

NORTHWEST PIPE CO  
Form 10-K/A  
September 04, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-K/A**  
**Amendment No. 1**

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

For the Fiscal Year Ended: December 31, 2013

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, WA 98661**

(Address of principal executive offices and zip code)

Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

360-397-6250

(Registrant's telephone number including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class of Stock</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.01 per share	NASDAQ Global Select Market
Preferred Stock Purchase Rights	NASDAQ Global Select Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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 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 Act). Yes  No

The aggregate market value of the common equity that was held by non-affiliates of the Registrant was \$222,710,746 as of June 30, 2013 based upon the last sales price as reported by Nasdaq.

The number of shares outstanding of the Registrant's Common Stock as of March 12, 2014 was 9,508,875 shares.

**Documents Incorporated by Reference**

The registrant has incorporated into Parts II and III of Form 10-K by reference certain portions of its Proxy Statement for its 2014 Annual Meeting of Shareholders.

**Table of Contents**

**Explanatory Note**

In this Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2013, Northwest Pipe Company ( the Company ) is updating Item 9A as filed with the Securities and Exchange Commission (the SEC ) on March 17, 2014 (the Original Filing ) to reflect changes in our assessment of internal controls over financial reporting and disclosure controls and procedures. This update is a result of identifying a material weakness in the Company s internal control over financial reporting related to our impairment assessment of goodwill. Except for the inclusion of new certifications required by Rule 13a-14 under the Securities Exchange Act of 1934, as amended ( Exchange Act ), and revised reports and new consents of the independent registered public accounting firms and as required to reflect the change in Item 9A (Controls and Procedures), no additional modifications or updates to the consolidated financial statements, financial statement schedule, or data in this Form 10-K/A have been made to the consolidated financial statements, financial statement schedule, or data for the years ended December 31, 2013, December 31, 2012 or December 31, 2011 as filed in the Original Filing.

**Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements required by this item are included on pages F-1 to F-33 at the end of this 2013 Form 10-K/A. The only changes from the financial statements filed with the Company s Original Filing are changes to the Report of Independent Registered Public Accounting Firm on Page F-1.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

At the time that our Annual Report on Form 10-K for the year ended December 31, 2013 was filed on March 17, 2014 our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2013. Subsequent to that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 31, 2013 because of the material weakness in our internal control over financial reporting described below. Notwithstanding the material weakness described below, our management has concluded that the consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K/A are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America for each of the periods presented herein.

**Management s Report on Internal Control over Financial Reporting (as restated)**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

## **Table of Contents**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of our internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria set forth in *Internal Control-Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management has identified the following control deficiency that constituted a material weakness in our internal control over financial reporting as of December 31, 2013:

We did not design and maintain effective controls over our impairment assessment of goodwill. Specifically, we did not design and maintain effective controls related to the critical review of assumptions, data inputs and results of the goodwill impairment analysis, and the identification of changes in events and circumstances that indicate it is more likely than not that a goodwill impairment has occurred between annual impairment tests.

The control deficiency did not result in any adjustments to our annual or interim consolidated financial statements; however, the control deficiency could result in misstatements to the goodwill and impairment of goodwill account balances and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, we have determined that this control deficiency constitutes a material weakness.

For the purposes of conducting our 2013 evaluation of the effectiveness of our internal control over financial reporting, we have excluded Permalok from our assessment of internal control over financial reporting as of December 31, 2013 because it was acquired by the Company on December 30, 2013, whose financial statements constitute 5% and 0% of total assets and total revenues, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Refer to Part II Note 1, Summary of Significant Accounting Policies of this 2013 Form 10-K/A for further discussion of the acquisition and the impact on our Consolidated Financial Statements.

In Management's Report on Internal Control Over Financial Reporting included in our original Annual Report on Form 10-K for the year ended December 31, 2013, our management, including our CEO and CFO, previously concluded that we maintained effective internal control over financial reporting as of December 31, 2013. We have subsequently concluded that the material weakness described above existed as of December 31, 2013. As a result, we have concluded that we did not maintain effective internal control over financial reporting as of December 31, 2013, based on the criteria in *Internal Control-Integrated Framework* (1992) issued by the COSO. Accordingly, management has restated its report on internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part II, Item 8 of this Annual Report.

### **Plan for Remediation of Material Weakness**

In response to the material weakness described above, our management, with the oversight from our Audit Committee of the Board of Directors, plans to take measures to remediate the underlying causes of the material weakness. We will take the following actions to improve the design of our internal control in order to remediate this weakness:

Review, expand, and enhance documentation of the processes related to the impairment assessment of goodwill.

Design, document, and implement additional control procedures related to the review of the assumptions and data inputs used in the analysis, as well as review of the results of the goodwill impairment analysis.

## Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

Design, document, and implement control procedures specifically related to the evaluation of changes in events and circumstances which occur between annual impairment tests.

Test and evaluate the design and operating effectiveness of the control procedures.

Conclude on the effectiveness of the remediation plan.

**Table of Contents**

We believe these additional internal controls will be effective in remediating the material weakness described above. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address the material weakness or determine to modify the remediation plan described above. Until the remediation steps set forth above are fully implemented, the material weakness described above will continue to exist.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

---

**Table of Contents**

**PART IV**

**Item 15. Exhibits and Financial Statement Schedule**

(a) (1) *Consolidated Financial Statements*

The consolidated financial statements, together with the reports thereon of PricewaterhouseCoopers LLP and Deloitte & Touche LLP are included on the pages indicated below.

	<b>Page</b>
<u>Reports of Independent Registered Public Accounting Firms</u>	F-1
<u>Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	F-3
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011</u>	F-4
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	F-5
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	F-6
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8
(a) (2) <i>Financial Statement Schedule</i>	

The following schedule is filed herewith:

	<b>Page</b>
Schedule II <u>Valuation and Qualifying Accounts</u>	S-1

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is included in the consolidated financial statements or notes thereto.

**Table of Contents**

(a) (3) Exhibits included herein:

<b>Exhibit Number</b>	<b>Description</b>
3.1	Second Restated Articles of Incorporation, incorporated by reference to Exhibits to the Company's Registration Statement on Form S-1, as amended, effective November 30, 1995, Commission Registration No. 33-97308 ( the S-1 )
3.2	First Amendment to Second Restated Articles of Incorporation, incorporated by reference to Exhibits to the Company's Registration Statement of Form S-3, as amended, effective November 1, 2006, Commission Registration No. 333-137923 ( the S-3 )
3.3	Second Amended and Restated Bylaws, incorporated by reference to Exhibits to the S-1
3.4	First Amendment to Second Amended and Restated Bylaws of Northwest Pipe Company, incorporated by reference to Exhibits to the Company's Report on Form 8-K as filed with the Securities and Exchange Commission on November 19, 2007
4.1	Amended and Restated Rights Agreement, dated as of June 18, 2009, between the Company and Mellon Investor Services LLC as Rights Agent, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 19, 2009
10.1	1995 Stock Option Plan for Nonemployee Directors, incorporated by reference to Exhibits to the S-1*
10.2	Northwest Pipe NQ Retirement Savings Plan, dated July 1, 1999, incorporated by reference to Exhibits to the Company's Quarterly Report Form 10-Q for the quarter ended June 30, 2000, as filed with the Securities and Exchange Commission on August 11, 2000*
10.3	Amended and Restated Note Purchase and Private Shelf Agreement dated as of May 31, 2007 by and among Northwest Pipe Company, Prudential Investment Management, Prudential Retirement Insurance and Annuity Company and Prudential Insurance Company of America 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 June 6, 2007
10.4	Northwest Pipe Company 2007 Stock Incentive Plan, incorporated by reference to Appendix A to the Company's Definitive Proxy Statement dated April 20, 2007, as filed with the Securities and Exchange Commission on April 26, 2007*
10.5	First Amendment and Limited Waiver to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of October 14, 2008 by and among Northwest Pipe Company and Prudential Investment Management, Inc. and certain affiliates (certain schedules to the Agreement have been omitted), incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 20, 2008
10.6	Form of Amended and Restated Change in Control Agreement, dated December 31, 2008, between Northwest Pipe Company and Robert L. Mahoney, and Gary A. Stokes, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on March 13, 2009
10.7	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
10.8	Fourth Amendment to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of April 15, 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 April 26, 2010
10.9	Fifth Amendment and Limited Consent to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of July 23, 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 July 29, 2010
10.10	Sixth Amendment and Temporary Waiver to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of July 30, 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 August 5, 2010



**Table of Contents****Exhibit**

<b>Number</b>	<b>Description</b>
10.11	Seventh Amendment and Limited Waiver to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of September 16, 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 October 5, 2010
10.12	Eighth Amendment and Limited Waiver to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of October 15, 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 October 27, 2010
10.13	Separation Agreement and Release, dated January 20, 2011, between Northwest Pipe Company and Stephanie J. Welty, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on January 24, 2011*
10.14	Change in Control Agreement between Northwest Pipe Company and Robin Gantt dated as of April 21, 2011, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on April 25, 2011
10.15	Change in Control Agreement between Northwest Pipe Company and Richard Baum dated as of May 27, 2011, incorporated by reference to Exhibits to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, as filed with the Securities and Exchange Commission on August 8, 2011
10.16	Change in Control Agreement between Northwest Pipe Company and Scott Montross dated as of July 6, 2011, incorporated by reference to Exhibits to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2011, as filed with the Securities and Exchange Commission on April 27, 2012
10.17	Form of grant of restricted stock units by Northwest Pipe Company to certain Named Officers, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 12, 2011*
10.18	Form of grant of performance share units by Northwest Pipe Company to certain Named Officers, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 12, 2011*
10.19	Form of grant of restricted stock units by Northwest Pipe Company to certain Named Officers, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 20, 2012*
10.20	Form of grant of performance share units by Northwest Pipe Company to certain Named Officers, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 20, 2012*
10.21	Amended and Restated Credit Agreement dated October 24, 2012, by and among Northwest Pipe Company, Bank of America, N.A., US Bank National Association, Wells Fargo Bank, National Association and Bank of the West, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 29, 2012
10.22	Third Amended and Restated Intercreditor and Collateral Agency Agreement dated as of October 24, 2012 by and between Northwest Pipe Company, Bank of America, N.A., US Bank National Association, Wells Fargo Bank, National Association, Bank of the West, and Prudential Investment Management, Inc. and certain of its affiliates, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 29, 2012
10.23	Executive Employment Agreement dated December 19, 2012 between Northwest Pipe Company and Richard A. Roman, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 20, 2012
10.24	Ninth Amendment to the Amended and Restated Note Purchase and Private Shelf Agreement dated as of September 16, 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 October 29, 2012

