NORTHWEST PIPE CO
Form 10-Q
August 07, 2015

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: June 30, 2015

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, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange 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 Exchange Act). Yes No

Common Stock, par value $.01 per share	**9,564,752**
(Class)	**(Shares outstanding at August 3, 2015)**

NORTHWEST PIPE COMPANY

FORM 10-Q

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Part I - Financial Information

Item 1. Financial Statements (unaudited):

NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 688	$ 527
Trade and other receivables, less allowance for doubtful accounts of $642 and $755	33,533	58,310
Costs and estimated earnings in excess of billings on uncompleted contracts	49,794	45,847
Inventories	51,151	72,779
Refundable income taxes	6,769	5,031
Deferred income taxes	4,819	5,487
Prepaid expenses and other	1,717	7,258
Total current assets	148,471	195,239
Property and equipment, less accumulated depreciation and amortization of $82,752 and $84,224	133,362	132,595
Goodwill	-	5,282
Other assets	12,833	18,766
Total assets	$ 294,666	$ 351,882
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of capital lease obligations	$ 178	$ 2,170
Accounts payable	14,598	15,480
Accrued liabilities	9,442	9,071
Billings in excess of costs and estimated earnings on uncompleted contracts	933	2,835
Total current liabilities	25,151	29,556
Borrowings on line of credit	7,053	45,587

Capital lease obligations, less current portion	149	225
Deferred income taxes	14,235	14,015
Pension and other long-term liabilities	16,070	16,864
Total liabilities	62,658	106,247
Commitments and contingencies (Note 6)		
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, 9,564,752 and 9,520,067 shares issued and outstanding	96	95
Additional paid-in-capital	117,167	116,802
Retained earnings	116,391	130,571
Accumulated other comprehensive loss	(1,646)	(1,833)
Total stockholders' equity	232,008	245,635
Total liabilities and stockholders' equity	$ 294,666	$ 351,882

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

NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
Net sales	$53,846	$101,988	$138,711	$184,635
Cost of sales	56,439	90,671	137,413	169,004
Gross profit (loss)	(2,593)	11,317	1,298	15,631
Selling, general and administrative expense	5,452	5,918	12,426	11,358
Impairment of Water Transmission goodwill	5,282	-	5,282	-
Operating income (loss)	(13,327)	5,399	(16,410)	4,273
Other income (expense)	14	26	58	(37)
Interest income	81	82	163	163
Interest expense	(286)	(569)	(703)	(1,339)
Income (loss) before income taxes	(13,518)	4,938	(16,892)	3,060
Income tax expense (benefit)	(1,439)	1,756	(2,712)	1,089
Income (loss) from continuing operations	(12,079)	3,182	(14,180)	1,971
Discontinued operations:				
Income (loss) from operations of discontinued business	-	15	-	(2,647)
Loss on sale of business	-	-	-	(12,083)
Income tax expense (benefit)	-	5	-	(3,847)
Income (loss) on discontinued operations	-	10	-	(10,883)
Net income (loss)	$(12,079)	$3,192	$(14,180)	$(8,912)
Basic income (loss) per share				
Continuing operations	$(1.26)	$0.34	$(1.48)	$0.21
Discontinued operations	-	-	-	(1.15)
Total	$(1.26)	$0.34	$(1.48)	$(0.94)
Diluted income (loss) per share				
Continuing operations	$(1.26)	$0.33	$(1.48)	$0.21
Discontinued operations	-	-	-	(1.14)
Total	$(1.26)	$0.33	$(1.48)	$(0.93)
Shares used in per share calculations:				
Basic	9,557	9,513	9,555	9,510
Diluted	9,557	9,605	9,555	9,596

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

NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$(12,079)	$3,192	$(14,180)	$(8,912)
Other comprehensive income (loss):				
Pension liability adjustment, net of tax	109	64	218	128
Deferred loss on cash flow derivatives, net of tax	(16)	(47)	(31)	(45)
Other comprehensive income	93	17	187	83
Comprehensive income (loss)	$(11,986)	$3,209	$(13,993)	$(8,829)

