

NORTHWEST PIPE CO  
Form 10-K  
March 17, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

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)**

**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>
<b>Common Stock, par value \$0.01 per share</b>	<b>NASDAQ Global Select Market</b>
<b>Preferred Stock Purchase Rights</b>	<b>NASDAQ Global Select Market</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

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.

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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.

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**NORTHWEST PIPE COMPANY**  
**2013 ANNUAL REPORT ON FORM 10-K**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K ), other than purely historical information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ) that are based on current expectations, estimates and projections about our business, management s beliefs, and assumptions made by management. Words such as expects, anticipates, intends, plans, believes, seeks, estim forecasts, should, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve a number of risks and uncertainties that are difficult to predict. Actual outcomes and results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of important factors. While it is impossible to identify all such factors, those that could cause actual results to differ materially from those estimated by us include the important factors discussed in Part I Item 1A, Risk Factors. Such forward-looking statements speak only as of the date they are made and we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of this 2013 Form 10-K. If we do update one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect thereto or with respect to other forward-looking statements.

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**PART I**

**Item 1. Business**

**Overview**

We are a leading North American manufacturer of large diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems, and we also manufacture other welded steel pipe products for use in a wide range of applications, including energy, construction, agriculture, and industrial uses. Our pipeline systems are also used for hydroelectric power systems, wastewater systems and other applications. In addition, we make products for industrial plant piping systems and certain structural applications. With a history that dates back more than 100 years, we have established a prominent position based on a strong and widely recognized reputation for quality, service and an extensive range of products engineered and manufactured to meet expectations in all categories of performance including highly corrosive environments.

We manufacture water infrastructure steel pipe products through our Water Transmission Group, which in 2013, 2012, and 2011 generated approximately 48%, 51%, and 53%, respectively, of our net sales. The Water Transmission Group produces large diameter, high pressure, engineered welded steel pipe products for use in water transmission applications. With eight Water Transmission manufacturing facilities, we are ideally located to meet North America's growing needs for water and wastewater infrastructure. We market our water infrastructure products through an internal sales force. Our sales have historically been driven by the need for new water infrastructure, which is based primarily on overall population growth and population movement between regions.

We also manufacture smaller diameter electric resistance welded ( ERW ) steel pipe and other welded steel pipe products through our Tubular Products Group, which in 2013, 2012, and 2011 generated approximately 52%, 49%, and 47%, respectively, of our net sales. Our smaller diameter pipe is used for applications in energy, structural, commercial and industrial uses. We have three centrally located Tubular Products manufacturing facilities in the United States and we market our products through an internal sales force.

**Recent Business Developments**

On December 30, 2013, we 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 our product offerings in the Water Transmission Group. Additional information regarding the acquisition can be found in Part II Note 1, Summary of Significant Accounting Policies of this 2013 Form 10-K. With this acquisition we added two manufacturing facilities.

On September 30, 2013, we announced that we are currently exploring strategic alternatives for the Oil Country Tubular Goods ( OCTG ) portion of our energy business, which could include potential acquisitions, divestitures and joint-ventures. No decision has been made at this time to enter into any transaction and there can be no assurance that the exploration of alternatives will result in a transaction or as to the terms, conditions or timetable of any such transaction.

**Our Industries**

**Water Transmission.** Much of the United States water infrastructure is antiquated and many authorities, including the United States Environmental Protection Agency (the EPA ), believe the United States water infrastructure is in critical

need of updates, repairs or replacements. In its 2011 Drinking Water Infrastructure Needs Survey and Assessment released in June 2013, the EPA estimates the nation will need to spend \$384 billion in infrastructure investments over the next twenty years to continue to provide safe drinking water to the public. The American Society of Civil Engineers has given poor ratings to many aspects of the United States

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water infrastructure in their 2013 Report Card for America's Infrastructure. In its most recent Failure to Act study of current infrastructure, the American Society of Civil Engineers estimates there will be an \$84 billion funding gap for water and wastewater infrastructure by 2020, and a \$144 billion gap by 2040.

Within this market, we focus on large diameter, engineered welded steel pipeline systems utilized in water, energy, structural and plant piping applications. Our core market is the large diameter, high-pressure portion of a water transmission pipeline that is typically at the upper end of a pipeline system. This is the portion of the overall water pipeline that generally transports water from the source to a treatment plant or from a treatment plant into the distribution system, rather than the small lines that deliver water directly into households. We believe the addressable market for the products sold by our Water Transmission Group will total approximately \$1.6 billion over the next three years.

A combination of population growth, movement to new population centers, dwindling supplies from developed water sources, substantial underinvestment in water infrastructure over the past several decades, and an increasingly stringent regulatory environment are driving demand for water infrastructure projects in the United States. These trends are increasing the need for new water infrastructure as well as the need to upgrade, repair and replace existing water infrastructure. While we believe this offers the potential for increased demand for our water infrastructure products and other products related to water transmission, we also expect current governmental and public water agency budgetary pressures will impact near-term demand.

The primary drivers of growth in new water infrastructure installation are population growth and movement as well as dwindling supplies from developed water sources. According to the United States Census Bureau, the population of the United States will increase by over 84 million people between 2014 and 2050. The resulting increase in demand will require substantial new infrastructure, as the existing United States water infrastructure is not equipped to provide water to millions of new residents. In addition, many current water supply sources are in danger of being exhausted. The development of new sources of water at greater distances from population centers will drive the demand for new water transmission lines. Our eight Water Transmission manufacturing facilities are well located to take advantage of the anticipated growth and demand.

Increased public awareness of problems with the quality of drinking water and efficient water usage has resulted in more stringent application of federal and state environmental regulations. The need to comply with these regulations in an environment of heightened public awareness towards water issues is expected to contribute to demand in the water infrastructure industry over the next several years as water systems will need to be installed, upgraded and replaced.

***Tubular Products.*** The tubular products industry encompasses a wide variety of products serving a diverse group of end markets. We have been active in several of these markets, including energy, construction, agricultural, commercial, and industrial systems.

We believe there will continue to be steady demand from the energy markets. The price per barrel of crude oil has steadily increased since 2009 and has traded at or slightly above \$100 per barrel since 2011. Natural gas production remained at historically high levels during 2013 according to the United States Energy Information Administration. Of the active oil and natural gas rigs, approximately 20 percent of the rigs are drilling for natural gas and 80 percent are drilling for oil. Rig counts in the United States have held steady since the end of 2012 and we believe drilling activity and the demand for energy pipe will remain at relatively strong levels with continuing development of shale oil and natural gas resources.

## **Products**



***Water Transmission.*** Water transmission pipe is used for high-pressure applications, typically requiring pipe to withstand pressures in excess of 150 pounds per square inch. Most of our water transmission products are made to custom specifications for fully engineered, large diameter, high-pressure water infrastructure systems.

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Other uses include pipe for piling and hydroelectric projects, wastewater treatment plants and other applications. Our primary manufacturing process has the capability to manufacture water transmission pipe in diameters ranging from 12 inches to 156 inches with wall thickness of 0.135 inch to 1.00 inch. We also have the ability to manufacture even larger and heavier pipe with other processes. We can coat and/or line these products with cement mortar, polyethylene tape, polyurethane paints, epoxies, Pritec<sup>®</sup>, and coal tar enamel according to our customers' specifications. We maintain fabrication facilities that provide installation contractors with custom fabricated sections as well as straight pipe sections. We typically deliver a complete pipeline system to the installation contractor.

***Tubular Products.*** Our tubular products range in size from 1.315 inches to 16 inches in diameter with wall thickness from 0.035 inch to 0.375 inch. These products are typically sold to distributors or Original Equipment Manufacturers ( OEMs ) and are used for a wide variety of applications, including energy, construction, agriculture, and other commercial and industrial uses. The Tubular Products Group also manufactured and marketed welded steel pipe used in traffic signpost applications through June 1, 2011.

## **Marketing**

***Water Transmission.*** The primary customers for water transmission products are installation contractors for projects funded by public water agencies. One customer accounted for 12% of our total Company net sales in both 2013 and 2012. No customer accounted for more than 10% of our total net sales in 2011. Our plant locations in Oregon, Colorado, California, West Virginia, Texas, Mexico, and following the acquisition of Permalok Corporation, Missouri and Utah, allow us to efficiently serve customers throughout the United States, as well as Canada and Mexico. Our Water Transmission marketing strategy emphasizes early identification of potential water projects, promotion of specifications consistent with our capabilities and close contact with the project designers and owners throughout the design phase. Our in-house sales force is comprised of sales representatives, engineers and support personnel who work closely with public water agencies, contractors and engineering firms, often years in advance of projects being bid. This allows us to identify and evaluate planned projects at early stages, participate in the engineering and design process, and ultimately promote the advantages of our systems. After an agency completes a design, they publicize the upcoming bid for a water transmission project. We then obtain detailed plans and develop our estimate for the pipe portion of the project. We typically bid to installation contractors who include our bid in their proposals to public water agencies. A public water agency generally awards the entire project to the contractor with the lowest responsive bid.

***Tubular Products.*** Our tubular products are marketed through an in-house sales force. Our tubular product manufacturing facilities are located in Kansas, Texas, and Louisiana. Our marketing strategy focuses on quality, customer service and customer relationships. Our tubular products are primarily sold to distributors, although to a lesser extent we also sell to OEMs. Our sales effort emphasizes regular personal contact with current and potential customers. We supplement this effort with targeted advertising, brochures and participation in trade shows. No customer of our Tubular Products business accounted for more than 10% of our total net sales during 2013, 2012, or 2011.

## **Manufacturing**

***Water Transmission.*** Water transmission manufacturing begins with the preparation of engineered drawings of each unique piece of pipe in a project. These drawings are prepared on our proprietary computer-aided design system and are used as blueprints for the manufacture of the pipe. After the drawings are completed and approved, manufacturing begins by feeding steel coil continuously at a specified angle into a spiral weld mill which cold-forms the band into a tubular configuration with a spiral seam. Automated arc welders, positioned on both the inside and the outside of the tube, are used to weld the seam. The welded tube is then cut at the specified length. After completion of the forming

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and welding phases, the finished cylinder is tested and inspected in accordance with project specifications, which may include 100% radiographic analysis of the weld seam. The cylinders are then coated and lined as specified. Possible coatings include coal tar enamel, polyethylene tape,

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polyurethane paint, epoxies, Pritec® and cement mortar. Linings may be cement mortar, polyurethane or epoxies. Following coating and lining, certain pieces may be custom fabricated as required for the project. This process is performed in our fabrication facilities. Upon final inspection, the pipe is prepared for shipment. We ship our products to project sites principally by truck.

***Tubular Products.*** Tubular products are manufactured by an ERW process in diameters ranging from 1.315 inches to 16 inches. This process begins by unrolling and slitting steel coils into narrower bands sized to the circumference of the finished product. Each band is re-coiled and fed into the material handling equipment at the front end of the ERW mill and fed through a series of rolls that cold-form it into a tubular configuration. The resultant tube is welded by high-frequency electric resistance welders. After exiting the mill, the products are straightened, inspected, tested and end-finished. Certain products are coated. For our OCTG products, we also use the services of third party processors to finish the pipe. These finishing operations include threading, inspecting, testing and heat treating. Securing adequate finishing capacity is key to the Tubular Product Group's success in the OCTG market.

***Technology.*** Advances in technology help us produce high quality products at competitive prices. We have invested in modern welding and inspection equipment to improve both productivity and product quality. To stay current with technological developments in the United States and abroad, we participate in trade shows, industry associations, research projects and vendor trials of new products.

