NORTHWEST PIPE CO
Form 10-K
November 04, 2010
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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, 2009

OR

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

For the transition period from to

Commission File Number: 0-27140

NORTHWEST PIPE COMPANY

(Exact name of registrant as specified in its charter)

OREGON	**93-0557988**
(State or other jurisdiction of incorporation or organization)	**(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:

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

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

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

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 x

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 x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨ Accelerated filer x 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 x

The aggregate market value of the common equity that was held by non-affiliates of the Registrant was $243,070,701 as of June 30, 2009 based upon the last sales price as reported by Nasdaq.

The number of shares outstanding of the Registrant s Common Stock as of October 8, 2010 was 9,291,541 shares.

Documents Incorporated by Reference

None.

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NORTHWEST PIPE COMPANY

2009 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, 2009 (the 2009 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, estimates, forecasts, should, and variations of such words and similar expressions are intended to identify such forward-look 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 2009 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.

EXPLANATORY NOTE

In this 2009 Form 10-K, Northwest Pipe Company is restating and updating to reflect the effects of the restatement on the following previously issued consolidated financial statements, data and related disclosures: (i) our audited consolidated financial statements as of December 31, 2008 and for the years ended December 31, 2008 and 2007 in Part II Item 8, Financial Statements and Supplementary Data ; (ii) our selected financial data as of and for the years ended December 31, 2008, 2007, 2006 and 2005 in Part II Item 6, Selected Financial Data ; (iii) our unaudited quarterly financial data for each of the quarters in the year ended December 31, 2008 and the first two quarters in the year ended December 31, 2009 in Note 18 of our Consolidated Financial Statements in Part II Item 8, Financial Statements and Supplementary Data and (iv) Part II Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in both tabular and textual form as it relates to the years ended December 31, 2008 and 2007. References to the Company, we, our and us in this 2009 Form 10-K refer to Northwest Pipe Company together, in each case, with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Concurrent with the filing of this 2009 Form 10-K, we are filing our quarterly report for the period ended September 30, 2009, which contains restated financial information for the three and nine months ended September 30, 2008. When we file our quarterly reports for the periods ended March 31, 2010 and June 30, 2010, we will also restate our financial information for the three months ended March 31, 2009 and the three and six months ended June 30, 2009, respectively. We do not plan to amend previously filed reports in connection with the restatement as we believe the expenditure of resources required to produce this information is not justified by any related benefit that would result. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this 2009 Form 10-K.

Background of the Restatement and Extended Filing Delays

The filing of this 2009 Form 10-K has been delayed due to, among other things, the time required for the Audit Committee of our Board of Directors (the Audit Committee) to conduct an investigation, for us to review the issues identified in the Audit Committee investigation, and for us to restate our previously issued consolidated financial statements, data and related disclosures. As previously disclosed, the Audit Committee, with the assistance of independent professionals retained by the Audit Committee, has conducted an investigation of certain accounting matters, including certain revenue recognition practices. In addition, at the direction of the Audit Committee, we retained an external consulting firm to assist in performing certain related analyses of our accounting practices and previously issued consolidated financial statements.

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Restatement of Previously Issued Financial Statements

As previously disclosed, based upon its consideration of the issues identified in the Audit Committee investigation and the related accounting analyses, and after discussions with management and our external consultants, the Audit Committee concluded that our previously issued consolidated financial statements contained material errors and should be restated. For further detail on the financial statement impacts and the adjustments made as a result of the restatement, please see Note 2 of the Consolidated Financial Statements in Part II Item 8, Financial Statements and Supplementary Data , Part II Item 6, Selected Financial Data and Part II Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Ineffectiveness of Internal Control over Financial Reporting and Disclosure Controls and Procedures

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon our consideration of the issues identified in the Audit Committee investigation and our related accounting analyses, we have determined that certain material weaknesses in our internal controls existed as of December 31, 2009. For a description of the material weaknesses in our internal control over financial reporting and our plan to remediate those material weaknesses, see Part II Item 9A, Controls and Procedures of this 2009 Form 10-K. In addition, as a result of the existence of material weaknesses in our internal controls, we have also concluded that our disclosure controls and procedures were not effective as of December 31, 2009.

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PART I

Item 1. Business

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. Our pipeline systems are also used for hydroelectric power systems, wastewater systems and other applications. With a history that dates back more than 100 years, we have established a leading position based on a strong, widely recognized reputation for quality and service and an extensive array of product offerings. Our manufacturing facilities in North America are strategically located to provide us with broad geographic coverage of our target markets, giving us competitive advantages in serving our customers.

We manufacture water infrastructure products through our Water Transmission Group, which in 2009, 2008 and 2007 generated approximately 76%, 63%, and 74%, respectively, of our net sales. We market our water infrastructure products through an in-house 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 believe the need for new water infrastructure, upgrades, repairs and replacements will continue to be a significant demand factor for us.

In addition to manufacturing water infrastructure products, we also manufacture other welded steel products through our Tubular Products Group, which in 2009, 2008, and 2007 generated approximately 24%, 37% and 26%, respectively, of our net sales. Tubular products are marketed through a network of direct sales force personnel, sales agents, and independent distributors. Our Tubular Products Group has the capability to manufacture a broad array of small-diameter, electric resistance welded (ERW) steel pipe for use in a wide range of applications, including energy, construction, agricultural, industrial, and traffic signpost systems.

We have also invested in an unconsolidated subsidiary, Northwest Pipe Asia, located in Singapore. Northwest Pipe Asia has established temporary operations in Batam, Indonesia to produce structural piling to be supplied to a construction project in Singapore.

Our Industries

Water Transmission. The U.S. market for water delivery equipment and systems is estimated to be approximately $14 billion annually. Within this market, we focus on engineered pipeline systems that utilize large-diameter, high-pressure steel pipe. In addition to these water infrastructure applications, our Water Transmission Group manufactures products for certain structural piling applications and in-plant pipeline systems for power plants and other industrial applications. We believe the current addressable market for the products sold by our Water Transmission Group will total approximately $2 billion over the next three years. Our core market is the large-diameter, high-pressure portion of the 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.

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, and we believe this offers potential for increased demand for our water infrastructure products and other products related to water transmission and distribution.

The primary drivers of growth in new water infrastructure installation are population growth and movement and dwindling supplies from developed water sources. According to the U.S. Census Bureau, the population of the United States will increase by over 90 million people between 2010 and 2050. The resulting increase in demand will require substantial new infrastructure, as the existing U.S. water infrastructure is not equipped to provide water to millions of new residents. The combination of population growth and movement is projected to result in approximately 50 million new residents in the southern and western regions of the United States. 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 manufacturing facilities are well located to take advantage of the anticipated growth and demand in these regions.

Much of the U.S. water infrastructure is antiquated and many authorities, including the U.S. Environmental Protection Agency (the EPA), believe the U.S. water infrastructure is in critical need of updates, repairs or replacements. The American Society of Civil Engineers has given poor ratings to many aspects of the U.S. water infrastructure in their 2009 Report Card for America s Infrastructure. In the fourth national assessment of public water system infrastructure, the EPA in 2009 estimated that a total investment of approximately $335 billion will be needed to install, upgrade and replace infrastructure over the next 20 years. The EPA estimates that approximately $201 billion of this needed investment applies to the rehabilitation or replacement of deteriorated or undersized water transmission and distribution infrastructure components.

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. Water systems will need to be installed, upgraded and replaced in order to satisfy these water quality laws and regulations.

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 pipe, standard pipe, structural pipe and traffic signpost systems. In 2009, the tubular products industry experienced an oversaturation of imported pipe and a collapse of natural gas prices in a very short time frame. In addition, non-residential construction declined. These factors had a severe negative impact on all of our tubular products. However, we believe energy products offer significant growth opportunities in the near future, and we intend to capitalize on this potential. In the fourth quarter of 2009, we finalized installation of a pipe mill repositioned from our Portland, Oregon facility to our Bossier City, Louisiana facility. This equipment provides expanded production for the energy market, namely, oil country tubular goods. We began limited production of pipe for the oil country tubular goods market at this plant in the first quarter of 2010. Certain pipe finishing and inspection processes are complete and are expected to be fully functioning by the end of 2010. During 2009 we redirected the focus of our Houston, Texas plant from mechanical tubing to energy pipe production and began production of energy pipe there in April 2010.

