NORTHWEST PIPE CO
Form 10-K
March 15, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: **December 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.)

201 NE Park Plaza Drive, Suite 100

Vancouver, Washington 98684

(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code: **360-397-6250**

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

Title of each class	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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

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 Act). Yes No

The aggregate market value of the common equity that was held by non-affiliates of the registrant was $156,324,442 as of June 29, 2018 based upon the last sales price as reported by Nasdaq.

The number of shares outstanding of the registrant’s common stock as of March 4, 2019 was 9,735,055 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 2019 Annual Meeting of Shareholders.

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NORTHWEST PIPE COMPANY

2018 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, 2018 ("2018 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 ("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," "could," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such 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 changes in demand and market prices for our products, product mix, bidding activity, the timing of customer orders and deliveries, production schedules, the price and availability of raw materials, price and volume of imported product, excess or shortage of production capacity, international trade policy and regulations, changes in tariffs and duties imposed on imports and exports and related impacts on us, our ability to identify and complete internal initiatives and/or acquisitions in order to grow our Water Transmission business, our ability to effectively integrate acquisitions into our business and operations and achieve significant administrative and operational cost synergies, the impacts of the Tax Cuts and Jobs Act of 2017 ("TCJA"), and other risks discussed in Part I — Item 1A. "Risk Factors" of this 2018 Form 10-K and from time to time in our other Securities and Exchange Commission ("SEC") filings and reports. Such forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this 2018 Form 10-K. If we do update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect thereto or with respect to other forward-looking statements.

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PART I

Item 1. Business

Unless otherwise indicated, the terms “the Company,” “we,” “our,” and “us” are used in this 2018 Form 10-K to refer to Northwest Pipe Company or one of our consolidated subsidiaries or to all of them taken as a whole. We were incorporated in the State of Oregon in 1966.

Overview

Northwest Pipe Company is the largest manufacturer of engineered welded steel pipe water systems in North America. Our manufacturing facilities are strategically positioned to meet North America’s growing needs for water and wastewater infrastructure. Our solution-based products serve a wide range of markets including water transmission, plant piping, tunnels, and river crossings. Our prominent position is based on a widely-recognized reputation for quality, service, and manufacturing to meet performance expectations in all categories including highly-corrosive environments.

As the leader in manufacturing large-diameter, high-pressure, engineered welded steel pipeline systems, our sales have historically been driven by the need for new water infrastructure. In addition to fabricating pipes for water transmission primarily related to drinking water systems, we also make products for hydroelectric power systems, wastewater systems, industrial plant piping systems, and certain structural applications.

With steady population growth and regional community expansion, as well as continued drought conditions, existing water sources have become stressed. Combined with a recognized trend of increased spending on water infrastructure replacement, repair and upgrades, Northwest Pipe Company sees continued opportunities for growth in North American infrastructure.

Recent Strategic Actions

In July 2018, we completed the acquisition of 100% of Ameron Water Transmission Group, LLC (“Ameron”) for a purchase price of $38.1 million. Ameron was a major supplier of engineered welded steel pressure pipe as well as reinforced concrete pipe. In addition to strengthening our position in the water transmission pipe market, this acquisition expands our bar-wrapped concrete cylinder pipe capabilities and adds reinforced concrete pipe and

T-Lock®—a proprietary polyvinyl chloride ("PVC") lining for concrete pipe sewer applications—to our product portfolio. In connection with the acquisition, we acquired pipe facilities in Tracy, California and San Luis Río Colorado, Mexico, as well as a protective lining facility in Brea, California.

In the second quarter of 2018, we closed our leased Permalok® facility in Salt Lake City, Utah, and moved production to our Permalok® facility in St. Louis, Missouri. This move eliminated redundant overhead and increased production flexibility. In addition, we obtained the capability to manufacture our Permalok® product at our Adelanto, California facility, which increases utilization of existing assets and furthers our access to the West Coast trenchless market.

Production at our manufacturing facility in Monterrey, Mexico ceased early in the second quarter of 2018, and the facility was sold in December 2018.