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
10.25	Northwest Pipe Company 2012 Salaried Employee Cash Incentive Plan, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on February 27, 2013
10.26	Form of grant of restricted stock units by Northwest Pipe Company to certain Named Officers, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 6, 2013*
10.27	Form of grant of performance share units by Northwest Pipe Company to certain Named Officers, incorporated by reference to the Company's Current Report on Form 8-K, as filed with the Securities and Exchange Commission on June 6, 2013*
10.28	Change in Control Agreement between Northwest Pipe Company and William Smith dated as of October 15, 2013, incorporated by reference to Exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission concurrently on November 5, 2013
10.29	Change in Control Agreement between Northwest Pipe Company and Martin Dana dated as of October 15, 2013, incorporated by reference to Exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission concurrently on November 5, 2013
10.30	Northwest Pipe Company 2014 Short Term Incentive Plan dated as of February 28, 2014, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014
16	Letter re change in certifying accountant, incorporated by reference to Exhibit 16.1 to the Company's Current Report on Form 8-K/A dated August 20, 2012, as filed with the Securities and Exchange Commission on September 5, 2012
21.1	Subsidiaries of the Registrant, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014
23.1	Consent of PricewaterhouseCoopers LLP, filed herewith
23.2	Consent of Deloitte & Touche LLP, filed herewith
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
101.INS	XBRL Instance Document, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014
101.SCH	XBRL Taxonomy Extension Schema Document, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014
101.LAB	XBRL Taxonomy Extension Label Linkbase Document, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document, incorporated by reference to Exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014

\* This exhibit constitutes a management contract or compensatory plan or arrangement.

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Northwest Pipe Company

In our opinion, the accompanying consolidated balance sheets as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended present fairly, in all material respects, the financial position of Northwest Pipe Company and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the years ended December 31, 2013 and 2012 listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013. However, management has subsequently determined that a material weakness in internal control over financial reporting related to the Company not designing and maintaining effective controls over its impairment assessment of goodwill existed as of that date. Accordingly, management's report has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to the Company not designing and maintaining effective controls over its impairment assessment of goodwill existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded Permalok Corporation from its assessment of internal control over financial reporting as of December 31, 2013 because it was acquired by the Company in a purchase business combination on December 30, 2013. We have also excluded Permalok Corporation from our audit of internal control over financial reporting. Permalok Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 5% and 0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013.

/s/ PricewaterhouseCoopers LLP

Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

Portland, Oregon

March 17, 2014, except with respect to our opinion on internal control over financial reporting insofar as it relates to the effects of the matter described in the penultimate paragraph of Management's Report on Internal Control over Financial Reporting, as to which the date is September 4, 2014

F-1

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Northwest Pipe Company

Vancouver, Washington

We have audited the accompanying consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows of Northwest Pipe Company and subsidiaries (the "Company") for the year ended December 31, 2011. Our audit also included the financial statement schedule for the year ended December 31, 2011 listed in the Table of Contents at Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Northwest Pipe Company and subsidiaries for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule for the year ended December 31, 2011, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Portland, Oregon

April 27, 2012 (March 18, 2013 as to the presentation of a separate consolidated statement of comprehensive income for 2011)

**Table of Contents****NORTHWEST PIPE COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)**

	Year Ended December 31,		
	2013	2012	2011
Net sales	\$ 475,556	\$ 524,503	\$ 511,668
Cost of sales	423,097	468,305	452,530
Gross profit	52,459	56,198	59,138
Selling, general and administrative expense	24,210	28,638	26,315
Impairment of fixed assets	27,500		
Operating income	749	27,560	32,823
Other expense	289	339	1,338
Interest income	(456)	(160)	(99)
Interest expense	3,965	5,616	9,306
Income (loss) before income taxes	(3,049)	21,765	22,278
Provision for (benefit from) income taxes	(2,126)	5,521	9,618
Net income (loss)	\$ (923)	\$ 16,244	\$ 12,660
Basic earnings (loss) per share	\$ (0.10)	\$ 1.73	\$ 1.36
Diluted earnings (loss) per share	\$ (0.10)	\$ 1.72	\$ 1.35
Shares used in per share calculations:			
Basic	9,445	9,377	9,333
Diluted	9,445	9,445	9,384

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

**Table of Contents**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(In thousands)**

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net income (loss)	\$ (923)	\$ 16,244	\$ 12,660
Other comprehensive income (loss):			
Pension liability adjustment, net of tax	913	138	(667)
Deferred gain (loss) on cash flow derivatives, net of tax	99	(99)	211
Other comprehensive income (loss)	1,012	39	(456)
Comprehensive income	\$ 89	\$ 16,283	\$ 12,204

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

F-4

**Table of Contents****CONSOLIDATED BALANCE SHEETS**

(Dollar amounts in thousands, except share and per share amounts)

	December 31,	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 588	\$ 46
Trade and other receivables, less allowance for doubtful accounts of \$685 and \$1,748	72,470	41,498
Costs and estimated earnings in excess of billings on uncompleted contracts	50,468	73,314
Inventories	110,392	113,545
Refundable income taxes	1,073	
Deferred income taxes	6,208	5,177
Prepaid expenses and other	2,381	2,558
<b>Total current assets</b>	<b>243,580</b>	<b>236,138</b>
Property and equipment, net	143,061	152,545
Goodwill	25,760	20,478
Other assets	21,058	13,261
<b>Total assets</b>	<b>\$ 433,459</b>	<b>\$ 422,422</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 5,714	\$ 5,714
Current portion of capital lease obligations	2,216	3,295
Accounts payable	21,731	21,042
Accrued liabilities	10,302	23,424
Deferred revenue	4,892	8,793
Billings in excess of costs and estimated earnings on uncompleted contracts	3,368	6,478
<b>Total current liabilities</b>	<b>48,223</b>	<b>68,746</b>
Note payable to financial institution	87,919	47,533
Long-term debt, less current portion	643	6,357
Capital lease obligations, less current portion	5,679	9,179
Deferred income taxes	11,842	15,254
Pension and other long-term liabilities	17,303	15,921
<b>Total liabilities</b>	<b>171,609</b>	<b>162,990</b>
Commitments and contingencies (Note 14)		
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, 9,449,299 and 9,382,994 shares issued and outstanding	94	94
Additional paid-in-capital	114,559	112,230
Retained earnings	148,458	149,381
Accumulated other comprehensive loss	(1,261)	(2,273)
<b>Total stockholders equity</b>	<b>261,850</b>	<b>259,432</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 433,459</b>	<b>\$ 422,422</b>

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





**Table of Contents****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Dollar amounts in thousands)

	Common Stock			Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders Equity
	Shares	Amount	Additional Paid In Capital			
Balances, December 31, 2010	9,298,156	\$ 93	\$ 107,578	\$ 120,477	\$ (1,856)	\$ 226,292
Net income				12,660		12,660
Other comprehensive (loss) income:						
Foreign currency cash flow hedge, net of tax expense of \$130					211	211
Pension liability adjustment, net of tax benefit of \$409					(667)	(667)
Issuance of common stock under stock compensation plans	55,045	1	66			67
Tax benefit from stock compensation plans			243			243
Stock-based compensation expense			1,461			1,461
Balances, December 31, 2011	9,353,201	94	109,348	133,137	(2,312)	240,267
Net income				16,244		16,244
Other comprehensive (loss) income:						
Foreign currency cash flow hedge, net of tax benefit of \$94					(99)	(99)
Pension liability adjustment, net of tax expense of \$50					138	138
Issuance of common stock under stock compensation plans	29,793		(175)			(175)
Tax benefit from stock compensation plans			9			9
Stock-based compensation expense			3,048			3,048
Balances, December 31, 2012	9,382,994	94	112,230	149,381	(2,273)	259,432
Net loss				(923)		(923)
Other comprehensive income:						
Foreign currency cash flow hedge, net of tax expense of \$59					99	99
Pension liability adjustment, net of tax expense of \$540					913	913
Issuance of common stock under stock compensation plans	66,305		(730)			(730)
Tax deficiency from stock compensation plans			(1)			(1)
Stock-based compensation expense			3,060			3,060
Balances, December 31, 2013	9,449,299	\$ 94	\$ 114,559	\$ 148,458	\$ (1,261)	\$ 261,850

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

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollar amounts in thousands)**

	Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$ (923)	\$ 16,244	\$ 12,660
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	13,299	16,267	14,471
Impairment of fixed assets	27,500		
Amortization of intangible assets			50
Allowance on notes receivable			4,071
Provision for doubtful accounts	(1,063)	98	(501)
Equity in earnings of unconsolidated subsidiary			394
Amortization of debt issuance costs	634	1,318	2,042
Loss on impairment	250		
Deferred income taxes	(7,994)	(4,120)	5,908
Loss on disposal of property and equipment	256	998	397
Gain on sale of business			(2,887)
Stock-based compensation expense	3,060	3,048	1,461
Tax (deficiency) benefit from stock compensation plans	(1)	9	243
Unrealized loss (gain) on foreign currency forward contracts	(195)	207	(327)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities			
Trade and other receivables	(24,212)	28,298	(5,713)
Costs and estimated earnings in excess of billings on uncompleted contracts, net	19,736	(36,621)	510
Inventories	8,261	(5,582)	(29,794)
Refundable income taxes	(1,073)		15,099
Prepaid expenses and other	307	5,480	(5,297)
Accounts payable	1,374	(310)	(8,920)
Deferred revenue	(3,901)	7,764	1,029
Accrued and other liabilities	(15,226)	11,392	7,379
<b>Net cash provided by operating activities</b>	<b>20,089</b>	<b>44,490</b>	<b>12,275</b>
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(15,689)		
Additions to property and equipment	(28,447)	(16,789)	(16,333)
Proceeds from sale of business			13,727
Proceeds from sale of property and equipment	1,711	1,072	96
Issuance of notes receivable	(5,700)	(1,000)	
Restricted cash		(2,640)	2,640
Other investing activities	(126)	60	800
<b>Net cash (used in) provided by investing activities</b>	<b>(48,251)</b>	<b>(19,297)</b>	<b>930</b>
Cash flows from financing activities:			
Proceeds from sale of common stock	72	37	147
Tax withholdings related to net share settlements of restricted share awards and performance shares	(802)	(212)	(80)
Payments on long-term debt	(5,714)	(5,714)	(5,714)
Borrowings under note payable to financial institutions	220,721	119,000	132,050
Payments on note payable to financial institutions	(180,334)	(133,468)	(138,050)
Payments of debt issuance costs		(1,599)	
Borrowings from capital lease obligations			1,829
Payments on capital lease obligations	(5,239)	(3,373)	(3,256)
<b>Net cash provided by (used in) financing activities</b>	<b>28,704</b>	<b>(25,329)</b>	<b>(13,074)</b>
<b>Change in cash and cash equivalents</b>	<b>542</b>	<b>(136)</b>	<b>131</b>

## Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

Cash and cash equivalents, beginning of period	46	182	51
Cash and cash equivalents, end of period	\$ 588	\$ 46	\$ 182
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amounts capitalized	\$ 3,277	\$ 4,353	\$ 7,220
Cash paid (refunded) during the period for income taxes (net of (refunds) payments of (\$311), (\$1,834), and \$2,292)	9,592	5,007	(12,960)
Non-cash investing and financing activities:			
Escrow account related to capital lease financing	\$	\$ 898	\$ 897
Accrued property and equipment purchases	1,656	2,777	1,673
Capital lease additions		142	

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

F-7

---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Company operates in two business segments, Water Transmission and Tubular Products. On December 30, 2013 the Company acquired Permalok Corporation ( Permalok ) which is included in the Water Transmission business segment. The Company has Water Transmission manufacturing facilities in Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas and Monterrey, Mexico. With the acquisition of Permalok, the Company added manufacturing facilities in St. Louis, Missouri, and Salt Lake City, Utah. Tubular Products manufacturing facilities are located in Atchison, Kansas; Houston, Texas; and Bossier City, Louisiana.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances at that time. On an on-going basis, the Company evaluates all of its estimates, including those related to revenue recognition, allowance for doubtful accounts, goodwill, long-lived assets, including depreciation and amortization, inventories, income taxes, and litigation and other contingencies. Actual results could differ from those estimates under different assumptions or conditions.

**Basis of Consolidation and Presentation**

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

Lucid Energy Inc. ( Lucid Energy ), over which the Company exercises significant influence but does not control, is accounted for under the cost method of accounting. Lucid Energy is a clean energy company based in Portland, Oregon. The carrying value of our investment is \$0 at December 31, 2013 and 2012 due to a history of net losses by Lucid Energy.

**Business Combinations and Acquisitions**

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Contingent consideration is calculated and recorded at the date of the acquisition. During the measurement period, which does not exceed one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed as a result of information received regarding the valuation of assets and liabilities after the acquisition date, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

On December 30, 2013 the Company acquired 100% of the outstanding shares of capital stock of Permalok Corporation, a fabricator of steel piping utilizing the Permalok interlocking pipe joining system. Permalok's rolled and welded steel pipe products provide an alternate joint solution which complements and expands the Company's product offerings in the Water Transmission segment. Total consideration (net of cash received) of

## **Table of Contents**

\$15.7 million was paid to the owners of the business, resulting in the recording of \$5.3 million of goodwill, none of which is expected to be deductible for tax purposes. The goodwill recorded is attributed to synergies expected from integrating operations of Permalok with the rest of the Company's Water Transmission business. The goodwill is included within the Water Transmission Group for purposes of segment reporting. Contingent consideration of \$4.4 million was recorded in other long-term liabilities as of December 31, 2013, which represents the probability weighted contingent payment as a percentage of high, mid, and low revenue projections for the following three fiscal years. Contingent consideration at the acquisition date was estimated to be between \$0.3 million and \$5.2 million.

Pro forma results of operations related to our acquisitions during the year ended December 31, 2013 have not been presented because they are not material to our Consolidated Statements of Operations, either individually or in the aggregate.

On June 1, 2011, the Company sold all assets of the traffic systems product line of the Tubular Products facility in Houston, Texas. Assets sold as part of this sale included the (i) raw materials, work-in-process, finished goods and related fuel and supplies inventories, (ii) tangible personal property located at the Houston facilities or used by the Company in connection with the traffic business, including machinery, equipment, tooling, operating and maintenance manuals, parts and all other tangible assets used in or related to the traffic business, (iii) receivables, and (iv) other assets. Total consideration of \$13.7 million was received, resulting in a gain of \$2.9 million recognized in other expense during the second quarter of 2011. The calculation of the gain on sale included a write-off of \$973,000 of goodwill.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and short term highly liquid investments with remaining maturities of three months or less when purchased. At times, the Company will have outstanding checks in excess of related bank balances (a book overdraft). If this occurs, the amount of the book overdraft will be reclassified to Accounts Payable, and changes in the book overdraft will be reflected as a component of operating activities in the Consolidated Statements of Cash Flows. The Company did not have a book overdraft at December 31, 2013 or 2012.

### **Receivables and Allowance for Doubtful Accounts**

Trade receivables are reported on the balance sheet net of any doubtful accounts. The Company maintains allowances for estimated losses resulting from the inability of its customers to make required payments or from contract disputes. The amounts of such allowances are based on Company history and management's judgment. At least monthly, the Company reviews past due balances to identify the reasons for non-payment. The Company will write off a receivable account once the account is deemed uncollectible. The Company believes the reported allowances at December 31, 2013 and 2012 are adequate. If the customers' financial conditions were to deteriorate resulting in their inability to make payments, or if contract disputes were to escalate, additional allowances may need to be recorded which would result in additional expenses being recorded for the period in which such determination was made.

### **Customer Prepayments**

Contractual terms may require prepayment of a portion of a contract value in advance of completing the work. Advanced deposits are recorded in accrued liabilities and are offset by invoices as work is performed on the contract. There were no advanced deposits at December 31, 2013. Advanced deposits totaled \$9.4 million at December 31, 2012.

## **Table of Contents**

### **Inventories**

Inventories are stated at the lower of cost or market. Raw material inventories of steel are stated at cost, either on a specific identification basis or on an average cost basis. All other raw material inventories, as well as supplies, are stated on an average cost basis. Finished goods are stated at cost using the first-in, first-out method of accounting.

### **Property and Equipment**

Property and equipment is stated at cost. Maintenance and repairs are expensed as incurred, and costs of new equipment and buildings, as well as costs of expansions or refurbishment of existing equipment and buildings, including interest where applicable, are capitalized. Depreciation and amortization are determined by the units of production method for most equipment and by the straight-line method for the remaining assets based on the estimated useful lives of the related assets. Estimated useful lives by major classes of property and equipment are as follows: Land improvements (15–30 years); Buildings (20–40 years); Machinery and equipment (3–30 years). Depreciation expense calculated under the units of production method may be less than, equal to, or greater than depreciation expense calculated under the straight-line method due to variances in production levels. Upon disposal, costs and related accumulated depreciation of the assets are removed from the accounts and resulting gains or losses are reflected in operating expenses. The Company leases certain equipment under long-term capital leases, which are being amortized on a straight-line basis over the shorter of its useful life or the lease term.

The Company assesses impairment of property and equipment whenever changes in circumstances indicate that the carrying values of the asset or asset group(s) may not be recoverable. The asset group is the lowest level at which identifiable cash flows are largely independent of the cash flows of other groups of assets or liabilities. The recoverable value of long-lived asset group is determined by estimating future undiscounted cash flows using assumptions about the expected future operating performance of the Company.

In conjunction with the preparation of the financial statements for the year ended December 31, 2013, the Company determined that an impairment triggering event as defined in ASC 360-10 had occurred for the assets located at its Bossier City, Louisiana facility. See Note 4, Property and Equipment for further discussion of the property and equipment impairment recorded during 2013.

### **Goodwill and Intangible Assets**

Goodwill represents the excess of purchase price over the assigned fair values of the net assets in connection with an acquisition. Goodwill is reviewed for impairment annually at December 31 or whenever events occur or circumstances change that indicates goodwill may be impaired. Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component). Our reporting units are equivalent to our operating segments as the individual components meet the criteria for aggregation.

Intangible assets consist primarily of customer relationships, patents, and trade names and trademarks recorded as the result of acquisition activity. Intangible assets are amortized using the straight-line method over estimated useful lives ranging from 3 to 15 years.

See Note 5, Goodwill and Intangible Assets for further discussion of the Company's Goodwill and Intangible Asset balances.

## **Table of Contents**

### **Workers Compensation Insurance**

The Company is self-insured, or maintains high deductible policies, for losses and liabilities associated with workers compensation claims. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using historical experience and certain actuarial assumptions followed in the insurance industry.

### **Pension Benefits**

The Company has two defined benefit pension plans that have been frozen since 2001. The Company funds these plans to cover current plan costs plus amortization of the unfunded plan liabilities. To record these obligations, management uses estimates relating to investment returns, mortality, and discount rates. Management reviews all of these assumptions on an annual basis.

### **Derivative Instruments**

The Company conducts business in 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. Foreign currency forward contracts are consistent with the Company's strategy for financial risk management. The Company utilizes cash flow hedge accounting treatment for qualifying foreign currency forward contracts. Instruments that do not qualify for cash flow hedge accounting treatment are remeasured at fair value at each balance sheet date and resulting gains and losses are recognized in net income (loss).

### **Foreign Currency Transactions**

Assets and liabilities subject to foreign currency fluctuations are translated into United States dollars at the period-end exchange rate, and revenue and expenses are translated at exchange rates representing an average for the period. Translation adjustments from designated hedges are included in accumulated other comprehensive loss as a separate component of stockholders' equity. Gains or losses on all other foreign currency transactions are recognized in the statement of operations. The functional currency of the Company's Mexican operations is the United States dollar.

### **Revenue Recognition**

Revenue from construction contracts in the Company's Water Transmission Group is recognized on the percentage-of-completion method. For a majority of contracts, revenue is measured by the costs incurred to date as a percentage of the estimated total costs of each contract (cost-to-cost method). For a small number of contracts, revenue is measured using units of delivery as progress is best estimated by the number of units delivered under the contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation. Selling, general and administrative costs are charged to expense as incurred. The cost of steel is recognized as a project cost when the steel is introduced into the manufacturing process. Estimated total costs of each contract are reviewed on a monthly basis by project management and operations personnel for all active projects. All cost revisions that result in the gross profit as a percent of sales increasing or decreasing by more than two percent are reviewed by senior management personnel.

The Company begins recognizing revenue on a project when persuasive evidence of an arrangement exists, recoverability is reasonably assured, and project costs are incurred. Costs may be incurred before the Company has persuasive evidence of an arrangement. In those cases, if recoverability from that arrangement is probable, the project costs are deferred and revenue recognition is delayed.



## **Table of Contents**

Changes in job performance, job conditions and estimated profitability, including those arising from contract change orders, contract penalty provisions, foreign currency exchange rate movements, changes in raw materials costs, and final contract settlements may result in revisions to estimates of revenue, costs and income and are recognized in the period in which the revisions are determined. Provisions for losses on uncompleted contracts are made in the period such losses are known.

