NORTHWEST PIPE CO
Form 10-Q
August 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: June 30, 2007

OR

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

Commission File Number: 0-27140

NORTHWEST PIPE COMPANY

(Exact name of registrant as specified in its charter)

OREGON	**93-0557988**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

200 S.W. Market Street

Suite 1800

Portland, Oregon 97201

(Address of principal executive offices and zip code)

503-946-1200

(Registrant s telephone number including area code)

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

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

Large Accelerated Filer ¨ Accelerated Filer x Non-accelerated filer ¨

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

Common Stock, par value $.01 per share	**8,961,752**
(Class)	**(Shares outstanding at August 1, 2007)**

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NORTHWEST PIPE COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 250	$ 4,259
Trade and other receivables, less allowance for doubtful accounts of $690 and $823	65,657	68,425
Costs and estimated earnings in excess of billings on uncompleted contracts	79,821	74,353
Inventories	63,638	79,300
Refundable income taxes	3,455	5,889
Deferred income taxes	4,071	3,134
Prepaid expenses and other	2,350	2,154
Total current assets	219,242	237,514
Property and equipment, less accumulated depreciation and amortization of $43,800 and $41,328	168,456	160,776
Goodwill	21,451	21,451
Prepaid expenses and other	5,304	4,710
Total assets	$ 414,453	$ 424,451
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 4,402	$ 9,663
Accounts payable	29,717	50,865
Accrued liabilities	13,740	10,243
Total current liabilities	47,859	70,771
Note payable to financial institution	49,001	43,000
Long-term debt, less current portion	40,710	47,915
Deferred income taxes	31,174	29,499
Pension and other benefits	2,705	2,440
Total liabilities	171,449	193,625
Commitments and contingencies (Note 4)		
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, 8,953,166 and 8,877,859 shares issued and outstanding	89	89
Additional paid-in-capital	99,285	97,303
Retained earnings	145,326	135,130
Accumulated other comprehensive loss:		
Minimum pension liability	(1,696)	(1,696)
Total stockholders equity	243,004	230,826

Total liabilities and stockholders equity	$ 414,453	$ 424,451

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

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NORTHWEST PIPE COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net sales	$ 101,897	$ 77,856	$ 192,633	$ 156,674
Cost of sales	83,105	65,052	157,737	131,406
Gross profit	18,792	12,804	34,896	25,268
Selling, general and administrative expense	7,973	6,894	15,275	13,310
Gain on sale of assets		(7,674)		(7,674)
Operating income	10,819	13,584	19,621	19,632
Interest expense, net	1,833	1,729	3,437	3,487
Income before income taxes	8,986	11,855	16,184	16,145
Provision for income taxes	3,324	4,532	5,988	6,184
Net income	$ 5,662	$ 7,323	$ 10,196	$ 9,961
Basic earnings per share	$ 0.63	$ 1.07	$ 1.14	$ 1.45
Diluted earnings per share	$ 0.61	$ 1.03	$ 1.11	$ 1.40
Shares used in per share calculations:				
Basic	8,940	6,854	8,932	6,848
Diluted	9,221	7,131	9,217	7,128

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

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NORTHWEST PIPE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash Flows From Operating Activities:		
Net income	$ 10,196	$ 9,961
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	2,518	1,846
Amortization of debt issuance costs	182	148
Deferred income taxes	738	781
Deferred gain on sale-leaseback of equipment		(711)
Loss (gain) on disposal of property and equipment	81	(7,630)
Stock based compensation expense	297	200
Tax benefit of stock options exercised	449	95
Excess tax benefit of stock options exercised	(255)	(54)
Changes in current assets and liabilities:		
Trade and other receivables, net	2,768	1,580
Costs and estimated earnings in excess of billings on uncompleted contracts	(5,468)	10,568
Inventories	15,662	(11,634)
Refundable income taxes	2,434	1,518
Prepaid expenses and other	(549)	(608)
Accounts payable	(21,148)	7,306
Accrued and other liabilities	3,762	1,523
Net cash provided by operating activities	11,667	14,889
Cash Flows From Investing Activities:		
Proceeds from sale of property and equipment		10,396
Additions to property and equipment	(8,832)	(15,513)
Net cash used in investing activities	(8,832)	(5,117)
Cash Flows From Financing Activities:		
Proceeds from sale of common stock	1,236	344
Net borrowings (payments) under notes payable from financial institutions	6,001	(5,889)
Payments on long-term debt	(13,913)	(4,339)
Payments of debt issuance costs	(423)	
Excess tax benefit of stock options exercised	255	54
Net cash used in financing activities	(6,844)	(9,830)
Net decrease in cash and cash equivalents	(4,009)	(58)
Cash and cash equivalents, beginning of period	4,259	133
Cash and cash equivalents, end of period	$ 250	$ 75
Non-cash investing and financing activity:		

Converted operating lease to capital lease	$	1,447	$	

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements as of and for the three and six months ended June 30, 2007 and 2006 have been prepared in conformity with accounting principles generally accepted in the United States of America. The financial information as of December 31, 2006 is derived from the audited financial statements presented in the Northwest Pipe Company (the Company) Annual Report on Form 10-K for the year ended December 31, 2006. Certain information or footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair statement of the results of the interim periods presented. The accompanying financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2006, as presented in the Company s Annual Report on Form 10-K.

Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2007 or any portion thereof.

2. Inventories

Inventories are stated at the lower of cost or market. Finished goods and Tubular Products and Fabricated Products raw material are stated at cost using the first-in, first-out method of accounting. Raw material inventories of steel coil are stated at cost on a specific identification basis. Raw material inventories of coating and lining materials, as well as materials and supplies, are stated on an average cost basis. Inventories consist of the following:

	June 30, 2007	December 31, 2006
	(In thousands)	
Finished goods	$ 29,353	$ 30,716
Raw materials	32,323	46,533
Materials and supplies	1,962	2,051
	$ 63,638	$ 79,300

3. Note Payable to Financial Institution and Long Term Debt

On May 31, 2007, the Company entered into an Amended and Restated Credit Agreement (Amended Credit Agreement). The Amended Credit Agreement amends and restates the Credit Agreement dated May 20, 2005, and provides for a revolving loan, swing line loan and letters of credit in the aggregate amount of up to $90 million, with an option for the Company to increase that amount to $110 million upon lender approval. Borrowings under the Amended Credit Agreement are secured by substantially all of the Company s accounts receivable, inventory and certain equipment.

On May 31, 2007, the Company entered into an Amended and Restated Note Purchase and Private Shelf Agreement, which reflects favorable changes in certain financial covenants and other changes to generally conform to the Amended Credit Agreement. The Company may issue additional notes under the Amended and Restated Note Purchase and Private Shelf Agreement in the aggregate principal amount of up to $35 million.

4. Contingencies

In November 1999, the Oregon Department of Environmental Quality (ODEQ) requested performance of a preliminary assessment of the Company s plant located at 12005 N. Burgard in Portland, Oregon. The purpose of the assessment is to determine whether the plant has contributed to sediment contamination in the Willamette River. The Company entered into a Voluntary Letter Agreement with ODEQ in mid-August 2000, and began working on the assessment. On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor was included on the National Priorities List (NPL) at the request of the U.S. Environmental Protection Agency (EPA). EPA has not fully defined the stretch of the river that will make up the site. However, the full and final site will include all suitable areas in proximity to the contamination necessary for the implementation of the response action including upland portions of the Site that contain sources of contamination to the sediments in the river. The Company s plant is not located on the Willamette River; it lies in what may be the uplands portion of the Portland Harbor Site. EPA and ODEQ have agreed to share responsibility for leading the investigation and cleanup of the Portland Harbor Site. ODEQ has the lead responsibility for conducting the upland work. The actual work in both the river and uplands is being performed by various owners or operators of land and facilities within the Site.

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EPA and ODEQ have notified the Company and 68 other parties of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA) with respect to the Portland Harbor Site. EPA and ODEQ have urged the Company and other parties receiving the letters to voluntarily enter into negotiations to participate in a remedial investigation and feasibility study (RI/FS) at the Portland Harbor Site. That RI/FS is currently being conducted by a group of potentially responsible parties known as the Lower Willamette Group (LWG). The Company, along with other parties, reached an Interim Remedial Investigation / Feasibility Study settlement in February, 2007. This agreement required the Company to make a payment of $175,000 in June 2007 to the LWG. This is an interim settlement only and does not obligate the Company to any further payment or liabilities. Therefore, the extent of the Company s participation in this work is not known, and no adjustments to the Company s financial statements have been recorded for this matter.

In 2001, groundwater containing elevated volatile organic compounds (VOCs) was identified in one localized area of the Company s property furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater is consistent with the initial conclusion that a source of the VOCs is located off site. There is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments.

ODEQ recommended a remedial investigation and feasibility study for further evaluation of both groundwater and stormwater at the plant. On January 25, 2005, ODEQ and the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures. The Company completed the additional assessment work required by the Agreement and submitted a Remedial Investigation/Source Control Evaluation Report to ODEQ on December 30, 2005. The conclusions of the report indicate that VOCs in groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River, stormwater is appropriately managed under the Company s NPDES permit and the risk assessment screening results justify a No Further Action determination for the facility. The ODEQ review of this report is ongoing. ODEQ is expected to make its recommendations by mid-2007.

The Company operates under numerous governmental permits and licenses relating to air emissions, stormwater run-off, and other matters. The Company is not aware of any current material violations or citations relating to any of these permits or licenses. It has a policy of reducing consumption of hazardous materials in its operations by substituting non-hazardous materials when possible. 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 thereunder which, among other requirements, establish noise and dust standards. The Company believes that it is in material compliance with these laws and regulations and does not believe that future compliance with such laws and regulations will have a material adverse effect on its results of operations or financial condition.

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 it believes to be adequate. Management believes that it is not presently a party to any other litigation, the outcome of which would have a material adverse effect on the Company s business, financial condition, results of operations or cash flows.

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5. Segment Information

The Company s operations are organized in three business segments, which are based on the nature of the products sold. Management evaluates segment performance based on segment gross profit. There were no material transfers between segments in the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(in thousands)		(in thousands)	
Net sales:				
Water Transmission	$ 69,477	$ 51,343	$ 134,057	$ 107,290
Tubular Products	28,918	22,593		