NORTHWEST PIPE CO
Form 10-Q
November 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 0-27140

NORTHWEST PIPE COMPANY

(Exact name of registrant as specified in its charter)

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 x

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 x
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 x

Common Stock, par value $.01 per share	**9,291,541**
(Class)	**(Shares outstanding at October 8, 2010)**

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EXPLANATORY NOTE

In this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (the March 2010 Form 10-Q), Northwest Pipe Company is restating and updating to reflect the effects of the restatement on the Company s previously issued condensed consolidated financial statements for the three months ended March 31, 2009 in Part I - Item 1, Financial Statements and Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations in both tabular and textual form as it relates to the three months ended March 31, 2009. References to the Company, we, our and us in this March 2010 Form 10-Q refer to Northwest Pipe Company together, in each case, with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Concurrent with the filing of this March 2010 Form 10-Q, we are filing our Annual Report on Form 10-K for the year ended December 31, 2009, which contains restated financial information as of December 31, 2008 and for the years ended December 31, 2008 and 2007. In filing this March 2010 Form 10-Q for the period ended March 31, 2010, we are also restating our financial information for the three months ended March 31, 2009. We do not plan to amend previously filed reports in connection with the restatement as we believe the expenditure of resources required to produce this information is not justified by any related benefit that would result. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in these concurrently filed reports.

Background of the Restatement and Extended Filing Delays

The filing of this March 2010 Form 10-Q has been delayed due to, among other things, the time required for the Audit Committee of our Board of Directors (the Audit Committee) to conduct an investigation, for us to review the issues identified in the Audit Committee investigation, and for us to restate our previously issued consolidated financial statements, data and related disclosures. As previously disclosed, the Audit Committee, with the assistance of independent professionals retained by the Audit Committee, has conducted an investigation of certain accounting matters, including certain revenue recognition practices. In addition, at the direction of the Audit Committee, we retained an external consulting firm to assist in performing certain related analyses of our accounting practices and previously issued consolidated financial statements.

As previously disclosed, based upon its consideration of the issues identified in the Audit Committee investigation and the related accounting analyses, and after discussions with management and our external consultants, the Audit Committee concluded that our previously issued consolidated financial statements contained material errors and should be restated. For further detail on the financial statement impacts and the adjustments made as a result of the restatement, please see Note 2 of the Condensed Consolidated Financial Statements in Part I - Item 1, Financial Statements of this report.

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

Based upon our consideration of the issues identified in the Audit Committee investigation and our related accounting analyses, we have determined that certain material weaknesses in our internal controls existed as of March 31, 2010. For a description of the material weaknesses in our internal control over financial reporting and our 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, 2010.

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NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 18	$ 31
Trade and other receivables, less allowance for doubtful accounts of $402 and $793	50,539	38,733
Costs and estimated earnings in excess of billings on uncompleted contracts	43,915	37,509
Inventories	80,600	74,866
Refundable income taxes	6,034	7,029
Deferred income taxes	19,116	19,287
Prepaid expenses and other	1,936	2,350
Total current assets	202,158	179,805
Property and equipment, net	165,243	163,432
Goodwill	21,451	21,451
Other assets	27,407	26,549
Total assets	$ 416,259	$ 391,237
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 5,714	$ 5,714
Current portion of capital lease obligations	575	408
Accounts payable	32,225	30,039
Accrued liabilities	12,691	11,630
Billings in excess of costs and estimated earnings on uncompleted contracts	7,796	9,670
Total current liabilities	59,001	57,461
Note payable to financial institution	44,572	19,403
Long-term debt, less current portion	20,714	23,501
Capital lease obligations, less current portion	8,552	8,818
Deferred income taxes	27,641	27,687
Pension and other long-term liabilities	8,122	8,068
Total liabilities	168,602	144,938
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, 9,256,307 and 9,244,977 shares issued and outstanding	93	92
Additional paid-in-capital	107,156	106,869
Retained earnings	142,984	141,928

Accumulated other comprehensive loss	(2,576)	(2,590)
Total stockholders equity	247,657	246,299
Total liabilities and stockholders equity	$ 416,259	$ 391,237

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,	
	2010	2009 As Restated
Net sales	$ 80,382	$ 84,230
Cost of sales	71,285	75,807
Gross profit	9,097	8,423
Selling, general and administrative expense	6,645	5,248
Operating income	2,452	3,175
Other income	(655)	(436)
Interest income	(231)	(127)
Interest expense	1,342	1,353
Income before income taxes	1,996	2,385
Provision for income taxes	940	998
Net income	$ 1,056	$ 1,387
Basic earnings per share	$ 0.11	$ 0.15
Diluted earnings per share	$ 0.11	$ 0.15
Shares used in per share calculations:		
Basic	9,249	9,219
Diluted	9,342	9,353

