FIRST BANCSHARES INC /MS/
Form S-1/A
September 28, 2006

As filed with the Securities and Exchange Commission on September

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

FIRST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Mississippi	**6022**	
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	I

6480 U.S. HWY. 98 WEST
HATTIESBURG, MISSISSIPPI 39402
(601) 268-8998
(Address, including zip code, and telephone number, including area
of registrant's principal executive offices)

DONNA T. LOWERY
6480 U.S. HWY. 98 WEST
HATTIESBURG, MISSISSIPPI 39402
(601) 268-8998
(Name, address, including zip code, and telephone number, inclu
area code, of agent for service)
Copies to:

J. ANDREW GIPSON, ESQ.
WATKINS LUDLAM WINTER & STENNIS, P.A.
POST OFFICE BOX 427
633 NORTH STATE STREET
JACKSON, MISSISSIPPI 39202
(601) 949-4900

If any of the securities being registered on this Form are to be offered on a delayed or con
under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462
please check the following box and list the Securities Act registration statement number of the e

statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securitie
list the Securities Act registration statement number of the earlier effective registration state

The Registrant hereby amends this Registration Statement on such date or dates as may be nec until the Registrant shall file a further amendment that specifically states that this Registrati become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Regi effective on such date as the Securities and Exchange Commission, acting pursuant to said Section

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Share(2)**	**Proposed Maximum Aggregate Offering Price(2)**	**R**
Common Stock ($1.00 Par Value)	365,000	$24.61	$8,982,650	

(1) The maximum number of First Bancshares common shares to be under the offering.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant t
on the closing trade price of First Bancshares common stock on the Nasdaq Capital Market on Septe

Subject to completion dated September 28, 2006

The information in this prospectus is not complete and may be changed. These securities may not b
statement filed with the Securities and Exchange Commission is effective. This prospectus is not
and is not seeking an offer to buy the securities in any state or jurisdiction where the offer or

365,000 SHARES

FIRST BANCSHARES, INC.

COMMON STOCK

PROSPECTUS

We are offering 365,000 shares of our common stock, par value $1.00 per share ("Common S
offering price is $22.50 per share. All of the 365,000 shares of Common Stock offered hereby are

through its directors, executive officers, and bank market presidents. The Company is a bank hol in Hattiesburg, Mississippi and is the parent of The First, A National Banking Association.

This is a "best efforts" offering by the Company, and it will be terminated by the Compa shares or December 30, 2006, whichever occurs first, unless the Company extends the offering for no later than March 31, 2007. There is no minimum number of shares required to be sold under the subscriptions must be for no less than 100 shares and no more than 44,445 shares of the Common St

Our common stock is currently quoted and traded on The Nasdaq Capital Market, under the sale price of our common stock on The Nasdaq Capital Market occurred on September 25, 2006 with r to $23.75 per share with the last trade being $23.50.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 8 to consider before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission or ot or disapproved of these securities or passed upon the adequacy of this prospectus. Any representa offense.

These securities are not savings accounts, deposit accounts or other obligations of our insured or guaranteed by the Federal Deposit Insurance Company's Bank Insurance Fund or any other

The date of this Prospectus is September 28, 2006

TABLE OF CONTENTS

SUMMARY..
SUMMARY CONSOLIDATED FINANCIAL DATA...
RISK FACTORS...
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS.......................................
USE OF PROCEEDS..
CAPITALIZATION...
PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND INFORMATION...................................
SELECTED FINANCIAL DATA..
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION..........
YEAR-END ANALYSIS..
RESULTS OF OPERATIONS..
QUARTERLY AND YEAR-TO-DATE ANALYSIS..
BUSINESS...
SUPERVISION AND REGULATION...
MANAGEMENT...
THE BOARD OF DIRECTORS...
EXECUTIVE OFFICERS...
INFORMATION REGARDING THE COMPANY'S DIRECTORS AND EXECUTIVE OFFICERS.........................
FAMILY RELATIONSHIPS...
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS...
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.....................................
COMPENSATION OF THE BOARD OF DIRECTORS...
COMPENSATION OF EXECUTIVE OFFICERS...
SUMMARY COMPENSATION TABLE...
OPTION GRANTS..
OPTION EXERCISES AND YEAR END VALUES...
EMPLOYMENT AGREEMENTS..
PRINCIPAL SHAREHOLDERS...
STOCK OWNERSHIP OF MANAGEMENT..
STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS..
DESCRIPTION OF OUR CAPITAL STOCK...
WHERE YOU CAN FIND MORE INFORMATION..
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE..