Our Industry

Much of the United States water infrastructure is antiquated and many authorities, including the United States Environmental Protection Agency ("EPA"), believe the United States water infrastructure is in critical need of update, repair, or replacement. In its *2015 Drinking Water Infrastructure Needs Survey and Assessment* released in March 2018, the EPA estimated the nation will need to spend $473 billion in infrastructure investments by 2034 to continue to provide safe drinking water to the public. The American Society of Civil Engineers ("ASCE") has given poor ratings to many aspects of the United States water infrastructure in their *2017 Infrastructure Report Card for Drinking Water*. In its *Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future* study published in 2016, the ASCE concludes that significant portions of many municipal water systems are 40 to 50 years old and are nearing the end of their useful lives, and estimates there will be $150 billion in capital investment needs for water and wastewater infrastructure by 2025, and $204 billion in capital investment needs by 2040. The American Water Works Association concluded in their 2012 report, *Buried No Longer: Confronting America's Water Infrastructure Challenge*, that from 2011 to 2035 more than $1 trillion will be needed to repair and expand drinking water infrastructure.

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 total addressable market for the products sold will be approximately $2.1 billion over the next three years.

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A combination of new population centers, rising demand on developed water sources, substantial underinvestment in water infrastructure over the past several decades, and increasingly stringent regulatory policies are driving demand for water infrastructure projects in the United States. These trends are intensifying 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 that current governmental and public water agency budgetary pressures could impact near-term demand.

According to the United States Census Bureau, the population of the United States will increase by approximately 61 million people between 2019 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. The development of new sources of water at greater distances from population centers will drive the demand for new water transmission lines. The *2019 Dodge Construction Outlook* forecasts public works construction starts will grow by 4% from 2018 levels.

As water systems degrade over time and cause failures, many current water supply sources are in danger of being exhausted. Much of the drinking water infrastructure in major cities was built in the mid-20th century with a lifespan of 75 to 100 years. In its *2017 Infrastructure Report Card for Drinking Water*, the ASCE estimates there are 240,000 water main breaks per year in the United States, wasting over two trillion gallons of treated drinking water, which equates to 14% to 18% of each day's treated water. The ASCE also reports that with utilities averaging a pipe replacement rate of 0.5% per year, it will take an estimated 200 years to replace the system – nearly double the useful life of the pipes. These aging water and wastewater systems will drive demand for future investment.

Finally, the 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 is expected to contribute to demand in the water infrastructure industry.

Federal initiatives to improve the conditions of the aging water infrastructure include the Water Infrastructure and Resiliency Finance Center at the EPA and the Water and Environmental Programs at the U.S. Department of Agriculture. The U.S. Senate passed the latest Water Resources Development Act, which was included in the Water Infrastructure Improvements for the Nation Act signed by the President in December 2016. This authorizes new infrastructure projects around the country and contains substantive provisions in regards to drinking water infrastructure. Additionally, the EPA's Water Infrastructure Finance and Innovation Act ("WIFIA") program provides approximately $2 billion in credit assistance for water infrastructure projects. In an April 2018 EPA press release, EPA Administrator Scott Pruitt said, "Thanks to the President's leadership, this WIFIA funding will spark new investments to repair our nation's crumbling water infrastructure. EPA will play a key role in the President's infrastructure efforts by incentivizing states, municipalities, and public-private partnerships to protect public health, fix local infrastructure problems, create jobs, and provide clean water to communities."

In addition to the Federal initiatives, individual states are also taking action. In November 2014, the State of California approved the Water Quality, Supply and Infrastructure Improvement Act ("Proposition 1"). Proposition 1 authorizes $7.5 billion in general obligation bonds to fund state water supply infrastructure projects, such as public water system improvements, surface and groundwater storage, drinking water protection, water recycling and advanced water treatment technology, water supply management and conveyance, wastewater treatment, drought relief, emergency water supplies, and ecosystem and watershed protection and restoration. The State of Texas has earmarked $27 billion of future bond funding for state water projects over the next 50 years through their State Water Implementation Fund for Texas (SWIFT). This program provides low-interest and deferred loans to state agencies making approved investments in water infrastructure projects. Our strategically located manufacturing facilities are well-positioned to take advantage of the anticipated growth in demand.

Products

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, mainly welded steel pipe and bar-wrapped cylinder pipe, are made to project specifications for fully engineered, large-diameter, high-pressure water infrastructure systems. Other uses include power generation circulating water systems, penstocks, pipe piling, and water and wastewater treatment plants. Spiral welded pipe is manufactured in diameters ranging from 24 inches to 156 inches with wall thickness of 0.135 inch to 1.00 inch. Our rolled and welded capabilities allow for manufacturing diameters greater than 156 inches or wall thicknesses exceeding 1.00 inch. Linings and coating capabilities include cement mortar, polyurethane, epoxies, polyethylene tape, and coal-tar enamel according to our customers' project specifications. Fabrication of fitting and specials are performed at our own facilities providing installation contractors and project owners with a complete engineered system. Product is delivered to the jobsite using commercial trucks or marine transport as needed.