***Quality Assurance.*** We have quality management systems in place that assure we consistently provide products that meet or exceed customer and applicable regulatory requirements. The Quality Assurance department reports directly to the Chief Executive Officer. All of our quality management systems in the United States are registered by the International Organization for Standardization, or ISO, under a multi-site registration. In addition to ISO qualification, the American Institute of Steel Construction, American Petroleum Institute, American Society for Mechanical Engineers, Factory Mutual, National Sanitation Foundation, and Underwriters Laboratory have certified us for specific products or operations. The Quality Assurance department is responsible for monitoring and measuring characteristics of the product. Inspection capabilities include, but are not limited to, visual, dimensional, liquid penetrant, magnetic particle, hydrostatic, ultrasonic, phased array ultrasonics, real-time imaging enhancement, real-time radioscopic, base material tensile, yield and elongation, sand sieve analysis, coal-tar penetration, concrete compression, lining and coating dry film thickness, adhesion, absorption, guided bend, charpy impact, hardness, metallurgical examinations, chemical analysis, spectrographic analysis and finished product final inspection. Product is not released for shipment to our customers until there is verification that all product requirements have been met.

***Product Liability.*** The manufacturing and use of our products involves a variety of risks. Certain losses may result, or be alleged to result, from defects in our products, thereby subjecting us to claims for damages, including consequential damages. We warrant our products to be free of certain defects for one year. We maintain insurance coverage against potential product liability claims in the amount of \$52 million, which we believe to be adequate. Historically, product liability claims against us have not been material. However, there can be no assurance that product liability claims exceeding our insurance coverage will not be experienced in the future or that we will be able to maintain such insurance with adequate coverage.

## **Backlog**

Our backlog includes confirmed orders, including the balance of projects in process, and projects for which we have been notified that we are the successful bidder even though a binding agreement has not been executed. Projects for which a binding contract has not been executed could be cancelled. Binding orders received by us may be subject to cancellation or postponement; however, cancellation would generally obligate the customer to pay the costs incurred by us. As of December 31, 2013, the backlog of orders for our Water Transmission Group was approximately \$103

million. Binding contracts had been executed for approximately 83% of the Water Transmission backlog as of February 24, 2014. At December 31, 2012, the backlog of orders for our Water

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Transmission Group was approximately \$173 million. Backlog as of any particular date may not be indicative of actual operating results for any fiscal period. There can be no assurance that any amount of backlog ultimately will be realized.

## **Competition**

**Water Transmission.** We have several regional competitors in the Water Transmission business. Most water transmission projects are competitively bid and price competition is vigorous. Price competition may reduce the gross margin on sales, which may adversely affect overall profitability. Other competitive factors include timely delivery, ability to meet customized specifications and high freight costs which may limit the ability of manufacturers located in other market areas to compete with us. With Water Transmission manufacturing facilities in Oregon, Colorado, California, West Virginia, Texas, Missouri, Utah, and Mexico, we believe we can more effectively compete throughout the United States, Canada and Mexico. Our primary competitor in the Water Transmission business in the western United States and southwestern Canada is National Oilwell Varco, Inc. East of the Rocky Mountains, our primary competition includes: American Cast Iron Pipe Company and U.S. Pipe, which manufacture ductile iron pipe; American Spiral Weld Pipe Company, which manufactures spiral welded steel pipe; and Hanson Pipe & Precast, which manufactures concrete pressure pipe and spiral welded steel pipe.

No assurance can be given that other new or existing competitors will not establish new facilities or expand capacity within our market areas. New or expanded facilities or new competitors could have a material adverse effect on our ability to capture market share and maintain product pricing.

**Tubular Products.** The market for tubular products is highly fragmented and diversified with over 100 manufacturers in the United States and a number of foreign-based manufacturers that export such pipe into the United States. Manufacturers compete with one another primarily on the basis of price, quality, established business relationships, customer service and delivery. In some of the sectors within the tubular products industry, competition may be less vigorous due to the existence of a relatively small number of companies with the capabilities to manufacture certain products. In particular, we operate in a variety of different markets that require pipe with lighter wall thickness in relation to diameter than many of our competitors can manufacture. In our markets, we typically compete with U.S. Steel, TMK Ipsco, Boomerang, Energex, Tex Tube, Tenaris, Evraz, California Steel Industries and Welded Tubes, as well as foreign competitors.

Additionally, several companies have announced new plants or the expansion of product lines at existing facilities. New or expanded facilities or new competitors could have a material adverse effect on our ability to capture market share and maintain product pricing.

In 2013 we faced increased competition from foreign-based manufacturers that export OCTG pipe into the United States, resulting in downward pricing pressure and a growth in our inventory balances. A trade case was filed in July 2013 for an investigation of imports of OCTG, particularly casing and tubing, from nine countries and possible imposition of anti-dumping duties. A preliminary determination of harm was found in August 2013; however, final determination is expected in the third quarter of 2014. Imported steel pipe represents a growing percentage of the OCTG market, and increases in imported OCTG products could have a materially adverse effect on our ability to capture market share and maintain product pricing.

## **Raw Materials and Supplies**

We purchase hot rolled and galvanized steel coil from both domestic and foreign steel mills. Domestic suppliers include Severstal, ArcelorMittal, ThyssenKrupp Steel USA, Nucor Corporation, SSAB, California Steel Industries,

Gallatin Steel Company, New Process Steel, American Alloy Steel, Evraz, and Steel Dynamics Inc. Foreign suppliers include Ternium and BlueScope Steel. We order steel according to our business forecasts for our Tubular Products business. Steel for the Water Transmission business is normally purchased only after a

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project has been awarded to us. From time to time, we may purchase additional steel when it is available at favorable prices. Purchased steel represents a substantial portion of our cost of sales. The steel industry is highly cyclical in nature and steel prices are influenced by numerous factors beyond our control, including general economic conditions, availability of raw materials, energy costs, import duties, other trade restrictions and currency exchange rates.

We also rely on certain suppliers of coating materials, lining materials and certain custom fabricated items. We have at least two suppliers for most of our raw materials. We believe our relationships with our suppliers are positive and have no indication that we will experience shortages of raw materials or components essential to our production processes or that we will be forced to seek alternative sources of supply. Any shortages of raw materials may result in production delays and costs, which could have a material adverse effect on our financial position, results of operations or cash flows.

## **Environmental and Occupational Safety and Health Regulation**

We are subject to federal, state, local and foreign environmental and occupational safety and health laws and regulations, violation of which could lead to fines, penalties, other civil sanctions or criminal sanctions. These environmental laws and regulations govern emissions to air; discharges to water (including stormwater); and the generation, handling, storage, transportation, treatment and disposal of waste materials. We operate under numerous governmental permits and licenses relating to air emissions, stormwater run-off and other environmental matters, and we are also subject to environmental laws requiring the investigation and cleanup of environmental contamination at properties we presently own or operate and at third-party disposal or treatment facilities to which these sites send or arrange to send hazardous waste. For example, we have been identified as a potentially responsible party at the Portland Harbor Site discussed in Part 1 Item 3, Legal Proceedings of this 2013 Form 10-K. We believe we are in material compliance with these laws and regulations and do not currently believe that future compliance with such laws and regulations will have a material adverse effect on our financial position, results of operations or cash flows.

Based on our assessment of potential liability, we have no reserves for environmental investigations and cleanup. However, estimating liabilities for environmental investigations and cleanup is complex and dependent upon a number of factors beyond our control which may change dramatically. Accordingly, although we believe maintaining no reserve is appropriate based on current information, we cannot assure you that our future environmental investigation and cleanup costs and liabilities will not result in a material expense.

## **Employees**

As of December 31, 2013, we had approximately 1,050 full-time employees. Approximately 31% were salaried and approximately 69% were employed on an hourly basis. A union represents all of the hourly employees at our Monterrey, Mexico facility. All other employees are non-union. We consider our relations with our employees to be good.

## **Available Information**

Our internet website address is [www.nwpipe.com](http://www.nwpipe.com). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act are available through our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ( SEC ). All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law. Our internet website and the information



contained therein or connected thereto are not incorporated into this 2013 Form 10-K.

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Additionally, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

### **Item 1A. Risk Factors**

*You should carefully consider the following factors, together with all the other information included in this 2013 Form 10-K, in evaluating our Company and our business. If any of the following risks actually occur, our business, financial condition, results of operations, or cash flows could be materially and adversely affected, and the value of our stock could decline. The risks and uncertainties described below are those that we currently believe may materially affect our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. As such, you should not consider this list to be a complete statement of all potential risks or uncertainties.*

#### **Risks Related to our Business**

##### **Increased levels of imports have and could continue to adversely affect pricing and demand for our products.**

We believe import levels are affected by, among other things, overall worldwide demand, lower cost of production in other countries, the trade practices of foreign governments, government subsidies to foreign producers and governmentally imposed trade restrictions in the United States. Although certain imported steel products from China have been curtailed by anti-dumping duties, imported products from other countries have increased, notably from Canada, Italy, Korea, India, and Vietnam, which continue to command significant market share. The level of imports of tubular products has historically impacted the domestic tubular products market and is currently reducing the demand for our energy products. Increased imports in the United States and Canada which compete with our other tubular product and water transmission products could reduce demand for our products in the future and adversely affect our business, financial position, results of operations or cash flows.

##### **We depend on third party processors to provide finishing services on certain of our energy market products.**

Certain products supplied to the OCTG market require finishing services currently provided by third parties to finish the pipe to customer specifications. These finishing operations include, but are not limited to, threading, inspection, testing and heat treating. Our dependency on these processors has increased along with our increased production of OCTG products. Because we cannot perform these processes internally, our inability to secure production time at these processors could negatively impact our revenues from the energy market and puts us at a disadvantage with our domestic competitors.

##### **We operate in highly competitive industries, and increased competition could reduce our gross profit and net income.**

We face significant competition in all of our businesses. We have recently seen new domestic and foreign competitors bidding on projects. Orders in the Water Transmission business are competitively bid, and price competition can be vigorous. Price competition may reduce the gross margin on sales, which may adversely affect overall profitability. Other competitive factors include timely delivery, ability to meet customized specifications and high freight costs. Although our Water Transmission manufacturing facilities in Oregon, Colorado, California, West Virginia, Texas, Missouri, Utah, and Mexico allow us to compete throughout the United States, Canada and Mexico, we cannot assure you that new or existing competitors will not establish new facilities or expand capacity within our market areas. New or expanded facilities or new competitors could have a material adverse effect on our market share and product pricing in our Water Transmission business. There are many competitors in the Tubular Products

business, and price is often a prime consideration for purchase of our products. Price competition may reduce our gross profit, which may adversely affect our net income. Some of our competitors have greater financial, technical and marketing resources than we do. We

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cannot assure you that we will be able to compete successfully with our competitors. Failure to compete successfully could reduce our gross profit and net income, as well as have a material adverse effect on our business, financial position, results of operations or cash flows.

**Our Tubular Products business is facing intense competition from other North American suppliers.** With the increase in energy pipe demand, there have been significant increases in available capacity in North America. Approximately 2.7 million tons of tubular pipe capacity has been added in the last few years. Approximately 2.4 million tons of tubular pipe capacity is currently under construction and another 250,000 tons has been announced. Increased domestic capacity and production in the United States and Canada could adversely affect our business, financial position, results of operations or cash flows.