Revenue from the Company's Tubular Products Group is recognized when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists, the price is fixed or determinable, delivery has occurred, and collectability is reasonably assured. Deferred revenue is recorded when the manufacturing process is complete and customers are invoiced prior to physical delivery of the product.

## **Income Taxes**

Income taxes are recorded using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. The determination of the provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. The provision for income taxes primarily reflects a combination of income earned and taxed in the various United States federal and state and, to a lesser extent, foreign jurisdictions. Jurisdictional tax law changes, increases or decreases in permanent differences between book and tax items, accruals or adjustments of accruals for unrecognized tax benefits or valuation allowances, and the change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

The Company records tax reserves for federal, state, local and international exposures relating to periods subject to audit. The development of reserves for these exposures requires judgments about tax issues, potential outcomes and timing, and is a subjective estimate. The Company assesses tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a tax authority that has full knowledge of all relevant information has been recorded. For those tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements.

## **Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss includes unrealized gains and losses on derivative instruments related to the effective portion of cash flow hedges and changes in the funded status of the defined benefit pension plans, both net of the related income tax effect. For further information, refer to Note 16, Accumulated Other Comprehensive Loss.

**Table of Contents****Earnings (Loss) per Share**

Earnings (loss) per basic and diluted weighted average common shares outstanding was calculated as follows for the years ended December 31 (in thousands, except per share data):

	2013	2012	2011
Net income (loss) (in thousands)	\$ (923)	\$ 16,244	\$ 12,660
Basic weighted-average common shares outstanding	9,445	9,377	9,333
Effect of potentially dilutive common shares (1)		68	51
Diluted weighted-average common shares outstanding	9,445	9,445	9,384
<b>Earnings (loss) per common share:</b>			
Earnings (loss) per basic common share	\$ (0.10)	\$ 1.73	\$ 1.36
Earnings (loss) per diluted common share	(0.10)	1.72	1.35
Antidilutive shares excluded from net earnings per diluted common share calculation	93	92	58

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

**Concentrations of Credit Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables, derivative contracts, the escrow account and non-qualified retirement savings plan assets. Trade receivables generally represent a large number of customers, including municipalities, manufacturers, distributors and contractors, dispersed across a wide geographic base. At December 31, 2013, two customers had a balance in excess of 10% of total accounts receivable. At December 31, 2012, no customer had a balance in excess of 10% of total accounts receivable. Derivative contracts are with a financial institution rated A-1 by S&P. The Company's non-qualified retirement savings plan assets, also included in other assets, are invested in a diversified portfolio of stock and bond mutual funds.

**Share-based Compensation**

The Company recognizes the compensation cost of employee and director services received in exchange for awards of equity instruments based on the grant date estimated fair value of the awards. Share-based compensation cost is recognized over the period during which the employee or director is required to provide service in exchange for the award, and as forfeitures occur, the associated compensation cost recognized to date is reversed. Share-based compensation cost related to awards with a performance-based condition is recognized based on the probable outcome of the performance conditions, which requires judgment.

The Company estimates the fair value of stock options using the Black-Scholes-Merton option pricing model. The Black-Scholes-Merton option pricing model requires the Company to estimate key assumptions such as expected term, volatility, risk-free interest rates and dividend yield to determine the fair value of stock options, based on both historical information and management judgment regarding market factors and trends. The Company estimates the fair value of Restricted Stock Units ( RSUs ) and Performance Stock Awards ( PSAs ) using the value of the Company's stock on the date of grant, with the exception of market-based PSAs, for which a Monte Carlo simulation model is used. The Monte Carlo simulation model calculates many potential outcomes for an award and estimates fair value based on the most likely outcome.

See Note 12, Share-based Compensation Plans for further discussion of the Company's share-based compensation.

## **Table of Contents**

### **Recent Accounting and Reporting Developments**

#### **Accounting Changes**

In December 2011, the FASB issued ASU 2011-11 which requires companies to disclose information regarding offsetting and other arrangements for derivatives and other financial instruments. In January 2013, the FASB issued ASU 2013-01, which limited the scope of the balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for interim and annual periods beginning on or after January 1, 2013. The Company adopted this guidance on January 1, 2013 and has made the required additional disclosures.

In February 2013, the FASB issued ASU 2013-02, which clarified the reclassification requirements of ASU 2011-05 which were previously delayed by the FASB in October 2011. Reclassification adjustments which are not reclassified from other comprehensive income to net income in their entirety may instead be parenthetically cross referenced to the related footnote on the face of the financial statements for additional information. This guidance is effective for interim and annual reporting periods beginning after December 15, 2012. The Company adopted this guidance on January 1, 2013 and has made the required additional disclosures.

In July 2013, the FASB issued ASU 2013-10, which allowed for the use of the Fed Funds Effective Swap rate (or Overnight Index Swap rate) as a benchmark interest rate for hedge accounting purposes and removes the restriction on using different benchmark rates for similar hedges. This guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this guidance did not have an impact on the Company's consolidated financial position or results of operation.

#### **Recent Accounting Standards**

In July 2013, the FASB issued ASU 2013-11, which clarified guidance on the presentation of unrecognized tax benefits. The guidance requires that an unrecognized tax benefit, or portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when such items exist in the same taxing jurisdiction. This guidance is effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, and retrospective application is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial position.

### **2. COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS AND BILLINGS IN EXCESS OF COSTS AND ESTIMATED EARNINGS:**

Costs and estimated earnings in excess of billings on uncompleted contracts represents revenue earned under the percentage-of-completion method but not yet billable based on the terms of the contracts. These amounts are billed based on the terms of the contracts, which include achievement of milestones, partial

**Table of Contents**

shipments or completion of the contracts. Billings in excess of costs and estimated earnings represents amounts billed based on the terms of the contracts in advance of costs incurred and revenue earned.

	December 31,	
	2013	2012
	(in thousands)	
Costs incurred on uncompleted contracts	\$ 182,709	\$ 211,801
Estimated earnings	37,438	32,480
	220,147	244,281
Less billings to date	(173,047)	(177,445)
	\$ 47,100	\$ 66,836
Amounts are presented in the Consolidated Balance Sheets as follows:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 50,468	\$ 73,314
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,368)	(6,478)
	\$ 47,100	\$ 66,836

**3. INVENTORIES:**

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

	December 31,	
	2013	2012
Short-term inventories:		
Raw materials	\$ 52,598	\$ 56,913
Work-in-process	4,902	10,157
Finished goods	49,351	43,374
Supplies	3,541	3,101
	110,392	113,545
Long-term inventories:		
Finished goods	1,249	1,608
Total inventories	\$ 111,641	\$ 115,153

Long-term inventories are recorded in other assets.

**4. PROPERTY AND EQUIPMENT:**

Property and equipment consists of the following (in thousands):

December 31,	
2013	2012

Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

Land and improvements	\$ 24,240	\$ 23,651
Buildings	42,763	39,834
Machinery and equipment	136,581	155,276
Equipment under capital lease	14,196	21,452
Construction in progress	14,115	9,906
	231,895	250,119
Less accumulated depreciation and amortization	(88,834)	(97,574)
Property and equipment, net	\$ 143,061	\$ 152,545

F-15

**Table of Contents**

Depreciation and amortization expense was \$13.3 million, \$16.3 million, and \$14.5 million for the years ended December 31, 2013, 2012, and 2011, respectively. Accumulated amortization associated with property and equipment under capital leases was \$4.9 million and \$8.6 million at December 31, 2013 and 2012, respectively.

In conjunction with the preparation of the financial statements for the year ended December 31, 2013, the Company determined that an impairment triggering event had occurred for the assets located at its Bossier City, Louisiana facility due to increased competition in the OCTG market and pricing and volume pressures from imported pipe. Further, the Company had previously announced that it was exploring strategic alternatives for its OCTG business. This facility is included within the Tubular Products Group. The Company performed a recoverability test in which the carrying value of the asset group was compared against the probability weighted undiscounted future cash flows of various future scenarios using Company-specific assumptions. The analysis determined the carrying value of the assets was not recoverable as the undiscounted cash flows were less than the carrying value of the asset group. The Company then compared the carrying value to the fair market value of the asset group. Management determined fair value using third-party appraisals which were based on observed comparable sales transactions or similar assets including asset specific adjustments. This analysis resulted in an impairment charge of \$27.5 million which was recorded in operating expenses.

**5. GOODWILL AND INTANGIBLE ASSETS**

Goodwill represents the excess of purchase price over the assigned fair values of the assets and liabilities assumed in conjunction with an acquisition. Goodwill assigned to the Company's Water Transmission and Tubular Products groups is as follows (in thousands):

	Water Transmission	Tubular Products	Total
Goodwill balance, December 31, 2011	\$	\$ 20,478	\$ 20,478
Goodwill balance, December 31, 2012		20,478	20,478
Additions	5,282		5,282
Goodwill balance, December 31, 2013	\$ 5,282	\$ 20,478	\$ 25,760

No accumulated impairment charges are included within the Goodwill balance at December 31, 2013 or December 31, 2012.

Goodwill related to the acquisition of Permalok of \$5.3 million was quantitatively determined as part of the purchase price allocation as of December 30, 2013. Due to the limited time between the acquisition date and the annual impairment testing date, no additional procedures were deemed necessary.

Goodwill related to the Company's Tubular Products Group of \$20.5 million was quantitatively evaluated with consideration of the income and market approaches as applicable. The income approach is based upon projected future after-tax cash flows (less capital expenditures) discounted to present value using factors that consider the timing and risk associated with the future after-tax cash flows. The key assumptions in the discounted cash flow analysis are the long-term growth rate, the discount rate, and the annual free cash flow. The market approach is based upon historical measures using EBITDA. The Company utilizes a weighted average of the income and market approaches, with a heavier weighting on the income approach because of the relatively limited number of comparable entities for which relevant multiples are available. The Company also utilizes a sensitivity analysis to determine the impact of changes in discount rates and cash flow forecasts on the valuation of the Tubular operating segment. The analysis performed concluded that it was more likely than not that the fair value of the Tubular Products Group is greater than its carrying value as of December 31, 2013.

If the Company's assumptions about goodwill change as a result of events or circumstances, and management believes the assets may have declined in value, then impairment charges will be recorded, resulting

**Table of Contents**

in lower profits. The operations of the Tubular Products Group are cyclical and its sales and profitability may fluctuate from year to year. In the evaluation of the Company's operating segment, the Company looks at the long-term prospects for the reporting unit and recognizes that current performance may not be the best indicator of future prospects or value, which requires management judgment.

