

NORTHWEST PIPE CO
Form 10-Q
August 07, 2009
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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: June 30, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number: 0-27140

NORTHWEST PIPE COMPANY

(Exact name of registrant as specified in its charter)

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OREGON
(State or other jurisdiction of
incorporation or organization)

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

5721 SE Columbia Way

Suite 200

Vancouver, Washington 98661

(Address of principal executive offices and zip code)

360-397-6250

(Registrant's telephone number including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

9,236,519
(Shares outstanding at August 6, 2009)

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NORTHWEST PIPE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 121	\$ 90
Trade and other receivables, less allowance for doubtful accounts of \$766 and \$1,214	52,515	75,923
Costs and estimated earnings in excess of billings on uncompleted contracts	95,364	106,234
Inventories	63,494	87,348
Refundable income taxes	4,372	3,412
Deferred income taxes	3,849	4,535
Prepaid expenses and other	2,837	4,489
Total current assets	222,552	282,031
Property and equipment, net	204,780	194,035
Goodwill	21,451	21,451
Other assets	12,728	11,917
Total assets	\$ 461,511	\$ 509,434
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	\$ 5,714	\$ 5,714
Current portion of capital lease obligations	1,572	829
Accounts payable	24,429	34,109
Accrued liabilities	8,854	10,111
Billings in excess of costs and estimated earnings on uncompleted contracts	1,613	8,020
Total current liabilities	42,182	58,783
Note payable to financial institution	41,660	82,065
Long-term debt, less current portion	24,929	29,215
Capital lease obligations, less current portion	8,051	3,164
Deferred income taxes	38,995	37,776
Pension and other long-term liabilities	8,551	6,870
Total liabilities	164,368	217,873
Commitments and contingencies (Note 3)		
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, 9,236,519 and 9,195,400 shares issued and outstanding	92	92
Additional paid-in-capital	106,658	106,129
Retained earnings	193,316	188,263
Accumulated other comprehensive loss	(2,923)	(2,923)
Total stockholders equity	297,143	291,561

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Total liabilities and stockholders' equity	\$ 461,511	\$ 509,434
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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NORTHWEST PIPE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	\$ 74,895	\$ 112,106	\$ 156,298	\$ 206,109
Cost of sales	64,617	87,488	133,283	163,706
Gross profit	10,278	24,618	23,015	42,403
Selling, general and administrative expense	5,761	9,285	13,006	17,246
Operating income	4,517	15,333	10,009	25,157
Interest expense, net	1,028	1,329	2,254	3,135
Income before income taxes	3,489	14,004	7,755	22,022
Provision for income taxes	1,066	5,605	2,702	8,576
Net income	\$ 2,423	\$ 8,399	\$ 5,053	\$ 13,446
Basic earnings per share	\$ 0.26	\$ 0.92	\$ 0.55	\$ 1.47
Diluted earnings per share	\$ 0.26	\$ 0.90	\$ 0.54	\$ 1.44
Shares used in per share calculations:				
Basic	9,237	9,151	9,228	9,119
Diluted	9,368	9,348	9,362	9,330

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

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

(Unaudited)

(In thousands)

	Six months ended June 30,	
	2009	2008
Cash Flows From Operating Activities:		
Net income	\$ 5,053	\$ 13,446
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,245	2,347
Amortization of intangible assets	60	60
Provision for doubtful accounts	(448)	369
Amortization of debt issuance costs	251	167
Deferred income taxes	1,905	158
Loss on disposal of property and equipment	883	656
Stock based compensation expense	399	49
Tax benefit from stock option plans	14	805
Excess tax benefit from stock option plans		(615)
Changes in operating assets and liabilities:		
Trade and other receivables	23,856	(34,350)
Costs and estimated earnings in excess of billings on uncompleted contracts, net	4,463	15,609
Inventories	23,854	(8,978)
Refundable income taxes	(960)	915
Prepaid expenses and other assets	530	808
Accounts payable	(9,680)	5,298
Accrued and other liabilities	(177)	3,481
Net cash provided by operating activities	52,248	225
Cash Flows From Investing Activities:		
Additions to property and equipment	(13,328)	(11,921)
Proceeds from the sale of property and equipment	56	
Net cash used in investing activities	(13,272)	(11,921)
Cash Flows From Financing Activities:		
Proceeds from sale of common stock	116	1,628
Proceeds of sale-leaseback	6,039	
Payments on long-term debt	(4,286)	(3,643)
Net borrowings (payments) under note payable to financial institution	(40,405)	13,409
Payments on capital lease obligations	(409)	(383)
Excess tax benefit from stock option plans		615
Net cash provided by (used in) financing activities	(38,945)	11,626
Net increase (decrease) in cash and cash equivalents	31	(70)
Cash and cash equivalents, beginning of period	90	234
Cash and cash equivalents, end of period	\$ 121	\$ 164
Non-cash investing activity:		
Accrued property and equipment purchases	\$ 601	\$