**Our exposure to the energy market represents a significant portion of our Tubular Products business.** Products serving the energy market, including line pipe and OCTG products, comprise 78%, 74%, and 70% of our tons sold in 2013, 2012, and 2011, respectively, for our Tubular Products Group. Sales of these products are tied to the exploration, development, and production of natural gas and oil reserves. Factors affecting the profitability of exploration and production of hydrocarbons, such as the price of oil and gas, will have an effect on the market for energy pipe products. A decline in the levels of exploration and production activity could adversely affect our business, financial position, results of operations, or cash flows.

**We may be unable to develop or successfully market new products or our products might not obtain necessary approvals or achieve market acceptance, which could adversely affect our growth.** We will continue to actively seek to develop new products and to expand our existing products into new markets, but we cannot assure you that we will be successful in these efforts. If we are unsuccessful in developing and marketing new products, expanding into new markets, or we do not obtain or maintain requisite approvals for our products, the demand for our products could be adversely affected, which could affect our business, financial position, results of operations or cash flows.

**The success of our business is affected by general economic conditions, and our business may be adversely affected by an economic slowdown or recession.** Periods of economic slowdown or recession in the United States, or the public perception that one may occur, have and could further decrease the demand for our products, affect the price of our products and adversely impact our business. We have been impacted in the past by the general slowing of the economy, and the economic slowdown has had an adverse impact on our business, financial position, results of operations or cash flows. In particular, our Tubular Products Group is exposed to the energy exploration, non-residential construction, and agriculture markets, and a significant downturn in any one of these markets could cause a reduction in our revenues that could be difficult to offset.

**A downturn in government spending related to public water transmission projects would adversely affect our business.** Our Water Transmission business accounted for approximately 48% of our net sales in 2013. Our Water Transmission business is primarily dependent upon spending on public water transmission projects, including water infrastructure upgrades, repairs and replacement and new water infrastructure spending, which, in turn, depends on, among other things:

the need for new or replacement infrastructure;

the priorities placed on various projects by governmental entities;

federal, state and local government spending levels, including budgetary constraints related to capital projects and the ability to obtain financing; and

the ability of governmental entities to obtain environmental approvals, right-of-way permits and other required approvals and permits.

Decreases in the number of, or government funding of, public water transmission projects would adversely affect our business, financial position, results of operations, or cash flows.

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**Project delays in public water transmission projects could adversely affect our business.** The public water agencies constructing water transmission projects generally announce the projects well in advance of the bidding and construction process. It is not unusual for projects to be delayed and rescheduled. Projects are delayed and rescheduled for a number of reasons, including changes in project priorities, difficulties in complying with environmental and other government regulations and additional time required to acquire rights-of-way or property rights. Delays in public water transmission projects may occur with too little notice to allow us to replace those projects in our manufacturing schedules. As a result, our business, financial position, results of operations or cash flows may be adversely affected by unplanned downtime.

**Fluctuations in steel prices may affect our future results of operations.** Purchased steel represents a substantial portion of our cost of sales, particularly in our Tubular Products business. The steel industry is highly cyclical in nature, and, at times, pricing can be highly volatile due to a number of factors beyond our control, including general economic conditions, import duties, other trade restrictions and currency exchange rates. Over the past three years, steel prices have fluctuated significantly. Our cost for a ton of steel was approximately \$766 per ton in 2011, \$748 per ton in 2012, and \$712 per ton in 2013. In 2013, our monthly average steel purchasing costs ranged from a high of approximately \$744 per ton to a low of approximately \$673 per ton. This volatility can significantly affect our gross profit. Although we seek to recover increases in steel prices through price increases in our products, we have not always been successful. Any increase in steel prices that is not offset by an increase in our prices could have an adverse effect on our business, financial position, results of operations or cash flows.

**Operating problems in our business could adversely affect our business, financial position, results of operations or cash flows.** Our manufacturing operations are subject to typical hazards and risks relating to the manufacture of similar products such as:

explosions, fires, inclement weather and natural disasters;

mechanical failure;

unscheduled downtime;

labor difficulties;

loss of process control and quality;

disruptions to supply;

raw materials quality defects;

service provider delays or failures;

transportation delays or failures;

an inability to obtain or maintain required licenses or permits; and

environmental hazards such as chemical spills, discharges or releases of toxic or hazardous substances or gases into the environment or workplace.

The occurrence of any of these operating problems at our facilities may have a material adverse effect on the productivity and profitability of a particular manufacturing facility or on our operations as a whole, during and after the period of these operating difficulties. These operating problems may also cause personal injury and loss of life, severe damage to or destruction of property and equipment, and environmental damage. In addition, individuals could seek damages for alleged personal injury or property damage. Furthermore, we could be subject to present and future claims with respect to workplace injury, exposure to hazardous materials, workers' compensation and other matters. Although we maintain property and casualty insurance of the types and in the amounts that we believe are customary for our industries, we cannot assure you that our insurance coverage will be adequate for liability that may be ultimately incurred or that such coverage will continue to be available to us on commercially reasonable terms. Any claims that result in liability exceeding our insurance coverage could have an adverse effect on our business, financial position, results of operations or cash flows.

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**Our Water Transmission business faces competition from concrete, ductile iron, polyvinyl chloride ( PVC ) and high density polyethylene ( HDPE ) pipe manufacturers.** Water transmission pipe is manufactured generally from steel, concrete, HDPE, PVC or ductile iron. Each pipe material has advantages and disadvantages. Steel and concrete are more common materials for larger diameter water transmission pipelines because ductile iron pipe generally is limited in diameter due to the manufacturing process. The public agencies and engineers who determine the specifications for water transmission projects analyze these pipe materials for suitability for each project. Individual project circumstances normally dictate the preferred material. If we experience cost increases in raw materials, labor and overhead specific to our industry or the location of our facilities, while competing products or companies do not experience similar changes, we could experience an adverse change in the demand, price and profitability of our products, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

**Our quarterly results of operations are subject to significant fluctuation.** Our net sales and operating results may fluctuate significantly from quarter to quarter due to a number of factors, including:

the commencement, completion or termination of contracts during any particular quarter;

unplanned down time due to project delays or mechanical failure;

underutilized capacity or factory productivity;

the seasonal variation in demand for tubular products;

adverse weather conditions;

fluctuations in the cost of steel and other raw materials; and

competitive pressures.

Results of operations in any period are not indicative of results for any future period, and comparisons between any two periods may not be meaningful.

**We depend on our senior management team, and the loss of any member could adversely affect our operations.**

Our success depends on the management and leadership skills of our senior management team. The loss of any of these individuals, or our inability to attract, retain and maintain additional personnel, could prevent us from fully implementing our business strategy. We cannot assure you that we will be able to retain our existing senior management personnel or to attract qualified personnel when needed.

**We may be subject to claims for damages for defective products, which could adversely affect our business, financial position, results of operations or cash flows.** We warrant our products to be free of certain defects. We have, from time to time, had claims alleging defects in our products. We cannot assure you that we will not experience



material product liability losses in the future or that we will not incur significant costs to defend such claims. While we currently have product liability insurance, we cannot assure you that our product liability insurance coverage will be adequate for liabilities that may be incurred in the future or that such coverage will continue to be available to us on commercially reasonable terms. Any claims relating to defective products that result in liabilities exceeding our insurance coverage could have an adverse effect on our business, financial position, results of operations or cash flows.

**We may not be able to recover costs and damages from vendors that supply defective materials.** We may receive defective materials from our vendors that are incorporated into our products during the manufacturing process. The cost to repair, remake or replace defective products could be greater than the amount that can be recovered from the vendor. Such excess costs could have an adverse effect on our business, financial position, results of operations or cash flows.

**We have a foreign operation which exposes us to the risks of doing business abroad.** Our fabrication facility in Monterrey, Mexico primarily exports products to the United States. We may operate in additional

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countries in the future. Any material changes in the quotas, regulations or duties on imports imposed by the United States government and our agencies or on exports imposed by these foreign governments and their agencies could adversely affect our foreign operations.

We also sell some of our products internationally. Our foreign activities are also subject to various other risks of doing business in a foreign country, including:

currency fluctuations;

transportation delays and interruptions;

political, social and economic instability and disruptions;

government embargoes or foreign trade restrictions;

the imposition of duties, tariffs and other trade barriers;

import and export controls;

labor unrest and current and changing regulatory environments;

limitations on our ability to enforce legal rights and remedies; and

potentially adverse tax consequences.

No assurance can be given that our operations may not be adversely affected in the future. Any of these events could have an adverse effect on our operations in the future by reducing the demand for our products and services, decreasing the prices at which we can sell our products or increasing costs such that there would be an adverse effect on our business, financial position, results of operations or cash flows. We cannot assure you that we will continue to operate in compliance with applicable customs, currency exchange control regulations, transfer pricing regulations or any other laws or regulations to which we may be subject, or that any such regulations or laws will not be modified. Any failure by us to comply with any such applicable regulations or laws, or any changes in any such regulations or laws could have a material adverse effect on our business, financial position, results of operations or cash flows.

**Our use of the percentage-of-completion method of accounting could result in a change to previously recorded revenue and profit.** In particular, revenue from construction contracts in our Water Transmission segment is recognized on the percentage-of-completion method, measured by the costs incurred to date as a percentage of the estimated total costs of each contract (the cost-to-cost method). 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 use of estimated cost to complete each contract is a significant variable in the process of determining income earned and is a significant factor in the accounting for contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Due to the variability of events affecting our estimates which have a material impact on our contract accounting, actual results could differ from those estimates, which could adversely affect our financial position, results of operations or cash flows.

**Our Water Transmission backlog is subject to reduction and cancellation.** Backlog represents products or services that our customers have committed to purchase from us and projects for which we have been notified that we are the successful bidder even though a binding agreement has not been executed. Projects for which a binding contract has not been executed could be cancelled. Our backlog of orders for our Water Transmission segment was approximately \$103 million at December 31, 2013. Our backlog is subject to fluctuations; moreover, cancellations of purchase orders, change orders on contracts, or reductions of product quantities could materially reduce our backlog and, consequently, future revenues. Our failure to replace canceled or reduced backlog could result in lower revenues, which could adversely affect our business, financial position, results of operations or cash flows.

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**We are subject to stringent environmental and health and safety laws, which may require us to incur substantial compliance and remediation costs, thereby reducing our profits.** We are subject to many federal, state, local and foreign environmental and health and safety laws and regulations, particularly with respect to the use, handling, treatment, storage, discharge and disposal of substances and hazardous wastes used or generated in our manufacturing processes. Compliance with these laws and regulations is a significant factor in our business. We have incurred, and expect to continue to incur, significant expenditures to comply with applicable environmental laws and regulations. Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions.

We are currently, and may in the future be, required to incur costs relating to the environmental assessment or environmental remediation of our property, and for addressing environmental conditions, including, but not limited to, the issues associated with our Portland, Oregon facility as discussed in Part I Item 3, Legal Proceedings below. Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. Consequently, we cannot assure you that existing or future circumstances, the development of new facts or the failure of third parties to address contamination at current or former facilities or properties will not require significant expenditures by us.

We expect to continue to be subject to increasingly stringent environmental and health and safety laws and regulations. It is difficult to predict the future interpretation and development of environmental and health and safety laws and regulations or their impact on our future earnings and operations. We anticipate that compliance will continue to require capital expenditures and operating costs. Any increase in these costs, or unanticipated liabilities arising, for example, out of discovery of previously unknown conditions or more aggressive enforcement actions, could adversely affect our results of operations, and there is no assurance that they will not have a material adverse effect on our business, financial position, results of operations or cash flows.