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

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NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three months ended March 31,	
	2010	2009 As Restated
Cash Flows From Operating Activities:		
Net income	$ 1,056	$ 1,387
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,762	1,710
Amortization of intangible assets	30	30
Provision for doubtful accounts	(391)	376
Amortization of debt issuance costs	225	126
Deferred income taxes	125	1,276
Loss on disposal of property and equipment	10	227
Stock based compensation expense	493	423
Tax benefit from stock option plans	(122)	14
Changes in operating assets and liabilities:		
Trade and other receivables, net	(11,415)	18,889
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(8,280)	526
Inventories	(5,791)	15,286
Refundable income taxes	995	(1,389)
Prepaid expenses and other assets	(230)	(1,013)
Accounts payable	4,603	(7,251)
Accrued and other liabilities	1,128	1,562
Net cash (used in) provided by operating activities	(15,802)	32,179
Cash Flows From Investing Activities:		
Additions to property and equipment	(6,067)	(6,122)
Other investing activities	(537)	
Proceeds from the sale of property and equipment	19	1
Net cash used in investing activities	(6,585)	(6,121)
Cash Flows From Financing Activities:		
Proceeds from sale of common stock		117
Tax withholdings related to net share settlements of restricted stock awards and performance shares	(83)	
Payments on long-term debt	(2,786)	(2,787)
Borrowings under note payable to financial institution	56,714	24,872
Payments on note payable to financial institution	(31,545)	(48,043)
Borrowings from capital lease obligations	1,561	
Payments on capital lease obligations	(99)	(203)
Payments of debt issuance costs	(1,388)	
Net cash provided by (used in) financing activities	22,374	(26,044)

Change in cash and cash equivalents	(13)	14
Cash and cash equivalents, beginning of period	31	90
Cash and cash equivalents, end of period	$ 18	$ 104
Non-cash investing activities:		
Escrow account related to capital lease financing	$ 4,030	$
Accrued property and equipment purchases	1,287	2,565

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

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

Northwest Pipe Asia Pte. Ltd. (NWPA), in which the Company exercises significant influence but does not control, is accounted for under the equity method of accounting. During the first quarter of 2010, the Company recorded purchases of property and equipment of $705,000, net of eliminations, and rental income, included in net sales, of $140,000 from NWPA. At March 31, 2010, intercompany balances with NWPA included a receivable of $1.7 million, primarily related to rental income, cash advances, and the provision of management services, and a payable of $0.4 million related to the purchases of the property and equipment.

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

2. Restatement of Condensed Consolidated Financial Statements

The Company has restated its condensed consolidated statement of operations and its condensed consolidated statement of cash flows for the three months ended March 31, 2009.

Descriptions of the restatement adjustments recorded are as follows:

Timing of Revenue Recognition on Steel Costs Incurred. The Audit Committee investigation and related accounting analyses initially focused primarily on issues related to the Company s application of the cost-to-cost percentage-of-completion revenue recognition methodology (the Percentage-of-Completion Method) in the Water Transmission segment. In the course of the Audit Committee investigation and the Company s related accounting analyses, the Company, assisted by its external consultants, conducted a detailed analysis of the procedures and judgments applied by it in its historical method of applying the Percentage-of-Completion Method. The Audit Committee and the Company also engaged in extensive discussion of these matters with the Company s external consultants and consulted with the Office of the Chief Accountant of the Securities and Exchange Commission (the SEC). Under the Company s historical method of applying the Percentage-of-Completion Method, the cost of steel was recognized as a project cost at the time the cost was incurred, resulting in the recognition of revenue at that time. The Company has now determined that the cost of steel should not be recognized as a project cost when the cost is incurred, but should be recognized as a project cost when the steel is introduced into the manufacturing process.

The adjustments required to correct this error delay the recognition of certain previously reported contract costs, net sales and net income, but have no impact on the aggregate amount of net sales or gross profit from each water transmission project that will ultimately be realized by the Company.

Allocation of Certain Overhead and Support Costs. After a detailed review of the procedures used in its method of allocating manufacturing overhead variances and support costs to Water Transmission projects and Tubular Products manufacturing, and extensive discussion of these matters with the Company s external consultants, the Company determined that errors occurred in its method of allocating manufacturing overhead variances and indirect support costs to projects in the Company s Water Transmission segment and inventory in the Tubular Products segment, as well as in related assumptions and judgments, including those regarding total estimated Water Transmission project costs. Primarily, manufacturing overhead variances and indirect support costs were not allocated to specific water transmission projects and were not properly relieved when projects were completed. The adjustments required to correct these errors have resulted in the reduction of net sales, gross profit and net income.

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Capitalization and Depreciation. Historically, the Company has capitalized and depreciated the costs related to certain major maintenance, improvement and renewal activities for property and equipment in its Water Transmission and Tubular Products manufacturing facilities. After conducting an analysis of the economic lives and depreciation methods used by the Company for these capitalized costs and engaging in extensive discussion of these matters with the Company s external consultants, the Company determined that certain equipment carrying values were overstated and that there were errors in the determination of the economic lives and residual values of certain equipment. The adjustments required to correct these errors have resulted in the reduction of previously reported net income and an increase in previously reported depreciation expense and cost of sales.

Documentation of Contract Inception Dates. Historically, the Company began recognizing revenue on water transmission projects when, in management s judgment, a contract had been formed with the customer and contract costs had been incurred. After a detailed review of contract documentation, the Company identified certain instances in which its documentation did not provide persuasive evidence that all contract contingencies had been satisfied prior to revenue recognition. The adjustments required to correct these errors delay the recognition of net sales, cost of sales, gross profit and net income, but have no impact on the aggregate amount of net sales or gross profit that will ultimately be realized by the Company on the affected water transmission projects.