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

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

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP). The financial information as of December 31, 2008 is derived from the audited financial statements presented in the Northwest Pipe Company (the Company) Annual Report on Form 10-K for the year ended December 31, 2008. Certain information or footnote disclosures normally included in 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 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 financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2008, as presented in the Company s Annual Report on Form 10-K. We evaluate events and transactions that occur after the balance sheet date as potential subsequent events. We performed this evaluation through August 7, 2009, the date on which we issued our financial statements.

Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2009.

2. Inventories

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

	June 30, 2009	December 31, 2008
	(In thousands)	
Finished goods	\$ 28,327	\$ 33,271
Raw materials	32,778	51,667
Supplies	2,389	2,410
	\$ 63,494	\$ 87,348

3. Contingencies

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 (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 68 other parties were notified by the EPA and the Oregon Department of Environmental Quality (ODEQ) of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act. As of the end of 2008 more than 200 potentially responsible parties on and nearby the river have been asked to file information disclosure reports with the EPA. By agreement with EPA, 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 (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 any make further payment. The remedial investigation and feasibility study is expected to be completed by the LWG in 2009.

In 2001, groundwater containing elevated volatile 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 ODEQ related to the 2001 discovery. The Company performed Remedial Investigation work required under the Agreement and submitted a Remedial Investigation/Source Control Evaluation Report to ODEQ on December 30, 2005. The conclusions of the report indicate that VOCs in groundwater do not present an unacceptable risk to human or

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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. ODEQ has recommended further remedial investigation work on groundwater, soil and storm water at the site. That work is ongoing.

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 ODEQ have identified a possible source of small amounts of polynuclear aromatic compounds (PAHs) and polychlorinated biphenyls (PCBs) 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

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subsequently for ship breaking and metal recycling. Studies of the river sediments in the slip have revealed concentration of PAHs, PCBs and zinc which are common constituents in urban storm water discharges. To minimize the zinc traces in its storm water, the Company has undertaken a program to coat the roofs of a substantial part of the facility.

Concurrent with the activities of the EPA and ODEQ, the Portland Harbor Natural Resources Trustee Council (Trustees) sent some or all of the same parties, including the Company, a notice of intent to perform an Injury Assessment for the Portland Harbor Site to determine the nature and extent of natural resource damages under the Comprehensive Environmental Response, Compensation and Liability Act section 107. The Trustees for the Portland Harbor Site consist of representatives from several Northwest Indian Tribes, three federal agencies and one state agency. The Trustees act independently of the EPA and ODEQ but the Company expects their assessment will be coordinated with the remedial investigation and feasibility study work underway at the Portland Harbor Site. The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessment. The Company has not assumed any payment obligation or liability related to the Trustee s assessment.

The extent of the Company s obligation with respect to these matters is not known, and no further adjustment to the consolidated financial statements has been recorded as of June 30, 2009.

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

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of its business. The Company maintains insurance coverage against potential claims in amounts that are believed to be adequate. 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.

4. 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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in thousands)		(in thousands)	
Net sales:				
Water Transmission	\$ 59,303	\$ 74,861	\$ 118,158	\$ 138,730
Tubular Products	15,592	37,245	38,140	67,379
Total	\$ 74,895	\$ 112,106	\$ 156,298	\$ 206,109
Gross profit (loss):				
Water Transmission	\$ 12,835	\$ 14,778	\$ 24,127	\$ 29,231
Tubular Products	(2,557)	9,840	(1,112)	13,172
Total	\$ 10,278	\$ 24,618	\$ 23,015	\$ 42,403

5. 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.