**We face risks in connection with potential acquisitions and divestures.** Acquiring businesses that complement or expand our operations has been an important element of our business strategy, and we continue to evaluate potential acquisitions that may expand and complement our business. We may not be able to successfully identify attractive acquisition candidates or negotiate favorable terms in the future. Furthermore, our ability to effectively integrate any future acquisitions will depend on, among other things, the adequacy of our implementation plans, the ability of our management to oversee and operate effectively the combined operations and our ability to achieve desired operational efficiencies. We may also consider other alternatives for our business units in order to strategically position our business and continue to compete in our markets, which may include joint-ventures and divestures. Our failure to successfully integrate the operations of any businesses that we may acquire in the future or our inability to attract a business partner in which to enter into a joint-venture or a buyer willing to purchase our business units may adversely affect our business, financial position, results of operations or cash flows

**Our decision to explore strategic alternatives for our OCTG products may not result in a transaction or a transaction may cause us to recognize a loss.** We announced on September 30, 2013 that we were considering strategic alternatives for our OCTG business, which could include potential acquisitions, divestitures and joint-ventures. The Company has engaged strategic consultants to assist with this process. The process to explore these alternatives is subject to a number of uncertainties, some of which are not in our control. As a result, we cannot provide assurance that the process will result in a transaction or, if it does, that it would occur within any specified period of time or under what terms. Further, our evaluation of potential transactions may cause us to incur substantial costs and divert a significant amount of resources and attention that would otherwise be directed toward our operations and implementation of our business strategy, all of which could materially adversely affect our business,

financial condition, results of operations or cash flows.

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**Sustained increases in fuel costs could have an adverse impact on our profitability.** We have periodically experienced significant fluctuations in fuel costs primarily as a result of macro-economic factors beyond our control. The price of fuel fluctuates significantly over time, and events beyond our control could adversely affect the supply and cost of fuel. Although we seek to recover increases in fuel costs through price increases in our products, we have not always been completely successful. Any increase in fuel costs that is not offset by increases in our prices could have an adverse impact on our business, financial position, results of operations or cash flows.

## **Risks Related to Our Financial Condition**

**Our significant debt obligations and the restrictions under which we operate as a result of our debt obligations could have a material adverse effect on our business, financial condition, results of operations or cash flows.** We have financed our operations through cash flows from operations, available borrowings and other financing arrangements. As of December 31, 2013, we had approximately \$102.2 million of outstanding debt and capital lease obligations.

Our debt and our debt service obligations could:

limit our ability to obtain additional financing for working capital or other purposes in the future;

reduce the amount of funds available to finance our operations, capital expenditures and other activities;

increase our vulnerability to economic downturns, illiquid capital markets, and adverse industry conditions;

limit our flexibility in responding to changing business and economic conditions, including increased competition;

place us at a disadvantage when compared to our competitors that have less debt; and

with respect to our borrowings that bear interest at variable rates, cause us to be vulnerable to increases in interest rates.

Our ability to make scheduled payments on our debt will depend on our future operating performance and cash flows, which are subject to prevailing economic conditions, prevailing interest rate levels and other financial, competitive and business factors, many of which are beyond our control. Our inability to make scheduled payments on our debt or any of the foregoing factors would have a material adverse effect on our business, financial condition, results of operations, or cash flows.

**We will need to substantially increase working capital as market conditions and customer order levels improve.** As market conditions and customer order levels improve we will have to increase our working capital substantially, as it will take several months for new orders to be translated into cash receipts. In general, availability under our Credit Agreement while remaining in compliance with our financial covenants is limited to \$69.8 million as of December 31, 2013. We may not have sufficient availability under this agreement to borrow the amounts we need, and other

opportunities to borrow additional funds or raise capital in the equity markets may be limited or nonexistent. A shortage in the availability of working capital would have a material adverse effect on our business, financial condition, results of operations, or cash flows.

**Our failure to comply with covenants in our debt instruments could result in our indebtedness being immediately due and payable, which would have a material adverse effect on our business, financial condition, results of operations or cash flows.** The agreements governing our outstanding debt include financial and other restrictive covenants that impose certain requirements with respect to our financial condition and results of operations and general business activities. These covenants require us to maintain certain financial ratios and place restrictions on, among other things, our ability to incur certain additional debt and to create liens or other encumbrances on assets.

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Our ability to comply with the financial and other covenants under our debt instruments in the future is uncertain and will be affected by our results of operations and financial condition as well as other events and circumstances beyond our control. If market and other economic conditions do not improve, our ability to comply with these covenants may be impaired. A failure to comply with the requirements of these covenants, if not waived or cured, could permit acceleration of the related debt and acceleration of debt under other instruments that include cross-acceleration or cross-default provisions. If any of our debt is accelerated, we cannot assure you that we would have sufficient assets to repay such debt or that we would be able to refinance such debt on commercially reasonable terms or at all. The acceleration of a significant portion of our debt would have a material adverse effect on our business, financial condition, results of operations, or cash flows.

**Disruptions in the financial markets and the general economic slowdown could cause us to be unable to obtain financing and expose us to risks related to the overall macro-economic environment, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.** The United States equity and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many equities to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing, even for companies who are otherwise qualified to obtain financing. These events may make it less likely that we will be able to obtain additional financing and also may make it more difficult or prohibitively costly for us to raise capital through the issuance of debt or equity securities.

## **Risks Related to Our Internal Control Over Financial Reporting**

**We have identified material weaknesses in internal control in prior years.** For the year ended December 31, 2011, material weaknesses in our internal control over financial reporting were identified. 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 consolidated financial statements would not be prevented or detected. We believe these material weaknesses have been remediated as of December 31, 2012 and no additional material weaknesses were identified as of December 31, 2013. However, we cannot assure you that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, or could result in material misstatements in our financial statements. These misstatements could result in a restatement of financial statements, cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

## **Risks Related to Our Common Stock**

**The relatively low trading volume of our common stock may limit your ability to sell your shares.** Although our shares of common stock are listed on the Nasdaq, we have historically experienced a relatively low trading volume. If we have a low trading volume in the future, holders of our shares may have difficulty selling a large number of shares of our common stock in the manner or at a price that might otherwise be attainable.

**The market price of our common stock could be subject to significant fluctuations.** The market price of our common stock has experienced, and may continue to experience, significant volatility. Among the factors that could affect our stock price are:



our operating and financial performance and prospects;

quarterly variations in the rate of growth of our financial indicators, such as earnings per share, net income and sales;

changes in revenue or earnings estimates or publication of research reports by analysts;

loss of any member of our senior management team;

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speculation in the press or investment community;

strategic actions by us or our competitors, such as acquisitions or restructuring;

sales of our common stock by shareholders;

relatively low trading volume;

general market conditions and market expectations for our industry and the financial health of our customers; and

domestic and international economic, legal and regulatory factors unrelated to our performance.

The stock markets in general have experienced broad fluctuations that have often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

**Certain provisions of our governing documents and Oregon law could discourage potential acquisition proposals.** Our articles of incorporation contain provisions that:

classify the board of directors into three classes, each of which serves for a three-year term with one class elected each year;

provide that directors may be removed by shareholders only for cause and only upon the affirmative vote of 75% of the outstanding shares of common stock; and

permit the board of directors to issue preferred stock in one or more series, fix the number of shares constituting any such series and determine the voting powers and all other rights and preferences of any such series, without any further vote or action by our shareholders.

In addition, we are subject to the Oregon Business Combination Act, which imposes certain restrictions on business combination transactions and may encourage parties interested in acquiring us to negotiate in advance with our board of directors. We also have a shareholder rights plan that acts to discourage any person or group from making a tender offer for, or acquiring, more than 15% of our common stock without the approval of our board of directors. Any of these provisions could discourage potential acquisition proposals, could deter, delay or prevent a change in control that our shareholders consider favorable and could depress the market value of our common stock.

**Item 1B. Unresolved Staff Comments**

None.



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**Properties**

The following table provides certain information about our eleven operating facilities as of December 31, 2013:

<b>Location</b>	<b>Manufacturing Space (approx. sq. ft.)</b>	<b>Property Size (approx. acres)</b>	<b>Products</b>	<b>Number and Type of Mills</b>
Portland, Oregon	300,000	25	Water transmission	3 spiral mills
Atchison, Kansas	106,000	60	Tubular products	2 electric resistance mills
Adelanto, California	200,000	100	Water transmission	3 spiral mills
Denver, Colorado	182,000	40	Water transmission	2 spiral mills
Houston, Texas	175,000	15	Tubular products	3 electric resistance mills
Parkersburg, West Virginia	145,000	90	Water transmission	2 spiral mills
Saginaw, Texas (2 facilities)	170,000	50	Water transmission	2 spiral mills
Monterrey, Mexico	40,000	5	Water transmission	Multiple line fabrication capability
Bossier City, Louisiana	180,000	25	Tubular products	1 electric resistance mill
St Louis, Missouri*	100,000	20	Water transmission	1 spiral mill, 1 long-seam mill
Salt Lake City, Utah*	47,000	1	Water transmission	1 long-seam mill

\* Properties acquired through the acquisition of Permalok Corporation on December 30, 2013.

As of December 31, 2013, we owned all of our facilities except for one of our Saginaw, Texas facilities, property adjacent to our Oregon facility, property adjacent to our St. Louis facility, and our Salt Lake City facility, which are leased.

Our facilities serve regional markets, which vary in the number and sizes of projects year-over-year. Consequently, we have excess manufacturing capacity from time to time at each of our facilities. We believe the quality and productive capacity of our facilities are sufficient to maintain our competitive position for the foreseeable future.

**Item 3. Legal Proceedings**  
**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 our 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, we were 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, we were 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 potentially responsible parties known as the Lower Willamette Group (the LWG ) under agreement with the EPA. We made a payment of \$175,000 to the LWG in June 2007 as part of an interim settlement, and are under no obligation to make any further payment. The final draft remedial investigation ( RI ) study 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 \$1.8 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

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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 our 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, we entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (the Agreement ) with the ODEQ. We are one of many Upland Source Control Sites working with the ODEQ on Source Control and are considered a medium priority site by the ODEQ. We 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 we revise our 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. We submitted the Expanded Risk Assessment for the VOCs in Groundwater in May 2012. In February 2013, the ODEQ requested we revise the presented information in the 2012 Expanded Risk Assessment for the VOCs in Groundwater a second time. The presented information was revised and submitted with the Final RI/Source Control Evaluation report in January 2014.

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, we 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, we submitted a Final Supplemental Work Plan to evaluate and assess soil and storm water, and further assess groundwater risk, as requested by the ODEQ. We submitted a remediation plan related to soil contamination, which the ODEQ approved. We have 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, we developed an additional Work Plan to characterize the nature and extent of soil and/or groundwater impacts from the staining. We 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 we have completed our second round of groundwater sampling for the Stained Soil Investigation Area. The results were reported to ODEQ in January 2014.

We spent less than \$0.1 million for Source Control work in 2013 and anticipate 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

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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. We have not assumed any payment obligation or liability related to either request.

Our 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, we are unable to estimate an amount or an amount within a range of costs for our 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. We have insurance policies for defense costs, as well as indemnification policies we believe will provide reimbursement for any share of the remediation assessed. However, we can provide no assurance that those policies will cover all of the costs which we may incur.

## **All Sites**

We operate our facilities under numerous governmental permits and licenses relating to air emissions, storm water run-off, and other environmental matters. Our 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. We believe we are in material compliance with our permits and licenses and these laws and regulations, and we do not believe that future compliance with such laws and regulations will have a material adverse effect on our financial position, results of operations or cash flows.