Foreign Exchange. Historically, the Company did not properly account for foreign currency translation or the mark-to-market impact of derivative instruments. In addition, the effects of other restatement adjustments also necessitated additional foreign currency translation adjustments. The adjustments required to correct this error impact the recognition of certain net sales and net income.

Other Errors. Other errors were identified in the course of the Audit Committee investigation and the related accounting analyses including: (i) an error recording costs of a business re-engineering project; (ii) an error estimating the value of a vendor claim receivable; (iii) an error in the timing of recognizing a gain on insurance proceeds; (iv) an error in the timing of recording a customer claim payable; and (v) errors related to revenue recognition for customers that should have been accounted for using the units of delivery percentage of completion method instead of the cost-to-cost percentage of completion revenue recognition method. In addition, certain immaterial adjustments that were not made or reflected in the previously issued consolidated financial statements are corrected in the restated consolidated financial statements.

Certain prior year classification errors were also corrected in conjunction with the restatement. Net income was not affected by these classification errors, included in presentation corrections below. The presentation corrections in the following condensed consolidated statements of operations tables primarily relate to the transfer of certain selling, general and administrative costs to cost of sales.

The nature of the restatement adjustments and presentation corrections and the impact on the Company s previously reported condensed consolidated statement of operations for the three months ended March 31, 2009 are shown in the following table (in thousands, except per share data):

Three Months ended March 31, 2009	As Previously Reported	Restatement Adjustments: Presentation Corrections	Steel Recognition	Allocation of Certain Overhead & Support Costs	Capitalization & Depreciation	Contract Inception	Foreign Exchange	Other	As Restated
Net sales	$ 81,403	$	$ 3,028	$ (375)	$	$ 1,416	$ (1,000)	$ (242)	$ 84,230
Cost of sales	68,666	2,309	1,568	1,553	326	1,205		180	75,807
Gross profit	12,737	(2,309)	1,460	(1,928)	(326)	211	(1,000)	(422)	8,423
Selling, general and administrative expense	7,245	(1,988)	4		(13)				5,248
Operating income	5,492	(321)	1,456	(1,928)	(313)	211	(1,000)	(422)	3,175
Other income		(321)			(2)			(113)	(436)
Interest income		(127)							(127)
Interest expense	1,226	127							1,353
Income before income taxes	4,266		1,456	(1,928)	(311)	211	(1,000)	(309)	2,385
Provision for income taxes	1,636		554	(733)	(118)	80	(380)	(41)	998
Net income	$ 2,630	$	$ 902	$ (1,195)	$ (193)	$ 131	$ (620)	$ (268)	$ 1,387
Basic earnings per share	$ 0.29								$ 0.15
Diluted earnings per share	$ 0.28								$ 0.15

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the impact of the restatement adjustments and presentation corrections on the Company s previously reported Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2009. In addition, amounts have been corrected in the accompanying Condensed Consolidated Statements of Cash Flows to present borrowings and payments under the note payable to financial institution on a gross rather than a net basis and amounts for accrued property and equipment purchases have been presented as noncash transactions (in thousands):

	Three Months Ended March 31, 2009		
	As Previously Reported	Restatement Adjustments	As Restated
Cash Flows From Operating Activities:			
Net income	$ 2,630	$ (1,243)	$ 1,387
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,196	514	1,710
Amortization of intangible assets	30		30
Provision for doubtful accounts		376	376
Amortization of debt issuance costs	126		126
Deferred income taxes	1,622	(346)	1,276
Loss on disposal of property and equipment	230	(3)	227
Stock based compensation expense	423		423
Tax benefit from stock option plans	14		14
Changes in operating assets and liabilities:			
Trade and other receivables, net	18,378	511	18,889
Costs and estimated earnings in excess of billings on uncompleted contracts, net	3,515	(2,989)	526
Inventories	11,937	3,349	15,286
Refundable income taxes	(1,389)		(1,389)
Prepaid expenses and other assets	(812)	(201)	(1,013)
Accounts payable	(7,982)	731	(7,251)
Accrued and other liabilities	680	882	1,562
Net cash provided by operating activities	30,598	1,581	32,179
Cash Flows From Investing Activities:			
Additions to property and equipment	(4,541)	(1,581)	(6,122)
Proceeds from the sale of property and equipment	1		1
Net cash used in investing activities	(4,540)	(1,581)	(6,121)
Cash Flows From Financing Activities:			
Proceeds from sale of common stock	117		117
Payments on long-term debt	(2,787)		(2,787)
Net payments on note payable to financial institution	(23,171)	23,171	
Borrowings under note payable to financial institution		24,872	24,872
Payments on note payable to financial institution		(48,043)	(48,043)
Payments on capital lease obligations	(203)		(203)
Net cash used in financing activities	(26,044)		(26,044)

Change in cash and cash equivalents	14		14
Cash and cash equivalents, beginning of period	90		90
Cash and cash equivalents, end of period	$ 104	$	$ 104
Non-cash investing activities:			
Accrued property and equipment purchases	$ 1,046	1,519	$ 2,565

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the impact of the restatement adjustments on the Company s previously reported segment information for the three months ended March 31, 2009 (in thousands):