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 and are for fully engineered, large diameter, high-pressure water infrastructure systems. Other uses include pipe for piling and hydroelectric projects, wastewater transmission, treatment plants and other applications. Our primary manufacturing process has the capability to manufacture water transmission pipe in diameters ranging from 4.5 inches to 156 inches with wall thickness of 0.135 inches 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®, 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.

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Tubular Products. Our tubular products range in size from 1.5 inches to 16 inches in diameter with wall thickness from 0.035 inches to 0.375 inches. 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 traffic signpost systems.

Marketing

Water Transmission. The primary customers for water transmission products are installation contractors for projects funded by public water agencies. Our plant locations in Oregon, Colorado, California, West Virginia, Texas, Utah and Mexico 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 and 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 a network of direct sales force personnel, sales agents, and independent distributors in the United States and Canada. Our tubular product facilities are located in Kansas, Texas, and Louisiana. Our marketing strategy focuses on quality, customer service and customer relationships. For example, we are willing to sell in small lot sizes and are able to provide mixed truckloads of finished products to our customers. 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 and brochures and participation in trade shows.

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 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, 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 and rail.

Tubular Products. Tubular products are manufactured by an ERW process in diameters ranging from 1.5 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. Some products are reconfigured into rectangular and square shapes and then cut into the appropriate lengths. After exiting the mill, the products are straightened, inspected, tested and end-finished. Certain products are coated.

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Technology. Advances in technology help us produce high quality products at competitive prices. We continue to invest in technological improvements, which include the addition of a state of the art edge milling machine to prepare steel edges for optimum welding quality and speed. 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. 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, 2009, our backlog of orders was approximately $222 million. Our Water Transmission segment accounted for approximately 90% of the total backlog of orders, and included backlog from one project of $55.3 million. Binding contracts had been executed for this backlog as of September 30, 2010. 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, 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 Ameron International, Inc. East of the Rocky Mountains, our primary competition includes: American Cast Iron Pipe Company and Mueller Water Products, both of 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 Lindsay Corporation, Valmont Industries, Inc., Tex Tube, TMK Ipsco, Tenaris, U.S. Steel, Allied Tube and Conduit Corp. and John Maneely Company, 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 affect 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 ArcelorMittal, SSAB, New Process Steel, Nucor Corporation, Gallatin Steel Company, California Steel Industries, Steel Dynamics, Inc., SeverStal, U.S. Steel Corporation and NLMK Indiana. Foreign suppliers include BlueScope Steel and Ternium. 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 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 storm water); and the generation, handling, storage, transportation, treatment and disposal of waste materials. 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

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Harbor Site discussed under Legal Proceedings below. 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.

We operate under numerous governmental permits and licenses relating to air emissions, storm-water run-off and other environmental matters. In September and October of 2009, we received several notices of violation and notices to comply from the Mohave Desert Air Quality Management District (District) for violations of permitted particulate matter emissions limits and other violations at our Adelanto, California facility. We are negotiating with the District to settle these matters. We do not believe that resolution of these matters will result in material adverse effects on our business, financial condition, results of operations or cash flows.

Employees

As of December 31, 2009, we had approximately 1,100 full-time employees. Approximately 28% were salaried and approximately 72% 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. 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 practical after we electronically file such material with, or furnish it to, the SEC. Financial information that has been previously filed or otherwise reported for the periods contained in this 2009 Form 10-K, and related earnings press releases and similar communications issued by us describing our financial statements for these periods should not be relied upon and are superseded in their entirety by this 2009 Form 10-K. 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 2009 Form 10-K.

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, N.W., 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.

Item 1A. Risk Factors

You should carefully consider the following factors, together with all the other information included in this 2009 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.

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Risks Related to the State of Our Internal Control Over Financial Reporting, the Restatement of Our Financial Statements and Our Failure to Timely File Periodic Reports with the SEC.

Matters relating to or arising from our Audit Committee investigation of certain accounting matters, including regulatory proceedings, litigation matters and potential additional expenses, may adversely affect our business and results of operations. We recently concluded an investigation conducted by the Audit Committee of the Board of Directors with the assistance of independent professionals retained by the Audit Committee, the focus of which related to certain accounting matters, including certain revenue recognition practices. In addition, at the direction of the Audit Committee, an external consulting firm was retained to assist in performing certain related analyses of our accounting practices and previously issued consolidated financial statements. As previously disclosed, based upon its consideration of the issues identified in the Audit Committee investigation and the related accounting analyses, the Audit Committee concluded that certain of our previously issued consolidated financial statements contained material errors and should be restated. To date, we have incurred significant expenses related to legal, accounting, and other professional services in connection with the investigation, the restatement and related matters, and may continue to incur significant additional expenses with regard to these matters and our remediation efforts. In addition, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as well as senior members of our finance and accounting departments, have spent substantial amounts of time and effort with regard to the investigation and related accounting analyses, the restatement and related matters. The significant amount of time and effort spent by our management team on these matters has diverted, and is expected to continue to divert, their attention from the operation of our business. The expenses incurred, and expected to be incurred, on the investigation, the restatement and related matters, and the diversion of the attention of the management team which has occurred and is expected to continue, has, and could continue to have, a material adverse effect on our business, financial condition, results of operations or cash flows.

Our Audit Committee and management have identified material weaknesses in our internal controls over financial reporting, and we may be unable to develop, implement and maintain appropriate controls in future periods. The Sarbanes-Oxley Act of 2002 and SEC rules require that management report annually on the effectiveness of our internal control over financial reporting and our disclosure controls and procedures. Among other things, management must conduct an assessment of our internal control over financial reporting to allow management to report on, and our independent registered public accounting firm to audit, the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Based on our management s assessment, we believe that, as of December 31, 2009, our internal controls over financial reporting were not effective. The specific material weaknesses are described in Part II Item 9A, Controls and Procedures of this 2009 Form 10-K in Management s Report on Internal Control over Financial Reporting . 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 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 further 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.

We have work remaining to remedy the material weaknesses in our internal control over financial reporting. We are in the process of developing and implementing our remediation plan for the identified material weaknesses, and this work will continue during fiscal year 2010 and thereafter. There can be no assurance as to when the remediation plan will be fully developed, when it will be fully implemented and the aggregate cost of implementation. Until our remediation plan is fully implemented, we will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future financial statements could contain errors that will be

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undetected. We will rely upon additional interim control procedures prescribed by management, including the use of manual mitigating control procedures and the utilization of external consultants, to fairly state our financial statements in all material respects. However, the establishment of these interim controls does not provide the same degree of assurance as a Company remediated control environment. Further and continued determinations that there are material weaknesses in the effectiveness of our internal controls could also reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures of both money and management s time to comply with applicable requirements. For more information relating to our internal control over financial reporting and disclosure controls and procedures, and the remediation plan undertaken by us, see Part II Item 9A, Controls and Procedures of this 2009 Form 10-K.

Our failure to prepare and timely file our periodic reports with the SEC limits our access to the public markets to raise debt or equity capital. We did not file this 2009 Form 10-K, nor the Form 10-Q for the third quarter of 2009 and the first and second quarters of 2010, within the timeframe required by the SEC. Because we are not current in our reporting requirements with the SEC, we are limited in our ability to access the public markets to raise debt or equity capital. Our limited ability to access the public markets could prevent us from pursuing transactions or implementing business strategies that we believe would be beneficial to our business. Until one year after the date we regain compliance with our SEC reporting obligations, we will be ineligible to use shorter and less costly filings, such as Form S-3, to register our securities for sale. We may use Form S-1 to register a sale of our stock to raise capital or complete acquisitions, but doing so would likely increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

Outstanding comments from past SEC staff review and any additional comments from future SEC staff review may require that we amend our periodic reports filed with the SEC, which could lead to significant changes in our past and current disclosure. On July 23, 2009, we received correspondence from the staff of the SEC relating to our Form 10-K for the fiscal year ended December 31, 2008 (the 2008 Form 10-K) and our Definitive Proxy Statement filed on April 3, 2009 (the 2009 Proxy Statement). We have subsequently engaged in communications and correspondence with the SEC staff, and as of the date of this filing, we have outstanding unresolved comments from the SEC staff with respect to disclosure contained in our 2008 Form 10-K and 2009 Proxy Statement. We have modified the disclosure in this 2009 Form 10-K in an effort to reflect all of the SEC staff s prior comments. We believe that the SEC staff is waiting to resolve the outstanding comments until after we have filed this 2009 Form 10-K. As a result, we may receive additional comments from the SEC staff relating to our responses to the prior staff comments, new matters related to this 2009 Form 10-K or other periodic reports filed by us with the SEC. Such comments may require that we amend or supplement, possibly significantly, the disclosures in this 2009 Form 10-K, including the restated consolidated financial statements included herein, or other periodic reports filed by us with the SEC.