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We manufacture Permalok® steel casing pipe, which is a proprietary pipe joining system that employs a press-fit interlocking connection system. The Permalok® product is generally installed in trenchless construction projects. In 2018, we added T-Lock® and Arrow-Lock® Sheet Lining Systems to our product line. The PVC sheet material provides protection against hydrogen sulfide gas, acids, alkalis, salt, and other forms of corrosion in precast concrete pipe, concrete structures, and monolithic tunnels. T-Lock® is applied during concrete casting and permanently locks into place as a part of the substrate. Arrow-Lock® can be used in both new and rehabilitation projects. The flexible sheets can be easily shaped over intricate forms, making it ideal for manholes, lift stations, digesters, primary effluent channels, sludge wet wells, primary sedimentation tanks, and headworks. Additionally we manufacture wet-cast reinforced concrete pipe typically used in non-pressure, gravity fed sewer and stormwater applications.

Marketing

Our plant locations in Oregon, Mexico, California, Texas, West Virginia, and Missouri allow us to efficiently serve customers throughout North America. Our marketing strategy emphasizes early identification of potential water projects, promotion of specifications consistent with our capabilities and products, 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. These relationships allow us to identify and evaluate planned projects at early stages, and pursue these projects by offering technical support and resources. 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.

As such, the primary customers for our water transmission products are installation contractors for projects funded by public water agencies. No customer accounted for 10% or more of total Net sales from continuing operations in 2018 or 2017. One customer accounted for 28% of total Net sales from continuing operations in 2016. We do not believe the potential loss of this customer would have had an adverse effect on our business, due to the nature of the industry and the competition between installation contractors.

Manufacturing

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 to manufacture pipe. After the drawings are completed and approved, the manufacturing of engineered steel water pipe begins by feeding a 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 pipe is then cut at the specified length. After completion of the forming

and welding phases, the finished cylinder is tested and inspected in accordance with project specifications, which may include 100% radiographic analysis of the weld seam. The cylinders are then coated and lined as specified. Possible coatings include polyurethane paint, polyethylene tape, epoxies, cement mortar, coal-tar enamel, and Pritec®. The inside of the pipe cylinders can be lined with cement mortar, polyurethane, or epoxies. Following coating and lining, certain pieces may be custom fabricated as required for the project. This process is performed at our on-site fabrication facilities. Typically, completed pipe segments are evaluated for structural integrity with a hydrotester. Upon final inspection, the pipe is prepared for shipment. We ship our products to project sites principally by truck.

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. We own interlocking pipe joining system technologies (Permalok®) that provide an alternate joint solution used for connecting steel pipes. We also own T-Lock® and Arrow-Lock® Sheet Lining Systems that provide long-term protection against corrosion in concrete for both new and rehabilitation projects. The PVC sheet lining material protects against hydrogen sulfide gas, acids, alkalis, salt, and other forms of corrosion in precast concrete pipe, concrete structures, and monolithic tunnels.

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. Our staff includes some of the most tenured and experienced pipe manufacturing professionals in the nation.

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Quality Assurance. We have quality management systems in place that assure we are consistently providing products that meet or exceed customer and applicable regulatory requirements. All of our quality management systems in the United States and Mexico are registered under a multi-site registration either by the International Organization for Standardization ("ISO") or the Steel Plate Fabricators Association ("SPFA"). In addition to ISO and SPFA qualifications, we are certified for specific products or operations by the American Institute of Steel Construction, American Concrete Pressure Pipe Association, American Petroleum Institute, American Society of Mechanical Engineers, American Society for Nondestructive Testing, American Welding Society, Caltrans, and NSF International. Our Quality Assurance Department is responsible for monitoring and measuring characteristics of product. Inspection capabilities include, but are not limited to, visual, dimensional, liquid penetrant, magnetic particle, hydrostatic, ultrasonic, 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 customer shipment 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 $51 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

We measure backlog as a key metric to evaluate the commercial health of our business. Backlog represents the balance of remaining performance obligations under signed contracts. Binding agreements received by us may be subject to cancelation or postponement; however, cancelation would obligate the customer to pay the contract consideration proportional to the costs we have incurred through the cancelation date. As of December 31, 2018 and 2017, backlog was approximately $81 million and $53 million, respectively. 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. Separate from our backlog, we have been notified that we are the successful bidder on additional projects, but binding agreements have not been executed ("confirmed orders"). As of December 31, 2018 and 2017, backlog including confirmed orders, which is the metric we have traditionally reported, was approximately $252 million and $88 million, respectively. Projects for which a binding agreement has not been executed could be canceled.