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The Company records share-based compensation under the provisions of Statement of Financial Accounting Standard (SFAS) No. 123(R), Share Based Payment (SFAS 123(R)), which requires compensation cost to be recognized as service is rendered based on the fair market value of the awards. The following summarizes share-based compensation expense recorded:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in thousands)		(in thousands)	
Cost of sales	\$ (11)	\$ 33	\$ 67	\$ 49
Selling, general and administrative expenses	(13)	33	332	49
Total	\$ (24)	\$ 33	\$ 399	\$ 49

As of June 30, 2009 unrecognized compensation expense related to the unvested portion of the Company's restricted stock units and performance awards was \$1.7 million, which is expected to be recognized over a weighted average period of 2.2 years.

Stock Option Awards

A summary of the status of the Company's stock options as of June 30, 2009 and changes during the six 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, 2009	262,471	\$ 15.17		
Options granted				
Options exercised or exchanged	(49,368)	14.75		
Options canceled				
Balance, June 30, 2009	213,103	\$ 15.26	2.14	\$ 4,155
Exercisable, June 30, 2009	213,103	\$ 15.26	2.14	\$ 4,155

The total intrinsic value, defined as the difference between the current market value and the grant price, of options exercised or exchanged during the six months ended June 30, 2009 was \$968,000.

Restricted Stock Units and Performance Awards

A summary of the status of the Company's restricted stock units and performance awards as of June 30, 2009 and changes during the six 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, 2009	85,633	\$ 53.14
Restricted stock units and performance awards granted	64,478	30.28
Restricted stock units and performance awards vested	(10,644)	53.14
Restricted stock units and performance awards canceled	(723)	53.14

Unvested restricted stock units and performance awards at June 30, 2009	138,744	\$	43.15
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Restricted stock units and performance awards are measured at market value on the date of grant and generally vest in three annual installments; vesting of the performance awards is also dependent on the Company's achievement of certain performance-based tests. The Company recognizes compensation expense related to the performance awards based on the probable outcome of the performance conditions.

6. Income Taxes

The Company files income tax returns in the United States Federal jurisdiction, in various foreign jurisdictions, and in many state jurisdictions. With few exceptions, the Company is no longer subject to US Federal, state, or foreign jurisdiction income tax examinations for years before 2004. The Company is currently working to resolve income tax audits relating to the 2005 tax filings and certain other amendments.

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The Company had \$1.5 million and \$1.4 million of unrecognized tax benefits at June 30, 2009 and December 31, 2008, respectively, 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 31% and 35% for the three and six month periods ended June 30, 2009, and 40% and 39% for the three and six month periods ended June 30, 2008.

7. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares of common stock adjusted for dilutive common equivalent shares outstanding during the period, using the treasury stock method. Dilutive common equivalent shares outstanding include in-the-money options, non-vested restricted stock units and performance awards, to the extent any established performance criteria have been met at the end of the respective periods. Under the treasury stock method, the amount the option holder must pay for exercising stock options, the amount of compensation cost that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Incremental shares of 131,611 and 197,440 for the three months ended June 30, 2009 and 2008, respectively, and incremental shares of 134,846 and 210,659 for the six months ended June 30, 2009 and 2008, respectively, were used in the calculations of diluted earnings per share.

For the three and six months ended June 30, 2009, share-based awards of 6 and 11,268, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. For the three and six months ended June 30, 2008, the calculation of diluted earnings per share included all common equivalent shares.

8. Fair Value Measurement

Effective January 1, 2008, the Company adopted SFAS No. 157 Fair Value Measurements (SFAS 157) as it applies to financial assets and liabilities. SFAS 157 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). Financial Accounting Standards Board (FASB) Staff Position 157-2, Effective Date of FASB Statement No. 157 applies to nonfinancial assets and nonfinancial liabilities and was effective January 1, 2009. The Company adopted the provisions of SFAS 159 and elected not to expand the use of fair value accounting beyond those assets and liabilities currently required to use this basis of measurement.