Certain of our periodic reports filed with the SEC are inaccurate and cannot be relied upon. We have not amended and do not plan to amend our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that have been filed by us prior to the date of this 2009 Form 10-K. Accordingly, the consolidated financial statements and related financial information contained in such reports should not be relied upon as described in our Current Report on Form 8-K filed on July 30, 2010. For the same reason, investors also should not rely on the unaudited financial results reported in Current Reports on Form 8-K prior to the date of this 2009 Form 10-K.

Risks Related to the Pending SEC Investigation and Pending Litigation Arising Out of our Restatement

The SEC s formal investigation and pending putative securities class action and derivative litigation have resulted in significant costs and expenses, have diverted resources and could have a material adverse effect on our business, financial condition, results of operations or cash flows. As further described in Part I Item 3, Legal Proceedings of this 2009 Form 10-K, we were advised by the staff of the SEC Enforcement Division that the SEC has commenced a formal investigation. As also further described in Part I Item 3, Legal Proceedings of this 2009 Form 10-K, several lawsuits, including two putative shareholder class action complaints (that have since been consolidated into one action) and one putative derivative complaint have been filed against us and certain of our current and former officers and directors arising out of our announcement of the Audit Committee investigation and related matters. We have incurred significant professional fees and other costs in responding to the SEC investigation and in defending against the lawsuits. We expect to continue to incur significant professional fees and other costs in responding to the SEC investigation and in defending against these lawsuits. If we do not prevail in one or more of these lawsuits, we may be required to pay a significant amount of monetary damages. Further, if the SEC were to conclude that enforcement action is appropriate, we could be required to pay large civil penalties and fines. The SEC also could impose other sanctions against us or certain of our current and former directors and officers. Any of these events would have a material adverse effect on our business, financial condition, results of operations, or cash flows. Additionally, while we believe we have made appropriate judgments in determining the correct adjustments in preparing our restated consolidated financial statements, the SEC may disagree with the manner in which we have accounted for and reported these adjustments. Accordingly, there is a risk that we may have to further restate our historical consolidated financial statements, amend prior filings with the SEC or take other actions not currently contemplated. In addition, our Board of Directors, management and employees have expended a substantial amount of time on the SEC investigation and pending litigation, diverting 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.

Our indemnification obligations and limitations of our director and officer liability insurance may have a material adverse effect on our financial condition, results of operations and cash flows. Under Oregon law, our articles of incorporation and bylaws and certain indemnification agreements to which we are a party, we have an obligation to indemnify, or we have otherwise agreed to indemnify, certain of our current and former directors and officers with respect to current and future investigations and litigation, including the matters discussed in Part I Item 3, Legal Proceedings. In connection with some of these pending matters, we are required to, or we have otherwise agreed to, advance, and have advanced, legal fees and related expenses to certain of our current and former directors and officers and expect to continue to do so while these matters are pending. Certain of these obligations may not be covered matters under our directors and officers liability insurance, or there may be insufficient coverage available. Further, in the event the directors and officers are ultimately determined to not be entitled to indemnification, we may not be able to recover the amounts we previously advanced to them.

In addition, we have incurred significant expenses in connection with the pending SEC investigation and litigation. We cannot provide any assurances that pending claims, or claims yet to arise, will not exceed the limits of our insurance policies, that such claims are covered by the terms of our insurance policies or that our insurance carrier will be able to cover our claims. The insurers also may seek to deny or limit coverage in some or all of these matters. Furthermore, the insurers could become insolvent and unable to fulfill their obligation to defend, pay or reimburse us for insured claims. Accordingly, we cannot be sure that claims will not arise that are in excess of the limits of our insurance or that are not covered by the terms of our insurance policy. Due to these coverage limitations, we may incur significant unreimbursed costs to satisfy our indemnification obligations, which may have a material adverse effect on our business, financial condition, results of operations or cash flows.

Continuing negative publicity may have a material adverse effect on our business, financial condition, results of operations or cash flows. As a result of the ongoing SEC investigation, shareholder and derivative litigation, Nasdaq delisting proceedings, restatement of our financial statements and related matters, we have been the subject of negative publicity. This negative publicity may adversely affect our stock price and may harm our reputation and our relationships with current and future investors, lenders, customers, suppliers and employees. As a result, our business, financial condition, results of operations or cash flows may be materially adversely affected.

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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, 2009, we had approximately $57.8 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 when market conditions and customer order levels improve. As business conditions deteriorated in 2009, we reduced working capital by $70.0 million. When 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, which was amended in 2010, is limited to $110 million. 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. As a result of the Audit Committee investigation, we have been unable to comply with covenants requiring us to provide our lenders with audited financial statements and interim financial information on a timely basis. In addition, we failed to comply with certain of the financial covenants in our debt instruments at December 31, 2009. However, subsequent to December 31, 2009, we have entered into amendments to our debt instruments which have included waivers to, or changes in, the financial and other covenants included in such debt instruments such that we have not experienced a default under any of our debt instruments. These amendments have also reduced the amount available to us under our line of credit, increased

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the interest rates payable under these debt instruments and imposed substantial amendment fees. Effective as of October 15, 2010, we have entered into the most recent amendments to our debt instruments which are described in Note 17 Subsequent Events of the Notes to Consolidated Financial Statements in Part II Item 8, Financial Statements and Supplementary Data .

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.

Recent 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 recently 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 Business

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 recent 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, highway spending, 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.

Our exposure to the energy market is growing. Products serving the energy market, including line pipe and oil country tubular goods, comprised over 85% of the backlog in the Tubular Products Group at December 31, 2009. 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. The current outlook remains consistent with stable levels of exploration and production activity, but a decline in this activity could adversely affect our business. The energy market has a history of extreme volatility, and for 2009, sales of our energy pipe products fell by 79% compared to 2008. We cannot provide assurance that there will not be similar volatility in the future, which would have an adverse effect on our business, financial position, results of operations, or cash flows.

Increased levels of imports could adversely affect pricing and demand for our products serving the energy market. Although certain imported steel products from China have been curtailed by anti-dumping duties, imported products from other countries have increased, notably from Canada and Italy, and imports from Korea and India continue to command significant market share. Any increase in imports of steel products that compete with our products serving the energy market could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

A downturn in government spending related to public water transmission projects would adversely affect our business. Our water transmission business accounted for approximately 76% of our net sales in 2009. 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.

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.

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, 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 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.

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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.

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;

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- 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.

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 in December 2007 was approximately $610. It rose to approximately $1,160 per ton in September 2008 and fell to approximately $550 per ton in May 2009. We were able to purchase steel for approximately $730 per ton in July 2010. 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 completely 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.

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 liability 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 liability 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.

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.

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.

We have foreign operations, which exposes us to the risks of doing business abroad. Our fabrication facility in Monterrey, Mexico primarily exports products to the United States. Additionally, we recently opened a manufacturing facility in Indonesia. We may operate in additional countries in the future. Any material changes in the quotas, regulations or duties on imports imposed by the U.S. 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 substantially all projects that are 50% or more complete except that major projects, usually over $5.0 million, are reviewed earlier if sufficient production has been completed to provide enough information to revise the original estimated total cost of the project. 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,

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actual results could differ from those estimates, which could adversely affect our financial position, results of operations or cash flows.

Our 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 as of December 31, 2009 was $222 million, which included one project with backlog of $55.3 million. 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.

Our tubular products business has faced intense competition from imports in the past. The level of imports of tubular products has historically impacted the domestic tubular products market. High levels of imports may reduce the volume of tubular products sold by domestic producers and depress selling prices of tubular products. We believe import levels are affected by, among other things, overall worldwide demand for tubular products, 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. Increased imports of tubular products in the United States and Canada could adversely affect our business, financial position, results of operations or cash flows

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. 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

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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. If we are unable to successfully integrate the operations of any businesses that we may acquire in the future, our business, financial position, results of operations or cash flows could be adversely affected.