Intangible assets consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Weighted-Average Amortization Period (in years)
Customer relationships	\$ 1,378	\$	\$ 1,378	10.0
Patents	1,162		1,162	5.0
Trade names and trademarks	1,132		1,132	15.0
Other (1)	295		295	4.5
<b>Total</b>	<b>\$ 3,967</b>	<b>\$</b>	<b>\$ 3,967</b>	<b>9.6</b>

(1) Other intangibles consist of favorable lease contracts and non-compete agreements

The residual value of each class of intangible asset is not material. No amortization expense was recorded in 2013 due to the timing of the acquisition of the intangible assets. The estimated amortization expense for the next five fiscal years is as follows (in thousands):

2014	\$ 513
2015	513
2016	513
2017	504
2018	481
Thereafter	1,443
	<b>\$ 3,967</b>

**6. NOTE PAYABLE TO FINANCIAL INSTITUTION:**

At December 31, 2013, the Company had a \$165 million Credit Agreement, under which \$87.9 million was outstanding. Borrowings under the Credit Agreement are collateralized by substantially all of our personal property. The Credit Agreement bears interest at rates related to LIBOR plus 1.75% to 2.75%, or the lending institution's prime rate plus 0.75% to 1.75%. The Company was able to borrow at LIBOR plus 2.0% at December 31, 2013. At December 31, 2013 the Company had \$69.8 million available under the Credit Agreement while remaining in compliance with the Company's financial covenants, net of outstanding letters of credit. The Credit Agreement bears interest at a weighted average rate of 2.69% at December 31, 2013.

At December 31, 2012, \$47.5 million was outstanding under the Credit Agreement. The Company was able to borrow at LIBOR plus 2.0% at December 31, 2012. At December 31, 2012 the Company had \$90.8 million available under the Credit Agreement while remaining in compliance with the Company's financial covenants, net of outstanding letters of credit. The Credit Agreement bears interest at a weighted average rate of 2.31% at December 31, 2012.

**Table of Contents****7. LONG-TERM DEBT:**

	December 31, 2013      2012 (in thousands)	
Series A Term Note, maturing on February 25, 2014, due in annual payments of \$2.1 million that began February 25, 2008, plus interest at 10.50% paid quarterly, on February 25, May 25, August 25 and November 25, collateralized by accounts receivable, inventory and certain equipment	\$ 2,143	\$ 4,286
Series B Term Note, maturing on June 21, 2014, due in annual payments of \$1.5 million that began June 21, 2008, plus interest at 10.22% paid quarterly, on March 21, June 21, September 21 and December 21, collateralized by accounts receivable, inventory and certain equipment	1,500	3,000
Series C Term Note, maturing on October 26, 2014, due in annual payments of \$1.4 million that began October 26, 2008, plus interest at 9.11% paid quarterly, on January 26, April 26, July 26 and October 26, collateralized by accounts receivable, inventory and certain equipment	1,429	2,857
Series D Term Note, maturing on January 24, 2015, due in annual payments of \$643,000 that began January 24, 2009, plus interest at 9.07% paid quarterly, on January 24, April 24, July 24 and October 24, collateralized by accounts receivable, inventory and certain equipment	1,285	1,928
<b>Total long-term debt</b>	<b>\$ 6,357</b>	<b>\$ 12,071</b>
Amounts are presented in the Consolidated Balance Sheets as follows:		
Current portion of long-term debt	\$ 5,714	\$ 5,714
Long-term debt, less current portion	643	6,357
	<b>\$ 6,357</b>	<b>\$ 12,071</b>

Future principal payments of long-term debt are as follows (in thousands):

2014	\$ 5,714
2015	643
2016	
2017	
2018	
Thereafter	
	<b>\$ 6,357</b>

Interest expense under the Company's Credit Agreement and Term Notes was \$4.0 million, net of amounts capitalized of \$0.4 million in 2013, \$5.6 million, net of amounts capitalized of \$0.2 million in 2012, and \$9.3 million, net of amounts capitalized of \$0.2 million in 2011.



**Table of Contents****8. LEASES:***Capital Leases*

The Company leases certain equipment used in the manufacturing process. The future minimum payments under the Company's capital leases are as follows (in thousands):

2014	\$ 2,697
2015	2,697
2016	2,145
2017	1,315
2018	
Thereafter	
<b>Total minimum lease payments</b>	<b>8,854</b>
Amount representing interest	(958)
<b>Present value of minimum lease payments with average interest rates of 7.04%</b>	<b>7,895</b>
Current portion of capital lease obligation	2,216
<b>Capital lease obligation, less current portion</b>	<b>\$ 5,679</b>

We had a total of \$7.9 million in capital lease obligations outstanding at December 31, 2013. The weighted average interest rate on all of the Company's capital leases is 7.04%. The Company's capital leases are for certain equipment used in the manufacturing process. Of the total capital lease balance, \$5.4 million of the Company's capital leases outstanding as of December 31, 2013 consists of a Financing Arrangement entered into as of September 2009 to finance certain equipment used in the manufacturing process at the Company's Bossier City, Louisiana facility. As part of the Financing Arrangement, an escrow account was provided for the Company by a local government entity through a financial institution and funds were released for qualifying purchase requisitions. As qualifying equipment was purchased for the facility, the Company entered into a sale-leaseback transaction with the governmental entity as part of the Financing Arrangement. The Financing Arrangement requires the Company to meet certain loan covenants, measured at the end of each fiscal quarter. These loan covenants follow the covenants required by the Company's Credit Agreement.

*Operating Leases*

The Company has entered into various equipment and property leases with terms of ten years or less. Total rental expense for 2013, 2012, and 2011 was \$3.1 million, \$3.2 million, and \$3.3 million, respectively. Certain of the Company's operating lease agreements include renewals and/or purchase options set to expire at various dates. Future minimum payments as of December 31, 2013 for operating leases with initial or remaining terms in excess of one year are (in thousands):

2014	\$ 2,733
2015	2,501
2016	2,225
2017	1,846
2018	688
Thereafter	753
	<b>\$ 10,746</b>

**Table of Contents****9. FAIR VALUE MEASUREMENTS:***Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis*

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 guidance for fair value measurements also applies to nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities.

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.

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

Description	Balance at December 31, 2013	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
Non-qualified retirement savings plan assets	\$ 6,000	\$ 4,944	\$ 1,056	\$
Derivatives	1		1	
Total Assets	\$ 6,001	\$ 4,944	\$ 1,057	\$
<b>Financial Liabilities</b>				
Contingent consideration	\$ (4,425)	\$	\$	\$ (4,425)
Derivatives	(1)		(1)	
Total Liabilities	\$ (4,426)	\$	\$ (1)	\$ (4,425)

Description	Balance at December 31, 2012	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
Escrow account	\$ 898	\$ 898	\$	\$
Non-qualified retirement savings plan assets	5,280	5,280		
Total Assets	\$ 6,178	\$ 6,178	\$	\$
<b>Financial Liabilities</b>				
Derivatives	\$ (353)	\$	\$ (353)	\$

The deferred compensation plan assets consist of cash and several publicly traded stock and bond mutual funds, valued using quoted market prices in active markets classified as Level 1 within the fair value hierarchy, as well as securities that are not actively traded on major exchanges, valued using the NAV of the underlying investments classified as Level 2 within the fair value hierarchy. The Company's derivatives consist of foreign currency forward contracts, which are accounted for as cash flow hedges, and are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate



---

**Table of Contents**

yield curves and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company. The escrow account at December 31, 2012 consisted of a money market mutual fund and was valued using quoted market prices in active markets classified as Level 1 within the fair value hierarchy.

The contingent consideration liability represents the probability weighted contingent payment as a percentage of high, mid, and low revenue projections for the following three fiscal years. Our fair value estimate of this liability was \$4.4 million on the acquisition date of Permalok. The inputs used to measure contingent consideration are classified as Level 3 within the valuation hierarchy. The valuation is not supported by market criteria and reflects the Company's internal revenue forecasts. The discount rate used in the analysis was 5.3%. Changes in the fair value of the contingent consideration payment will be reflected in earnings during the period which the change in the estimated fair value is calculated.

The net carrying amounts of cash and cash equivalents, trade and other receivables, accounts payable, accrued liabilities and note payable to financial institution approximate fair value due to the short-term nature of these instruments. The Company is obligated to repay the carrying value of the Company's long term debt. The fair value of the Company's debt is calculated using a coupon rate on borrowings with similar maturities, current remaining average life to maturity, borrower credit quality, and current market conditions all of which are classified as Level 2 inputs within the valuation hierarchy. The fair value of the Company's long-term debt, including the current portion, was \$6.3 and the carrying value was \$6.4 million at December 31, 2013. The fair value of the Company's long-term debt, including the current portion, was \$11.5 million and the carrying value was \$12.1 million at December 31, 2012.

***Financial Assets Measured and Recorded at Fair Value on a Non-Recurring Basis***

The Company measures its financial assets, including loans receivable and non-marketable equity method investments, at fair value on a non-recurring basis when they are determined to be other-than-temporarily impaired. The fair value of these assets is determined using Level 3 unobservable inputs due to the absence of observable market inputs and the valuations requiring management judgment. During 2013, there were \$0.3 million of impairment charges recorded on investments. The impairment charges were included in other expense in the Consolidated Statement of Operations. During 2012, there were no impairment charges taken.

**10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES:**

The Company conducts business in various foreign countries and, from time to time, settles transactions in foreign currencies. The Company has established a program that utilizes foreign currency forward contracts to offset the risk associated with the effects of certain foreign currency exposures, typically arising from sales contracts denominated in Canadian currency. Instruments that do not qualify for cash flow hedge accounting treatment are re-measured at fair value on each balance sheet date and resulting gains and losses are recognized in net income. As of December 31, 2013 and 2012, the total notional amount of the derivative contracts not designated as hedges was \$0.1 million (CAD\$0.1 million) and \$2.7 million (CAD\$2.6 million), respectively. As of December 31, 2013 and 2012, the total notional amount of the derivative contracts designated as hedges was \$3.8 million (CAD\$4.1 million) and \$12.4 million (CAD\$12.3 million), respectively. Derivative assets are included within prepaid expenses and other and derivative liabilities are included within accrued liabilities in the Consolidated Balance Sheets. All of the Company's foreign currency forward contracts are subject to an enforceable master netting arrangement. The Company presents its foreign currency forward contract assets and liabilities within the Consolidated Balance Sheets at their gross fair values.

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

---

**Table of Contents**

prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives to specific firm commitments or forecasted transactions and designating the derivatives as cash flow hedges. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative contracts that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The effective portion of these hedged items is reflected in other comprehensive income on the Consolidated Statement of Stockholders' Equity. If it is determined that a derivative contract is not highly effective, or that it has ceased to be a highly effective hedge, the Company will be required to discontinue hedge accounting with respect to that derivative contract prospectively.