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

Description	Balance			
	June 30, 2009	Level 1	Level 2	Level 3
Financial Assets				
Derivatives	\$ 308		\$ 308	
Deferred Compensation Investment	2,823	\$ 2,823		
Total Assets at Fair Value	\$ 3,131	\$ 2,823	\$ 308	\$
Financial Liabilities				
Derivatives	\$ (992)		\$ (992)	
Deferred Compensation Liability	(2,823)	\$ (2,823)		
Total Liabilities at Fair Value	\$ (3,815)	\$ (2,823)	\$ (992)	\$

9. Derivative Instruments and Hedging Activities

Effective January 1, 2009, the Company adopted SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS No. 161 requires enhanced disclosures about the Company's derivative instruments and hedging activities.

The Company uses derivative contracts to offset the risk associated with the effects of certain foreign currency exposures, typically arising from sales contracts denominated in Canadian currency. These contracts are not for trading or for speculative purposes. At June 30, 2009 these foreign currency forward contracts met the Company's strategy for financial risk management; however, they do not meet the conditions under SFAS 133 Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133) to qualify for hedge accounting treatment. Consequently, these instruments are remeasured at fair value on each balance sheet date and resulting gains and losses are recognized in net sales; for the three and six months ended June 30, 2009, losses from our derivative instruments of \$2.0 million and \$2.1 million, respectively, were recognized. As of June 30, 2009, the total notional amount of these foreign currency forward contracts was \$12.6 million.

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

	June 30, 2009 Foreign exchange contracts (in thousands)
Assets	
<i>Derivatives not designated as hedging instruments under SFAS 133</i>	
Prepaid expenses and other	\$ 308
Total assets	\$ 308
Liabilities	
<i>Derivatives not designated as hedging instruments under SFAS 133</i>	
Accrued liabilities	\$ (992)
Total liabilities	\$ (992)

10. Recent Accounting and Reporting Developments

In December 2007 the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which requires the acquiring entity in a business combination to recognize and measure all assets and liabilities assumed in the transaction and any non-controlling

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interest in the acquiree at fair value as of the acquisition date. SFAS 141(R) also establishes guidance for the measurement of the acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting treatment for pre-acquisition gain and loss contingencies, the treatment of acquisition related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively as of the beginning of the fiscal year in which the statement is applied. SFAS 141(R) did not have a material impact on the financial statements presented herein.

In December 2007 the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160), which amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 did not have a material impact on the financial statements presented herein.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), which amends the consolidation guidance applicable to variable interest entities. The amendments significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company does not anticipate that adoption of this statement will have a material impact on the financial position or results of operation.

In June 2009, the FASB approved the FASB Accounting Standards Codification, (Codification), as the single source of authoritative US GAAP for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which launched July 1, 2009, changes the referencing and organization of accounting guidance and is effective for interim and annual periods ending after September 15, 2009. Since it is not intended to change or alter existing US GAAP, the Codification is not expected to have any impact on the Company's financial condition or results of operations. Beginning with the third quarter of 2009, the Company's financial statements will no longer refer to specific US GAAP statements.

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 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, should, could, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors including 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 from time to time in our other Securities and Exchange Commission filings and reports, including our Annual Report on Form 10-K for the year ended December 31, 2008. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions. Such forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report. If we do update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect thereto or with respect to other forward-looking statements.

Overview

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 six manufacturing facilities strategically located across the United States and Mexico: Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas, and Monterrey, Mexico. We also own a facility in Pleasant Grove, Utah, at which operations have been temporarily suspended, as we do not currently see sufficient near-term work located nearby to justify its operation at this time. Our Water Transmission Group accounted for approximately 76% of net sales in the first six months of 2009.

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. We believe our sales are substantially driven by spending on new water infrastructure with additional spending on water infrastructure upgrades, replacements, and repairs. Within the total pipeline, our products best fit the larger-diameter, higher-pressure applications.