	Net Sales		Gross Profit	
	Water Transmission	Tubular Products	Water Transmission	Tubular Products
Three months ended March 31, 2009				
As previously reported	$ 58,855	$ 22,548	$ 11,292	$ 1,445
Restatement adjustments	2,827		(3,872)	(442)
As restated	$ 61,682	$ 22,548	$ 7,420	$ 1,003

3. Inventories

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

	March 31, 2010	December 31, 2009
	(in thousands)	
Short-term inventories:		
Finished goods	$ 16,414	$ 14,799
Raw materials	57,288	53,335
Work-in-process	4,761	4,595
Supplies	2,137	2,137
	80,600	74,866
Long-term inventories:		
Finished goods	4,446	4,388
Total inventories	$ 85,046	$ 79,254

Long-term inventories are recorded in Other Assets. The lower of cost or market adjustment was $4.6 million at March 31, 2010 and $5.8 million at December 31, 2009.

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 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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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 March 31, 2010	Level 1	Level 2	Level 3
Financial Assets				
Escrow account	$ 4,030	$ 4,030	$	$
Financial liabilities				
Derivatives	$ 1,049	$	$ 1,049	$

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

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. These derivative contracts are consistent with the Company s strategy for financial risk management; however, prior to June 30, 2009, they did not meet the conditions under the authoritative guidance to qualify for hedge accounting treatment. Beginning in the quarter ended September 30, 2009, the Company adopted cash flow hedge accounting treatment for qualifying derivative contracts entered into subsequent to June 30, 2009 under the authoritative guidance. Instruments that do not qualify for cash flow hedge accounting treatment are re-measured at fair value on each balance sheet date and resulting gains and losses are recognized in net income. As of March 31, 2010 and December 31, 2009, the total notional amount of the derivative contracts not designated as hedges was $1.6 million (CAD$1.6 million) and $5.4 million (CAD$5.7 million), respectively. As of March 31, 2010 and December 31, 2009, the total notional amount of the derivative contracts designated as hedges was $15.0 million (CAD$15.2 million) and $16.2 million (CAD$17.0 million), respectively.

For each derivative contract entered into in which the Company seeks to obtain cash flow hedge accounting treatment, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction, the nature of the risk being hedged, how the hedging instrument s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives to specific firm commitments or forecasted transactions and 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 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.

Though most Canadian forward contracts have maturities not longer than 12 months at March 31, 2010, two of the Company s contracts at that date with a total notional value of $4.0 million (CAD$4.1 million) have maturities greater than 12 months, with the greatest maturity being 30

months.

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Foreign Currency Forward Contracts	March 31, 2010	December 31, 2009
	(in thousands)	
Liabilities		
Derivatives designated as hedging instruments		
Accrued liabilities	$ 190	$ 217
Derivatives not designated as hedging instruments		
Accrued liabilities	859	852
Total	$ 1,049	$ 1,069

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

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

For the three months ended March 31, 2010 and 2009, losses from the Company s derivative contracts not designated as hedging instruments of $0.4 million and $0.1million, respectively, were recognized in net sales.

6. Commitments and Contingencies

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

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

losses caused by the alleged wrongdoing.

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

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

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

In 2001, groundwater containing elevated organic compounds (VOCs) was identified in one localized area of the Company s property furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater is consistent with the initial conclusion that the source of the VOCs is located off of Company-owned property. On January 25, 2005, the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (Agreement) with the ODEQ. The Company is one of 84 Upland Source Control Sites working with the ODEQ on Source Control and is ranked a medium priority. The Company performed Remedial Investigation work required under the Agreement and submitted a draft Remedial Investigation/Source Control Evaluation Report on December 30, 2005. The conclusions of the report indicate that the VOCs found in the groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River. The report also indicates there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments.

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

Elimination System storm water sampling, the painting seems to have reduced the zinc in the storm water runoff. In June 2009, under the ODEQ Agreement, the Company submitted a Final Supplemental Work Plan to evaluate and assess soil and storm water, and further assess groundwater risk. The Company is working with the City of Portland and the ODEQ to facilitate further soil and storm water source control measures.

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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, 2010.

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

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

Guarantees. The Company has entered into certain stand-by letters of credit that total $16.7 million at March 31, 2010. The stand-by letters of credit relate to customer-owned raw materials, workers compensation insurance and certain suppliers. See Note 13, Subsequent Events for additional information regarding guarantees.

7. 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, industrial and traffic signpost systems. These two segments represent distinct business activities, which management evaluates based on segment gross profit. Transfers between segments in the periods presented were not material.

	Three months ended March 31,	
	2010	2009
	(in thousands)	
Net sales:		
Water Transmission	$ 52,685	$ 61,682

Tubular Products	27,697	22,548
Total	$ 80,382	$ 84,230
Gross profit:		
Water Transmission	$ 6,673	$ 7,420
Tubular Products	2,424	1,003
Total	$ 9,097	$ 8,423

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 and performance awards. In addition, the Company has two inactive stock option plans, the 1995 Stock Option Plan for Nonemployee Directors and the Amended 1995 Stock Incentive Plan, under which previously granted options remain outstanding.

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

	Three months ended March 31,	
	2010	2009
Cost of sales	$ 27	$ 78
Selling, general and administrative expenses	466	345
Total	$ 493	$ 423

As of March 31, 2010 unrecognized compensation expense related to the unvested portion of the Company s restricted stock units and performance awards was $388,000, which is expected to be recognized over a weighted average period of 1.8 years.