All of the Company's Canadian forward contracts have maturities not longer than 12 months as of December 31, 2013, except one contract with a notional value of \$3.8 million (CAD\$4.0 million) which has a remaining maturity of 13 months.

For the years ended December 31, 2013, 2012 and 2011, gains (losses) of (\$0.1) million, (\$0.4) million and \$0.1 million, respectively, from derivative contracts not designated as hedging instruments were recognized in net sales. At December 31, 2013, there is \$0.1 million of unrealized pretax gain on outstanding derivatives accumulated in other comprehensive loss, substantially all of which is expected to be reclassified to net sales within the next 12 months as a result of underlying hedged transactions also being recorded in net sales. See Note 16, Accumulated Other Comprehensive Loss for additional quantitative information regarding derivative gains and losses.

**11. RETIREMENT PLANS:**

The Company has a defined contribution retirement plan that covers substantially all of its employees and provides for a Company match of up to 50% of the first 6% of employee contributions to the plan, subject to certain limitations. The defined contribution retirement plan offers twenty-five investment options.

The Company has a non-qualified retirement savings plan that covers officers and selected highly compensated employees. The non-qualified plan generally matches up to 50% of the first \$10,000 of officer contributions to the plan and the first \$5,000 of other selected highly compensated employee contributions, subject to certain limitations. It also provides officers with a Company funded component with a retirement target benefit. The retirement target benefit amount is an actuarially estimated amount necessary to provide 35% of final base pay after a 35-year career with the Company or 1% of final base pay per year of service. The actual benefit, however, assumes an investment growth at 8% per year. Should the investment growth be greater than 8%, the benefit will be more, but if it is less than 8%, the amount will be less and the Company does not make up any deficiency.

The Company also has two noncontributory defined benefit plans. Effective 2001, both plans were frozen, and participants were fully vested in their accrued benefits as of the date each plan was frozen. No additional participants can be added to the plans and no additional service can be earned by participants subsequent to the date the plans were frozen. The funding policy for each noncontributory defined benefit plan is based on current plan costs plus amortization of the unfunded plan liability. All current employees covered by these plans are now covered by the defined contribution retirement plan. As of December 31, 2013, the Company had recorded an accrued pension liability of \$1.2 million and an unrecognized actuarial loss, net of tax, of \$1.2 million in accumulated other comprehensive loss. As of December 31, 2012 the Company had recorded, in accordance with the actuarial valuation, an accrued pension liability of \$2.6 million and an unrecognized actuarial loss, net of tax, of \$2.2 million in accumulated other comprehensive loss. Additionally, as of December 31, 2013 and 2012, the projected and accumulated benefit obligation was \$5.8 million and \$6.7 million, respectively, and the fair value of plan assets was \$4.6 million and \$4.1 million, respectively. The net periodic benefit cost was \$0.4 million for the year ended December 31, 2013, \$0.4 million for the year ended December 31, 2012, and \$0.3 million for the year ended December 31, 2011. The weighted average discount rates used to measure the projected benefit obligation were 4.40% and 3.52% as of December 31, 2013 and 2012, respectively. The plan assets are invested

**Table of Contents**

in growth mutual funds, consisting of a mix of debt and equity securities, which are categorized as Level 2 under the fair value hierarchy. The expected weighted average long term rate of return on plan assets was 7.5% as of December 31, 2013 and 2012, respectively.

Total expense for all retirement plans in 2013, 2012 and 2011 was \$1.8 million, \$1.7 million and \$1.3 million, respectively.

**12. SHARE-BASED COMPENSATION PLANS:**

The Company has one active stock incentive plan for employees and directors, the 2007 Stock Incentive Plan, which provides for awards of stock options to purchase shares of common stock, stock appreciation rights, restricted and unrestricted shares of common stock, restricted stock units ( RSUs ) and performance share awards ( PSAs ). In addition, the Company has one inactive stock option plan, the 1995 Stock Options Plan for Nonemployee Directors, under which previously granted options remain outstanding. The plans provide that options become exercisable according to vesting schedules, which range from immediate to ratably over a 60-month period. Options terminate 10 years from the date of grant. The plans also provide for other equity instruments, such as RSUs and PSAs, which grant the right to receive a specified number of shares over a specified period of time. RSUs are service-based awards and vest according to vesting schedules, which range from immediate to ratably over a three-year period. PSAs are service-based awards with a market-based vesting condition. Vesting of the market-based PSAs is dependent upon the performance of the market price of the Company's stock relative to a comparator group of companies and ranges from two to three years. The following summarizes share-based compensation expense recorded:

	Year ended December 31,		
	2013	2012	2011
	(in thousands)		
Cost of sales	\$ 662	\$ 432	\$ 143
Selling, general and administrative expenses	2,398	2,616	1,318
<b>Total</b>	<b>\$ 3,060</b>	<b>\$ 3,048</b>	<b>\$ 1,461</b>

As of December 31, 2013, unrecognized compensation expense related to the unvested portion of the Company's RSUs and PSAs was \$3.9 million, which is expected to be recognized over a weighted average period of 1.8 years.

There were 720,301 shares of common stock available for future issuance under the Company's stock compensation plans at December 31, 2013; an additional 40,000 options and 257,087 RSUs and PSAs have been granted and remain outstanding. There were 227,177 and 307,984 shares of common stock available for future issuance under the Company's stock compensation plans at December 31, 2012 and 2011, respectively.

**Table of Contents****Stock Options Awards**

A summary of status of the Company's stock options as of December 31, 2013 and changes during the three years then ended is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2010	145,209	\$ 17.64		
Options granted				
Options exercised or exchanged	(73,612)	14.12		
Options cancelled				
Balance, December 31, 2011	71,597	21.26		
Options granted				
Options exercised or exchanged	(24,597)	17.58		
Options cancelled				
Balance, December 31, 2012	47,000	23.19		
Options granted				
Options exercised or exchanged	(7,000)	10.31		
Options cancelled				
Balance, December 31, 2013	40,000	25.44		
Exercisable and Outstanding, December 31, 2013	40,000	25.44	4.65	\$ 493

The total intrinsic value, defined as the difference between the current market value and the grant price, of options exercised during the years ended December 31, 2013, 2012 and 2011 was \$0.1 million, \$0.1 million and \$0.8 million, respectively.

The following table summarizes information about stock options outstanding at December 31, 2013:

Range of Exercise Prices Per Share	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share	
\$14.00	2,000	0.36	14.00	2,000	14.00	
\$22.07	4,000	1.36	22.07	4,000	22.07	
\$24.15	24,000	6.25	24.15	24,000	24.15	
\$28.31	4,000	2.36	28.31	4,000	28.31	
\$34.77	6,000	3.41	34.77	6,000	34.77	
	40,000	4.65	25.44	40,000	25.44	

There were no options granted during 2013, 2012 or 2011.





**Table of Contents****Restricted Stock Units and Performance Awards**

A summary of status of the Company's RSUs and PSAs as of December 31, 2013 and changes during the three years then ended is presented below:

	Number of RSUs and PSAs	Weighted Average Grant Date Fair Value
Unvested RSUs and PSAs at December 31, 2010	55,843	\$ 37.00
RSUs and PSAs granted	174,891	23.32
Unvested RSUs and PSAs cancelled	(20,997)	47.46
RSUs and PSAs vested	(15,756)	26.27
Unvested RSUs and PSAs at December 31, 2011	193,981	24.41
RSUs and PSAs granted	115,306	29.06
Unvested RSUs and PSAs cancelled	(39,306)	28.44
RSUs and PSAs vested	(26,840)	23.13
Unvested RSUs and PSAs at December 31, 2012	243,141	26.11
RSUs and PSAs granted	117,966	34.24
Unvested RSUs and PSAs cancelled	(16,002)	27.45
RSUs and PSAs vested	(88,018)	23.37
Unvested RSUs and PSAs at December 31, 2013	257,087	\$ 30.69

The unvested balance of RSUs and PSAs at December 31, 2013 includes approximately 196,000 PSAs included at a target level. The vesting of these awards is subject to the achievement of specified market-based conditions, and the actual number of common shares that will ultimately be issued will be determined by multiplying this number of PSAs by a payout percentage ranging from 0% to 200%.

The total fair value of RSUs and PSAs vested during the years ended December 31, 2013, 2012, and 2011 was \$2.1 million, \$0.6 million, and \$0.4 million, respectively.

**Stock Awards**

For the years ended December 31, 2013, 2012 and 2011, stock awards were granted to non-employee directors, which vested immediately upon issuance, as follows: 4,912 shares; 4,807 shares; and 6,261 shares, respectively. The Company recorded compensation expense based on the fair market value per share of the awards on the grant date of \$27.49 in 2013, \$23.40 in 2012, and \$25.15 in 2011.

**13. SHAREHOLDER RIGHTS PLAN:**

In June 1999, the Board of Directors adopted a Shareholder Rights Plan (the "Plan") designed to ensure fair and equal treatment for all shareholders in the event of a proposed acquisition of the Company by enhancing the ability of the Board of Directors to negotiate more effectively with a prospective acquirer, and reserved 150,000 shares of Series A Junior Participating Preferred Stock ("Preferred Stock") for purposes of the Plan. In connection with the adoption of the Plan, the Board of Directors declared a dividend distribution of one non-detachable preferred stock purchase right (a "Right") per share of common stock, payable to shareholders of record on July 9, 2000. Each Right represents the right to purchase one one-hundredth of a share of Preferred Stock at a price of \$83.00, subject to adjustment. The Rights will be exercisable only if a person or group acquires, or commences a tender offer to acquire, 15% or more of the Company's outstanding shares of common stock. Subject to the terms of the Plan and upon the occurrence of certain events, each Right would entitle the holder to purchase common stock of the Company, or of an acquiring company in certain circumstances, having a market value equal to two times the exercise price of the Right. The Company may redeem the Rights at a price of \$0.01 per Right under certain circumstances.



---

**Table of Contents**

On June 18, 2009, the Company and Computershare ( Rights Agent ) entered into an Amended and Restated Rights Agreement (the Amended and Restated Rights Agreement ). The Amended and Restated Rights Agreement amended and restated the Rights Agreement dated as of June 28, 1999 between the Company and ChaseMellon Shareholder Services, L.L.C. (predecessor to the Rights Agent). The Amended and Restated Rights Agreement extended the Final Expiration Date of the Rights from June 28, 2009 to June 28, 2019. The Amended and Restated Rights Agreement also reflected certain changes in the rights and obligations of the Rights Agent and certain changes in procedural requirements under the Amended and Restated Rights Agreement.