Competition

We have several regional competitors. 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 manufacturing facilities in Oregon, Mexico, California, Texas, West Virginia, and Missouri we believe we can more effectively compete throughout North America. Our primary competitors in the western United States and southwestern Canada are Imperial Pipe and West Coast Pipe. East of the Rocky Mountains, our primary competition includes Thompson Pipe Group, AMERICAN SpiralWeld Pipe Company, LLC, and Mid America Pipe Fabricating & Supply, LLC.

No assurance can be given that new or existing competitors will not build new facilities or expand capacity within our market areas. In October 2018, a competitor announced it was building a new spiral-welded steel pipe plant in Texas. New or expanded facilities or new competitors could have a material adverse effect on our ability to capture market share and maintain product pricing.

Raw Materials and Supplies

The main raw component in our manufacturing process is steel. We have historically purchased hot rolled and galvanized steel coil from both domestic and foreign steel mills; however, in 2018 all steel purchases were from domestic steel mills. Domestic suppliers include Big River Steel, ArcelorMittal USA LLC, Nucor Corporation, Steel Dynamics, Inc., EVRAZ North America, SSAB, California Steel Industries, Inc., and JDM Steel Service, Inc. Steel is normally purchased after project award. From time to time, we may purchase small quantities of 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 fluctuate significantly, 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.

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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, violations 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 runoff, and other environmental matters. We are 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 Superfund Site discussed in Note 15 of the Notes to Consolidated Financial Statements in Part II — Item 8. “Financial Statements and Supplementary Data” of this 2018 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.

Estimating liabilities for environmental investigations and cleanup is complex and dependent upon a number of factors beyond our control which may change dramatically. We have no reserves for environmental investigation or cleanup, and we believe this is appropriate based on current information; however, we cannot provide assurance that our future environmental investigation and cleanup costs and liabilities will not result in a material expense.

Employees

As of January 31, 2019, we had 691 full-time employees; approximately 30% were salaried and approximately 70% were employed on an hourly basis. Approximately 21% of our employees are subject to collective bargaining agreements. We consider our relations with our employees and labor unions to be good.

Geographic Information

We sold principally all of our products in the United States and Canada. As of December 31, 2018, our long-lived assets are located in the United States and Mexico. See Note 6 and Note 16 of the Notes to Consolidated Financial Statements in Part II — Item 8. “Financial Statements and Supplementary Data” of this 2018 Form 10-K for property and equipment information and revenue by geographic region.

Executive Officers of the Registrant

Information regarding our executive officers is set forth under the caption "Directors, Executive Officers, Promoters and Control Persons" in Part III — Item 10. "Directors, Executive Officers and Corporate Governance" of this 2018 Form 10-K and is incorporated herein by reference.

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(a) or 15(d) of the Exchange Act are available through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the 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 website and the information contained therein or connected thereto are not incorporated into this 2018 Form 10-K.

Additionally, the SEC 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 2018 Form 10-K, in evaluating our company and our business. If any of the following risks actually occur, our business, financial condition, results of operations, or cash flows could be materially and adversely affected, and the value of our stock could decline. The risks and uncertainties described below are those that we currently believe may materially affect our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. As such, you should not consider this list to be a complete statement of all potential risks or uncertainties.

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Risks Related to Our Business

Our business faces an overcapacity situation due to recent capacity expansions as well as the potential for increased competition from substitute products from manufacturers of concrete, ductile iron, PVC, and high density polyethylene ("HDPE") pipe. Orders in our business are competitively bid and price competition can be vigorous. In a market that already has overcapacity issues, the recent increases in capacity have negatively affected our sales, gross margins, and overall profitability. Other competitive factors include timely delivery, ability to meet customized specifications, and high freight costs. Although our manufacturing facilities in Oregon, Mexico, California, Texas, West Virginia, and Missouri allow us to compete throughout North America, we cannot assure you that new or existing competitors will not establish new facilities or expand capacity further within our market areas. In October 2018, a competitor announced it was building a new spiral-welded steel pipe plant in Texas. New or expanded facilities or new competitors could have a material adverse effect on our market share, product pricing, sales, gross margins, and overall profitability in our business.