Stock Option Awards

A summary of the status of the Company s stock options as of March 31, 2010 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, 2010	213,103	$ 15.26		
Options granted	24,000	24.15		
Balance, March 31, 2010	237,103	16.16	2.26	$ 1,508
Exercisable, March 31, 2010	237,103	16.16	2.26	$ 1,508

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, 2010 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, 2010	127,487	$ 41.66
Restricted stock units and performance awards vested	(14,763)	46.51
Unvested restricted stock units and performance awards at March 31, 2010	112,724	41.03

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.

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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. With few exceptions, the Company is no longer subject to U.S. Federal, state or foreign income tax examinations for years before 2004.

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

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company provided for income taxes at estimated effective tax rates of 47.1% and 41.8% for the three month periods ended March 31, 2010 and 2009, respectively.

10. Comprehensive Income

Comprehensive income is reconciled to net income for the three months ended March 31, 2010 and 2009 as follows (in thousands):

	Three Months Ended March 31,	
	2010	2009
Net income	$ 1,056	$ 1,387
Pension liability adjustment	44	
Unrealized loss on derivative financial instruments	(30)	
Total comprehensive income	$ 1,070	$ 1,387

11. Earnings per Share

Basic earnings per share are computed using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share assumes the vesting of restricted stock units, performance awards and in the money options, provided in each case the effect is dilutive. Incremental shares of 92,772 and 134,630 for the three months ended March 31, 2010 and 2009, respectively, were used in the calculations of diluted earnings per share. For the three months ended March 31, 2010 and 2009, share-based awards of 13,117 and 31,384, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

12. Recent Accounting and Reporting Developments

In February 2010, the Financial Accounting Standards Board (FASB) issued amended guidance on subsequent events. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately.

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

position, results of operations or cash flows.

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

13. Subsequent Events

Line of Credit Agreement, Long-Term Debt Agreement and Leases

Beginning January 2010 through October 2010, the Company entered into additional amendments to its Amended and Restated Credit Agreement and Amended and Restated Note Purchase and Private Shelf Agreement. The current status of the amendments is as follows:

Limited the availability under the Amended and Restated Credit Agreement to $110.0 million until the Company delivers to the lenders its financial statements and Compliance Certificate for the period ended September 30, 2010, after which the availability will be limited to $117.5 million. Upon delivery of the March 31, 2011 Compliance Certificate, availability will increase to $125 million;

Set the interest rates charged on outstanding balances under the line of credit at rates related to LIBOR plus 2.50% to 4.50%, or the lending institution s prime rate, plus 1.50% to 3.50%;

Increased the interest rates charged on outstanding balances of the long-term debt agreements by 2.00% until the Company delivers its financial statements, related Officer s Certificate for the most recent fiscal period and the Company s Consolidated Total Leverage Ratio is less than 4.50:1.00. At such time the rate will decrease by 0.25%;

Waived compliance with certain covenants in the Agreements for the year ended December 31, 2009 and the quarters ended March 31 and June 30, 2010, and made certain changes in the definition, method of calculation and amounts of certain covenants;

Extended the dates by which the Company is required to deliver to the lenders audited financial statements prepared in accordance with generally accepted accounting principles for the year ended December 31, 2009, and unaudited condensed consolidated financial statements for the quarter ended March 31, 2010 and the quarter ended June 30, 2010;

Designated the delisting of the Company s common stock from trading on the Nasdaq Stock Market as an event of default; and

Required the Company to deliver to the lenders certain cash flow forecasts and a revised financial projection model and business plan.

Guarantees

As a result of the Company s delayed SEC filings and its previous inability to provide audited financial statements as of December 31, 2009 to its suppliers, certain suppliers requested the Company to post standby letters of credit totaling $10 million as of September 30, 2010 to cover its purchase amounts.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Management s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Report contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 and Section 21E of the Exchange Act that are based on current expectations, estimates and projections about our business, management s beliefs, and assumptions made by management. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, forecasts, should, could , and variations of such expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements as a result of a variety of important factors. While it is impossible to identify all such factors, those that could cause actual results to differ materially from those estimated by us include changes in demand and market prices for our products, product mix, bidding activity, the timing of customer orders and deliveries, production schedules, the price and availability of raw materials, excess or shortage of production capacity, international trade policy and regulations and other risks discussed in our 2009 Form 10-K and from time to time in our other Securities and Exchange Commission filings and reports. Such forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report. If we do update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect thereto or with respect to other forward-looking statements.

Restatement of Previously Issued Financial Statements

As previously disclosed, the Audit Committee, with the assistance of independent professionals retained by the Audit Committee, has conducted an investigation of certain accounting matters, including certain revenue recognition practices. In addition, at the direction of the Audit Committee, we retained an external consulting firm to assist in performing certain related analyses of our accounting practices and previously issued consolidated financial statements. Based upon its consideration of the issues identified in the Audit Committee investigation and the related accounting analyses, and after discussions with management, the Audit Committee concluded that our previously issued consolidated financial statements contained material errors and should be restated.

Management s Discussion and Analysis of Financial Condition and Results of Operations in both tabular and textual form as it relates to the three months ended March 31, 2009 has been updated to reflect the effects of the restatement described in Note 2 of the Condensed Consolidated Financial Statements in Part I - Item 1, Financial Statements.