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

## **Executive Officers of the Registrant**

Information regarding our executive officers is set forth under the caption Directors, Executive Officers and Corporate Governance in Part III Item 10 of this 2013 Form 10-K and is incorporated herein by reference.

## **Item 4. Mine Safety Disclosures**

Not applicable.



**Table of Contents****PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  
**Market Information**

Our common stock is quoted on the Nasdaq under the symbol **NWPX**. The high and low sales prices as reported on the Nasdaq for each quarter in the years ended December 31, 2013 and 2012 were as follows.

	<b>Low</b>	<b>High</b>
<b>2013</b>		
First Quarter	\$ 22.96	\$ 29.32
Second Quarter	25.11	28.08
Third Quarter	27.83	32.88
Fourth Quarter	31.58	39.32
<b>2012</b>		
First Quarter	\$ 20.88	\$ 25.53
Second Quarter	19.59	24.32
Third Quarter	22.81	27.02
Fourth Quarter	20.42	25.11

There were 50 shareholders of record at February 10, 2014. A substantially greater number of holders of our common stock are beneficial holders, whose shares of record are held by banks, brokers, and other financial institutions. There were no cash dividends declared or paid in fiscal years 2013 or 2012, and we do not intend to pay cash dividends in the foreseeable future.

**Table of Contents****Stock Performance Graph**

The following graph compares the performance of our common stock to the performance of the Russell 2000 Index and a weighted composite index of certain peer companies (the Peer Group) selected by us. The Peer Group is comprised of Mueller Water Products, Lindsay Corporation and Valmont Industries, Inc.

The comparisons in the chart below are provided in response to SEC disclosure requirements and, therefore, are not intended to forecast or be indicative of future performance of our common stock.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Northwest Pipe Company, the Russell 2000 Index, and a Peer Group

\* \$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

	<b>Northwest Pipe Company</b>	<b>Indexed Return Russell 2000 Index</b>	<b>Peer Group</b>
December 31, 2008	100.00	100.00	100.00
December 31, 2009	63.04	127.17	121.18
December 31, 2010	56.40	161.32	135.31
December 31, 2011	53.65	154.59	126.64
December 31, 2012	56.00	179.86	202.09
December 31, 2013	88.62	249.69	238.77

**Securities Authorized for Issuance under Equity Compensation Plans**

The information with respect to equity compensation plans is included under Part III Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this 2013 Form 10-K.

**Table of Contents****Item 6. Selected Financial Data**

The following tables include selected summary financial data for each of our last five years and should be read in conjunction with Part II Item 8, Financial Statements and Supplementary Data, and Part II Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in this 2013 Form 10-K.

The following selected consolidated financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 are derived from our audited consolidated financial statements included in this 2013 Form 10-K.

	As of December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
<b>Consolidated Statement of Operations Data:</b>					
Net sales	\$ 475,556	\$ 524,503	\$ 511,668	\$ 386,750	\$ 278,654
Gross profit	52,459	56,198	59,138	29,688	6,684
Net income (loss)	(923)	16,244	12,660	(5,440)	(11,075)
Basic earnings (loss) per share	(0.10)	1.73	1.36	(0.59)	(1.20)
Diluted earnings (loss) per share	(0.10)	1.72	1.35	(0.59)	(1.20)

	As of December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Working capital	\$ 195,357	\$ 167,392	\$ 170,614	\$ 152,810	\$ 120,377
Total assets	433,459	422,422	413,373	414,883	378,114
Long-term debt and capital lease obligations, less current portion	94,241	63,069	86,418	101,491	61,384
Stockholders' equity	261,850	259,432	240,267	226,292	230,951

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements**

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this 2013 Form 10-K contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 and Section 21E of the Exchange Act that are based on current expectations, estimates and projections about our business, management's beliefs, and assumptions made by management. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, forecasts, should, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of important factors. While it is impossible to identify all such factors, those that could cause actual results to differ materially from those estimated by us include the important factors discussed in Part 1 Item 1A, Risk Factors. Such forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this 2013 Form 10-K. If we do update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect thereto or with respect to other forward-looking statements.

#### **Overview**

We are a leading North American manufacturer of large diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems, and we also manufacture other welded steel pipe products for use in a wide range of applications, including energy, construction, agriculture, and industrial uses. Our pipeline systems are also used for hydroelectric power systems, wastewater systems and other applications. In addition, we make products for industrial plant piping systems and certain structural applications. With a history that dates back more than 100 years, we have become a leading manufacturer in the welded steel pipe industry. These pipeline systems are produced by our Water Transmission Group from six manufacturing facilities located in Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas; and Monterrey, Mexico. We will also produce water transmission products from acquired Permalok facilities located in St. Louis, Missouri and Salt Lake City, Utah beginning in 2014. Our Water Transmission Group accounted for approximately 48% of net sales in 2013.

Our water infrastructure products are sold generally to installation contractors, who include our products in their bids to municipal agencies or privately-owned water companies for specific projects. We believe our sales are substantially driven by spending on new water infrastructure with a recent trend towards spending on water infrastructure replacement, repair and upgrade. Within the total range of pipe products, our products tend to fit the larger diameter, higher-pressure applications.

Our Tubular Products Group manufactures ERW steel pipe in three facilities: Atchison, Kansas; Houston, Texas; and Bossier City, Louisiana. We produce a range of products used in several different markets. The Tubular Products Group makes pipe focused on the energy industry. We also produce pipe used in industrial, construction, and agricultural applications. Until June 1, 2011, we also made pipe for traffic signpost systems. Our Tubular Products Group generated approximately 52% of our net sales in 2013. Our Tubular Products Group's sales volume is typically driven by energy spending, non-residential construction spending and general economic conditions.

#### **Our Current Economic Environment**

We are monitoring the current economic environment, and we believe there are growth opportunities based on key factors impacting demand for our products. The price per barrel of crude oil has steadily increased since 2009 and has traded at or slightly above \$100 per barrel since 2011. Natural gas production remained at

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historically high levels during 2013 according to the United States Energy Information Administration. Of the active oil and natural gas rigs, approximately 20 percent of the rigs are drilling for natural gas and the other 80 percent are drilling for oil. Rig counts in the United States declined 12 percent from 2011 to 2012 but have held steady since the end of 2012. We believe drilling activity and the demand for energy pipe will remain at relatively strong levels. However, we face increased pressures from foreign product which will continue to put downward pricing pressure on our products within the markets we compete. We also face increased pressures due to recent domestic capacity expansions by our competitors. With regard to our Water Transmission Group, we operate our business with a long-term time horizon. Projects are often planned for many years in advance, and are sometimes part of fifty-year build out plans. However, in the near term, we expect strained governmental and water agency budgets will impact the Water Transmission Group. Fluctuating steel costs will be a factor in both our Tubular Products Group and our Water Transmission Group, as the ability to adjust our selling prices as steel costs fluctuate will depend on market conditions.

## **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States.

### *Management Estimates*

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. On an on-going basis, we evaluate all of our estimates, including those related to revenue recognition, allowance for doubtful accounts, goodwill, property and equipment, including depreciation and amortization, inventories, income taxes, and litigation and other contingencies. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies and related judgments and estimates affect the preparation of our consolidated financial statements.

### *Revenue Recognition:*

Revenue from construction contracts in our 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.

We begin 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 we have 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.

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

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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 our 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.

### *Allowance for Doubtful Accounts:*

We maintain allowances for estimated losses resulting from the inability of our customers to make required payments based on historical experience and management's judgment. The extension and revision of credit is established by obtaining credit rating reports or financial information on the customer. An allowance is recorded based on a variety of factors, including our historical collection experience and our historical product quality claims. At least monthly, we review past due balances to identify the reasons for non-payment. We will write down or write off a receivable account once the account is deemed uncollectible for reasons such as customer quality claims, a contract dispute, deterioration in the customer's financial position, a bankruptcy filing or other events. We believe the reported allowances at December 31, 2013 are adequate. If the customer's financial conditions were to deteriorate resulting in their inability to make payments, additional allowances may need to be recorded which would result in additional expenses being recorded for the period in which such determination was made.

### *Inventories:*

Inventories are stated at the lower of cost or market. Determining market value of inventories involves judgments and assumptions made by us, including projecting selling prices and cost of sales. To project market value, we review recent sales and gross profit history, existing customer orders, current contract prices, industry supply and demand, forecasted steel prices, replacement costs, seasonal factors, general economic trends and other information, as applicable. If future market conditions are less favorable than those projected by us, inventory write-downs may be required. At December 31, 2013, the inventory balance of \$110.4 million is reported net of lower of cost or market adjustments totaling \$8.6 million. Raw material inventories of steel are stated at cost either on a specific identification basis or on an average cost basis. All other raw materials, 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 are recorded at cost. We depreciate the net book value using either the units of production method or a straight-line method depending on the classification of the asset. 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. We evaluate historical and projected units of production at each plant to reassess the units of production expected on an annual basis.

We assess impairment of property and equipment whenever changes in circumstances indicate that the carrying values of the asset group may not be recoverable. The recoverable value of long-lived assets is determined by estimating future undiscounted cash flows using assumptions about our expected future operating performance. Estimates of future cash flows used in the recoverability test incorporate our own assumptions about the use of the asset group and shall consider all available evidence. Our estimates of undiscounted cash flows may differ from actual cash flow due to, among other things, technological changes, economic conditions, or changes to our business operations. If we



determine the carrying value of the property and equipment will not be recoverable, we calculate and record an impairment loss. This analysis is performed prior to assessing goodwill for impairment.

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*Business Combinations and Valuation of Goodwill and Other Acquired Intangible Assets:*

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. Goodwill is recorded for the excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities. 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, we 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.

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.

Fair value of goodwill is first evaluated under a qualitative approach which takes into account industry and market conditions, cost factors, overall financial performance, and other relevant entity specific events and changes. If this analysis determines that it is more likely than not that the fair value of goodwill is above its carrying value, no further analysis is required. Alternatively, we may choose to unconditionally bypass the qualitative analysis in favor of a two-step quantitative impairment test.

The first step of this analysis calculates fair value 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 forward-looking measures using multiples of Earnings before Interest, Taxes, Depreciation and Amortization ( EBITDA ). We utilize 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. We also utilize a sensitivity analysis to determine the impact of changes in discount rates and cash flow forecasts on the valuation of the Tubular operating segment. If the carrying value of the reporting unit exceeds its fair value, the implied fair value of goodwill is calculated and compared to the carrying value. The difference between the implied fair value of goodwill and the carrying value is recorded as an impairment loss.

Goodwill related to the acquisition of Permalok of \$5.3 million was quantitatively determined as part of the purchase price allocations 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 evaluated using a quantitative impairment test described above. We concluded that the fair value of the Tubular Products Group is greater than its carrying amount at December 31 and no impairment was recorded.

If our 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 in lower profits. The operations of the Tubular Products Group and the Water Transmission Group are cyclical and sales and profitability may fluctuate from year to year. In the evaluation of our operating segment, we look at the long-term prospects for the reporting unit and

recognize that current performance may not be the best indicator of future prospects or value, which requires management judgment.

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*Stock-based Compensation:*

We recognize 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.

We estimate 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. We estimate 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.

*Income Taxes:*

We account for income taxes 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 our 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 our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. Our 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 our change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

We record 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. We assess our tax positions and record 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, we have recorded 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. 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.

