NORTHWEST PIPE CO
Form 10-Q
May 03, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2018

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, Washington 98661

(Address of principal executive offices and zip code)

360-397-6250

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Common Stock, par value $.01 per share	**9,723,883**
(Class)	**(Shares outstanding as of April 26, 2018)**

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

NORTHWEST PIPE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31, 2018	2017
Net sales	$33,365	$29,657
Cost of sales	32,017	28,414
Gross profit	1,348	1,243
Selling, general and administrative expense	3,385	3,840
Restructuring expense	305	881
Operating loss	(2,342)	(3,478)
Other income (expense)	170	(89)
Interest income	77	-
Interest expense	(128)	(137)
Loss from continuing operations before income taxes	(2,223)	(3,704)
Income tax benefit	(272)	(162)
Loss from continuing operations	(1,951)	(3,542)
Discontinued operations:		
Loss from operations of discontinued operations	-	(385)
Income tax benefit	-	(59)
Loss on discontinued operations	-	(326)
Net loss	$(1,951)	$(3,868)
Basic and diluted loss per share:		
Continuing operations	$(0.20)	$(0.37)
Discontinued operations	-	(0.03)
Net loss per share	$(0.20)	$(0.40)

Shares used in per share calculations:		
Basic and diluted	*9,707*	*9,604*

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

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NORTHWEST PIPE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

	Three Months Ended March 31, 2018	2017
Net loss	$ *(1,951)*	$ *(3,868)*
Other comprehensive income (loss), net of tax:		
Pension liability adjustment	*24*	*102*
Unrealized gain (loss) on cash flow hedges	*25*	*(7)*
Other comprehensive income, net of tax	*49*	*95*
Comprehensive loss	$ *(1,902)*	$ *(3,773)*

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

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NORTHWEST PIPE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollar amounts in thousands, except per share amounts)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ *39,991*	$ *43,646*
Trade and other receivables, less allowance for doubtful accounts of $503 and $477	*24,241*	*28,990*
Contract assets	*44,845*	*44,502*
Inventories	*17,126*	*17,055*
Prepaid expenses and other	*5,683*	*6,562*
Total current assets	*131,886*	*140,755*
Property and equipment, less accumulated depreciation and amortization of $75,660 and $74,311	*78,349*	*78,756*
Other assets	*9,492*	*10,813*
Total assets	$ *219,727*	$ *230,324*
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ *4,460*	$ *7,521*
Accrued liabilities	*5,105*	*6,563*
Contract liabilities	*1,155*	*2,599*
Current portion of capital lease obligations	*397*	*318*
Total current liabilities	*11,117*	*17,001*
Capital lease obligations, less current portion	*1,022*	*737*
Deferred income taxes	*354*	*941*
Other long-term liabilities	*10,967*	*11,381*
Total liabilities	*23,460*	*30,060*
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $.01 par value, 15,000,000 shares authorized, 9,723,883 and 9,619,755 shares issued and outstanding	*97*	*96*

Additional paid-in-capital	*118,635*	*119,856*
Retained earnings	*78,931*	*81,757*
Accumulated other comprehensive loss	*(1,396*)	*(1,445*)
Total stockholders’ equity	*196,267*	*200,264*
Total liabilities and stockholders’ equity	$*219,727*	$*230,324*