Overview

Our Water Transmission Group is the leading North American manufacturer of large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems. Our products are also used for hydroelectric power systems, wastewater systems and other applications. We also make products for industrial plant piping systems and certain structural applications. These products are produced in the following manufacturing facilities strategically located across the United States and Mexico: Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas; Pleasant Grove, Utah and Monterrey, Mexico. The operations of the Pleasant Grove, Utah facility were temporarily suspended in February 2009 and restarted in June 2010. We have also invested in Northwest Pipe Asia, located in Singapore. Northwest Pipe Asia has established temporary operations in Batam, Indonesia to produce structural piling to be supplied to a construction project in Singapore. Our Water Transmission Group accounted for approximately 65% of net sales in the first three months of 2010.

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

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

Our Tubular Products Group manufactures other welded steel products in three facilities: Atchison, Kansas; Houston, Texas and Bossier City, Louisiana. We produce a range of products used in several different markets. We currently make energy pipe, standard pipe, structural pipe, and traffic signpost systems, which are sold to distributors and used in many different applications. Our Tubular Products Group s sales volume is typically driven by energy spending, non-residential construction spending, highway spending and general economic conditions. In 2009, the tubular products industry experienced an oversaturation of imported pipe and a collapse of natural gas prices in a very short time frame. In addition, non-residential construction declined. These factors had a severe negative impact on all of our tubular products. We believe the greatest potential for significant sales growth in our Tubular Products Group is through our energy products. Our Tubular Products Group generated approximately 35% of net sales in the first three months of 2010.

Purchased steel represents a substantial portion of our cost of sales, and our changes in our selling prices often correlate directly to changes in steel costs. This correlation is the greatest in our Tubular Products Group. Tubular products margins are highly sensitive to changes in steel costs, although the amounts of margins are also influenced by the current level of 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 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 consolidated financial statements is set forth in our Annual Report on Form 10-K for the year ended December 31, 2009, filed concurrently with this report.

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Recent Accounting Pronouncements

See Note 12 of the Condensed Consolidated Financial Statements in Part I Item 1, Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial position, results of operations and cash flows.

Results of Operations

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

	Three months ended March 31,	
	2010	**2009**
Net sales		
Water Transmission	65.5%	73.2%
Tubular Products	34.5	26.8
Total net sales	100.0	100.0
Cost of sales	88.7	90.0
Gross profit	11.3	10.0
Selling, general and administrative expense	8.2	6.2
Operating income	3.1	3.8
Other income	(0.8)	(0.5)
Interest income	(0.3)	(0.2)
Interest expense	1.7	1.7
Income before income taxes	2.5	2.8
Provision for income taxes	1.2	1.2
Net income	1.3%	1.6%
Gross profit as a percentage of segment net sales:		
Water Transmission	12.7%	12.0%
Tubular Products	8.8	4.4

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

Net sales. Net sales decreased 4.6% to $80.4 million for the first quarter of 2010 compared to $84.2 million for the first quarter of 2009. No single customer accounted for 10% or more of total net sales in 2010 or 2009.

Water Transmission sales decreased by 14.6% to $52.7 million in the first quarter of 2010 from $61.7 million in the first quarter of 2009. The decline in net sales was due to a 28% decrease in the selling price per ton which was partially offset by a 19% increase in volume. The decrease in selling price per ton was due to a competitive bidding environment and a decline in steel prices. Lower steel costs generally lead to lower contract values. Steel prices are discussed further in the gross margin analysis. The increase in volume resulted from improved orders. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales volumes.

Tubular Products sales increased 22.8% to $27.7 million in the first quarter of 2010 from $22.5 million in the first quarter of 2009. The sales increase was due to a 78% increase in tons sold which was partially offset by a 31% decline in selling price per ton. The most significant increase in demand was the result of increases in natural gas drilling operations, with energy pipe representing 89% of the total Tubular Product volume increase. While demand increased, selling prices per ton decreased as the volume of imports also increased. We sold 311% more tons of

energy pipe in the first quarter of 2010 as compared to the first quarter of 2009, which was partially offset by a decline of 54% in our selling price per ton. The 87% increase in total revenue for energy pipe was partially offset by a decrease of 30% in total revenue for structural pipe. Our selling price per ton for structural pipe decreased 32% which was partially offset by a minor 3% volume increase.

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Gross profit. Gross profit increased 8.0% to $9.1 million (11.3% of total net sales) in the first quarter of 2010 from $8.4 million (10.0% of total net sales) in the first quarter of 2009.

Water Transmission gross profit decreased $0.7 million, or 10.1%, to $6.7 million (12.7% of segment net sales) in the first quarter of 2010 from $7.4 million (12.0% of segment net sales) in the first quarter of 2009. The drop in gross profit from the prior year was due to lower selling prices and materials cost per ton. Our Water Transmission materials cost per ton, including steel, decreased in the first quarter of 2010 by approximately 22% from the prior year and the higher volumes lowered our conversion costs per ton and increased our fixed cost absorption. This led to improvement in our gross margin as a percent of segment net sales. We anticipate gross margin to remain at reduced levels through 2010, as lower-margin projects awarded in 2009 flow through the income statement in subsequent periods. In addition, we reduced our lower of cost or market adjustment for inventory values for Water Transmission products by $434,000 in the first quarter of 2010.