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Our Tubular Products Group operates two manufacturing facilities in Atchison, Kansas, and Houston, Texas. We also own a facility in Bossier City, Louisiana, which has not operated for the past few years. We are currently in the final stages of installing new manufacturing equipment at this location, and the start up of this facility will be dependent upon market conditions. We produce a range of products used in several different markets. We currently make energy pipe, mechanical tubing, fire protection sprinkler pipe, agricultural pipe, traffic signpost systems and structural tubing that is sold to distributors and used in many different applications. Our Tubular Products Group generated approximately 24% of net sales in the first six months of 2009.

Our Tubular Products Group's sales volume is typically driven by energy spending related to natural gas drilling activity, non-residential construction spending, highway spending, agricultural spending and general economic conditions. We focus on products for which we believe we have a sustainable advantage, although we have been recently impacted by a combination of recession driven reduced demand and falling prices.

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, 2008.

Goodwill

In order to determine if an interim goodwill impairment test was necessary in the second quarter of 2009, we evaluated events and economic factors that have occurred since the last goodwill impairment test performed in December 2008. We determined that, based on our expectation that pricing and demand in our Tubular Products segment, over time, will return to pre-recessionary levels, an interim goodwill impairment test was not required as of June 30, 2009.

Recent Accounting Pronouncements

See Note 10 of the Condensed Consolidated Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on financial position, results of operations and cash flows.

Table of Contents**Results of Operations**

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net sales				
Water Transmission	79.2%	66.8%	75.6%	67.3%
Tubular Products	20.8	33.2	24.4	32.7
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	86.3	78.0	85.3	79.4
Gross profit	13.7	22.0	14.7	20.6
Selling, general and administrative expense	7.7	8.3	8.3	8.4
Operating income	6.0	13.7	6.4	12.2
Interest expense, net	1.4	1.2	1.4	1.5
Income before income taxes	4.6	12.5	5.0	10.7
Provision for income taxes	1.4	5.0	1.8	4.2
Net income	3.2%	7.5%	3.2%	6.5%
Gross profit (loss) as a percentage of segment net sales:				
Water Transmission	21.6%	19.7%	20.4%	21.1%
Tubular Products	(16.4)	26.4	(2.9)	19.5

Three Months and Six Months Ended June 30, 2009 Compared to Three Months and Six Months Ended June 30, 2008

Net Sales. Net sales decreased 33.2% to \$74.9 million for the second quarter of 2009 compared to \$112.1 million for the second quarter of 2008, and decreased 24.2% to \$156.3 million in the first six months of 2009 from \$206.1 million in the first six months of 2008.

Water Transmission sales decreased 20.8% to \$59.3 million in the second quarter of 2009 from \$74.9 million in the second quarter of 2008 and decreased 14.8% to \$118.2 million in the first half of 2009 from \$138.7 million in the first half of 2008. Net sales for the three months and the six months ended June 30, 2009 decreased from the same periods in the prior year primarily as a result of timing of production in certain of our facilities. Bidding activity, backlog and sales resulting from the award of new projects, or the production of current projects, may vary significantly from period to period.

Tubular Products sales decreased 58.1% to \$15.6 million in the second quarter of 2009 from \$37.2 million in the second quarter of 2008 and decreased 43.4% from \$67.4 million in the first half of 2008 to \$38.1 million in the first half of 2009. Sales decreased over the same periods last year due primarily to reduced volume, as well as to reduced selling prices. The recession continues to have a significant effect on our Tubular Products business, and demand for energy pipe, our highest margin product line, was weaker than expected. Volume in the energy pipe product line decreased by more than 70% in the six months ended June 2009 compared to the same period in the prior year.

During the three and six months ended June 30, 2009, no single customer accounted for 10% or more of net sales. During the three months ended June 30, 2008, one customer accounted for 11.4% of net sales. During the six months ended June 30, 2008, no single customer accounted for 10% or more of net sales.

Gross Profit. Gross profit decreased 58.3% to \$10.3 million (13.7% of total net sales) in the second quarter of 2009 from \$24.6 million (22.0% of total net sales) in the second quarter of 2008 and decreased 45.7% from \$42.4 million (20.6% of total net sales) in the first half of 2008 to \$23.0 million (14.7% of total net sales) in the first half of 2009.