**14. COMMITMENTS AND CONTINGENCIES:**

**Portland Harbor Superfund**

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 United States Environmental Protection Agency (the EPA ). While the Company s Portland, Oregon manufacturing facility does not border the Willamette River, an outfall from the facility s stormwater system drains into a neighboring property s privately owned stormwater system and slip. Since the listing of the site, the Company was notified by the EPA and the Oregon Department of Environmental Quality (the ODEQ ) of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ). In 2008, the Company was asked to file information disclosure reports with the EPA (CERCLA 104 (e) information request). By agreement with the EPA, the ODEQ is responsible for overseeing remedial investigation and source control activities for all upland sites to investigate sources and prevent future contamination to the river. A remedial investigation and feasibility study ( RI/FS ) of the Portland Harbor has been directed by a group of 14 potentially responsible parties known as the Lower Willamette Group (the LWG ) under agreement with the EPA. The Company made a payment of \$175,000 to the LWG in June 2007 as part of an interim settlement, and is under no obligation to make any further payment. The final draft remedial investigation ( RI ) was submitted to the EPA by the LWG in fall of 2011 and the draft feasibility study ( FS ) was submitted by the LWG to the EPA in March 2012. The draft FS identifies ten possible remedial alternatives which range in estimated cost from approximately \$169 million to \$1.76 billion and estimates a range of two to 28 years to implement the remedial work, depending on the selected alternative. The report does not determine who is responsible for the costs of cleanup or how the cleanup costs will be allocated among the potentially responsible parties. As of the date of this filing, the final RI and the revised FS are scheduled to be submitted to the EPA in the second quarter of 2014.

In 2001, groundwater containing elevated volatile organic compounds ( VOCs ) was identified in one localized area of leased property adjacent to the Portland facility furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater was consistent with the initial conclusion that the source of the VOCs is located off of Company-owned property. In February 2005, the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (the Agreement ) with the ODEQ. The Company is one of many Upland Source Control Sites working with the ODEQ on Source Control and is considered a medium priority site by the ODEQ. The Company performed RI work required under the Agreement and submitted a draft RI/Source Control Evaluation Report in December 2005. The conclusions of the report indicated that the VOCs found in the groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River. The report also indicated there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments. In 2009, the ODEQ requested that the Company revise its RI/Source Control Evaluation Report from 2005 to include more recent information from focused supplemental sampling at the Portland facility and more recent information that has become available related to nearby properties. The Company submitted the Expanded Risk Assessment for the VOCs in Groundwater in May 2012. In February 2013, the ODEQ requested the Company revise the presented information in the 2012 Expanded Risk Assessment for the VOCs in Groundwater a second time. The presented information was revised by the Company and submitted with the Final RI/Source Control Evaluation report in January 2014.

---

**Table of Contents**

Also, based on sampling associated with the Portland facility's RI and on sampling 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 periodically detected low concentrations of polynuclear aromatic hydrocarbons ( PAHs ), polychlorinated biphenyls ( PCBs ), and trace amounts of zinc in storm water. Storm water from the Portland, Oregon manufacturing facility site is discharged into a communal storm water system that ultimately discharges into the neighboring property's privately owned slip. The slip was historically used for shipbuilding and subsequently for ship breaking and metal recycling. Studies of the river sediments have revealed trace concentrations of PAHs, PCBs and zinc, along with other constituents which are common constituents in urban storm water discharges. To minimize the pollutants in its storm water, the Company painted a substantial part of the Portland facility's roofs in 2009 and installed a storm water treatment system in 2012. Stormwater discharge has remained below storm water benchmark levels ever since.

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, as requested by the ODEQ. The Company submitted a remediation plan related to soil contamination, which the ODEQ approved. The Company has completed the approved remediation plan in 2011 and 2012, which included the excavation of localized soil and paving pervious surfaces. A final report on storm water source control with the Final RI/Source Control Evaluation report was submitted in January 2014.

During the localized soil excavation in 2011, additional stained soil was discovered. At the request of the ODEQ, the Company developed an additional Work Plan to characterize the nature and extent of soil and/or groundwater impacts from the staining. The Company began implementing this Work Plan in the second quarter of 2012 and submitted sampling results to the ODEQ in the third quarter of 2012. Comments from the ODEQ were received in November 2012. In February 2013, the ODEQ clarified its comments from November 2012, and the Company has completed its second round of groundwater sampling for the Stained Soil Investigation Area. The results were reported to ODEQ in January 2014.

The Company spent less than \$0.1 million for Source Control work in 2013 and anticipates having to spend less than \$0.1 million for further Source Control work in 2014.

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. The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessments and several of those parties have agreed to do so. In 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 Company's potential liability is a portion of the costs of the remedy the EPA will select for the entire Portland Harbor Superfund site. The cost of that remedy is expected to be allocated among more than 100 potentially responsible parties. Because of the large number of responsible parties and the variability in the range of remediation alternatives, the Company is unable to estimate an amount or an amount within a range of costs for its obligation with respect to the Portland Harbor matters, and no further adjustment to the Consolidated Financial Statements has been recorded as of December 31, 2013. The Company has insurance policies for defense costs, as well indemnification policies it believes will provide reimbursement for any share of the remediation assessed. However, the Company can provide no assurance that those policies will cover all of the costs which the Company may incur.

**Table of Contents****All Sites**

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

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of its business. The Company maintains insurance coverage against potential claims in amounts that are believed to be adequate. 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 \$3.1 million at December 31, 2013. The stand-by letters of credit relate to workers' compensation insurance and equipment financing.

**15. INCOME TAXES:**

The components of the provision for (benefit from) income taxes are as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
<b>Current:</b>			
Federal	\$ 5,737	\$ 5,428	\$ 2,639
State	566	130	695
Total current tax expense	6,303	5,558	3,334
<b>Deferred:</b>			
Federal	(7,319)	(296)	5,380
State	(1,110)	259	904
Total deferred tax expense	(8,429)	(37)	6,284
	\$ (2,126)	\$ 5,521	\$ 9,618

**Table of Contents**

The difference between the Company's effective income tax rates and the statutory United States federal income tax rate of 35% is explained as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Provision (benefit) at statutory rate of 35%	\$ (1,067)	\$ 7,618	\$ 7,800
State provision, net of federal benefit	(393)	519	922
Research and development credits	(916)	(1,734)	
Domestic manufacturing deduction	(641)	(762)	(389)
Sale of business			341
Change in valuation allowance	954		872
Uncertain tax positions	(311)	(67)	126
Nondeductible expenses	370	278	190
Other	(122)	(331)	(244)
	\$ (2,126)	\$ 5,521	\$ 9,618
Effective tax (benefit) rate	(69.7)%	25.4%	43.2%

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and liabilities is presented below:

	December 31,	
	2013	2012
	(in thousands)	
Current deferred tax assets:		
Costs and estimated earnings in excess of billings on uncompleted contracts, net	\$ 2,384	\$ 1,323
Accrued employee benefits	951	1,612
Inventories	2,671	1,393
Trade receivable, net	319	650
Net operating loss carryforwards	500	364
Other	520	693
	7,345	6,035
Valuation allowance	(500)	(146)
	6,845	5,889
Current deferred tax liabilities:		
Prepaid expenses	(637)	(712)
Current deferred tax assets, net	6,208	5,177
Noncurrent deferred tax assets:		
Net operating loss carryforwards	211	549
Tax credit carryforwards	478	64
Accrued employee benefits	3,740	3,673
Other assets	5,520	4,527
Other	138	17
	10,087	8,830
Valuation allowance	(1,394)	(794)

Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

	8,693	8,036
Noncurrent deferred tax liabilities:		
Property and equipment	(19,343)	(23,290)
Intangible assets	(1,192)	
Noncurrent deferred tax liabilities, net	(11,842)	(15,254)
Net deferred tax liabilities	\$ (5,634)	\$ (10,077)

F-29

**Table of Contents**

As of December 31, 2013, the Company had approximately \$13 million of state net operating loss carryforwards which expire on various dates between 2018 and 2031. The Company also had state tax carryforwards of \$889,000, which begin to expire in 2014.

The Company considers the earnings of the Mexican subsidiary to be indefinitely reinvested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs. Should the Company decide to repatriate the foreign earnings, the income tax provision would be adjusted in the period it is determined that the earnings will no longer be indefinitely reinvested outside the United States, and a deferred tax liability of approximately \$650,000 related to the United States federal and state income taxes and foreign withholding taxes on approximately \$1.9 million of undistributed foreign earnings would be recorded.

The Company files income tax returns in the United States Federal jurisdiction, in a limited number of foreign jurisdictions, and in many state jurisdictions. The Company is currently under examination by the Internal Revenue Service for years 2009, 2010 and 2011. With few exceptions, the Company is no longer subject to United States Federal or state income tax examinations for years before 2009.

A summary of the changes in the unrecognized tax benefits during the years ended December 31, 2013, 2012 and 2011 is presented below (in thousands):

	2013	2012	2011
Unrecognized tax benefits, beginning of year	\$ 5,245	\$ 309	\$ 125
Increases for positions taken in prior years	646	3,571	10
Decreases for positions taken in prior years	(696)	(184)	
Increases for positions taken in the current year	1,012	1,549	174
Unrecognized tax benefits, end of year	\$ 6,207	\$ 5,245	\$ 309

The Company believes it is reasonably possible that the total amounts of unrecognized tax benefits will decrease in the following twelve months due to the anticipated settlement of the examination by the Internal Revenue Service; however, actual results could differ from those currently expected. Of the balance of unrecognized tax benefits, \$2.1 million would affect the Company's effective tax rate if recognized at some point in the future.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2013 and 2012, the Company has approximately \$268,000 and \$172,000, respectively, of accrued interest related to uncertain tax positions. Total interest for uncertain tax positions increased by approximately \$96,000 in 2013, \$100,000 in 2012, and \$8,000 in 2011.