Gross profit from Tubular Products increased 141.7% to $2.4 million (8.8% of segment net sales) in the first quarter of 2010 from $1.0 million (4.4% of segment net sales) in the first quarter of 2009. As noted above, demand for our tubular products increased significantly, particularly for our energy products which sustained an 87% increase in sales as compared to the prior year. The significant increase in volume contributed to the gross profit improvement in the first quarter of 2010, as the market conditions led to higher production and allowed us to recover more of our fixed costs than in the same period in 2009. Steel costs per ton were lower by 9% in the first quarter of 2010 compared to the first quarter of 2009, which also increased gross profit. In addition, we reduced our lower of cost or market adjustment for inventory values for Tubular products by $678,000 in the first quarter of 2010.

Selling, general and administrative expenses. Selling, general and administrative expenses increased to $6.6 million (8.2% of total net sales) in the first quarter of 2010 from $5.2 million (6.2% of total net sales) in the first quarter of 2009. Professional fees increased $1.7 million associated with the internal investigation of certain accounting matters, which is discussed in Note 2, Restatement of Condensed Consolidated Financial Statements of the Notes to Condensed Consolidated Financial Statements. In addition, tubular products sales commission expense increased $120,000 with the increase in tubular products volume. These increases were offset by a decrease of $435,000 in wages, bonus and benefit expense as a result of weaker financial performance.

Interest expense. Interest expense was $1.3 million in the first quarter of 2010 and $1.4 million in the first quarter of 2009. Although average borrowings were lower in the first quarter of 2010 compared to the first quarter of 2009, this was offset by higher average interest rates.

Income Taxes. Our effective tax rate was approximately 47.1% for the first quarter of 2010 compared to 41.8% for the first quarter of 2009. The increase in our effective tax rate was mainly due to the anticipated loss of certain deductions claimed in prior years under the Internal Revenue Code in connection with the carryback of projected tax losses for 2010.

Liquidity and Capital Resources

Sources and Uses of Cash

Our principal sources of liquidity generally include operating cash flow and our bank credit agreement. Our principal uses of liquidity generally include capital expenditures, working capital and debt service. Information regarding our cash flows for the three months ended March 31, 2010 is presented in our condensed consolidated statements of cash flows contained in this Form 10-Q, and is further discussed below.

As of March 31, 2010, our working capital (current assets minus current liabilities) was $143.2 million as compared to $122.3 million as of December 31, 2009.

Net cash used in operating activities in the first three months of 2010 was $15.8 million. This was primarily the result of fluctuations in our working capital accounts, which result from timing differences between production, shipment and invoicing of our products, as well as changes in levels of production and costs of materials. We typically have a relatively large investment in working capital, as we are generally obligated to pay for goods and services early in the project while cash is not received until much later in the project. Our revenues in the water transmission segment are recognized on a percentage-of-completion method; therefore, there is little correlation between revenue and cash receipts and the elapsed time can be significant. As such, our payment cycle is a significantly shorter interval than our collection cycle, although the effect of this difference in the cycles may vary from period to period.

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Net cash used in investing activities in the first three months of 2010 was $6.6 million, primarily for capital expenditures. The most significant capital project incurring costs in the quarter was the preparation of the facility in Bossier City, Louisiana to manufacture oil country tubular goods. Capital expenditures are expected to be approximately $14 to $16 million in 2010.

Net cash provided by financing activities in the first three months of 2010 was $22.4 million, which resulted primarily from net borrowings of $25.2 million under our Credit Agreement, partially offset by long-term debt payments of $2.8 million.

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

Line of Credit and Long-Term Debt

We had the following significant components of debt at March 31, 2010: a $125.0 million Credit Agreement, under which $44.6 million was outstanding; $8.6 million of Series A Term Note, $7.5 million of Series B Term Notes, $7.1 million of Series C Term Notes and $3.2 million of Series D Term Notes.

The Credit Agreement expires on May 31, 2012, and bears interest at rates related to LIBOR plus 2.50% to 4.00%, or the lending institution s prime rate, plus 1.50% to 3.00%. Borrowings under the Credit Agreement are collateralized by substantially all of our personal property.

On February 12, 2010, we entered into amendments to our Amended and Restated Credit Agreement (Credit Agreement) and Amended and Restated Note Purchase and Private Shelf Agreement (Note Purchase Agreement). The amendments, among other things, reduced the aggregate availability of our Credit Agreement to $125 million from $150 million at December 31, 2009, increased interest rates charged on outstanding balances and waived compliance with certain covenants in the Agreements for the year ended December 31, 2009. In addition, the amendments changed the definitions, method of application and amounts of certain covenants. See Note 13, Subsequent Events of Notes to Condensed Consolidated Financial Statements in Part I - Item 1, Financial Statements of this report for a description of subsequent amendments to the Credit Agreement and Note Purchase Agreement. At March 31, 2010, we had $44.6 million outstanding under the Credit Agreement bearing interest at a weighted average rate of 4.77%. At March 31, 2010, we had an additional net borrowing capacity under the credit facility of $63.7 million.