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Water Transmission gross profit decreased \$1.9 million, or 13.2%, to \$12.8 million (21.6% of segment net sales) in the second quarter of 2009 from \$14.8 million (19.7% of segment net sales) in the second quarter of 2008 and decreased \$5.1 million, or 17.5%, from \$29.2 million (21.1% of segment net sales) in the first half of 2008 to \$24.1 million (20.4% of segment net sales) in the first half of 2009. Water Transmission gross profit as a percentage of segment net sales fluctuated slightly from the same periods last year due to the variations in the gross profit of the projects in production in the current periods. Gross profit of projects awarded and produced

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can vary due to several factors, including the level of competition in the bidding process, production schedules, and, to a lesser extent, volatility in steel prices. We are generally able to lock in our steel costs at the time contracts are awarded, which helps to minimize the impact of the volatility in steel prices on our Water Transmission gross profit.

Gross profit (loss) from Tubular Products decreased 126.0% to a loss of \$2.6 million (-16.4% of segment net sales) in the second quarter of 2009 from \$9.8 million (26.4% of segment net sales) in the second quarter of 2008 and decreased 108.4% to a loss of \$1.1 million (-2.9% of segment net sales) in the first half of 2009 from \$13.2 million (19.5% of segment net sales) in the first half of 2008. Despite the fact that raw material costs decreased, margins turned negative as selling prices dropped significantly and demand declined.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to \$5.8 million (7.7% of total net sales) in the second quarter of 2009 from \$9.3 million (8.3% of total net sales) in the second quarter of 2008 and decreased to \$13.0 million (8.3% of total net sales) in the first six months of 2009 from \$17.2 million (8.4% of total net sales) in the first six months of 2008. The decrease from the same periods last year was attributable to reductions in variable compensation costs, sales commissions, travel and entertainment expenses, outside services and professional fees, as well as the effect of numerous other cost containment measures.

Interest Expense, net. Interest expense, net decreased to \$1.0 million in the second quarter of 2009 from \$1.3 million in the second quarter of 2008 and decreased to \$2.3 million in the first six months of 2009 from \$3.1 million in the first six months of 2008. The decrease in the expense compared to the same periods last year was a result of lower average borrowings at a lower average interest rate, combined with an increase in interest income.

Income Taxes. The provision for income taxes was \$1.1 million in the second quarter of 2009, based on an effective tax rate of approximately 30.6%, compared to \$5.6 million for the same period last year, based on an expected tax rate of approximately 40.0%. The provision for income taxes was \$2.7 million for the first six months of 2009, based on an effective tax rate of approximately 34.8%, compared to \$8.6 million for the same period last year, based on an effective tax rate of approximately 38.9%. The decrease in our effective tax rate is due to increased international activity, which is generally taxed at rates lower than our federal statutory rate.

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 six months ended June 30, 2009 is presented in our condensed consolidated statements of cash flows contained in this Form 10-Q, and is further discussed below.

As of June 30, 2009, our working capital (current assets minus current liabilities) was \$180.4 million as compared to \$223.2 million as of December 31, 2008.

Net cash provided by operating activities in the first six months of 2009 was \$52.2 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 after the project has been completed. Our construction contract revenues in the water transmission segment are recognized on a percentage-of-completion method; therefore, there is little correlation between revenue and cash receipts and the elapsed time can be significant. As such, our payment cycle is a significantly shorter interval than our collection cycle, although the effect of this difference in the cycles may vary from period to period.

Net cash used in investing activities in the first six months of 2009 was \$13.3 million for capital expenditures. The two most significant capital projects incurring costs in the six month period were the installation of a new mill in our California facility and the preparation and installation of manufacturing equipment in the facility in Bossier City, Louisiana. Capital expenditures are expected to be approximately \$5 to \$8 million in the remainder of 2009.

Net cash used in financing activities in the first six months of 2009 was \$38.9 million, which resulted primarily from net payments under the notes payable to financial institutions and the long term debt of \$40.4 million and \$4.3 million, respectively, which was generally provided for by operating activities.