Risks Related to Our Common Stock

If our common stock fails to meet the continued listing requirements of The Nasdaq Stock Market (the Nasdaq) and is delisted from trading on the Nasdaq, it could negatively impact the market price of our common stock, our ability to access the capital markets and the liquidity of our common stock. Our common stock is currently listed on Nasdaq under the symbol NWPX. We received letters from Nasdaq on November 12, 2009 and March 17, 2010 stating that we were no longer in compliance with Nasdaq Listing Rule 5250(c)(1) because we did not timely file our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 and our Annual Report on Form 10-K for the year ended December 31, 2009. Nasdaq granted us an exception allowing us until May 10, 2010 to regain compliance with Nasdaq Listing Rule 5250(c)(1). As a result of not regaining compliance within the specified compliance period, on May 11, 2010 we received a staff determination letter from Nasdaq stating that, unless we requested an appeal of the Nasdaq staff determination to a Nasdaq Hearings Panel, our common stock would be suspended from trading and cease being listed on the Nasdaq Global Select Market on May 20, 2010. We timely requested an appeal of the Nasdaq staff determination, and a hearing before the Hearings Panel was held on June 24, 2010. On July 23, 2010, we received from Nasdaq the written decision of the Hearings Panel, advising us that the Hearings Panel had determined to continue the listing of our shares on the Nasdaq Global Select Market, subject to the condition that we, on or before November 4, 2010, file with the SEC our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, our 2009 Form 10-K, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010. We also believe we will be required to file our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 on or before November 4, 2010.

We can regain compliance with Nasdaq Listing Rule 5250(c)(1) by filing this 2009 Form 10-K and our other delinquent period reports on or before November 4, 2010. However, if we are unable to do so, or otherwise fail to comply with Nasdaq Listing Rules, there can be no assurance that we will be successful in maintaining the continued listing of our common stock on Nasdaq. A delisting of our common stock from the Nasdaq would adversely affect the liquidity of the trading market for our common stock and therefore the market price of our common stock. If Nasdaq determines to delist our common stock and our common stock is not eligible for quotation on another market or exchange, trading of our common stock could be conducted in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate quotations for the price of our common stock, and there would likely also be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further. If an active trading market for our common stock is not sustained, it will be difficult for our shareholders to sell shares of our common stock without further depressing the market price of our common stock or at all. A delisting of our common stock also could make it more difficult for us to raise capital that may be needed for future operations. Delisting of our common stock could also have other negative results, including the potential loss of confidence by customers, suppliers and employees, the loss of institutional investor interest and investment, and fewer business development opportunities.

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.

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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;
- 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

On July 23, 2009, we received correspondence from the staff of the SEC relating to our 2008 Form 10-K and our 2009 Proxy Statement. We subsequently engaged in communications and correspondence with the SEC staff, and as of the date of this filing, we have outstanding unresolved comments from the SEC staff with respect to disclosure contained in our Form 10-K for the fiscal year ended December 31, 2008, our Form 10-Q for the quarter ended March 31, 2009 and our Definitive Proxy Statement filed April 3, 2009. We have modified the

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disclosure in this 2009 Form 10-K in an effort to reflect all of the SEC staff s prior comments. We believe that the SEC staff is waiting to resolve the outstanding comments until after we have filed this 2009 Form 10-K. As a result, we may receive additional comments from the SEC staff relating to our responses to the prior staff comments, new matters related to this 2009 Form 10-K or other periodic reports filed by us with the SEC. Such comments may require that we amend or supplement, possibly significantly, the disclosures in this 2009 Form 10-K, including our restated financial statements included herein, or other periodic reports filed by us with the SEC.

Item 2. Properties

Properties

The following table provides certain information about our ten operating facilities as of December 31, 2009:

Location	Manufacturing Space (approx. sq. ft.)	Property Size (approx. acres)	Products	Number and Type of Mills
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	4 electric resistance mills
Parkersburg, West Virginia	145,000	90	Water transmission	2 spiral mills
Saginaw, Texas (2 facilities)	170,000	50	Water transmission	1 spiral mill
Pleasant Grove, Utah	87,000	40	Water transmission	1 spiral mill
Monterrey, Mexico	40,000	5	Water transmission	Multiple line fabrication capability
Bossier City, Louisiana	180,000	25	Tubular products	1 electric resistance mill

As of December 31, 2009, we owned all of our facilities except for our Pleasant Grove facility, one of our Saginaw, Texas facilities, and property adjacent to our Oregon 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

Class Action and Derivative Lawsuits

On November 20, 2009, a complaint against us, captioned *Richard v. Northwest Pipe Co. et al.*, No. C09-5724 RBL, was filed in the United States District Court for the Western District of Washington. The plaintiff is allegedly a purchaser of our stock. In addition to the Company, Brian W. Dunham, our former President and CEO, and Stephanie J. Welty, our current CFO, are named as defendants. The complaint alleges that defendants violated Section 10(b) of the Exchange Act by making false or misleading statements between April 23, 2008 and November 11, 2009. Plaintiff seeks to represent a class of persons who purchased our stock during the same period and seeks damages for losses caused by the alleged wrongdoing.

A similar complaint, captioned *Plumbers and Pipefitters Local Union No. 630 Pension-Annuity Trust Fund v. Northwest Pipe Co. et al.*, No. C09-5791 RBL, was filed against us in the same court on December 22, 2009. In addition to the Company, Brian W. Dunham, Stephanie J. Welty and William R. Tagmyer, our current Chairman of the Board, are named as defendants in the *Plumbers* complaint. In the *Plumbers* complaint, as in the

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Richard complaint, the plaintiff is allegedly a purchaser of our stock and asserts that defendants violated Section 10(b) of the Exchange Act by making false or misleading statements between April 23, 2008 and November 11, 2009. Plaintiff seeks to represent a class of persons who purchased our stock during that period, and seeks damages for losses caused by the alleged wrongdoing.

The *Richard* action and the *Plumbers* action were consolidated on February 25, 2010. Plumbers and Pipefitters Local No. 630 Pension-Annuity Trust Fund was appointed lead plaintiff in the consolidated action. Defendants and lead plaintiff subsequently agreed that defendants do not need to respond to either of the two outstanding complaints, and that a consolidated amended complaint will be filed within 45 days of us having completed the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 (the September 2009 Form 10-Q) and our 2009 Form 10-K with the SEC. The parties also have stipulated to a briefing schedule for motions to dismiss to be filed after the filing of a consolidated amended complaint. We intend to vigorously defend ourselves against these claims. This securities litigation is at a very early stage and, at this time, it is not possible to predict its outcome. Therefore, we have not accrued any charges related to this litigation.

On March 3, 2010, the Company was served with a derivative complaint, captioned *Ruggles v. Dunham et al.*, No. C10-5129 RBL, and filed in the United States District Court for the Western District of Washington. The plaintiff in this action is allegedly a current shareholder of ours. The Company is a nominal defendant in this litigation. Plaintiff seeks to assert, on the Company s behalf, claims against Brian W. Dunham, Stephanie J. Welty, William R. Tagmyer, Keith R. Larson, Wayne B. Kingsley, Richard A. Roman, Michael C. Franson and Neil R. Thornton. The asserted basis of the claims is that defendants breached fiduciary duties to the Company by causing the Company to make improper statements between April 23, 2008 and August 7, 2009. Plaintiff seeks to recover, on the Company s behalf, damages for losses caused by the alleged wrongdoing.

The Company and the defendants have entered into an agreement with plaintiff in the *Ruggles* action. Pursuant to that agreement, neither the Company nor the defendants are required to respond to the current complaint. Plaintiffs may file an amended complaint within 60 days of our having completed the filing of our September 2009 Form 10-Q and our 2009 Form 10-K with the SEC. The parties have agreed on a briefing schedule for motions to dismiss to be filed after the filing of an amended complaint. It should also be noted that derivative claims by their nature do not seek to recover damages from us, but purport instead to seek to recover damages for the benefit of us. This litigation is at a very early stage and, at this time, it is not possible to predict its outcome. Therefore, we have not accrued any charges related to this litigation.

SEC Investigation

On March 8, 2010, the staff of the Enforcement Division of the SEC advised our counsel that they had obtained a formal order of investigation with respect to matters related to the Audit Committee investigation. We are cooperating fully with the SEC in connection with these matters. We cannot predict if, when or how they will be resolved or what, if any, actions we may be required to take as part of any resolution of these matters. Any action by the SEC or other governmental agency could result in civil or criminal sanctions against us and/or certain of our current and former officers, directors and employees. The investigation is at a very early stage and, at this time, it is not possible to predict its outcome. Therefore, we have not accrued any charges related to this investigation.