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

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NORTHWEST PIPE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$(1,951)	$(3,868)
Loss on discontinued operations	-	(326)
Loss from continuing operations	(1,951)	(3,542)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and capital lease amortization	1,522	1,729
Amortization of intangible assets	119	128
Amortization of debt issuance costs	42	42
Provision for doubtful accounts	87	261
Deferred income taxes	(330)	(238)
(Gain) loss on disposal of property and equipment	71	(19)
Share-based compensation expense	81	271
Adjustments to contingent consideration	-	27
Unrealized (gain) loss on foreign currency forward contracts	(32)	30
Changes in operating assets and liabilities:		
Trade and other receivables	4,196	6,678
Contract assets, net	(3,236)	(2,498)
Inventories	610	2,038
Prepaid expenses and other assets	650	387
Accounts payable	(3,045)	(1,714)
Accrued and other liabilities	(1,050)	(3,657)
Net cash used in operating activities from continuing operations	(2,266)	(77)
Net cash used in operating activities from discontinued operations	-	(205)
Net cash used in operating activities	(2,266)	(282)
Cash flows from investing activities:		
Additions to property and equipment	(744)	(529)
Proceeds from sale of property and equipment	-	25
Net cash used in investing activities from continuing operations	(744)	(504)
Net cash provided by investing activities from discontinued operations	750	-
Net cash provided by (used in) investing activities	6	(504)
Cash flows from financing activities:		
Tax withholdings related to net share settlements of restricted stock and performance share awards	(1,301)	(24)
Payments on capital lease obligations	(94)	(100)

Payments of contingent consideration	-	(112)
Net cash used in financing activities from continuing operations	(1,395)	(236)
Change in cash and cash equivalents	(3,655)	(1,022)
Cash and cash equivalents, beginning of period	43,646	21,829
Cash and cash equivalents, end of period	$39,991	$20,807
Noncash investing and financing activities:		
Accrued property and equipment purchases	$168	$133
Capital lease additions	$458	$-

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

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NORTHWEST PIPE COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Northwest Pipe Company (the "Company") and its subsidiaries over which the Company exercises control as of the financial statement date. Intercompany accounts and transactions have been eliminated.

The Company operates in *one* business segment, Water Transmission, which manufactures large-diameter, high-pressure, engineered welded steel pipeline systems for use in water infrastructure applications, which are primarily related to drinking water systems. These products are also used for hydroelectric power systems, wastewater systems and other applications. In addition, the Company makes products for industrial plant piping systems and certain structural applications.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial information as of *December 31, 2017* is derived from the audited Consolidated Financial Statements presented in the Company's Annual Report on Form *10*-K for the year ended *December 31, 2017* (the *"2017* Form *10*-K"). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying Condensed Consolidated Financial Statements include all adjustments necessary (which are of a normal and recurring nature) for the fair statement of the results of the interim periods presented. The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto together with management's discussion and analysis of financial condition and results of operations contained in the Company's *2017* Form *10*-K.

Certain amounts from the prior year financial statements have been reclassified in order to conform to the current year presentation.

Operating results for the *three* months ended *March 31, 2018* are *not* necessarily indicative of the results that *may* be expected for the entire fiscal year ending *December 31, 2018.*

2. Discontinued Operations

On *December 26, 2017,* the Company completed the sale of substantially all of the assets associated with the Company's manufacturing facility in Atchison, Kansas (the "Atchison facility"), including all of the real and tangible personal property located at the site of that manufacturing facility. Total consideration of *$37.2* million in cash was paid by the buyer, resulting in a nominal gain recognized on the sale. Of the proceeds received, *$0.8* million was placed in escrow until it was released in *February 2018* and approximately *$3.7* million was placed in escrow for *twelve* months to secure the Company's indemnification obligations under the agreement.

In accordance with applicable accounting guidance, the financial results of the Atchison facility are presented as discontinued operations in the Condensed Consolidated Statements of Operations. Cash flows from the Company's discontinued operations are presented separately in the Condensed Consolidated Statements of Cash Flows. As the Atchison facility was the remaining Tubular Products business, the Company now operates in only *one* business segment, Water Transmission.

The table below presents the operating results for the Company's discontinued operations prior to the sale (in thousands).