We anticipate that our existing cash and cash equivalents, and amounts available under our credit agreement 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

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operations and other sources of available funds to make required principal payments under our long term debt during 2009. To the extent necessary, we may also satisfy capital requirements through additional bank borrowings, senior notes, term notes, capital

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and operating leases, convertible notes and equity offerings, if such resources are available. 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, other forms of debt or an equity offering.

Debt

We had the following significant components of debt at June 30, 2009: a \$150.0 million credit agreement, under which \$41.7 million was outstanding; \$10.7 million of Series A Term Note, \$7.5 million of Series B Term Notes, \$8.5 million of Series C Term Notes and \$3.9 million of Series D Term Notes.

There have been no changes to the scheduled maturities of the Series A Term Note, the Series B Term Notes, the Series C Term Notes, or the Series D Term Notes (together, the Term Notes) from that disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008. The Term Notes are collateralized by accounts receivable, inventory and certain machinery and equipment.

We also have stand-by letters of credit that total approximately \$6.5 million as of June 30, 2009. The stand-by letters of credit relate to customer owned material and workers compensation insurance. Due to the nature of these arrangements and our historical experience, we do not expect to make any material payments under these arrangements.

As of June 30, 2009, the credit agreement provided for a revolving loan, swing line loan and letters of credit in the aggregate amount of up to \$150 million, with an option for the Company to increase that amount to \$200 million, subject to lender approval. Borrowings under the credit agreement were secured by substantially all of the Company's personal property.

The credit agreement expires on May 31, 2012. The balance outstanding under the credit agreement at June 30, 2009 bears interest at rates related to LIBOR plus 1.25% to 2.25%, or the lending institution's prime rate, plus 0.00% to 0.75%. At June 30, 2009 we had \$41.7 million outstanding under the credit facility bearing interest at a weighted average rate of 2.8%.

We had \$9.6 million of capital leases outstanding at June 30, 2009, under which certain equipment used in the manufacturing process is leased. The average interest rate on the capital leases is 5.8%.

The credit agreement, the Term Notes and certain of our capital leases all require compliance with the following financial covenants: minimum consolidated tangible net worth, maximum consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) ratio, maximum consolidated senior debt to EBITDA, a minimum consolidated fixed charge coverage ratio and a minimum asset coverage ratio. These and other covenants included in our financing agreements impose certain requirements with respect to our financial condition and results of operations, and place restrictions on, among other things, our ability to incur certain additional indebtedness, to create liens or other encumbrances on assets and capital expenditures. A failure by us to comply with the requirements of these covenants, if not waived or cured, could permit acceleration of the related indebtedness and acceleration of indebtedness under other instruments that include cross-acceleration or cross-default provisions. At June 30, 2009, we were not in violation of any of the covenants in our debt agreements, nor do we believe that it is reasonably likely that we will be in violation of our debt covenants in the near-term.

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, 2008. For the six months ended June 30, 2009, there has been no material change in market risk factors.

Item 4. Controls and Procedures

As of June 30, 2009, the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)), which are designed to ensure that material information we must disclose in our report filed or submitted under the Securities Exchange Act of 1934, as

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amended (the Exchange Act) is recorded, processed, summarized, and reported on a timely basis. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated as appropriate to allow timely decisions regarding required disclosure.

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In the three months ended June 30, 2009, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Part II Other Information

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, 2008.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's annual meeting of shareholders was held on June 2, 2009. The following matter was submitted to shareholders for their consideration:

With respect to the nominees for director identified in the Company's Proxy Statement, Brian W. Dunham received 8,280,925 votes and 114,210 votes were withheld, and Richard A. Roman received 8,167,472 votes and 227,663 votes were withheld.

The other directors whose terms of office continue after the annual meeting are: Michael C. Franson, Wayne B. Kingsley, Keith R. Larson and William R. Tagmyer.

Item 6. Exhibits

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

Exhibit

Number	Description
4.1	Amended and Restated Rights Agreement, dated as of June 18, 2009, between Northwest Pipe Company and Mellon Investors Services LLC, as Rights Agent (incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 19, 2009)
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: August 7, 2009

NORTHWEST PIPE COMPANY

By: /s/ BRIAN W. DUNHAM
Brian W. Dunham
President and Chief Executive Officer

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