

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

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 0-27140

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

OREGON
(State or other jurisdiction of
incorporation or organization)

93-0557988
(I.R.S. Employer

Identification No.)

5721 SE Columbia Way, Suite 200

Vancouver, WA 98661

(Address of principal executive offices and zip code)

360-397-6250

(Registrant's telephone number including area code)

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

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

Documents Incorporated by Reference

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

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NORTHWEST PIPE COMPANY
2013 ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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PART I

Item 1. Business

Overview

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

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

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

Recent Business Developments

On December 30, 2013, we acquired 100% of the outstanding shares of capital stock of Permalok Corporation, a fabricator of steel piping utilizing the Permalok interlocking pipe joining system. Permalok's rolled and welded steel pipe products provide an alternate joint solution which complements and expands our product offerings in the Water Transmission Group. Additional information regarding the acquisition can be found in Part II Note 1, Summary of Significant Accounting Policies of this 2013 Form 10-K. With this acquisition we added two manufacturing facilities.

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

Our Industries

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

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

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

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

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

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

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

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

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

Products

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

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

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

Marketing

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

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

Manufacturing

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

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

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

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

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

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

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

Backlog

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

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

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

Competition

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

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

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

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

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

Raw Materials and Supplies

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

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

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

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

Environmental and Occupational Safety and Health Regulation

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

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

Employees

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

Available Information

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

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

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

Item 1A. Risk Factors

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

Risks Related to our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

the need for new or replacement infrastructure;

the priorities placed on various projects by governmental entities;

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

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

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

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

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

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

explosions, fires, inclement weather and natural disasters;

mechanical failure;

unscheduled downtime;

labor difficulties;

loss of process control and quality;

disruptions to supply;

raw materials quality defects;

service provider delays or failures;

transportation delays or failures;

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

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

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

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

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

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

unplanned down time due to project delays or mechanical failure;

underutilized capacity or factory productivity;

the seasonal variation in demand for tubular products;

adverse weather conditions;

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

competitive pressures.

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

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

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

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

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

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

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

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

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

currency fluctuations;

transportation delays and interruptions;

political, social and economic instability and disruptions;

government embargoes or foreign trade restrictions;

the imposition of duties, tariffs and other trade barriers;

import and export controls;

labor unrest and current and changing regulatory environments;

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

potentially adverse tax consequences.

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

Our use of the percentage-of-completion method of accounting could result in a change to previously recorded revenue and profit. In particular, revenue from construction contracts in our Water Transmission segment is recognized on the percentage-of-completion method, measured by the costs incurred to date as a percentage of the estimated total costs of each contract (the cost-to-cost method). Estimated total costs of each contract are reviewed on a monthly basis by project management and operations personnel for all active projects. All cost revisions that result

in the gross profit as a percent of sales increasing or decreasing by more than two percent are reviewed by senior management personnel.

The use of estimated cost to complete each contract is a significant variable in the process of determining income earned and is a significant factor in the accounting for contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Due to the variability of events affecting our estimates which have a material impact on our contract accounting, actual results could differ from those estimates, which could adversely affect our financial position, results of operations or cash flows.

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

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

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

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

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

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

financial condition, results of operations or cash flows.

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

Risks Related to Our Financial Condition

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

Our debt and our debt service obligations could:

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Internal Control Over Financial Reporting

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

Risks Related to Our Common Stock

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

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

our operating and financial performance and prospects;

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

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

loss of any member of our senior management team;

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speculation in the press or investment community;

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

sales of our common stock by shareholders;

relatively low trading volume;

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

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

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

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

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

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

permit the board of directors to issue preferred stock in one or more series, fix the number of shares constituting any such series and determine the voting powers and all other rights and preferences