	Three Months Ended March 31, 2017
Net sales	$ *9*
Cost of sales	*394*
Gross loss	*(385*)
Selling, general and administrative expense	-
Operating loss	*(385*)
Interest expense	-
Loss before income taxes	*(385*)
Income tax benefit	*(59*)
Net loss	$ *(326*)

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3. Inventories

Inventories consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Short-term inventories:		
Raw materials	$ *13,135*	$ *13,700*
Work-in-process	*1,457*	*1,268*
Finished goods	*938*	*464*
Supplies	*1,596*	*1,623*
Total short-term inventories	*17,126*	*17,055*
Long-term inventories:		
Finished goods	*139*	*820*
Total inventories	$ *17,265*	$ *17,875*

Long-term inventories are recorded in Other assets.

4. Fair Value Measurements

The Company records its financial assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date.

The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into *three* broad levels. These levels are: Level *1* (inputs are quoted prices in active markets for identical assets or liabilities); Level *2* (inputs are other than quoted prices that are observable, either directly or indirectly through corroboration with observable market data); and Level *3* (inputs are unobservable, with little or *no* market data that exists, such as internal financial forecasts). The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

	Total	Level 1	Level 2	Level 3
As of March 31, 2018				
Financial assets:				
Deferred compensation plan	$5,871	$4,900	$971	$ -
Derivatives	42	-	42	-
Total assets	$5,913	$4,900	$1,013	$ -
Financial liabilities:				
Derivatives	$(45)	$-	$(45)	$ -
As of December 31, 2017				
Financial assets:				
Deferred compensation plan	$6,244	$5,251	$993	$ -
Financial liabilities:				
Derivatives	$(60)	$-	$(60)	$ -

The deferred compensation plan assets consist of cash and several publicly traded stock and bond mutual funds, valued using quoted market prices in active markets, classified as Level *1* within the fair value hierarchy, as well as guaranteed investment contracts, valued at principal plus interest credited at contract rates, classified as Level *2* within the fair value hierarchy.

The Company’s derivatives consist of foreign currency forward contracts, which are accounted for as cash flow hedges, and are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves and currency rates, classified as Level *2* within the fair value hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

The net carrying amounts of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

Effective *January 1, 2018,* upon the adoption of Accounting Standards Update *No. 2016-01,* "Financial Instruments—Overall (Subtopic *825-10*): Recognition and Measurement of Financial Assets and Financial Liabilities," the Company has elected to measure its investment in Lucid Energy, Inc. ("Lucid"), a clean energy company based in Portland, Oregon, at cost minus impairment plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The carrying amount of the Company's investment in Lucid was *$0* as of *March 31, 2018* and *December 31, 2017* due to a history of net losses. This carrying amount includes cumulative impairment losses of *$2.0* million. There were *no* material impairment charges recorded for the Company's investment in Lucid during the *three* months ended *March 31, 2018* or *2017.*

5. Derivative Instruments and Hedging Activities

The Company conducts business in various foreign countries and, from time to time, settles transactions in foreign currencies. The Company has established a program that utilizes foreign currency forward contracts to offset the risk associated with the effects of certain foreign currency exposures, typically arising from sales contracts denominated in Canadian currency. The Company utilizes cash flow hedge accounting treatment for qualifying foreign currency forward contracts. Instruments that do *not* qualify for cash flow hedge accounting treatment are remeasured at fair value on each balance sheet date and resulting gains and losses are recognized in earnings.

For each derivative contract entered into in which the Company seeks to obtain cash flow hedge accounting treatment, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively and a description of the method of measuring ineffectiveness. This process includes linking all derivatives to specific firm commitments or forecasted transactions and designating the derivatives as cash flow hedges. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative contracts that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The effective portion of these hedged items is reflected in Unrealized gain (loss) on cash flow hedges on the Condensed Consolidated Statements of Comprehensive Loss. If it is determined that a derivative contract is *not* highly effective, or that it has ceased to be a highly effective hedge, the Company will be required to discontinue hedge accounting with respect to that derivative contract prospectively.

