet. A summary of the amendments is as follows:

Extended the expiration date to April 30, 2013;

Set aggregate commitments of the lenders at \$115 million; and

Waived compliance with certain covenants and made certain changes in the definition, method of calculation and amounts of certain covenants.

13. Restatement of Previously Issued Financial Statements

Subsequent to the issuance of our unaudited condensed consolidated financial statements for the quarter ended June 30, 2011, the Company determined that there were errors included in the previously issued condensed consolidated financial statements as described below. As a result, we have restated our condensed consolidated financial statements as of March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010 to correct errors described below.

The restatement corrects the following errors:

Depreciation

The Company's historical method of systematically and rationally allocating equipment depreciation using the units of production depreciation methodology (the Units of Production Method) requires an estimate of future tons of production over the remaining useful lives of equipment. The estimates of future tons of production over the remaining useful lives of equipment were not properly re-evaluated subsequent to the initial assumptions utilized in the adoption, in 2006, of the Units of Production Method. To appropriately apply the Units of Production Method, the Company should have periodically re-evaluated the assumptions underlying

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its application of the Units of Production Method and changed the assumptions underlying the accounting estimate beginning January 1, 2009. The effects of correcting this error are a net increase in depreciation expense and a net decrease in loss on disposal, both of which are included in cost of sales, and a net increase in accumulated depreciation.

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The Company also corrected its estimate of the remaining lives of non-operating equipment depreciated using the straight-line method of depreciation. The effects of correcting this error are a net decrease in depreciation expense, which is primarily reflected in selling, general and administrative expense, and a net decrease in accumulated depreciation.

Historical salvage value estimates used to systematically and rationally allocate property and equipment depreciation were incorrect as they did not sufficiently consider the estimated disposal value at the end of the property and equipment's useful life. The effects of correcting this error are an increase in depreciation expense, which is reflected in cost of sales and selling, general and administrative expense, and an increase in accumulated depreciation.

Other Errors

A contractual arrangement entered into with Lucid Energy LLC ("Lucid Energy") during 2008 was incorrectly accounted for as notes receivable within Other Assets. The contractual arrangement with Lucid Energy represented an interest in a variable interest entity which should have resulted in the entity being consolidated during 2009 and subsequently deconsolidated following the retrospective adoption of the FASB authoritative guidance which changed the method of identifying the primary beneficiary. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. Upon deconsolidation, the Company's investment in the entity should have been recorded as research and development expense within selling, general and administrative expense. The adjustments required to correct these errors have resulted in an increase in selling, general, and administrative expense, a decrease in interest income, and a decrease in other assets.

Certain equipment leases historically accounted for as operating leases should have been recorded as capital leases. The correction of this error increases depreciation expense and decreases rental expense, both of which are included in cost of sales, and increases interest expense in each period. The correction of this error also increased property and equipment, net, and capital lease obligations.

Certain costs capitalized upon the relocation of machinery and equipment to our Bossier City facility in 2008 and 2009 should have been expensed. The effects of correcting these errors were a reduction in machinery and equipment of \$2.8 million as of March 31, 2011, and the related tax effects.

Certain previously identified immaterial errors were corrected as part of the restatement.

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The impact on the Company's previously reported condensed consolidated statement of operations for the three months ended March 31, 2011 and March 31, 2010 are shown in the following tables (in thousands, except per share data):

Three Months Ended March 31, 2011	As Previously Reported	Restatement Adjustments		As Restated
		Depreciation	Other	
Net sales	\$ 111,458	\$	\$	\$ 111,458
Cost of sales	95,874	982	(166)	96,690
Gross profit	15,584	(982)	166	14,768
Selling, general and administrative	7,315	(26)		7,289
Operating income	8,269	(956)	166	7,479
Other expense	113			113
Interest income	(33)		33	
Interest expense	2,374		244	2,618
Income before income taxes	5,815	(956)	(111)	4,748
Provision for income taxes	2,249	(388)	(45)	1,816
Net income	\$ 3,566	\$ (568)	\$ (66)	\$ 2,932
Basic earnings per share	\$ 0.38			\$ 0.32
Diluted earnings per share	\$ 0.38			\$ 0.31

Three Months Ended March 31, 2010	As Previously Reported	Restatement Adjustments		As Restated
		Depreciation	Other	
Net sales	\$ 80,382	\$	\$	\$ 80,382
Cost of sales	71,285	1,034	(126)	72,193
Gross profit	9,097	(1,034)	126	8,189
Selling, general and administrative	6,645	(19)	285	6,911
Operating income	2,452	(1,015)	(159)	1,278
Other income	(655)			(655)
Interest income	(231)		17	(214)
Interest expense	1,342		228	1,570
Income before income taxes	1,996	(1,015)	(404)	577
Provision for income taxes	940	(608)	(243)	89
Net income	\$ 1,056	\$ (407)	\$ (161)	\$ 488
Basic earnings per share	\$ 0.11			\$ 0.05
Diluted earnings per share	\$ 0.11			\$ 0.05

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The following tables present the impact of the restatement adjustments on the Company's previously reported consolidated balance sheet at March 31, 2011 and December 31, 2010 (in thousands):

		Restatement Adjustments		
As of March 31, 2011	As Previously Reported	Depreciation	Other	As Restated
Assets				
Current assets:				
Cash and cash equivalents	\$ 77	\$	\$	\$ 77
Trade and other receivables, net	71,438			71,438
Costs and estimated earnings in excess of billings on uncompleted contracts	54,439			54,439
Inventories	93,601			93,601
Refundable income taxes	11,382		(200)	11,182
Deferred income taxes	5,402			5,402
Prepaid expenses and other	1,994			1,994
Total current assets	238,333		(200)	238,133
Property and equipment, net	174,895	(25,187)	6,159	155,867
Goodwill	21,451			21,451
Other assets	25,110	(228)	(2,459)	22,423
Total assets	\$ 459,789	\$ (25,415)	\$ 3,500	\$ 437,874
Liabilities and Stockholders' Equity				
Current liabilities:				
Current portion of long-term debt	\$ 5,714	\$	\$	\$ 5,714
Current portion of capital lease obligations	1,102		2,222	3,324
Accounts payable	40,332			40,332
Accrued liabilities	12,553			12,553
Billings in excess of costs and estimated earnings on uncompleted contracts	15,303			15,303
Total current liabilities	75,004		2,222	77,226
Note payable to financial institution	77,454			