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

NORTHWEST PIPE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2015	**2014**
Cash flows from operating activities:		
Net loss	$(14,180)	$ (8,912)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,651	6,075
Impairment of goodwill	5,282	-
Amortization of intangible assets	280	275
Provision for doubtful accounts	(113)	(224)
Amortization of debt issuance costs	136	220
Deferred income taxes	888	851
Loss on sale of business	-	12,083
Stock based compensation expense	1,133	1,185
Adjustments to contingent consideration	62	(877)
Other, net	(53)	177
Changes in operating assets and liabilities:		
Trade and other receivables, net	27,052	19,658
Insurance settlements	2,625	-
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(5,849)	3,005
Inventories	21,931	13,296
Refundable income taxes	(2,084)	(5,260)
Prepaid expenses and other assets	667	284
Accounts payable	(356)	(3,521)
Accrued and other liabilities	(307)	(5,080)
Net cash provided by operating activities	41,765	33,235
Cash flows from investing activities:		
Additions to property and equipment	(6,016)	(9,005)
Proceeds from sale of business	4,300	31,609
Collections on notes receivable	1,080	47
Other investing activities	55	(25)
Net cash (used in) provided by investing activities	(581)	22,626
Cash flows from financing activities:		
Tax withholdings related to net share settlements of restricted stock and performance stock awards	(423)	(1,283)
Payments on long-term debt	-	(6,357)
Borrowings on line of credit	56,250	111,581
Repayments on line of credit	(94,785)	(159,576)

Payments on capital lease obligations	(2,084)	(767)
Other financing activities	19	28
Net cash used in financing activities	(41,023)	(56,374)
Change in cash and cash equivalents	161	(513)
Cash and cash equivalents, beginning of period	527	588
Cash and cash equivalents, end of period	$688	$ 75
Non-Cash Investing Activity:		
Accrued property and equipment purchases	718	940

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

NORTHWEST PIPE COMPANY

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 in which the Company exercises control as of the financial statement date. Intercompany accounts and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The financial information as of December 31, 2014 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, 2014 (the "2014 Form 10-K"). Certain information or footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). 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 2014 Form 10-K.

On March 30, 2014 the Company completed the sale of substantially all of the assets and liabilities associated with its oil country tubular goods ("OCTG") business. See Note 2, "Disposition of OCTG Business" for further information regarding the sale. The Company's results of operations for its disposed OCTG business have been presented as discontinued operations for all periods presented within the condensed consolidated statements of operations.

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 and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2015.

2. Disposition of OCTG Business

On March 30, 2014 the Company completed the sale of substantially all of the assets and liabilities associated with its OCTG business, which was conducted by the Company at its manufacturing facilities in Bossier City, Louisiana and Houston, Texas, excluding the real property located in Houston, Texas. These facilities were previously included within the Company's Tubular Products Group. Total consideration of $42.7 million was paid by the buyer, resulting in a loss on sale of $13.5 million ($12.1 million of which was recorded in the first quarter of 2014 and $1.4 million of which was recorded in the third quarter of 2014). The calculation of the loss on sale included a write down of $4.4 million of goodwill. Of the proceeds received, $4.3 million was placed in escrow to secure the Company's indemnification obligations under the purchase agreement, $5.0 million was used to repay capital leases related to and secured by certain assets at the Bossier City, Louisiana manufacturing facility, $1.8 million was used to pay for transaction costs and $1.8 million was used to pay a net working capital adjustment made in September 2014, resulting in net proceeds of $29.8 million. In April 2015, the $4.3 million escrow was released to the Company.

The table below presents the operating results for the Company's discontinued operations (in thousands). The operating results for the three and six months ended June 30, 2014 do not necessarily reflect what they would have been had the OCTG business not been classified as a discontinued operation.

	Three Months Ended June 30, 2014	**Six Months Ended June 30, 2014**
Net sales	$ -	$22,225
Cost of sales	(15)	24,377
Gross profit (loss)	15	(2,152)
Selling, general and administrative expense	-	396
Operating income (loss)	15	(2,548)
Interest expense	-	(99)
Loss on sale of business	-	(12,083)
Income (loss) before income taxes	15	(14,730)
Income tax expense (benefit)	5	(3,847)
Income (loss) on discontinued operations	$ 10	$(10,883)

3. Inventories

Inventories are stated at the lower of cost or market and consist of the following (in thousands):

	June 30, 2015	**December 31, 2014**
Short-term inventories:		
Raw materials	$36,941	$ 48,005
Work-in-process	1,618	1,741
Finished goods	10,244	20,663
Supplies	2,348	2,370
Total short-term inventories	51,151	72,779
Long-term inventories:		
Finished goods	912	1,214
Total inventories	$52,063	$ 73,993

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 financial liabilities that are measured at fair value (in thousands):

Description	**Balance at June 30, 2015**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Deferred compensation plan	$6,832	$5,558	$1,274	$-
Derivatives	94	-	94	-
Total assets	$6,926	$5,558	$1,368	$-
Financial liabilities				
Contingent consideration	$(2,741)	$-	$-	$(2,741)
Derivatives	(47)	-	(47)	-
Total liabilities	$(2,788)	$-	$(47)	$(2,741)

Description	**Balance at December 31, 2014**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Deferred compensation plan	$ 6,237	$4,953	$1,284	$-
Derivatives	32	-	32	-
Total assets	$ 6,269	$4,953	$1,316	$-
Financial liabilities				
Contingent consideration	$ (2,679)	$-	$-	$(2,679)
Derivatives	(5)	-	(5)	-
Total liabilities	$ (2,684)	$-	$(5)	$(2,679)

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 securities that are not actively traded on major exchanges, valued using the Net Asset Value ("NAV") of the underlying investments 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 valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

The contingent consideration liability is associated with the acquisition of Permalok Corporation in December 2013 and represents the probability weighted average contingent payment as a percentage of high, mid, and low revenue projections. The inputs used to measure contingent consideration are classified as Level 3 within the valuation hierarchy. The valuation is not supported by market criteria and reflects the Company's internal revenue forecasts. Changes in the fair value of the contingent consideration obligation will be reflected in cost of sales during the period the change occurs.