As of *March 31, 2018* and *December 31, 2017,* the total notional amount of the derivative contracts designated as cash flow hedges was *$4.5* million (*CAD$5.7* million) and *$2.1* million (*CAD$2.7* million), respectively. Derivative assets are included within Prepaid expenses and other and derivative liabilities are included within Accrued liabilities in the Condensed Consolidated Balance Sheets. All of the Company's foreign currency forward contracts are subject to an enforceable master netting arrangement. The Company presents the assets and liabilities associated with its foreign currency forward contracts at their gross fair values in the Condensed Consolidated Balance Sheets.

All of the Company's Canadian forward contracts have maturities less than *twelve* months as of *March 31, 2018,* except *one* contract with a notional amount of *$0.5* million (*CAD$0.7* million) which has a remaining maturity of *14* months.

As of *March 31, 2018* and *December 31, 2017,* the total notional amount of the derivative contracts *not* designated as cash flow hedges was *$0.2* million (*CAD$0.2* million). For the *three* months ended *March 31, 2018* and *2017,* gains recognized in Net sales from continuing operations from derivative contracts *not* designated as hedging instruments were approximately *$0.* As of *March 31, 2018,* unrealized pretax losses on outstanding derivatives in Accumulated other comprehensive loss was approximately *$0.* Typically, outstanding derivatives balances in Accumulated other comprehensive loss are expected to be reclassified to Net sales from continuing operations within the next *twelve* months as a result of underlying hedged transactions also being recorded in Net sales from continuing operations. See Note *10,* "Accumulated Other Comprehensive Loss" for additional quantitative information regarding derivative gains and losses.

6. Share-based Compensation

The Company has *one* active stock incentive plan for employees and directors, the *2007* Stock Incentive Plan, which provides for awards of stock options to purchase shares of common stock, stock appreciation rights, restricted and unrestricted shares of common stock, restricted stock units ("RSUs") and performance share awards ("PSAs"). In addition, the Company had *one* inactive stock option plan, the *1995* Stock Option Plan for Nonemployee Directors, under which remaining previously granted options expired unexercised during the year ended *December 31, 2017.*

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The Company recognizes the compensation cost of employee and director services received in exchange for awards of equity instruments based on the grant date estimated fair value of the awards. Share-based compensation cost is recognized over the period during which the employee or director is required to provide service in exchange for the award and, as forfeitures occur, the associated compensation cost recognized to date is reversed. For awards with performance-based payout conditions, the Company recognizes compensation cost based on the probability of achieving the performance conditions, with changes in expectations recognized as an adjustment to earnings in the period of change. Any recognized compensation cost is reversed if the conditions are ultimately *not* met.

The following table summarizes share-based compensation expense recorded (in thousands):

	Three Months Ended March 31,	
	2018	**2017**
Cost of sales	$*17*	$*81*
Selling, general and administrative expense	*64*	*190*
Total	$*81*	$*271*

As of *March 31, 2018,* unrecognized compensation expense related to the unvested portion of the Company's PSAs was *$0.2* million, which is expected to be recognized over a weighted-average period of *1.0* years.

Stock Option Awards

A summary of option activity under the Company's stock option plans is presented below:

	Options Outstanding	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual**	**Aggregate Intrinsic Value**

			Life (in years)	(In thousands)
Balance, December 31, 2017	*24,000*	$ *24.15*		
Options granted	-	-		
Options exercised	-	-		
Options canceled	-	-		
Balance, March 31, 2018	*24,000*	*24.15*		
Exercisable, March 31, 2018	*24,000*	*24.15*	*2.00*	$ -

Restricted Stock Units and Performance Share Awards

RSUs and PSAs are measured at the estimated fair value on the date of grant. RSUs are service-based awards and vest according to vesting schedules, which range from immediate to ratably over a *three*-year period. PSAs are service-based awards that vest according to the terms of the grant and *may* have performance- and/or market-based payout conditions.