Water transmission pipe is manufactured generally from steel, concrete, ductile iron, PVC, or HDPE. 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.

A downturn in government spending related to public water transmission projects could adversely affect our business. Our 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 could adversely affect our business, financial position, results of operations, or cash flows.

We face risks in connection with the integration of Ameron and future potential acquisitions and divestitures. Acquiring businesses that expand and/or complement our operations has been an important element of our business strategy, and we continue to evaluate potential acquisitions that may expand and/or 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 in order to strategically position our business and continue to compete in our markets, which may include joint ventures and/or divestitures. 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 assets may adversely affect our business, financial position, results of operations, or cash flows.

We acquired Ameron on July 27, 2018. The success of this acquisition depends, in part, on our ability to successfully integrate this business with our current operations and to realize the anticipated benefits, including synergies, from the acquisition on a timely basis. It may take longer than expected to realize these anticipated benefits and they may ultimately be smaller than we expect. There are a number of challenges and risks involved in our ability to successfully integrate Ameron with our current business and to realize the anticipated benefits of this acquisition, including all of the risks identified in the paragraph above. Any of these factors could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

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Tariffs could adversely affect our business. In March 2018, the President signed a proclamation imposing a 25% tariff on all imported steel products for an indefinite amount of time under Section 232 of the Trade Expansion Act of 1962. In June 2018, Mexico imposed a 25% tariff on all steel products shipped from the U.S. to Mexico, and in July 2018, Canada imposed a 25% surtax on imports of U.S. steel products. These tariffs cover our primary raw material, hot rolled coil, as well as our finished steel pipe product. We routinely ship steel pipe into Canada. The tariffs may lead to project delays or cancellations while they are in place. In addition, our newly acquired location in San Luis Río Colorado, Mexico ("SLRC") may also be negatively impacted. Historically, the raw material has been purchased in the U.S. and shipped to Mexico for manufacturing, and the finished product has been shipped from Mexico to the U.S. If we continue this practice, we will have a tariff on the purchased hot rolled coil as well as the finished steel pipe. We may not be able to pass these increased costs to our customers. We may not be able to develop sufficient steel suppliers outside of the U.S. that can supply SLRC at a competitive price. We also may not be able to develop a sufficient market outside of the U.S. for SLRC's finished products. This may lead us to shut down our SLRC facility, which could have an adverse effect on our business, financial position, results of operations, or cash flows.

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

We have a foreign operation which exposes us to the risks of doing business abroad. Our facility in SLRC primarily exports products to the United States. We may operate in additional 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;
- the imposition of duties, tariffs, and other trade barriers;
- transportation delays and interruptions;

- political, social, and economic instability and disruptions;
- government embargoes or foreign trade restrictions;
- 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 could 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.

Fluctuations in steel prices and availability may affect our future results of operations. Purchased steel represents a substantial portion of our cost of sales. 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 $818 per ton in 2018, $650 per ton in 2017, and $474 per ton in 2016. In 2018, our monthly average steel purchasing costs ranged from a high of approximately $997 per ton to a low of approximately $685 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. In addition, if we are unable to acquire timely steel supplies, we may need to decline bid and order opportunities, which could also have an adverse effect on our business, financial position, results of operations, or cash flows.

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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.

Our backlog is subject to reduction and cancelation. Backlog, which represents the balance of remaining performance obligations under signed contracts, was approximately $81 million as of December 31, 2018. Our backlog is subject to fluctuations; moreover, cancelations of purchase orders, change orders on contracts, or reductions of product quantities could materially reduce our backlog and, consequently, future revenues. Our failure to replace canceled or reduced backlog could result in lower revenues, which could adversely affect our business, financial position, results of operations, or cash flows.

Our recognition of revenue over time includes estimates. Revenue from construction contracts is recognized over time as the manufacturing process progresses, and is measured by the costs incurred to date relative to the estimated total direct costs to fulfill each contract (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 a material change in gross profit are reviewed by senior management personnel.

Significant judgment is required in estimating total costs and measuring the progress of project completion, as well as whether a loss is expected to be incurred on the contract. 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. 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.

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.

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 adversely affect our business, financial position, results of operations, or cash flows.

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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:

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