Other Matters

On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor was included on the National Priorities List at the request of the U.S. Environmental Protection Agency (the EPA). While the Company s Portland, Oregon manufacturing facility does not border the Willamette River, an outfall from the facility s storm water system drains into a neighboring property s privately owned slip. The Company and over 100 other parties have been 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). As of September 2010, more than 280 potentially responsible parties on and nearby the river have been asked to file information disclosure reports with the EPA. By agreement with the EPA, the ODEQ is charged with ensuring that all upland sites have source control to prevent future contamination to the river. A remedial investigation and feasibility study of the Portland Harbor is currently being directed by a group of potentially responsible parties known as the Lower Willamette Group (the LWG). The Company made a payment of $175,000 to the LWG in June 2007 as part of an interim settlement, and is under no obligation to make any further payment. A draft remedial investigation report was submitted to the EPA by the LWG in the fall of 2009. The feasibility study is underway, and is expected to be completed by the LWG in 2011.

In 2001, groundwater containing elevated organic compounds (VOCs) was identified in one localized area of the Company s property furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater is consistent with the initial conclusion that the source of the VOC s is located off of Company-owned property. On January 25, 2005, the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (Agreement) with the ODEQ. The Company is one of 84 Upland Source Control Sites working with the ODEQ on Source Control and is ranked a medium priority. The Company performed Remedial Investigation work required under the Agreement and submitted a draft Remedial Investigation/Source Control Evaluation Report on December 30, 2005. The conclusions of the report indicate 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 indicates there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments.

Also, based on the remedial investigation and reporting required under the Portland, Oregon manufacturing facility s National Pollutant Discharge Elimination System permit for storm water, the Company and the ODEQ have identified a possible source of small amounts of polynuclear aromatic compounds and polychlorinated biphenyls and have periodically identified trace amounts of zinc in storm water. Storm water from the Portland, Oregon manufacturing facility site is discharged to a neighboring property s privately owned slip, as is storm water from surrounding industrial properties. The slip was historically used for shipbuilding and subsequently for ship breaking and metal recycling. Studies of the river sediments have revealed concentration of polynuclear aromatic compounds, polychlorinated biphenyls and zinc, which are common constituents in urban storm water discharges. To minimize the zinc traces in its storm water, the Company painted a substantial part of the Portland facility s roofs in 2009 at a cost of $364,000. In addition, paving improvements were made at the Portland facility at a cost of $215,000. Total spending on environmental capital projects at the Portland facility was $603,000 in 2009. Based on National Pollutant Discharge Elimination System storm water sampling, the painting seems to have reduced the zinc in the storm water runoff. In June 2009, under the ODEQ Agreement, we submitted a Final Supplemental Work Plan to evaluate and assess soil and storm water, and further assess groundwater risk. We are working with the City of Portland and the ODEQ to facilitate further soil and storm water source control measures.

Concurrent with the activities of the EPA and the ODEQ, the Portland Harbor Natural Resources Trustee Council (Trustees) sent some or all of the same parties, including the Company, a notice of intent to perform a Natural Resource Damage Assessment (NRDA) for the Portland Harbor Site to determine the nature and extent of natural resource damages under CERCLA section 107. The Trustees for the Portland Harbor Site consist of representatives from several Northwest Indian Tribes, three federal agencies and one state agency. The Trustees act independently of the EPA and the ODEQ, but the Company expects their assessment will be coordinated with the remedial investigation and feasibility study work underway at the Portland Harbor Site. In 2009, the Trustees completed phase one of their three-phase NRDA. Phase one of the NRDA consisted of environmental studies to fill gaps in the information available from the EPA, and development of a framework for evaluating, quantifying and determining the extent of injuries to the natural resource and the resulting damages. Phase two of the NRDA began in 2010 and consists largely of implementing the framework developed in phase one.

The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessments. In 2009, one of the Tribal Trustees (the Yakima Nation) resigned and has requested

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funding from the same parties to support its own assessment. The Company has not assumed any payment obligation or liability related to either request. The extent of the Company s obligation with respect to Portland Harbor matters is not known, and no further adjustment to the consolidated financial statements has been recorded as of December 31, 2009.

We operate under numerous governmental permits and licenses relating to air emissions, storm-water run-off and other environmental matters. In September and October of 2009 we received several notices of violation and notices to comply from the Mohave Desert Air Quality Management District (District) for violations of permitted particulate matter emissions limits and other violations at our Adelanto, California facility. We are negotiating with the District to settle these matters. We do not believe that resolution of these matters will result in material adverse effects on our business, financial condition, 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 we believe to be adequate. Management believes that it is not presently a party to any other litigation, the outcome of which would have a material adverse effect on our business, financial condition, results of operations or cash flows.

Item 4. [Removed and Reserved]

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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, 2009 and 2008 were as follows.

	Low	High
2009		
First Quarter	$ 22.15	$ 46.29
Second Quarter	27.17	41.98
Third Quarter	30.54	40.47
Fourth Quarter	24.80	35.56
2008		
First Quarter	$ 35.10	$ 44.37
Second Quarter	37.75	58.73
Third Quarter	39.68	65.19
Fourth Quarter	18.75	44.64

There were 65 shareholders of record and approximately 3,700 beneficial shareholders at October 8, 2010. There were no cash dividends declared or paid in fiscal years 2009 or 2008, and we do not intend to pay cash dividends in the foreseeable future.

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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 the following companies: Ameron International Corporation, Insituform Technologies and Lindsay Corporation.

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.

	Northwest Pipe Company	Indexed Return Russell 2000 Index	Peer Group
December 31, 2004	100.00	100.00	100.00
December 31, 2005	107.25	104.55	92.62
December 31, 2006	134.75	123.76	142.06
December 31, 2007	156.87	121.82	165.92
December 31, 2008	170.78	80.66	119.69
December 31, 2009	107.66	102.58	135.86

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 2009 Form 10-K.

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Item 6. Selected Financial Data

The following information as of and for the years ended December 31, 2008, 2007, 2006 and 2005 has been updated to reflect the restatement to our financial statements as discussed in Note 2 to the Consolidated Financial Statements included in Part II Item 8, Financial Statements and Supplementary Data of this 2009 Form 10-K. You should read the selected consolidated historical financial information set forth below along with our restated audited consolidated financial statements included in Item 15 of this 2009 Form 10-K.

The following selected consolidated financial data as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements included in this 2009 Form 10-K. The consolidated financial data as of December 31, 2007, 2006 and 2005 and for the years ended December 31, 2006 and 2005 have been updated to reflect the restatement for matters similar to those described in Note 2 to the Consolidated Financial Statements included in Part II Item 8, Financial Statements and Supplementary Data of this 2009 Form 10-K.

We have not amended our previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously-filed or otherwise reported for these periods is superseded by the information in this 2009 Form 10-K, and the financial statements and related financial information contained in such previously-filed reports should no longer be relied upon. The information presented in the following tables has been updated to reflect the effects of the restatement of our financial results, which is more fully described in Note 2 to the Consolidated Financial Statements in Part II Item 8, Financial Statements and Supplementary Data of this 2009 Form 10-K.

	Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net sales	$ 278,654	$ 451,419	$ 364,314	$ 329,032	$ 339,765
Gross profit	11,686	84,587	48,453	41,891	47,924
Net (loss) income	(7,277)	31,338	11,919	14,348	13,396
Basic earnings (loss) per share	(0.79)	3.43	1.33	2.01	1.98
Diluted earnings (loss) per share	(0.79)	3.35	1.29	1.93	1.90

	As of December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(In thousands)				
Consolidated Balance Sheet Data:					
Working capital	$ 122,344	$ 192,385	$ 160,885	$ 152,964	$ 135,792
Total assets	391,237	470,280	413,821	401,478	310,573
Long-term debt and capital lease obligations, less current portion	51,722	114,444	93,336	90,915	94,931
Stockholders equity	246,299	252,504	218,187	201,644	135,955

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Summary Financial Impacts of Restatements

The following table presents as restated and as previously reported summary financial data for revenue, gross profit, net income, basic earnings per share and diluted earnings per share to reflect the effects of the restatement discussed in Note 2 to the Consolidated Financial Statements included in Part II Item 8, Financial Statements and Supplementary Data of this 2009 Form 10-K to these earlier periods presented herein.