A summary of activity under the Company’s RSUs and PSAs is presented below:

	Number of RSUs and PSAs [1]	Weighted-Average Grant Date Fair Value
Unvested RSUs as of December 31, 2017	*169,583*	$ *9.50*
PSAs granted	*43,077*	*19.97*
Unvested PSAs canceled	*(3,085*)	*19.97*
RSUs vested	*(169,583*)	*9.50*
Unvested PSAs as of March 31, 2018	*39,992*	*19.97*

(*1*) The number of performance share awards disclosed in this table are at the target level of *100%*.

The unvested balance of PSAs as of *March 31, 2018* includes approximately *40,000* performance-based PSAs at a target level of performance. The vesting of these awards is subject to the achievement of specified performance-based conditions, and the actual number of common shares that will ultimately be issued will be determined by multiplying this number of PSAs by a payout percentage ranging from *0%* to *200%*.

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***7.* Commitments and Contingencies**

Portland Harbor Superfund Site

On *December 1, 2000,* a section of the lower Willamette River known as the Portland Harbor Superfund Site was included on the National Priorities List at the request of the United States Environmental Protection Agency (the "EPA"). While the Company's Portland, Oregon manufacturing facility does *not* border the Willamette River, an outfall from the facility's stormwater system drains into a neighboring property's privately owned stormwater system and slip. Since the listing of the site, the Company was notified by the EPA and the Oregon Department of Environmental Quality (the "ODEQ") of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). In *2008,* the Company was asked to file information disclosure reports with the EPA (CERCLA *104* (e) information request). A remedial investigation and feasibility study of the Portland Harbor Superfund Site was directed by a group of *14* potentially responsible parties known as the Lower Willamette Group under agreement with the EPA. The remedial investigation report was finalized in *February 2016.* The feasibility study was finalized in *June 2016* by the EPA, and identified multiple remedial alternatives. The EPA issued the Record of Decision in *January 2017* selecting the remedy for cleanup at the Portland Harbor Superfund Site, which it believes will cost approximately *$1* billion and *13* years to complete. The Record of Decision did *not* determine who is responsible for the costs of cleanup or how the cleanup costs will be allocated among the potentially responsible parties.

In *2001,* groundwater containing elevated volatile organic compounds was identified in *one* localized area of leased property adjacent to the Portland facility furthest from the river. Assessment work was conducted in *2002* and *2003* to further characterize the groundwater. In *February 2005,* the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (the "Voluntary Agreement") with the ODEQ, and has performed remedial investigation work required under the Voluntary Agreement. In *2016,* the EPA and the ODEQ requested additional groundwater sampling, which was completed in the *third* quarter of *2017.* The results, which were communicated to the ODEQ and the EPA in *August 2017,* have been generally consistent with previous sampling and modeling work. The Company is currently awaiting a response from the ODEQ, but anticipates it will file a final Remedial Investigation/Source Control Evaluation report with the ODEQ and the EPA in *2018.*

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 Superfund Site to determine the nature and extent of natural resource damages under CERCLA Section *107.* The Trustees for the Portland Harbor Superfund Site consist of representatives from several Northwest Indian Tribes, *three* federal agencies and *one* state agency. The Trustees act independently of the EPA and the ODEQ. The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessments and several of those parties have agreed to do so. In *June 2014,* the Company agreed to participate in the injury assessment process, which included funding *$0.4* million of the assessment; of this amount, *$0.2* million was paid in *July 2014* and the remainder was paid in *January 2015.* The Company has *not* assumed any additional payment obligations or liabilities with the participation with the NRDA. In

January 2017, the Confederated Tribes and Bands of the Yakama Nation, a Trustee until they withdrew from the council in *2009,* filed a complaint against the potentially responsible parties including the Company to recover costs related to their own injury assessment and compensation for natural resources damages.