**Table of Contents****Results of Operations**

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

	Year Ended		Year Ended		Year Ended	
	December 31, 2013		December 31, 2012		December 31, 2011	
	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales
Net sales:						
Water transmission	\$ 226,427	47.6%	\$ 269,203	51.3%	\$ 271,885	53.1%
Tubular products	249,129	52.4	255,300	48.7	239,783	46.9
Total net sales	475,556	100.0	524,503	100.0	511,668	100.0
Cost of sales	423,097	89.0	468,305	89.3	452,530	88.4
Gross profit	52,459	11.0	56,198	10.7	59,138	11.6
Selling, general and administrative expenses	24,210	5.1	28,638	5.4	26,315	5.2
Impairment of fixed assets	27,500	5.7		0.0		0.0
Operating income	749	0.2	27,560	5.3	32,823	6.4
Other expense	289	0.1	339	0.1	1,338	0.3
Interest income	(456)	(0.1)	(160)	(0.0)	(99)	(0.0)
Interest expense	3,965	0.8	5,616	1.1	9,306	1.7
Income (loss) before income taxes	(3,049)	(0.6)	21,765	4.1	22,278	4.4
Provision (benefit) for income taxes	(2,126)	(0.4)	5,521	1.1	9,618	1.9
Net income (loss)	\$ (923)	(0.2)%	\$ 16,244	3.0%	\$ 12,660	2.5%

Segment gross profit as a percentage of net sales:

Water transmission	20.7%	16.7%	15.9%
Tubular products	2.2	4.4	6.7

**Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

**Net sales.** Net sales decreased by \$48.9 million to \$475.6 million in 2013 from \$524.5 million in 2012. One customer accounted for 12% of net sales in 2013. One customer also accounted for 12% of net sales in 2012.

Water Transmission sales decreased 15.9% to \$226.4 million in 2013 from \$269.2 million in 2012. The decrease in net sales was due to a 39.4% decrease in tons produced. The decrease in tons produced was impacted by continued weakness in municipal markets. This was partially offset by positive impacts due to the timing of production and mix of projects produced during the year, as well as a 21% increase in materials cost per ton including steel. Higher steel costs generally lead to higher contract values, and therefore higher net sales as contractors and municipalities are aware of the widely available steel costs and market conditions. Bidding activity, backlog and production levels may

vary significantly from period to period affecting sales volumes.

Tubular Products sales decreased 2.4% to \$249.1 million in 2013 from \$255.3 million in 2012. The sales decrease was due to a 10% decrease in the average selling price per ton partially offset by a 9% increase in tons sold from 206,195 tons to 224,280 tons. The decrease in average selling price was due to a 6% decrease in steel cost per ton along with the downward pricing pressure from imported pipe. Increased imports of energy pipe, low natural gas prices, and volatility of steel prices have negatively impacted sales volumes and selling prices, particularly in energy pipe. Energy pipe represented 78% of tons sold in 2013 compared to 74% for the same period of 2012. The selling price for energy pipe decreased 12% in 2013 compared with the same period of 2012.

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**Gross profit.** Gross profit decreased 6.7% to \$52.5 million (11.0% of total net sales) in 2013 from \$56.2 million (10.7% of total net sales) in 2012.

Water Transmission gross profit increased 4.2% to \$47.0 million (20.7% of segment net sales) in 2013 from \$45.1 million (16.7% of segment net sales) in 2012. The increase in gross profit was primarily due to the mix of projects partially offset by the decrease in production as discussed above. The increase in gross profit as a percentage of net sales was driven by a favorable project mix, including the production of the Lake Texoma project, the largest project in our history. The increase in gross profit was also the result of cost reduction initiatives which have reduced overhead costs and man hours per ton, as well as improvements in quality.

Tubular Products gross profit decreased 50.7% to \$5.5 million (2.2% of segment net sales) in 2013 from \$11.1 million (4.4% of segment net sales) in 2012. The decrease in gross profit was primarily the result of the decrease in sales discussed above as well as a \$4.9 million lower of cost or market inventory adjustment recorded during 2013. This was partially offset by a 3% decrease in materials cost per ton during 2013. The decrease in materials cost per ton for Tubular Products as compared with the increase in materials cost per ton for Water Transmission was due to timing of purchases. The decrease in gross profit was partially offset by cost reduction initiatives successfully implemented at our Atchison facility.

**Selling, general and administrative expenses.** Selling, general and administrative expenses decreased 15.5%, to \$24.2 million (5.1% of net sales) in 2013 from \$28.6 million (5.4% of net sales) in 2012. The decrease of \$4.4 million as compared to the prior year was due to a \$1.0 million decrease in professional fees and outside services primarily due to a reduction in audit related fees, a \$0.8 million decrease in administrative and other miscellaneous expenses, a \$0.6 million decrease in wages and benefits, a \$0.5 million decrease in travel and entertainment, a \$0.4 million decrease in recruiting expense, a \$0.4 million decrease in bonus expense, and a \$0.2 million decrease in stock based compensation expense.

**Impairment of fixed assets.** Impairment of fixed assets was \$27.5 million in 2013. There was no fixed asset impairment in 2012. In conjunction with the preparation of the financial statements for the year ended December 31, 2013, we determined that an impairment triggering event had occurred for the assets located at our Bossier City, Louisiana facility due to increased competition in the OCTG market and pricing and volume pressures from imported pipe. We performed a fixed asset impairment test which resulted in our recording of \$27.5 million in impairment charges during 2013. See Note 4, Property and Equipment for further discussion of property and equipment impairment.

**Income taxes.** Our effective tax benefit rate was 69.7% in 2013 and our effective tax provision rate was 25.4% in 2012. During 2013, we performed a research and development tax credit study. We recorded a net tax benefit of \$0.9 million resulting from this study. Our effective income tax rate can change significantly depending on the relationship of permanent income tax deductions and tax credits to pre-tax income or loss. Accordingly, the comparison of effective rates between periods is not necessarily meaningful in all situations.

**Interest expense.** Interest expense decreased to \$4.0 million in 2013 from \$5.6 million in 2012. Lower average interest rates and a decrease in amortization expense of deferred financing costs following the refinancing of our Credit Agreement during the fourth quarter of 2012 resulted in decreased interest expense in 2013 compared to 2012. This was partially offset by higher borrowings in 2013 compared to 2012

**Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

**Net sales.** Net sales increased by \$12.8 million to \$524.5 million in 2012 from \$511.7 million in 2011. One customer accounted for 12% of net sales in 2012. No single customer accounted for 10% or more of total net sales in 2011.

Water Transmission sales decreased 1.0% to \$269.2 million in 2012 from \$271.9 million in 2011. The minor decrease in net sales was due to an 8.9% decrease in the average selling price per ton offset by an 8.7%



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increase in tons produced. The decrease in average selling prices per ton in 2012 was primarily due to a 6% decrease in average material cost per ton including steel. Lower steel costs generally lead to lower contract values, and therefore lower selling prices per ton as contractors and municipalities are aware of the widely available steel costs and market conditions. The expectation of contractors and municipalities is that the bid values will decrease when steel costs decrease. We have occasionally negotiated contracts with customers that allow for selling price escalations or reductions that correspond to changes in steel costs. However, once a bid is accepted, there is typically no opportunity to increase our selling price if steel costs increase. Tons produced in 2012 was positively impacted by production for the Lake Texoma project during the second half of the year. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales volumes.

Tubular Products sales increased 6.5% to \$255.3 million in 2012 from \$239.8 million in 2011. The sales increase was due to a 2% increase in tons sold from 202,359 tons to 206,195 tons and a 4% increase in the average selling price per ton. The increase in tons sold was driven by an 8% increase in sales of energy tons, partially offset by a net volume decline in other product lines. The increase in the average selling price per ton was due to favorable product mix, partially offset by downward price pressure driven by increased competition from imported pipe. Energy pipe represented 74% of tons sold in 2012 compared to 70% for the same period of 2011. Within total energy pipe sales, the proportion of line pipe and heat treated OCTG product sales increased as compared with 2011. Average selling prices per ton for line pipe and heat treated OCTG products are higher than average selling prices for other product lines.

**Gross profit.** Gross profit decreased 5.0% to \$56.2 million (10.7% of total net sales) in 2012 from \$59.1 million (11.6% of total net sales) in 2011.

Water Transmission gross profit increased 4.3% to \$45.1 million (16.7% of segment net sales) in 2012 from \$43.2 million (15.9% of segment net sales) in 2011. The increase in gross profit was driven by the decline in material costs including steel and the increase in tons produced as discussed above, as higher production reduced our fixed costs per ton. However, this was partially offset by a corresponding decrease in the selling price per ton as discussed above.

Gross profit from Tubular Products decreased 30.1% to \$11.1 million (4.4% of segment net sales) in 2012 from \$16.0 million (6.7% of segment net sales) in 2011. Gross profit was negatively impacted by increases in materials cost per ton including steel, which increased 7% as compared with 2011, and by the negative impact on average selling price per ton driven by competition from imports, partially offset by the increase in tons sold. The increase in materials cost per ton for Tubular Products as compared with the decrease in materials cost per ton for Water Transmission was due to timing of purchases. Gross profit was also negatively impacted by a \$1.6 million lower of cost or market adjustment to inventory recorded in 2012. There was no lower of cost or market adjustment in 2011.

Additional information regarding our exposure to volatile steel prices is set forth in Item 7A Quantitative and Qualitative Disclosures About Market Risk.

**Selling, general and administrative expenses.** Selling, general and administrative expenses increased 8.8%, to \$28.6 million (5.4% of net sales) in 2012 from \$26.3 million (5.2% of net sales) in 2011. The increase of \$2.3 million as compared to the prior year was primarily driven by a \$1.4 million increase in wages and benefits, a \$1.3 million increase in stock based compensation expense, and a \$0.9 million increase in professional fees and outside services. In addition, due to the timing of insurance reimbursements, we had expense of \$0.2 million in 2012 related to our 2011 restatement as compared to a net credit of \$0.4 million in 2011 when we received insurance proceeds related to our previous accounting investigation. This was partially offset by a \$2.2 million decrease in bonus expense and a decrease of \$0.9 million in Tubular Product sales commission expense following the termination of an external sales group for energy pipe sales.



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***Other (income) expense, net.*** Other (income) expense, net decreased to expense of \$0.3 million in 2012 from expense of \$1.3 million in 2011. The expense recorded in 2011 was primarily driven by transactions which did not recur in 2012. These transactions included an allowance of \$4.1 million taken on notes receivable, partially offset by a \$2.9 million gain on the sale of all assets of the traffic systems product line of the Tubular Products facility in Houston, Texas.

***Interest expense.*** Interest expense decreased to \$5.6 million in 2012 from \$9.3 million in 2011. The decrease in interest expense was a result of lower average borrowings and lower average interest rates.

***Income taxes.*** Our effective tax provision rates were 25.4% and 43.2% in 2012 and 2011, respectively. During the third quarter of 2012, we performed a research and development tax credit study for fiscal years 2010 through 2011. We recorded a net tax benefit of \$1.8 million resulting from this study in the third quarter of 2012 which reduced our effective rate for 2012 below our federal statutory rate of 35%.

## **Liquidity and Capital Resources**

### ***Sources and Uses of Cash***

Our principal sources of liquidity generally include operating cash flow and our Credit Agreement. From time to time our long term capital needs may be met through the issuance of long term debt or additional equity. Our principal uses of liquidity generally include capital expenditures, working capital and debt service. Information regarding our cash flows for the twelve months ended December 31, 2013 is presented in our Consolidated Statements of Cash Flows contained in this 2013 Form 10-K, and is further discussed below.

