

NORTHWEST PIPE CO
Form 10-Q
May 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 0-27140

NORTHWEST PIPE COMPANY
(Exact name of registrant as specified in its charter)

OREGON
(State or other jurisdiction of
incorporation or organization)

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

5721 SE Columbia Way

Suite 200

Vancouver, Washington 98661

(Address of principal executive offices and zip code)

360-397-6250

(Registrant's telephone number including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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

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

NORTHWEST PIPE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

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

Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 15,000,000 shares authorized, 9,554,222 and 9,520,067 shares issued and outstanding	96	95
Additional paid-in-capital	116,697	116,802
Retained earnings	128,470	130,571
Accumulated other comprehensive loss	(1,739)	(1,833)
Total stockholders' equity	243,524	245,635
Total liabilities and stockholders' equity	\$ 320,753	\$ 351,882

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

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NORTHWEST PIPE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

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

Shares used in per share calculations:

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

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

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NORTHWEST PIPE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

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

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

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

(Unaudited)

(In thousands)

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

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

Non-Cash Investing Activity:

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

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NORTHWEST PIPE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The financial information as of December 31, 2014 is derived from the audited consolidated financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K). Certain information or footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair statement of the results of the interim periods presented. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto together with management's discussion and analysis of financial condition and results of operations contained in the Company's 2014 Form 10-K.

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

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

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

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

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

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

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

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

Long-term inventories are recorded in other assets.

4. Fair Value Measurements

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

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

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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 at March 31, 2015	Level 1	Level 2	Level 3
Financial assets				
Deferred compensation plan	\$ 6,805	\$ 5,548	\$ 1,257	\$
Derivatives	131		131	