The Company's potential liability is a portion of the costs of the remedy for the entire Portland Harbor Superfund Site. The cost of that remedy is expected to be allocated among more than *100* potentially responsible parties. Because of the large number of responsible parties and the variability in the range of remediation alternatives, the Company is unable to estimate an amount or an amount within a range of costs for its obligation with respect to the Portland Harbor Superfund Site matters, and *no* further adjustment to the Condensed Consolidated Financial Statements has been recorded as of the date of this filing. The Company has insurance policies for defense costs, as well as indemnification policies it believes will provide reimbursement for any share of the remediation assessed. However, the Company can provide *no* assurance that those policies will cover all of the costs which the Company *may* incur.

All Sites

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

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Other Contingencies and Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of its business. The Company maintains insurance coverage against potential claims in amounts that are believed to be adequate. To the extent that insurance does *not* cover legal, defense and indemnification costs associated with a loss contingency, the Company records accruals when such losses are considered probable and reasonably estimable. The Company believes that it is *not* presently a party to litigation, the outcome of which would have a material adverse effect on its business, financial condition, results of operations or cash flows.

Guarantees

The Company has entered into certain letters of credit that total *$2.0* million as of *March 31, 2018.* The letters of credit relate to workers' compensation insurance.

8. **Revenue**

The Company manufactures water infrastructure steel pipe products, which are generally made to custom specifications for installation contractors serving projects funded by public water agencies. Each of the Company's contracts with its customers contains a single performance obligation, as the promise to transfer products is *not* separately identifiable from other promises in the contract and, therefore, is *not* distinct.

Materially all revenue is recognized over time as the manufacturing process progresses because the customer typically controls the work in process as evidenced by the Company's rights to payment for work performed to date plus a reasonable profit for products that have *no* alternative use to the Company. Revenue is measured by the costs incurred to date relative to the estimated total direct costs to fulfill each contract (cost-to-cost method). Contract costs include all material, labor and other direct costs incurred in satisfying the performance obligations. The cost of steel material is recognized as a contract cost when the steel is introduced into the manufacturing process.

The Company begins to recognize revenue on a contract when the contract has approval and commitment from both parties, the contract rights and payment terms can be identified, the contract has commercial substance and its collectability is probable.

Changes in job performance, job conditions and estimated profitability, including those arising from contract change orders, contract penalty provisions, foreign currency exchange rate movements, changes in raw materials costs and final contract settlements *may* result in revisions to estimates of revenue, costs and income and are recognized in the period in which the revisions are determined. Revisions in contract estimates resulted in an increase (decrease) in revenue of *$0.8* million and $(*1.0*) million in the *three* months ended *March 31, 2018* and *2017,* respectively. Provisions for losses on uncompleted contracts are included in Accrued liabilities and are made in the period such losses are known.

Contract Balances

Contract assets primarily represent revenue earned over time but *not* yet billable based on the terms of the contracts and were historically presented as costs and estimated earnings in excess of billings on uncompleted contracts. These amounts will be billed based on the terms of the contracts, which include achievement of milestones, partial shipments or completion of the contracts. Payments terms of amounts billed vary based on the customer, but are typically due within *30* days of invoicing. Contract liabilities represent amounts billed based on the terms of the contracts in advance of costs incurred and revenue earned. These amounts were historically presented as billings in excess of costs and estimated earnings on uncompleted contracts.

The difference between the opening and closing balances of the Company's Contract assets and Contract liabilities primarily results from the timing difference between the Company's performance and billings, and the changes in the Contract asset and Contract liability balances during the *three* months ended *March 31, 2018* and *2017* were *not* materially affected by any other factors.

Revenue recognized in the *three* months ended *March 31, 2018* and *2017* that was included in the Contract liability balance at the beginning of each period was *$1.7* million and *$1.5* million, respectively.

Backlog

Backlog represents the balance of remaining performance obligations under signed contracts. As of *March 31, 2018,* backlog was approximately *$40.8* million. The Company expects to recognize approximately *77%* of the remaining performance obligations in *2018, 15%* in *2019,* and the balance thereafter.