As of December 31, 2013, our working capital (current assets minus current liabilities) was \$195.4 million as compared to \$167.4 million as of December 31, 2012. Cash and cash equivalents totaled \$588,000 as of December 31, 2013 and \$46,000 as of December 31, 2012.

### ***Net Cash Provided by Operating Activities***

Net cash provided by operating activities in 2013 was \$20.1 million. This was primarily the result of net loss, adjusted by depreciation of \$13.3 million and fixed asset impairment charges of \$27.5 million, as well as fluctuations in our working capital accounts, including decreases in our costs and estimated earnings in excess of billings of \$19.7 million and decreases in our inventories of \$8.3 million, which were partially offset by increases in our accounts receivable of \$24.2 million and decreases in our accrued liabilities of \$15.2 million.

Net cash provided by operating activities in 2012 was \$44.5 million. This was primarily the result of net income, depreciation, and fluctuations in our working capital accounts, including decreases in our accounts receivable of \$28.3 million and increases in accrued liabilities of \$11.4 million, partially offset by increases in costs and estimated earnings in excess of billings on uncompleted contracts of \$36.6 million.

Net cash provided by operating activities in 2011 was \$12.3 million. This was primarily the result of net income, depreciation, and fluctuations in our working capital accounts, including a \$29.8 million increase in inventories, offset by a \$15.1 million decrease in refundable income taxes. This was further offset by \$4.1 million in allowances taken on notes receivable.

Fluctuations in our working capital accounts result from timing differences between production, shipment and invoicing of our products, as well as changes in levels of production and costs of materials. We typically have a

relatively large investment in working capital, as we are generally obligated to pay for goods and services early in the project while cash is not received until much later in the project. Our revenues in the Water Transmission segment are recognized on a percentage-of-completion method; therefore, there is little correlation between revenue and cash receipts and the elapsed time can be significant. As such, our payment cycle is a significantly shorter interval than our collection cycle, although the effect of this difference in the cycles may vary from period to period.

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**Table of Contents*****Net Cash (Used in) Provided by Investing Activities***

Net cash used in investing activities in 2013 was \$48.3 million, primarily related to capital expenditures of \$28.5 million for previously disclosed strategic investment projects, \$15.7 million for the acquisition of Permalok, and funds disbursed under a notes receivable arrangement of \$5.7 million. Previously disclosed strategic investment projects include the installation of an additional horizontal accumulator and hydrotester, and the replacement of the existing front end of the 16 inch mill at our Atchison plant, as well as expansion at our Saginaw plant, which will enable production of pipe up to 126 inches in diameter as well as increase overall capacity. Expenditures for these strategic investments during 2013 included \$7.1 million for the replacement of the existing front end of the 16 inch mill and \$1.7 million for a new hydrotester at our Atchison plant, and \$9.2 million for expansion projects at our Saginaw plant. This was partially offset by proceeds received from the sale of property and equipment of \$1.7 million. Capital expenditures in 2014 are expected to be approximately \$16 million to \$20 million for standard capital replacement, safety improvements, and completion of the installation of an additional horizontal accumulator and hydrotester at our Atchison plant.

Net cash used in investing activities in 2012 was \$19.3 million, primarily related to capital expenditures of \$16.8 million. These expenditures relate to storm water upgrades at our Portland, Oregon facility and planned capacity expansion in our Tubular Products plants.

Net cash provided by investing activities in 2011 was \$0.9 million, primarily related to proceeds received from the sale of the traffic systems product line at the Houston facility for \$13.7 million during the second quarter of 2011 and an increase in restricted cash from the cash collateralization of certain letters of credit at December 31, 2011. This was offset by capital expenditures of \$16.3 million. The most significant capital projects in 2011 were an expansion at our Atchison, Kansas facility that increased its production capacity by more than 50%, improved productivity and enabled the facility to manufacture product with wall thickness up to 0.375 inches. In addition, we upgraded our Houston, Texas mill to facilitate production of 2.375 and 2.875 inch tubing with physical properties suitable for heat treating.

***Net Cash (Used in) Provided by Financing Activities***

Net cash provided by financing activities in 2013 was \$28.7 million, which resulted primarily from net borrowings of \$40.4 million under our Credit Agreement, offset by long term debt and capital lease payments of \$11.0 million.

Net cash used in financing activities in 2012 was \$25.3 million, which resulted primarily from net payments of \$14.5 million under our Credit Agreement and long term debt and capital lease payments of \$9.1 million.

Net cash used in financing activities in 2011 was \$13.1 million, which resulted primarily from net payments of \$6.0 million under our Credit Agreement and long term debt and net capital lease payments of \$7.1 million.

We anticipate that our existing cash and cash equivalents, cash flows expected to be generated by operations, and amounts available under our Credit Agreement will be adequate to fund our working capital and capital expenditure requirements for at least the next twelve months. We also expect to continue to rely on cash generated from operations or funds available from our line of credit to make required principal payments on our long-term debt during 2014. To the extent necessary, we may also satisfy capital requirements through additional bank borrowings, senior notes, term notes, subordinated debt, and capital and operating leases, if such resources are available on satisfactory terms. We have from time to time evaluated and continue to evaluate opportunities for acquisitions and expansion. Any such transactions, if consummated, may use a portion of our working capital or necessitate additional bank borrowings or other sources of funding.

***Line of Credit and Long-Term Debt***

We had the following significant components of debt at December 31, 2013: a \$165.0 million Credit Agreement, under which \$87.9 million was outstanding; \$2.1 million of a Series A Term Note, \$1.5 million of a Series B Term Note, \$1.4 million of a Series C Term Note, and \$1.3 million of a Series D Term Note.

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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%. At December 31, 2013 we had \$69.8 million available under the Credit Agreement while remaining in compliance with our financial covenants, net of outstanding letters of credit. Borrowings under the Credit Agreement are collateralized by substantially all of our personal property. The Credit Agreement will expire on October 24, 2017. The Credit Agreement bears interest at a weighted average rate of 2.69% at December 31, 2013. We were able to borrow at LIBOR plus 2.0% under the Credit Agreement at December 31, 2013. At December 31, 2012, we had \$47.5 million outstanding under the Credit Agreement bearing interest at a weighted average rate of 2.31%.

The Series A Term Note in the principal amount of \$2.1 million matured and was paid in full on February 25, 2014. The Series B Term Note in the principal amount of \$1.5 million matures on June 21, 2014 and requires annual payments in the amount of \$1.5 million plus interest of 10.22% paid quarterly on March 21, June 21, September 21 and December 21. The Series C Term Note in the principal amount of \$1.4 million matures on October 26, 2014 and requires annual payments of \$1.4 million plus interest of 9.11% paid quarterly on January 26, April 26, July 26 and October 26. The Series D Term Note in the principal amount of \$1.3 million matures on January 24, 2015 and requires annual payments in the amount of \$643,000 plus interest of 9.07% paid quarterly on January 24, April 24, July 24 and October 24. The Series A Term Note, the Series B Term Note, the Series C Term Note, and the Series D Term Note (together, the Term Notes) are collateralized by accounts receivable, inventory and certain equipment.

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 our capital leases is 7.04%. Our capital leases are for certain equipment used in the manufacturing process. Approximately \$5.4 million of our capital leases outstanding as of December 31, 2013 represents an agreement entered into as of September 2009 to finance certain equipment used in the manufacturing process at the our Bossier City, Louisiana facility (the Financing Arrangement). 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, we entered into a sale-leaseback transaction with the governmental entity as part of the Financing Arrangement. The Financing Arrangement requires us to meet certain loan covenants, measured at the end of each fiscal quarter. These loan covenants follow the covenants required by our Credit Agreement.

The Credit Agreement, the Term Notes and the Financing Arrangement and certain lease agreements place various restrictions on our ability to, among other things; incur certain additional indebtedness, create liens or other encumbrances on assets, and incur additional capital expenditures. The Credit Agreement, Term Notes, and the Financing Arrangement and certain lease agreements require us to be in compliance with certain financial covenants. The results of our financial covenants as of December 31, 2013 are below.

The Consolidated Total Leverage Ratio must not be greater than 3.5:1.0. Our ratio as of December 31, 2013 is 2.09:1.0.

The Consolidated Tangible Net Worth must be greater than \$210.3 million. Our tangible net worth as of December 31, 2013 is \$232.1 million.

The Consolidated Fixed Charge Coverage ratio must not be less than 1.25:1.0. Our ratio as of December 31, 2013 is 1.93:1.0.

Based on our business plan and forecasts of operations, we believe we will remain in compliance with our covenants in 2014.



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The following table sets forth our scheduled contractual commitments that will affect our future liquidity as of December 31, 2013 (in thousands):

	Total	Payments due by period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Credit Agreement (1)	\$ 87,919	\$ 87,919	\$	\$	\$
The Term Notes	6,357	5,714	643		
Capital leases	7,895	2,216	4,398	1,281	
Operating leases	10,746	2,733	4,726	2,534	753
Contingent consideration	4,425		2,930	1,495	
Interest payments (2)	1,310	817	459	34	
<b>Total obligations</b>	<b>\$ 118,652</b>	<b>\$ 99,399</b>	<b>\$ 13,156</b>	<b>\$ 5,344</b>	<b>\$ 753</b>

- 1) The Credit Agreement is classified as long-term within the Consolidated Balance Sheet as the Credit Agreement will expire on October 24, 2017. All outstanding borrowings under the Credit Agreement will be paid within one year.
- 2) These amounts represent estimated future interest payments related to our debt obligations, excluding the Credit Agreement.
- 3) Excludes liabilities associated with our non-qualified retirement savings plan as we are unable to reasonably estimate the ultimate amount or timing of settlement of such obligations. As of December 31, 2013, liabilities associated with our non-qualified retirement savings plan are \$6.0 million and are recorded in pension and other long term liabilities within the Consolidated Balance Sheets.

Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2013, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, approximately \$6.2 million in uncertain tax positions has been excluded from the contractual table above. For further information, see Note 15 in Part II Item 8, Financial Statements and Supplementary Data of the Consolidated Financial Statements.

We also have entered into stand-by letters of credit that total approximately \$3.1 million as of December 31, 2013. The stand-by letters of credit relate to financing arrangements and workers compensation insurance. Based on the nature of these arrangements and our historical experience, we do not expect to make any material payments under these arrangements.

**Off Balance Sheet Arrangements**

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

**Adoption of New Accounting Pronouncements**

The Company adopted the following new accounting pronouncements during the year end December 31, 2013:

ASU No. 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities , including clarifications released in ASU No. 2013-01, Balance Sheet: Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities .

ASU No. 2013-02, Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income .

ASU No. 2013-10, Derivatives and Hedging: Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes .

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The Company adopted the following new accounting pronouncements on January 1, 2014:

ASU No. 2013-11, Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists .

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The primary market risks affecting our business relate to our exposure to commodity risk, interest rate risk, and foreign currency exchange rate risk.

#### **Commodity Risk**

Certain materials we use in our business are classified as commodities traded in the worldwide markets, of which the most significant commodity is steel, used in the manufacturing of pipe. We do not hedge our commodity risk. The impact of volatility in steel prices to each of our operating segments varies significantly.

Steel comprises approximately 25% to 35% of Water Transmission project costs. As steel represents a substantial portion of our cost of sales, we generally place orders for steel as soon as possible after a project is awarded. Most projects are awarded within thirty to ninety days of the bid date, and thus we are subject to some market fluctuations involving steel. In order to minimize our risk exposure to steel volatility, we typically submit bids based on general assumptions of the price of steel when we would receive a purchase order or contract. In addition, we typically order steel at the beginning of the project in order to minimize our exposure to fluctuations in steel prices.