If required as part of its annual goodwill impairment assessment, the Company calculates the business enterprise value of applicable reporting units. This calculation uses a weighted average of income and market approaches, and is classified as Level 3 in the valuation hierarchy. The income approach is primarily driven by inputs from the Company's internal financial forecasts. The market approach incorporates inputs from market participant data, as well as inputs derived from Company assumptions. For the three months ended June 30, 2015, this analysis resulted in the impairment of Water Transmission goodwill of $5.3 million.

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

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. 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 income. As of June 30, 2015 and December 31, 2014, all derivative contracts held by the Company were designated as hedges. As of June 30, 2015 and December 31, 2014, the total notional amount of the derivative contracts designated as hedges was $4.8 million (CAD$5.9 million) and $1.3 million (CAD$1.5 million), respectively. Derivative assets are included within prepaid expenses and other current assets 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 within the condensed consolidated balance sheets.

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 other comprehensive income in stockholders' equity. 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.

All of the Company's Canadian forward contracts have maturities not longer than 12 months as of June 30, 2015.

For the three and six months ended June 30, 2015, the losses from derivative contracts not designated as hedging instruments recognized in net sales were $26,000 and $44,000, respectively. For the three and six months ended June 30, 2014, the losses from derivative contracts not designated as hedging instruments recognized in net sales were $0.2 million and $0.1 million, respectively. At June 30, 2015 and June 30, 2014, there was $5,000 and $48,000, respectively, of unrealized pretax loss on outstanding derivatives in accumulated other comprehensive loss. Substantially all of the amount in accumulated other comprehensive loss at June 30, 2015 is expected to be reclassified to net sales within the next 12 months as a result of underlying hedged transactions also being recorded in net sales. See Note 11, "Accumulated Other Comprehensive Loss" for additional quantitative information regarding derivative gains and losses.

6. Commitments and Contingencies

Portland Harbor Superfund

On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor 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 ("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). By agreement with the EPA, ODEQ is responsible for overseeing remedial investigation and source control activities for all upland sites to investigate sources and prevent future contamination to the river. A remedial investigation and feasibility study ("RI/FS") of the Portland Harbor Site has been directed by a group of 14 potentially responsible parties known as the Lower Willamette Group (the "LWG") under agreement with the EPA. The Company

made a payment of $0.2 million to the LWG in June 2007 as part of an interim settlement, and is under no obligation to make any further payment. The final draft remedial investigation ("RI") was submitted to the EPA by the LWG in fall of 2011 and the draft feasibility study ("FS") was submitted by the LWG to the EPA in March 2012. The draft FS identifies ten possible remedial alternatives which range in estimated cost from approximately $169 million to $1.76 billion and estimates a range of two to 28 years to implement the remedial work, depending on the selected alternative. The report does not determine who is responsible for the costs of cleanup or how the cleanup costs will be allocated among the potentially responsible parties. As of the date of this filing, the final RI and the revised FS are pending approval of the EPA.

In 2001, groundwater containing elevated volatile organic compounds ("VOCs") was identified in one localized area of leased property adjacent to the Portland facility furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater was consistent with the initial conclusion that the source of the VOCs is located off of Company-owned property. In February 2005, the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (the "Agreement") with ODEQ. The Company is one of many Upland Source Control Sites working with ODEQ on Source Control and is considered a "medium" priority site by ODEQ indicating more investigation was recommended. The Company performed RI work required under the Agreement and submitted a draft RI/Source Control Evaluation Report ("SCE") in December 2005, a revised draft RI/SCE Report in January 2014, and a further revised RI/SCE Report in March 2015. The conclusions of the report include: (1) the VOCs found in the groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River; (2) there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments; (3) the interim remedial measure to conduct a limited excavation of soil and full paving of the site was completed; (4) a state-of-the art stormwater treatment system was installed; and (5) an area of stained soil was characterized and remediated. In May 2015, the Company received the EPA's comments from ODEQ requesting additional information and modifications to the revised RI/SCE Report. The Company is working with consultants to address the comments and questions from the EPA.