	Net Sales	Gross Profit (in thousands)	Net Income	Basic Earnings per Share	Diluted Earnings per Share
Year Ended December 31, 2006					
As previously reported	$ 346,591	$ 56,713	$ 20,019	$ 2.80	$ 2.69
Restatement adjustments	(17,559)	(14,822)	(5,671)	(0.79)	(0.76)
As restated	$ 329,032	$ 41,891	$ 14,348	$ 2.01	$ 1.93
Year Ended December 31, 2005					
As previously reported	$ 329,006	$ 53,790	$ 13,386	$ 1.97	$ 1.90
Restatement adjustments	10,759	(5,866)	10	0.01	
As restated	$ 339,765	$ 47,924	$ 13,396	$ 1.98	$ 1.90

The following table presents as restated and as previously reported summary financial data for working capital; total assets; long-term debt and capital lease obligations, less current portion; and stockholders equity to reflect the effects of the restatement discussed in Note 2 to the Consolidated Financial Statements included in Part II Item 8, Financial Statements and Supplementary Data of this 2009 Form 10-K to these earlier periods presented herein.

	Working capital	Total assets	Long-term debt and capital lease obligations, less current portion (in thousands)	Stockholders equity
As of December 31, 2007				
As previously reported	$ 181,524	$ 453,563	$ 93,336	$ 256,282
Restatement adjustments	(20,639)	(39,742)		(38,095)
As restated	$ 160,885	$ 413,821	$ 93,336	$ 218,187
As of December 31, 2006				
As previously reported	$ 166,743	$ 424,451	$ 90,915	$ 230,826
Restatement adjustments	(13,779)	(22,973)		(29,182)
As restated	$ 152,964	$ 401,478	$ 90,915	$ 201,644
As of December 31, 2005				
As previously reported	$ 150,428	$ 338,485	$ 94,931	$ 159,465
Restatement adjustments	(14,636)	(27,912)		(23,510)

As restated	$ 135,792	$ 310,573	$ 94,931	$ 135,955

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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 2009 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 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 2009 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.

Restatement of Previously Issued Financial Statements

As previously disclosed, the Audit Committee, with the assistance of independent professionals retained by the Audit Committee, has conducted an investigation of certain accounting matters, including certain revenue recognition practices. In addition, at the direction of the Audit Committee, we retained an external consulting firm to assist in performing certain related analyses of our accounting practices and previously issued consolidated financial statements. Based upon its consideration of the issues identified in the Audit Committee investigation and the related accounting analyses, and after discussions with management, the Audit Committee concluded that our previously issued consolidated financial statements contained material errors and should be restated.

Management s Discussion and Analysis of Financial Condition and Results of Operations in both tabular and textual form as it relates to the years ended December 31, 2008 and 2007 has been updated to reflect the effects of the restatement described in Note 2 of the Consolidated Financial Statements in Part II Item 8, Financial Statements and Supplementary Data .

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. Our pipeline systems are also used for hydroelectric power systems, wastewater systems and other applications. We also make products for industrial plant piping systems and certain structural applications. These pipeline systems are produced by our Water Transmission Group from seven manufacturing facilities located in Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas; Pleasant Grove, Utah; and Monterrey, Mexico. Our Water Transmission Group accounted for approximately 76% of net sales in 2009. In February 2009, we announced a temporary shutdown of our Utah facility. We installed a new mill at that facility and resumed operations in June 2010.

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.

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Our Tubular Products Group manufactures other welded steel products in three facilities: Atchison, Kansas; Houston, Texas; and starting in 2010 Bossier City, Louisiana. We produce a range of products used in several different markets. We currently make energy pipe, standard pipe, structural pipe, and traffic signpost systems, which are sold to distributors and used in many different applications. Our Tubular Products Group generated approximately 24% of our net sales in 2009. Our Tubular Products Group s sales volume is typically driven by energy spending, non-residential construction spending, highway spending and general economic conditions. We currently believe the greatest potential for significant sales growth in our Tubular Products Group is through our energy products.

We have also invested in an unconsolidated subsidiary, Northwest Pipe Asia, located in Singapore. Northwest Pipe Asia produces steel pipe mills and also has established temporary operations in Batam, Indonesia to produce structural piling to be supplied to a construction project in Singapore.

Our Current Economic Environment

We are monitoring the current economic environment, and we believe there are substantial growth opportunities based on key factors impacting demand for our products. Although the 2009 economic slowdown had the biggest impact on our Tubular Products Group, we expect the recovery of the energy markets to have a positive impact on our Tubular Products business, as natural gas exploration and production companies continue to restart rig operations and increase explorations. Additionally, in April 2010, the U.S. Department of Commerce imposed tariffs on oil country tubular goods imported from China. Chinese steel suppliers recently held as much as 50% of the oil country tubular goods import market. 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 municipal 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 and product warranties, depreciation and amortization, goodwill and intangible assets, accrued liabilities, 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, measured by the costs incurred to date as a percentage of the estimated total costs of each contract (cost-to-cost method). 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.

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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 substantially all projects that are 50% or more complete except that major projects, usually over $5.0 million, are reviewed earlier if sufficient production has been completed to provide enough information to revise the original estimated total cost of the project. 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 we have persuasive evidence of an arrangement and project costs are incurred. Costs may be incurred before we have persuasive evidence of an arrangement. In those cases, the project costs are deferred if we believe we will obtain persuasive evidence of an arrangement and if recoverability from that arrangement is probable.

Provisions for losses on uncompleted contracts are made in the period such losses are known. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, foreign currency exchange rate movements, and final contract settlements may result in revisions to revenue, costs and income and are recognized in the period in which the revisions are determined. Historically, our estimates of total job costs for each job have been reasonably dependable.

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.

Allowance for Doubtful Accounts and Product Warranties:

We maintain allowances for estimated losses resulting from the inability of our customers to make required payments and contract disputes, together with a reserve for warranty claims, 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 warranty claims. At least monthly, we review past due balances to identify the reasons for non-payment. We will write off a receivable account once the account is deemed uncollectible for reasons such as a bankruptcy filing, deterioration in the customer s financial position, contract dispute, product claim or other similar events. As of December 31, 2009, the accounts receivable balance of $38.7 million is reported net of allowances for doubtful accounts of $0.8 million. We believe the reported allowances at December 31, 2009 are adequate. If the customers financial conditions were to deteriorate resulting in their inability to make payments, or if contract disputes or warranty claims were to escalate, additional allowances may need to be recorded which would result in additional expenses being recorded for the period in which such determination was made.

Goodwill:

Goodwill related to our Tubular Products Group, one of our operating segments and reporting units, represents the excess of cost over the assigned value of the net assets in connection with the segment s acquisitions. Goodwill is no longer amortized but is reviewed for impairment annually at December 31 or whenever events occur or circumstances change that would more likely than not reduce the fair value of the Tubular Products Group below its carrying amount. Fair value of the Tubular Products Group s goodwill is determined with consideration of the income, market, and cost approaches as applicable.

Fair value of goodwill is estimated under the income approach and the market approach. Although considered, we do not utilize the cost approach as relevant data is not available. We utilize an 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.

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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 discount rate used for 2009 was 13.5% which reflects the Company s estimated weighted average cost of capital. The market approach is based upon historical and forward-looking measures using multiples of revenue and a price-to-book ratio. The forward-looking measures are more heavily weighted than the historical measures.

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. The valuation of the Tubular Products Group significantly exceeded its carrying value at December 31, 2009. Accordingly, no further valuation of the segment was necessary. 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 are cyclical and its 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.

Long-Lived Assets:

Property and equipment are recorded at cost. We depreciate the net book value in excess of the salvage value using either the units of production method or a straight-line method depending on the classification of the asset. We assess impairment of property and equipment whenever changes in circumstances indicate that the carrying values of the assets 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. 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.

In February 2009, we temporarily shut down our facility in Utah, as we did not anticipate sufficient near-term work located nearby to justify its operation. The assets at our Utah facility are comprised primarily of machinery and equipment. We lease the buildings and land. Due to the nature of our manufacturing process and the equipment used in the process, our machinery and equipment assets are long-lived and the risk of obsolescence is low. Each of our Water Transmission facilities, of which Utah is one, has equipment that is interchangeable, as the same product can, for the most part, be produced at any one of our water transmission facilities. We recommenced operations at our Utah facility in June 2010. Because of these facts, we came to the conclusion that the carrying value of our Utah facility assets is recoverable, and in accordance with the authoritative guidance, we did not perform a test of impairment.