By contrast, steel comprises approximately 75% to 85% of total product costs for Tubular Products. Historically, we have been able to adjust our selling prices to reflect fluctuations in our cost of steel; however, we are exposed to volatile steel prices in those instances in which we carry steel inventory that is not already assigned to sales orders. To minimize this risk, we monitor steel inventory and purchasing actions. If steel costs were to decline after December 31, 2013, our Tubular Products division would have less than one month of steel inventory exposed to the risk of declining gross margins.

#### **Interest Rate Risk**

Our debt at December 31, 2013 bears interest at both fixed and variable rates. At December 31, 2013, approximately \$87.9 million of our debt accrues interest at a variable rate as compared to \$47.5 million at December 31, 2012.

Assuming average interest rates and borrowings on variable rate debt, a hypothetical 1.0%, or 100 basis point change in interest rates would not have a material impact on our interest expense in either year.

#### **Foreign Currency Exchange Rate Risk**

We transact business in various foreign countries, and, from time to time, settle our transactions in foreign currencies. We have established a program that utilizes foreign currency forward contracts to offset the risk associated with the effects of certain foreign currency exposures, typically arising from sales contracts denominated in Canadian currency. These contracts are not used for trading or for speculative purposes. Foreign currency forward contracts are consistent with our strategy for financial risk management and have maturities generally less than one year. As of December 31, 2013, the total notional amount of these derivative contracts was \$3.9 million (CAD\$4.1 million), of which we applied hedge accounting to \$3.8 million (CAD\$4.1 million). At December 31, 2013, one of our contracts with a notional

value of \$3.8 million (CAD\$4.1 million) had a remaining maturity of 13 months. As of December 31, 2012, the total notional amount of our derivative contracts was \$12.4 million (CAD\$12.3 million).

A hypothetical 10% change in the Canadian Dollar foreign currency exchange rate would not have a material impact on our reported 2013 or 2012 net sales.

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

The consolidated financial statements required by this item are included on pages F-1 to F-30 at the end of this 2013 Form 10-K. The financial statement schedule required by this item is included on page S-1. The quarterly information required by this item is included under the caption *Quarterly Data (unaudited)* in Note 18 of the Notes to Consolidated Financial Statements in Part II Item 8, Financial Statements and Supplementary Data of this 2013 Form 10-K.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period. Based on their evaluation, as of the end of the period covered by this Form 10-K, the Company s CEO and CFO have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to provide reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

#### **Management s Report on Internal Control over Financial Reporting**

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) under the Securities Exchange Act of 1934, as amended. 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 ( GAAP ). 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 GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and our 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.

For the purposes of conducting its 2013 evaluation of the effectiveness of the Company s internal control over financial reporting, management has excluded the acquisition of Permalok, completed on December 30, 2013, whose financial statements constitute 5% and 0%, respectively, of total assets and total revenues 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 for further discussion of the acquisition and the impact on the Company s Consolidated Financial Statements.

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). Based on this evaluation,

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management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013. The effectiveness of the Company's 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 herein.

**Changes in Internal Control over Financial Reporting**

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

**Item 9B. Other Information**

None.

**Table of Contents****PART III****Item 10. Directors, Executive Officers and Corporate Governance*****Directors, Executive Officers, Promoters and Control Persons***

The information required by Paragraph (a), and Paragraphs (c) through (g) of Item 401 of Regulation S-K (except for information required by Paragraph (e) of that Item to the extent the required information pertains to our executive officers) and Item 405 of Regulation S-K is hereby incorporated by reference from our definitive proxy statement for the 2014 Annual Meeting of Shareholders under the captions *Election of Directors* and *Section 16(A) Beneficial Ownership Reporting Compliance*.

<b>Name</b>	<b>Age</b>	<b>Current Position with Company</b>
Scott Montross	49	Director, President and Chief Executive Officer
Robin Gantt	42	Senior Vice President and Chief Financial Officer
Richard Baum	57	Senior Vice President, General Counsel and Corporate Secretary
Martin Dana	48	Executive Vice President, Tubular Products
Winsor J.E. Jenkins	66	Vice President, Human Resources
Robert L. Mahoney	52	Senior Vice President, Strategy and Business Development
William Smith	58	Executive Vice President, Water Transmission
Gary A. Stokes	61	Senior Vice President of Sales and Marketing, Water Transmission
Gary R. Stone	56	Vice President, Quality Assurance

*Scott Montross* has served as our Director, President and CEO since January 1, 2013. Mr. Montross joined the Company in May, 2011 and served as our Executive Vice President and Chief Operating Officer. Mr. Montross has served in Senior Vice President level positions since 2003 with commercial, operational, and planning responsibilities and has spent a total of 23 years in the steel industry prior to joining the Company. Mr. Montross previously served as the Executive Vice President of the Flat Products Group for Evraz Inc. NA's Oregon Steel Division from 2010 to 2011, as the Vice President and General Manager of Evraz, Inc. NA from 2007 to 2010, as the Vice President of Marketing and Sales for Oregon Steel Mills, Inc. from 2003 to 2006, and as the Vice President of Marketing and Sales for National Steel Corporation from 2002 to 2003.

*Robin Gantt* has served as our Senior Vice President and CFO since January 2011 having joined the company in July 2010. Ms. Gantt served as the CFO and Treasurer of Evraz Inc. NA from September 2007 through January 2010. From July 2005 through August 2007, Ms. Gantt served as Corporate Controller of Oregon Steel Mills, Inc., which became Evraz Inc. NA after its acquisition by Evraz Group SA in January 2007. Ms. Gantt joined Oregon Steel Mills, Inc. in 1999, holding several finance and accounting positions of increasing responsibility before being appointed Controller in 2005.

*Richard Baum* joined the company in April, 2011 and serves as our Senior Vice President, General Counsel and Corporate Secretary. Mr. Baum was a litigation partner with the law firm of Lane Powell LLP from January 1, 2011 through April 2011. Prior to that, he was a litigation partner with the law firm of Roberts Kaplan LLP from November 2008 through December 2010, and was a litigation attorney with the law firm of Perkins Coie LLP from September 1982 through October 2008, including twenty years as a partner. Mr. Baum's private practice focused on commercial litigation with an emphasis on securities litigation and corporate governance issues.



*Martin Dana* has served as our Executive Vice President, Tubular Products Group since August 2013. He has served as our Vice President of Operations for Tubular Products since January 2012 and our Vice President of Sales and Marketing for the Water Transmission Group since January 2008. He has served in other management and Vice President level positions since joining the Company in 1999. Prior to joining the Company, Mr. Dana held positions at Oregon Steel Mills.

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*Winsor J.E. Jenkins* has served as our Vice President, Human Resources since June 2007. He had served as Corporate Director, Human Resources since March 1998 when he joined the Company. Mr. Jenkins will retire from the Company in April 2014.

*Robert L. Mahoney* has served as our Senior Vice President, Strategy and Business Development since January 2012, responsible for identifying and securing growth opportunities across the Company. He had served as the Senior Vice President, Tubular Products Group, since June 2007, as Vice President, Chief Strategic Officer since May 2005, as Vice President, Corporate Development since July 1998, and as Director of Business Planning and Development since 1996. Mr. Mahoney has been with the Company since 1992.

*William Smith* has served as our Executive Vice President, Water Transmission Group since August 2013. He has served as our Vice President of Operations for Water Transmission since July 2010. Prior to joining the Company in 2010, Mr. Smith spent 14 years with Ameron, holding several key positions including President, Water Transmission. A 37-year veteran of the steel pipe business, Mr. Smith has held positions with United Concrete Pipe, Thompson Steel Pipe and LB Foster.

*Gary A. Stokes* has served as our Senior Vice President of Sales and Marketing, responsible for the Water Transmission Group since January 2012. He had served as the Senior Vice President, Water Transmission Group, since January 2008, as Senior Vice President, Sales and Marketing since July 2001, and as Vice President, Sales and Marketing since 1993. Mr. Stokes has been with the Company since 1987. Mr. Stokes will retire from the Company in April 2014.

*Gary R. Stone* has served as our Vice President, Quality Assurance since June 2007. He had served as Corporate Director, Quality Assurance since 2001. Mr. Stone has been with the Company since 1991.

## ***Code of Ethics***

We have adopted a Code of Business Conduct and Ethics for all employees and a Code of Ethics for Senior Financial Officers. Copies can be found on our website at [www.nwpipe.com](http://www.nwpipe.com) in the Corporate Governance area of the Investor Relations section or by writing to Northwest Pipe Company, attn. Corporate Secretary, 5721 SE Columbia Way, Suite 200, Vancouver, WA 98661. None of the material on our website is part of this 2013 Form 10-K. If there is any waiver from any provision of either the Code of Business Conduct and Ethics or the Code of Ethics for Senior Financial Officers, we will disclose the nature of such waiver on our website or in a Current Report on Form 8-K.

## ***Corporate Governance***

The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is hereby incorporated by reference from our definitive proxy statement for the 2014 Annual Meeting of Shareholders under the captions *Nominating and Governance Committee*; *Nominations by Shareholders* and *Audit Committee*.

## **Item 11. Executive Compensation**

The information required by this Item is hereby incorporated by reference from our definitive proxy statement for the 2014 Annual Meeting of Shareholders under the captions *Executive Compensation*, *Compensation Committee Interlocks and Insider Participation*, and *Compensation Committee Report*.



**Table of Contents****Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table provides information as of December 31, 2013, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans.

Plan Category	Number of securities	Weighted-average	Number of securities remaining
	to be issued upon exercise of outstanding options, warrants and rights (a) (1)	exercise price of outstanding options, warrants and rights (b) (2)	available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	297,087	\$ 25.44	720,301
Equity compensation plans not approved by security holders (3)			
<b>Total</b>	<b>297,087</b>	<b>\$ 25.44</b>	<b>720,301</b>

- (1) Consists of our 2007 Stock Incentive Plan and the 1995 Stock Option Plan for Nonemployee directors. Approximately 196,000 Performance Stock Awards ( PSAs ) have been included at a target level. The vesting of these awards is subject to the achievement of specific performance-based or 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%.
- (2) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock units and PSAs, since recipients are not required to pay an exercise price to receive the shares subject to these awards.
- (3) We do not have any equity compensation plans or arrangements that have not been approved by shareholders. The information required by Item 403 of Regulation S-K is included in our definitive proxy statement for the 2014 Annual Meeting of Shareholders under the caption *Stock Owned by Management and Principal Shareholders* and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is hereby incorporated by reference from our definitive proxy statement for the 2014 Annual Meeting of Shareholders under the captions *Certain Relationships and Related Transactions* and *Election of Directors*.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item is hereby incorporated by reference from our definitive proxy statement for the 2014 Annual Meeting of Shareholders under the caption *Independent Registered Public Accounting Firm*.

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**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.	

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(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



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<b>Exhibit Number</b>	<b>Description</b>
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
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*

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- 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\*

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<b>Exhibit Number</b>	<b>Description</b>
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
10.25	Northwest Pipe Company 2013 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, filed herewith
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

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Subsidiaries of the Registrant, filed herewith

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<b>Exhibit Number</b>	<b>Description</b>
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
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Northwest Pipe Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income (loss), of stockholders' equity and of cash flows 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. Also in our opinion, the Company maintained, 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). 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 on Internal Control over Financial Reporting appearing under Item 9A. 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

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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

Portland, Oregon

March 17, 2014

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**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)



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**NORTHWEST PIPE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share amounts)**

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
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		