During the limited soil excavation, additional stained soil was discovered. At the request of ODEQ, the Company developed an additional Work Plan to characterize the nature and extent of soil and/or groundwater impacts from the staining. The Company began implementing this Work Plan in the second quarter of 2012 and submitted sampling results to ODEQ in the third quarter of 2012. Comments from ODEQ were received in November 2012. In February 2013, ODEQ clarified its comments from November 2012, and the Company completed its second round of groundwater sampling for the stained soil investigation area in May and November 2013. The results were reported to ODEQ in the January 2014 and March 2015 RI/SCE Reports.

The Company spent $0.1 million for further Source Control work in 2014, and anticipates having to spend less than $0.1 million in 2015.

Concurrent with the activities of the EPA and ODEQ, the Portland Harbor Natural Resources Trustee Council ("Trustees") sent some or all of the same parties, including the Company, a notice of intent to perform a Natural Resource Damage Assessment ("NRDA") for the Portland Harbor Site to determine the nature and extent of natural resource damages under CERCLA section 107. The Trustees for the Portland Harbor Site consist of representatives from several Northwest Indian Tribes, three federal agencies and one state agency. The Trustees act independently of the EPA and 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.

The Company's potential liability is a portion of the costs of the remedy the EPA will select for the entire Portland Harbor Superfund Site. The cost of that remedy is expected to be allocated among more than 100 potentially responsible parties. Because of the large number of responsible parties and the variability in the range of remediation alternatives, 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 Site matters, and no further adjustment to the 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.

In December 2014, a federal district court approved settlements between the Company and two of its insurance carriers. The Company released its interests in the related insurance policies, and received $2.6 million in January 2015 for reimbursement of past indemnification and defense costs incurred by the Company associated with the Portland Harbor Site, substantially all of which reduced cost of sales in 2014. Notwithstanding these settlements, the Company continues to have insurance coverage for indemnification and defense costs related to the Portland Harbor Site as described above.

Houston Environmental Cleanup

In connection with the Company's sale of its OCTG business, a Limited Phase II Environmental Site Assessment was conducted at the Houston, Texas plant and completed in March 2014, which revealed the presence of VOCs in the groundwater and certain metals in the soil. In June 2014, the Company was accepted into the Texas Commission on Environmental Quality ("TCEQ") Voluntary Cleanup Program ("VCP") to address these issues and obtain a Certificate of Completion from TCEQ. The cost of any potential cleanup will not be covered by insurance. However, any costs incurred will be reimbursed by the purchaser of the OCTG business discussed in Note 2, "Disposition of OCTG Business" if the purchaser of the OCTG business exercises its option to purchase the property under certain circumstances after the Certificate of Completion is obtained.

While the final remediation approach has not yet been determined, the Company has completed an initial assessment and currently estimates the future costs associated with the VCP to be between $0.3 million and $2.4 million. At June 30, 2015, the Company has a $0.4 million accrual for remediation costs based on the low-end estimate of future costs using a probability-weighted analysis of remediation approaches.

The proposed remediation approach includes a municipal ordinance to prevent consumption of shallow groundwater from beneath the property, thereby eliminating the need for more costly remediation measures. Site assessment and monitoring activities are currently underway to satisfy the requirements of the City of Houston and TCEQ for implementation of the municipal ordinance.

All Sites

The Company operates its facilities under numerous governmental permits and licenses relating to air emissions, storm water run-off, 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.

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, such costs will be expensed as incurred. The Company believes that it is not presently a party to any other 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 stand-by letters of credit that total $2.1 million at June 30, 2015. The stand-by letters of credit relate to workers' compensation insurance.

7. Segment Information

The Company's business is the manufacturing of welded steel pipe. Within this business, the Company's operations are organized into two reportable segments: the Water Transmission Group and the Tubular Products Group. These reportable segments are based on the nature of the products and the manufacturing process. The two segments represent distinct business activities, which management evaluates based on segment gross profit and operating income. Transfers between segments in the periods presented were not material.

The Water Transmission Group manufactures large-diameter, high-pressure 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 Water Transmission Group makes products for industrial plant piping systems and certain structural applications.

The Tubular Products Group manufactures and markets smaller diameter, electric resistance welded steel pipe used in a wide range of applications, including energy, construction, agriculture and industrial systems. The Tubular Products Group also manufactured and marketed OCTG products through March 30, 2014. The operating results of the OCTG business have been classified as discontinued operations and are not included in the operating results presented below.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
	(in thousands)			
Net sales:				
Water transmission	$38,445	$62,205	$94,687	$105,204
Tubular products	15,401	39,783	44,024	79,431
Total	$53,846	$101,988	$138,711	$184,635
Gross profit (loss):				
Water transmission	$1,255	$11,491	$8,774	$13,159
Tubular products	(3,848)			