***9.* Income Taxes**

The Company files income tax returns in the United States Federal jurisdiction, in a limited number of foreign jurisdictions and in many state jurisdictions. With few exceptions, the Company is *no* longer subject to United States Federal, state or foreign income tax examinations for years before *2013*.

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On *December 22, 2017,* the Tax Cuts and Jobs Act of *2017* (the "TCJA") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are *not* limited to, a federal corporate income tax rate decrease from *35%* to *21%* effective for tax years beginning after *December 31, 2017,* the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a *one*-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of *December 31, 2017.*

On *December 22, 2017,* Staff Accounting Bulletin *No. 118* was issued to address the application of U.S. GAAP in situations when a registrant does *not* have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. Additional work is necessary for a more detailed analysis of the Company's deferred income tax assets and liabilities and its historical foreign earnings as well as potential correlative adjustments. The Company also considers it likely that further technical guidance regarding certain components of the TCJA, as well as clarification regarding state income tax conformity to current federal tax code, *may* be issued. Any subsequent adjustment to the amounts recorded in the *fourth* quarter of *2017* will be recorded to current income tax expense when the analysis is complete.

The Company recorded an income tax benefit from continuing operations at an estimated effective income tax rate of *12.2%* and *4.4%* for the *three* months ended *March 31, 2018* and *2017,* respectively. The Company's estimated effective income tax rate for the *three* months ended *March 31, 2018* was impacted by the estimated changes in the Company's valuation allowance, as well as by the tax windfall from share-based compensation.

The Company had *$4.1* million of unrecognized income tax benefits as of *March 31, 2018* and *December 31, 2017.* The Company does *not* believe it is reasonably possible that the total amounts of unrecognized income tax benefits will change in the following *twelve* months; however, actual results could differ from those currently expected. Effectively all of the unrecognized income tax benefits would affect the Company's effective income tax rate if recognized at some point in the future. The Company recognizes interest and penalties related to uncertain income tax positions in Income tax benefit from continuing operations.

10. Accumulated Other Comprehensive Loss

The following tables summarize changes in the components of Accumulated other comprehensive loss (in thousands). All amounts are net of income tax:

	Pension Liability	Unrealized Gain	Total

	Adjustment	(Loss) on Cash Flow Hedges	
Balance, December 31, 2017	$ *(1,436*)	$ *(9*)	$*(1,445*)
Other comprehensive income before reclassifications	*24*	*23*	*47*
Amounts reclassified from Accumulated other comprehensive loss	-	*2*	*2*
Net current period adjustments to Other comprehensive income	*24*	*25*	*49*
Balance, March 31, 2018	$ *(1,412*)	$ *16*	$*(1,396*)

	Pension Liability Adjustment	Unrealized Gain on Cash Flow Hedges	Total
Balance, December 31, 2016	$ *(1,493*)	$ *10*	$*(1,483*)
Other comprehensive income (loss) before reclassifications	*25*	*(12*)	*13*
Amounts reclassified from Accumulated other comprehensive loss	*77*	*5*	*82*
Net current period adjustments to Other comprehensive income	*102*	*(7*)	*95*
Balance, March 31, 2017	$ *(1,391*)	$ *3*	$*(1,388*)

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The following table provides additional detail about Accumulated other comprehensive loss components that were reclassified to the Condensed Consolidated Statements of Operations (in thousands):

Details about Accumulated Other Comprehensive Loss Components	Three Months Ended March 31, 2018	2017	Affected line item in the Condensed Consolidated Statements of Operations
	Amount reclassified from Accumulated Other Comprehensive Loss		
Pension liability adjustment:			
Net periodic pension cost:			
Service cost	$ -	$ *(3*)	Cost of sales
Non-service cost	-	*(78*)	Other income (loss)
Associated income tax benefit	-	*4*	Income tax benefit
	-	*(77*)	Net of tax
Unrealized loss on cash flow hedges:			
Loss on cash flow hedges	*(3*)	*(8*)	Net sales
Associated income tax benefit	*1*	*3*	Income tax benefit
	(2)	*(5*)	Net of tax
Total reclassifications for the period	$ *(2*)	$ *(82*)	