The Series A Term Note in the principal amount of $8.6 million matures on February 25, 2014 and requires annual payments in the amount of $2.1 million plus interest of 10.50% paid quarterly on February 25, May 25, August 25 and November 25. The Series B Term Notes in the principal amount of $7.5 million mature on June 21, 2014 and require annual payments in the amount of $1.5 million plus interest of 10.22% paid quarterly on March 21, June 21, September 21 and December 21. The Series C Term Notes in the principal amount of $7.1 million mature on October 26, 2014 and require annual payments of $1.4 million plus interest of 9.11% paid quarterly on January 26, April 26, July 26 and October 26. The Series D Term Notes in the principal amount of $3.2 million mature on January 24, 2015 and require annual payments in the amount of $645,000 plus interest of 9.07% paid quarterly on January 24, April 24, July 24 and October 24. The Series A Term Note, the Series B Term Notes, the Series C Term Notes, and the Series D Term Notes (together, the Term Notes) are collateralized by accounts receivable, inventory and certain equipment.

We had $9.1 million of capital leases outstanding at March 31, 2010, under which certain equipment used in the manufacturing process is leased. The average interest rate on the capital leases is 5.8%.

Our capital lease outstanding as of March 31, 2010 consists of an agreement entered into as of September 2009 to finance our Bossier City, Louisiana facility (the Financing Arrangement). As part of the Financing Arrangement, a $10 million escrow was provided for the company by a local government entity through a financial institution and will be released upon qualifying purchase requisitions. As we purchase equipment for the facility, we enter into a sale-leaseback transaction with the governmental entity as part of the Financing Arrangement. As of March 31, 2010, $4.0 million was held in the escrow account, which is included in other assets, as a result of proceeds from the Financing Arrangement. The

Financing Arrangement requires us to meet certain loan covenants, measured at the end of each fiscal quarter. These loan covenants follow the covenants required by our Credit Agreement.

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The Credit Agreement, the Note Purchase Agreement and certain of our capital leases place various restrictions on our ability to, among other things; incur certain additional indebtedness, create liens or other encumbrances on assets, and incur additional capital expenditures. The Credit Agreement, Note Purchase Agreement, and certain of our capital leases require us to be in compliance with certain financial covenants. Our 2009 operating results led us to commence discussions in the fourth quarter of 2009 with our bank creditors to obtain waivers of our financial covenants as of December 31, 2009, March 31, 2010 and June 30, 2010. As a result of these discussions, covenant waivers were obtained and we entered into amendments to our Amended and Restated Credit Agreement and Note Purchase Agreement as described in Note 13, Subsequent Events in Part I - Item 1, Financial Statements.

The amendments changed the definition, method of application and amounts of the covenants related to the Consolidated Fixed Charge Coverage Ratio, Consolidated Senior Leverage Ratio, Consolidated Total Leverage Ratio, Consolidated Tangible Net Worth, Asset Coverage Ratio, Minimum Consolidated EBITDA, and Maximum Consolidated Rental and Operating Lease Expense. As we were granted waivers of our financial covenants as of December 31, 2009, March 31, 2010 and June 30, 2010, these amended financial covenants will be calculated as of September 30, 2010. Based on our business plan and forecasts of operations, we believe we will remain in compliance with our amended covenants in 2010.

Off Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

Item 4. Controls and Procedures

Audit Committee Investigation and Restatement

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

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

Evaluation of Disclosure Controls and Procedures

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

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In connection with the preparation of this March 2010 Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2010. As described below, management has identified material weaknesses in our internal controls over financial reporting, which is an integral component of our disclosure controls and procedures. As a result of those material weaknesses, our CEO and CFO have concluded that, as of March 31, 2010, our disclosure controls and procedures were not effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2010 that materially affected or are reasonably likely to materially affect our internal control over financial reporting. However, as described below under Plans for Remediation of Material Weaknesses, we have subsequently dedicated significant resources to support our efforts to improve the control environment and to remedy the control weaknesses described herein.

Material Weaknesses in Internal Control over Financial Reporting

In connection with management s assessment of our internal control over financial reporting described in our 2009 Form 10-K, management has identified the following deficiencies that constituted individually, or in the aggregate, material weaknesses in our internal control over financial reporting as of March 31, 2010:

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

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

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

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

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

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

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

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

Plans for Remediation of Material Weaknesses

Our Board, the Audit Committee and management are adding resources and developing and implementing new processes and procedures to remediate, among other things, the material weaknesses that existed in our internal control over financial reporting, and our disclosure controls and procedures, as of March 31, 2010.

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

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

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

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

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

Management review and acceptance of completion of the remediation effort.

Additionally, we are evaluating and enhancing our entity level controls as part of our Remediation Plan. The following are steps we have taken in this process:

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

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

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

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

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

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

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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

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

Item 6. Exhibits

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

Exhibit Number	Description
10.1	Third Amendment to Amended and Restated Credit Agreement dated February 12, 2010 by and among Northwest Pipe Company, Bank of America, N.A., as Administrative Agent, incorporated by reference to the Company s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on February 19, 2010
10.2	Third Amendment to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of February 12, 2010 by and among Northwest Pipe Company and Prudential Investment Management, Inc. and certain affiliates, incorporated by reference to the Company s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on February 19, 2010
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 4, 2010

NORTHWEST PIPE COMPANY

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

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