**16. ACCUMULATED OTHER COMPREHENSIVE LOSS**

Accumulated other comprehensive loss consists of the following (in thousands):

	December 31,	
	2013	2012
Pension liability adjustment, net of tax benefit of \$704 and \$1,244	\$ (1,275)	\$ (2,188)
Deferred gain (loss) on cash flow derivatives, net of tax expense of \$9 and benefit of \$50	14	(85)
Total	\$ (1,261)	\$ (2,273)



**Table of Contents**

The following table summarizes changes in the components of accumulated other comprehensive income (loss) during the twelve months ended December 31, 2013 and December 31, 2012 (in thousands). All amounts are net of tax:

	Defined Benefit Pension Items	Gains (Losses) on Cash Flow Hedges	Total
Balance, December 31, 2011	\$ (2,326)	\$ 14	\$ (2,312)
Other comprehensive loss before reclassifications	(175)	(120)	(295)
Amounts reclassified from accumulated other comprehensive income (loss)	313	21	334
Net current period other comprehensive income (loss)	138	(99)	39
Balance, December 31, 2012	\$ (2,188)	\$ (85)	\$ (2,273)
Other comprehensive income before reclassifications	674	171	803
Amounts reclassified from accumulated other comprehensive income (loss)	239	(72)	209
Net current period other comprehensive income	913	99	1,012
Balance, December 31, 2013	\$ (1,275)	\$ 14	\$ (1,261)

The following table provides additional detail about accumulated other comprehensive income (loss) components which were reclassified to the Consolidated Statements of Operations during the twelve months ended December 21, 2013, 2012 and 2011 (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount reclassified from Accumulated Other Comprehensive Income (Loss)			Affected line item in the Consolidated Statements of Operations
	2013	2012	2011	
<b>Defined Benefit Pension Items</b>				
Net periodic pension cost	\$ (372)	\$ (417)	\$ (266)	Cost of sales
	133	104	90	Tax benefit
	\$ (239)	\$ (313)	\$ (176)	Net of tax
<b>Gains and (losses) on cash flow hedges</b>				
Foreign currency forward contracts	\$ 114	\$ (40)	\$ (501)	Net sales
	(42)	19	183	Tax (expense) benefit
	\$ 72	\$ (21)	\$ (318)	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ (209)</b>	<b>\$ (334)</b>	<b>\$ (494)</b>	

**17. SEGMENT INFORMATION:**

The operating segments reported below are based on the nature of the products sold by the Company and are the segments of the Company for which separate financial information is available and for which operating results are regularly evaluated by executive management to make decisions about resources to be allocated to the segment and assess its performance. Management evaluates segment performance based on operating income.

## Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

The Company's Water Transmission segment manufactures and markets large diameter, high-pressure steel pipe used primarily for water transmission. The Company's Water Transmission products are manufactured at one of eight manufacturing facilities located in Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas; and Monterrey, Mexico. Facilities in St. Louis, Missouri and Salt Lake City, Utah were added in 2013 upon the acquisition of Permalok on December 30, 2013. During the second half of 2012, we permanently closed our facility located in Pleasant Grove, Utah, and have transferred its

F-31

**Table of Contents**

property and equipment to other manufacturing locations. Products are sold primarily to public water agencies either directly or through an installation contractor.

The Company's Tubular Products segment manufactures and markets smaller diameter, ERW steel pipe for use in a wide range of applications, including energy, construction, agricultural, and industrial systems. Tubular Products manufacturing facilities are located in Atchison, Kansas; Houston, Texas; and Bossier City, Louisiana. Tubular Products are marketed through a network of direct sales force personnel and sales agents throughout the United States, Canada and Mexico.

Based on the location of the customer, the Company sold principally all products in the United States, Canada and Mexico. One customer accounted for 12% of total net sales in 2013. One customer accounted for 12% of total net sales in 2012. No one customer represented more than 10% of total net sales in 2011. As of December 31, 2013, all material long-lived assets are located in the United States.

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
<b>Net sales:</b>			
Water transmission	\$ 226,427	\$ 269,203	\$ 271,885
Tubular products	249,129	255,300	239,783
Total	\$ 475,556	\$ 524,503	\$ 511,668
<b>Gross profit:</b>			
Water transmission	\$ 46,953	\$ 45,051	\$ 43,182
Tubular products	5,506	11,147	15,956
Total	\$ 52,459	\$ 56,198	\$ 59,138
<b>Operating income (loss):</b>			
Water transmission	\$ 40,343	\$ 36,278	\$ 34,113
Tubular products	(24,843)	8,335	12,660
	15,500	44,613	46,773
Corporate	(14,751)	(17,053)	(13,950)
Total	\$ 749	\$ 27,560	\$ 32,823
<b>Depreciation and amortization expense:</b>			
Water transmission	\$ 7,082	\$ 10,474	\$ 8,729
Tubular products	5,963	5,541	5,723
	13,045	16,015	14,452
Corporate	254	252	69
Total	\$ 13,299	\$ 16,267	\$ 14,521
<b>Capital expenditures:</b>			
Water transmission	\$ 13,204	\$ 6,830	\$ 4,765
Tubular products	14,354	9,813	11,386
	27,558	16,643	16,151
Corporate	889	146	182
Total	\$ 28,447	\$ 16,789	\$ 16,333

Edgar Filing: NORTHWEST PIPE CO - Form 10-K/A

Net sales by geographic region:			
United States	\$ 441,779	\$ 473,403	\$ 455,625
Other	33,777	51,100	56,043
Total	\$ 475,556	\$ 524,503	\$ 511,668

F-32

**Table of Contents**

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
<b>Goodwill:</b>		
Water transmission	\$ 5,282	\$
Tubular products	20,478	20,478
<b>Total</b>	<b>\$ 25,760</b>	<b>\$ 20,478</b>
<b>Total assets:</b>		
Water transmission	\$ 218,849	\$ 221,987
Tubular products	184,088	174,591
	402,937	396,578
Corporate	30,522	25,844
<b>Total</b>	<b>\$ 433,459</b>	<b>\$ 422,422</b>

All property and equipment is located in the United States as of December 31, 2013 and 2012, except for a total of \$2.2 million and \$2.4 million, respectively, which is located in Mexico.

**18. QUARTERLY DATA (UNAUDITED):**

Summarized quarterly financial data for 2013 and 2012 is as follows (dollars in thousands, except per share).

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
<b>For the year ended December 31, 2013</b>					
Net sales:					
Water transmission	\$ 78,613	\$ 58,148	\$ 46,835	\$ 42,831	\$ 226,427
Tubular products	61,984	58,590	56,187	72,368	249,129
<b>Total</b>	<b>\$ 140,597</b>	<b>\$ 116,738</b>	<b>\$ 103,022</b>	<b>\$ 115,199</b>	<b>\$ 475,556</b>
Gross profit (loss):					
Water transmission	\$ 19,870	\$ 12,125	\$ 7,932	\$ 7,026	\$ 46,953
Tubular products	1,334	3,543	880	(251)	5,506
<b>Total</b>	<b>\$ 21,204</b>	<b>\$ 15,668</b>	<b>\$ 8,812</b>	<b>\$ 6,775</b>	<b>\$ 52,459</b>
Operating income (loss):					
Water transmission	\$ 18,033	\$ 10,499	\$ 6,306	\$ 5,505	\$ 40,343
Tubular products	666	2,885	93	(28,487)	(24,843)
Corporate	(3,879)	(4,004)	(3,559)	(3,309)	(14,751)
<b>Total</b>	<b>\$ 14,820</b>	<b>\$ 9,380</b>	<b>\$ 2,840</b>	<b>\$ (26,291)</b>	<b>\$ 749</b>
<b>Net income (loss)</b>	<b>\$ 9,506</b>	<b>\$ 5,561</b>	<b>\$ 1,016</b>	<b>\$ (17,006)</b>	<b>\$ (923)</b>
Earnings (loss) per share:					
Basic	\$ 1.01	\$ 0.59	\$ 0.11	\$ (1.80)	\$ (0.10)
Diluted	\$ 1.00	\$ 0.59	\$ 0.11	\$ (1.80)	\$ (0.10)



**Table of Contents**

The fourth quarter of 2013 includes a fixed asset impairment charge of \$27.5 million recorded to the Tubular Products Group which is reflected in Operating income (loss).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>For the year ended December 31, 2012</b>					
Net sales:					
Water transmission	\$ 58,431	\$ 59,050	\$ 63,487	\$ 88,235	\$ 269,203
Tubular products	83,744	71,991	51,612	47,953	255,300
<b>Total</b>	<b>\$ 142,175</b>	<b>\$ 131,041</b>	<b>\$ 115,099</b>	<b>\$ 136,188</b>	<b>\$ 524,503</b>
Gross profit:					
Water transmission	\$ 9,699	\$ 8,149	\$ 9,681	\$ 17,522	\$ 45,051
Tubular products	6,801	5,428	1,919	(3,001)	11,147
<b>Total</b>	<b>\$ 16,500</b>	<b>\$ 13,577</b>	<b>\$ 11,600</b>	<b>\$ 14,521</b>	<b>\$ 56,198</b>
Operating income (loss):					
Water transmission	\$ 8,024	\$ 6,130	\$ 6,969	\$ 15,155	\$ 36,278
Tubular products	6,196	4,651	1,134	(3,646)	8,335
Corporate	(5,041)	(3,811)	(4,074)	(4,127)	(17,053)
<b>Total</b>	<b>\$ 9,179</b>	<b>\$ 6,970</b>	<b>\$ 4,029</b>	<b>\$ 7,382</b>	<b>\$ 27,560</b>
<b>Net income</b>	<b>\$ 4,734</b>	<b>\$ 3,604</b>	<b>\$ 3,396</b>	<b>\$ 4,510</b>	<b>\$ 16,244</b>
Earnings per share:					
Basic	\$ 0.51	\$ 0.38	\$ 0.36	\$ 0.48	\$ 1.73
Diluted	\$ 0.50	\$ 0.38	\$ 0.36	\$ 0.48	\$ 1.72

**Table of Contents**

Schedule II

**NORTHWEST PIPE COMPANY**  
**VALUATION AND QUALIFYING ACCOUNTS**

(Dollars in thousands)

	<b>Balance at Beginning of Period</b>	<b>Charged to Profit and Loss</b>	<b>Deduction from Reserves</b>	<b>Balance at End of Period</b>
<b>Year ended December 31, 2013:</b>				
Allowance for doubtful accounts	\$ 1,748	\$ 124	\$ (1,187)	\$ 685
Valuation allowance for deferred tax assets	940	954		1,894
<b>Year ended December 31, 2012:</b>				
Allowance for doubtful accounts	\$ 1,650	\$ 1,381	\$ (1,283)	\$ 1,748
Valuation allowance for deferred tax assets	926	14		940
<b>Year ended December 31, 2011:</b>				
Allowance for doubtful accounts	\$ 2,151	\$ 3,518	\$ (4,019)	\$ 1,650
Valuation allowance for deferred tax assets	105	872	(51)	926

S-1



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on the 4<sup>th</sup> day of September 2014.

NORTHWEST PIPE COMPANY

By */s/* SCOTT MONTROSS  
**Scott Montross**  
**Director, President and Chief Executive Officer**