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, 2009, the inventory balance of $79.3 million is reported net of lower of cost or market adjustments totaling $5.8 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.

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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 U.S. 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.

Workers Compensation Insurance:

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

Derivative Instruments:

We conduct 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 derivative contracts are consistent with our strategy for financial risk management; however, prior to June 30, 2009, they did not meet the conditions under the authoritative guidance to qualify for hedge accounting treatment. Beginning in the quarter ended September 30, 2009, we adopted hedge accounting treatment for qualifying foreign currency forward contracts entered into subsequent to June 30, 2009. Instruments that do not qualify for hedge accounting treatment are re-measured at fair value on each balance sheet date and resulting gains and losses are recognized in net income.

Foreign Currency Transactions:

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

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Results of Operations

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

		Year Ended December 31,	
	2009	2008	2007
Net sales:			
Water transmission	75.5%	62.8%	73.9%
Tubular products	24.5	37.2	26.1
Total net sales	100.0	100.0	100.0
Cost of sales	95.8	81.3	86.7
Gross profit	4.2	18.7	13.3
Selling, general and administrative expenses	7.2	6.0	6.5
Operating (loss) income	(3.0)	12.7	6.8
Other (income) expense	(0.7)	0.1	(0.0)
Interest income	(0.3)	(0.0)	(0.1)
Interest expense	1.9	1.5	1.9
(Loss) income before income taxes	(3.9)	11.1	5.0
(Benefit) provision for income taxes net income	(1.3)	4.2	1.7
Net (loss) income	(2.6)%	6.9%	3.3%
Segment gross profit (loss) as a percentage of net sales:			
Water transmission	7.7%	16.7%	15.1%
Tubular products	(6.5)	22.2	8.3

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net sales. Net sales decreased by $172.8 million to $278.7 million in 2009 from $451.4 million in 2008. No single customer accounted for 10% or more of total net sales in 2009 or 2008.

Water Transmission sales decreased 25.8% to $210.4 million in 2009 from $283.6 million in 2008. The decline in net sales was due to an 11% decrease in tons produced and a 17% decrease in the selling price per ton. The decrease in volume was due to reduced demand for production of industrial and municipal water transmission projects. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales volumes. The decrease in selling prices per ton was due to more aggressive bidding activity, resulting from reduced demand in 2009, as well as a decline in steel prices. Lower steel costs generally lead to lower contract values. Steel prices are discussed further in the gross profit analysis.

Tubular Products sales decreased 59.3% to $68.3 million in 2009 from $167.8 million in 2008. The sales decrease was due to a 47% decrease in tons sold and a 23% decline in selling price per ton. All tubular product lines were negatively impacted in 2009. The most significant reductions in demand were the result of decreases in natural gas drilling operations and lower residential and commercial construction activity. Approximately 94.6% of the total decrease in net sales over the prior year was due to our three largest product lines, with energy pipe, standard pipe and structural pipe product lines comprising 57.2%, 24.4% and 13.0% of the decrease, respectively. The sharp decline in sales of our energy pipe, standard pipe and structural pipe product lines was related to decreases in both volume and price. We sold 73% fewer tons of energy pipe products in 2009 and our price per ton decreased 23% in 2009 as compared to 2008. Standard pipe sales volumes decreased 50% and our price per ton decreased 22% in 2009 as compared to 2008. Our structural pipe sales volume decreased 20% and the price per ton declined 26% in

2009 as compared to 2008.

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Gross profit. Gross profit decreased 86.2% to $11.7 million (4.2% of total net sales) in 2009 from $84.6 million (18.7% of total net sales) in 2008.

Water Transmission gross profit decreased 65.9% to $16.1 million (7.7% of segment net sales) in 2009 from $47.3 million (16.7% of segment net sales) in 2008. The drop in gross profit from the prior year was due to more aggressive bidding activity leading to lower selling prices per ton, as well as a reduction in tons produced in 2009 as compared to 2008. We incurred fixed production costs which we were unable to absorb due to the decreased total project volume of approximately 11% in 2009 as compared to the prior year.

Our Water Transmission materials cost per ton, including steel, decreased in 2009 by approximately 17% from 2008. We anticipate gross margin to remain at reduced levels through 2011, as the lower-margin projects awarded in 2009 flow through the income statement in subsequent periods. In addition, our inventory values for Water Transmission products reflect a lower of cost or market expense of $3.3 million for the year 2009.

Gross profit from Tubular Products decreased 111.9% to a loss of $4.4 million (-6.5% of segment net sales) in 2009 from $37.3 million (22.2% of segment net sales) in 2008. As noted above, demand for our tubular products decreased significantly, particularly for our energy products which sustained a 79% reduction in sales as compared to the prior year. The significant decrease in volume contributed to the loss in 2009, as the market conditions led to reduced production and our inability to fully cover our fixed costs. This was partially offset by decreased steel costs per ton of 32% in 2009 as compared to 2008. Unlike our Water Transmission segment, contracts for our tubular products are able to be fulfilled in a relatively short time frame, typically within one to three months. Therefore, price changes are more quickly reflected in sales prices and gross profit. In addition, our inventory values for Tubular products reflect a lower of cost or market expense of $1.4 million for the year 2009.

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 decreased 26.2%, to $20.1 million (7.2% of net sales) in 2009 from $27.2 million (6.0% of net sales) in 2008. The decrease of $7.1 million as compared to the prior year consisted of a decrease of $2.5 million in wages, bonus and benefit expense as a result of weaker financial performance, a decrease of $1.0 million in tubular products sales commission expense, a decrease of approximately $1.4 million in travel, entertainment and other administration expenses as a result of cost containment measures, and a decrease of approximately $1.0 million in outside services and professional fees. In addition, we incurred a loss of $0.8 million on retired assets in 2008. These decreases were partially offset by an increase in professional fees of $1.3 million associated with the Audit Committee investigation of certain accounting matters, which is discussed in Note 2, Restatements of Consolidated Financial Statements of the Notes to Consolidated Financial Statements in Part II Item 8, Financial Statements and Supplementary Data.

Other (Income) Expense. Other income increased primarily due to the equity earnings in Northwest Pipe Asia.

Interest expense. Interest expense decreased to $5.1 million in 2009 from $6.6 million in 2008. The decrease in interest expense was a result of lower average borrowings at lower average interest rates.

Income taxes. Our effective tax benefit rate was 32.7% in 2009 and our effective tax expense was approximately 38.0% in 2008. The change in our effective tax rate was mainly due to an increase in the valuation allowance related to Section 382 net operating losses, and an increase in excess non-deductible officer s compensation earned in 2008 but paid in 2009.

Year Ended December 31, 2008, Compared to Year Ended December 31, 2007

Net sales. Net sales increased to $451.4 million in 2008 from $364.3 million in 2007. No single customer accounted for 10% or more of total net sales in 2008 or 2007.

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Water Transmission sales increased 5.3% to $283.6 million in 2008 from $269.3 million in 2007. Our selling price per ton increased 47% in 2008 as compared to 2007, but this was partially offset by a decrease in volume of 28%. The increase in price per ton was due to higher prices in our product markets, which generally trend with the cost of steel, our biggest raw material input. The decline in volume was due to the following: a major project with expected revenues of approximately $6 million was postponed in October, and we had no opportunity to replace this volume; and weather issues slowed production in all but two of our facilities. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales.

Tubular Products sales increased 76.6% to $167.8 million in 2008 from $95.0 million in 2007. Approximately 91% of our increase in sales was driven by our three largest product lines: energy pipe products (63% of total increase), standard pipe products (18%), and structural pipe products (10%). Demand for our tubular products was positively impacted through most of 2008 by increases in natural gas drilling operations and overall strength in agricultural and commercial construction markets. Increases in volume and price led to the sharp increase in sales of our energy pipe and standard pipe product lines. We sold 66% more tons of energy pipe products in 2008 and our price per ton increased 67% in 2008 as compared to 2007. Standard pipe sales volumes increased 10% and our price per ton increased 35% in 2008 as compared to 2007. Our structural pipe price per ton increased 32% but our sales volume decreased 3% in 2008 as compared to 2007.

Gross profit. Gross profit increased to $84.6 million (18.7% of total net sales) in 2008 from $48.5 million (13.3% of total net sales) in 2007.