11. Net Loss per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options, restricted stock units and performance share awards, to the extent dilutive. Performance-based performance share awards are considered dilutive when the related performance conditions have been met assuming the end of the reporting period represents the end of the performance period. In periods with a net loss from continuing operations, all potential shares of common stock are excluded from the computation of diluted loss per share as the impact would be antidilutive.

Net loss per basic and diluted weighted-average common share outstanding was calculated as follows (in thousands, except per share data):

	Three Months Ended March 31, 2018	2017
Loss from continuing operations	$(1,951)	$(3,542)
Loss on discontinued operations	-	(326)
Net loss	$(1,951)	$(3,868)
Basic weighted-average common shares outstanding	9,707	9,604
Effect of potentially dilutive common shares(1)	-	-
Diluted weighted-average common shares outstanding	9,707	9,604
Basic and diluted loss per common share:		
Continuing operations	$(0.20)	$(0.37)
Discontinued operations	-	(0.03)
Net loss per share	$(0.20)	$(0.40)

(*1*) The weighted-average number of such antidilutive shares *not* included in the computation of diluted loss per share was approximately *87,000* and *196,000* for the *three* months ended *March 31, 2018* and *2017,* respectively, including approximately *34,000* performance-based share awards, at the target level of *100%,* for the *three* months ended *March 31, 2018* that were *not* included because the performance conditions had *not* been met as of *March 31, 2018.*

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***12*. Recent Accounting and Reporting Developments**

There have been *no* developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's Condensed Consolidated Financial Statements and disclosures in Notes to Condensed Consolidated Financial Statements, from those disclosed in the Company's *2017* Form *10*-K, except for the following:

Accounting Changes

In *May 2014,* the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update *No. 2014-09,* "Revenue from Contracts with Customers (Topic *606*)" ("ASU *2014-09"*) which will replace most existing revenue recognition guidance in accordance with U.S. GAAP. The core principle of ASU *2014-09* is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU *2014-09* requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. During *2016* and *2017,* the FASB issued several ASUs that clarify the implementation guidance for ASU *2014-09* but do *not* change the core principle of the guidance.

The Company adopted Accounting Standards Codification Topic *606,* "Revenue from Contracts with Customers," ("Topic *606"*) on *January 1, 2018* using the modified retrospective method applied to those contracts that were *not* completed as of that date. The Company recorded the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. Under the modified retrospective method, periods prior to the adoption date were *not* adjusted and continue to be reported in accordance with accounting standards in effect for those periods.

The cumulative effect of adopting Topic *606* was a decrease to Retained earnings due to a change in the timing of revenue recognition on certain costs under the new revenue standard, as well as, to a lesser extent, a change in the costs included in the provisions for losses on uncompleted contracts. Additionally, Costs and estimated earnings in excess of billings on uncompleted contracts and certain amounts of Trade and other receivables, net were reclassified to establish the opening balance of Contract assets and Billings in excess of costs and estimated earnings on uncompleted contracts were reclassified to establish the opening balance of Contract liabilities. The cumulative effect of the changes made to our Condensed Consolidated Balance Sheet as of *January 1, 2018* for the adoption of Topic *606* was as follows (in thousands):

	December 31,	**Effects of**	**January 1,**

	2017	Adoption of Topic 606	2018
Condensed Consolidated Balance Sheet			
Assets:			
Trade and other receivables, net	$ *28,990*	$ *(420*)	$ *28,570*
Costs and estimated earnings in excess of billings on uncompleted contracts	*44,502*	*(44,502*)	-
Contract assets	-	*42,945*	*42,945*
Liabilities:			