Water Transmission gross profit increased 16.6% to $47.3 million (16.7% of segment net sales) in 2008 from $40.5 million (15.1% of segment net sales) in 2007. The increase in Water Transmission gross profit was largely due to higher selling prices per ton that were only partially offset by reduced volume and increased costs. Our revenue per ton increased 47% in 2008 as compared to 2007. These higher prices were partially offset by increased materials cost per ton, including steel, of 45%.

Gross profit from Tubular Products increased 371.8% to $37.3 million (22.2% of segment net sales) in 2008 from $7.9 million (8.3% of segment net sales) in 2007. The increased volumes and prices per ton discussed above contributed significantly to the increased gross margin. The sharp increases in demand in the tubular energy markets in 2008 led to increased spreads between selling prices and raw material costs. The demand was heightened by constrained steel supplies leading to spiraling prices in raw material inputs and sales prices. As our sales prices trend generally with the steel input costs, the sales price increases were partially offset by higher steel costs per ton of 50% in 2008 as compared to 2007. The increased sales volume led to increased production volumes and lower fixed costs per ton produced.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 15.9% to $27.2 million in 2008 from $23.5 million in 2007. The increase of $3.7 million as compared to the prior year consisted of an increase in wage and bonus expense of $1.8 million as a result of our financial performance, an increase in professional fees of $0.9 million, an additional loss of $0.9 million related to the retirement of assets, and an increase of tubular products sales commission expense of $0.8 million related to increased sales. These increases were partially offset by a decrease of $0.6 million in other miscellaneous expenses.

Interest expense. Interest expense decreased slightly from $7.1 million in 2007 to $6.6 million in 2008. The decrease in interest expense was a result of lower average interest rates, partially offset by higher average borrowings.

Income taxes. Our effective tax rate was approximately 38.0% in 2008 and 34.8% in 2007. The increase in our effective tax rate was mainly due to the additional accrual of a contingent liability related to ongoing income tax audits.

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Liquidity and Capital Resources

Sources and Uses of Cash

Our principal sources of liquidity generally include operating cash flow and our bank 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, 2009 is presented in our consolidated statements of cash flows contained in this 2009 Form 10-K, and is further discussed below.

As of December 31, 2009, our working capital (current assets minus current liabilities) was $122.3 million as compared to $192.4 million as of December 31, 2008. Cash and cash equivalents decreased to $31,000 as of December 31, 2009 from $90,000 as of December 31, 2008. Net cash provided by operating activities in 2009 was $79.2 million. Reduced steel prices and lower production volumes resulted in a decrease in inventory levels of $29.1 million. The decrease of $36.9 million in trade and other receivables and the decrease of $19.7 million in costs and estimated earnings in excess of billings on uncompleted contracts were due to lower invoicing with the decline in sales and from timing differences between production, shipment and invoicing of products. We are typically obligated to pay for goods and services within 30 days of receipt, while cash collected from our construction contracts typically extends for several months. Our construction contract revenues in the water transmission segment are recognized on a percentage-of-completion method; therefore, there is little correlation between revenue and cash receipts and the elapsed time can be significant. As such, our payment cycle is a significantly shorter interval compared to our collection cycle.

Net cash used in investing activities in 2009 was $16.1 million, due to capital expenditures of $22.7 million, offset partially by proceeds of $6.8 million from the sale and leaseback of property and equipment. The most significant capital projects in 2009 were the new mill installation in our California facility and the preparation and installation of manufacturing equipment in our Bossier City, Louisiana facility.

Net cash used in financing activities in 2009 was $63.2 million, which resulted from net reductions in our line of credit and long-term debt balances outstanding of $68.4 million, partially offset by a net increase in capital lease obligations of $5.4 million.

We anticipate that our existing cash and cash equivalents, cash flows expected to be generated by operations, and amounts available under our credit agreements will be adequate to fund our working capital and capital requirements for at least the next twelve months. We also expect to continue to rely on cash generated from operations and other sources of available funds to make required principal payments under our long term debt during 2010. 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. See the discussion below under Line of Credit and Long-Term Debt for a discussion of recent developments regarding compliance with the terms of our credit agreements. 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, 2009: a $150.0 million Credit Agreement, under which $19.4 million was outstanding; $10.7 million of Series A Term Note, $7.5 million of Series B Term Notes, $7.1 million of Series C Term Notes and $3.9 million of Series D Term Notes.

The Credit Agreement expires on May 31, 2012, and bears interest at rates related to LIBOR plus 1.25% to 2.25%, or the lending institution s prime rate, plus 0.00% to 0.75%. Borrowings under the Credit Agreement are collateralized by substantially all of our personal property.

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At December 31, 2009, we had $19.4 million outstanding under the Credit Agreement bearing interest at a weighted average rate of 2.78%. At December 31, 2009, we had an additional net borrowing capacity under the credit facility of $123.9 million.

The Series A Term Note in the principal amount of $10.7 million matures on February 25, 2014 and requires annual payments in the amount of $2.1 million plus interest of 8.75% paid quarterly on February 25, May 25, August 25 and November 25. The Series B Term Notes in the principal amount of $7.5 million mature on June 21, 2014 and require annual payments in the amount of $1.5 million plus interest of 8.47% paid quarterly on March 21, June 21, September 21 and December 21. The Series C Term Notes in the principal amount of $7.1 million mature on October 26, 2014 and require annual payments of $1.4 million plus interest of 7.36% paid quarterly on January 26, April 26, July 26 and October 26. The Series D Term Notes in the principal amount of $3.9 million mature on January 24, 2015 and require annual payments in the amount of $645,000 plus interest of 7.32% paid quarterly on January 24, April 24, July 24 and October 24. The Series A Term Note, the Series B Term Notes, the Series C Term Notes, and the Series D Term Notes (together, the Term Notes) are collateralized by accounts receivable, inventory and certain equipment.

We had $9.2 million of capital leases outstanding at December 31, 2009, under which certain equipment used in the manufacturing process is leased. The average interest rate on the capital leases is 5.8%.

Our capital lease outstanding as of December 31, 2009 consists of an agreement entered into as of September 2009 to finance our Bossier City, Louisiana facility (the Financing Arrangement). As part of the Financing Arrangement, a $10 million escrow account was provided for the Company by a local government entity through a financial institution and will be released upon qualifying purchase requisitions. As we purchase equipment for the facility, we enter into a sale-leaseback transaction with the governmental entity as part of the Financing Arrangement. As of December 31, 2009, $5.6 million was held in the escrow account, which is included in Other Assets, as a result of proceeds from 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 certain of our capital leases 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 certain of our capital leases require us to be in compliance with certain financial covenants. Our 2009 operating results led us to commence discussions in the fourth quarter of 2009 with our bank creditors to obtain waivers of our financial covenants as of December 31, 2009, March 31, 2010 and June 30, 2010. As a result of these discussions, covenant waivers were obtained and we entered into amendments to our Amended and Restated Credit Agreement and Amended and Restated Note Purchase and Private Shelf Agreement as described in Note 17, Subsequent Events in Part II Item 8, Financial Statements and Supplementary Data.

The amendments changed the definition, method of application and amounts of the covenants related to the Consolidated Fixed Charge Coverage Ratio, Consolidated Senior Leverage Ratio, Consolidated Total Leverage Ratio, Consolidated Tangible Net Worth, Asset Coverage Ratio, Minimum Consolidated EBITDA, and Maximum Consolidated Rental and Operating Lease Expense. As we were granted waivers of our financial covenants as of December 31, 2009, March 31, 2010 and June 30, 2010, these amended financial covenants will be calculated as of September 30, 2010. Based on our business plan and forecasts of operations, we believe we will remain in compliance with our amended covenants in 2010.

In December 2009, we amended certain lease agreements that resulted in conversions of capital leases to operating leases. The lease amendments resulted in an early extinguishment of debt, on which we incurred additional fees of $142,000 which was recorded as a component of interest expense.

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The following table sets forth our scheduled contractual commitments that will affect our future liquidity as of December 31, 2009 (in thousands):

		Payments due by period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Credit agreement	$ 19,403	$	$ 19,403	$	$
The Term Notes	29,215	5,714	11,428	11,428	645
Capital leases (1)	11,091	424	3,122	3,122	4,423
Operating leases	20,893	3,997	7,317	6,320	3,259
Interest payments (2)	7,893	2,157	3,768	1,620	348
Total obligations	$ 88,495				