LEGAL MATTERS....................
EXPERTS....................

ABOUT THIS PROSPECTUS

You should rely only on information contained in this prospectus. We have not authorized any other person, including any of our officers or agents, to provide you with different or additional information. We are not making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock. Our business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to those jurisdictions.

In this prospectus, we rely on and refer to information and statistics regarding the banking industry and the Mississippi banking market. We obtained this market data from independent publications or other publicly available information. Although we believe these sources are reliable, we have not independently verified and do not guarantee the accuracy and completeness of this information.

You should not construe the contents of the prospectus or any prior or subsequent communications from us or any of our employees or agents as investment, legal, or tax advice. You should consult your own legal counsel, accountant, or other professional advisors as to legal, tax, and other related matters concerning your purchase.

As used in this prospectus, the terms we, us, our, and the Company refer to First Bancshares, Inc., and its subsidiary on a consolidated basis (unless the context indicates another meaning), and the terms the Bank, the bank, or our bank means The First, A National Banking Association (unless the context indicates another meaning).

SUMMARY

The following is a selective summary of certain information contained in this prospectus and is not intended to be complete in itself nor to provide all the information necessary for you to make an investment decision and is qualified in its entirety by the more detailed information included in this prospectus. To understand this offering fully, you should carefully read this entire prospectus, including the sections entitled Risk Factors and Management s Discussion and *Analysis of Financial Condition and Results of Operations.*

Our Company

First Bancshares. First Bancshares is a bank holding company headquartered at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402, telephone number (601) 268-8998. Its principal subsidiary is The First, a National Banking Association. The First serves the cities of Bay St. Louis, Hattiesburg, Laurel, Pascagoula, Picayune, Purvis, and the surrounding areas of Forrest, Hancock, Jackson, Jones, Lamar, and Pearl River Counties in Mississippi. First Bancshares, through its subsidiary, strives to provide its customers with the breadth of products and services comparable to those offered by large regional banks, while maintaining the quick response and personal service of a locally owned and managed bank. As of June 30, 2006, First Bancshares had total assets of $329.2 million; total deposits of $268.6 million, total loans of $238.0 million, and shareholders equity of $19.5 million.

The First. The First is a national banking association headquartered at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402, telephone number (601) 268-8998. The First also has branch offices located at: (1) 835 Hwy 90, Suite 4 in Bay St. Louis, Hancock County, Mississippi; (2) 631 Hwy 589 in Purvis, Lamar County, Mississippi; (3) 2702 Lincoln Road in Hattiesburg, Forrest County, Mississippi; (4) 3318 Hardy Street in Hattiesburg, Forrest County, Mississippi; (5) Hwy 15 North in Laurel, Jones County, Mississippi; (6) 1506-B Hwy 43 South in Picayune, Pearl River County, Mississippi; and (7) 1126 Jackson Avenue, Suite 101 in Pascagoula, Jackson County, Mississippi. The First provides a full complement of consumer and commercial banking services in south Mississippi.

General

The First Bancshares, Inc. (the Company) was incorporated on June 23, 1995 to serve as a holding company for The First National Bank of South Mississippi (The First) located in Hattiesburg, Mississippi and The First National Bank of the Pine Belt (Pine Belt), located in Laurel, Mississippi (collectively, the Banks). The First began operations on August 5, 1996 from its main office in the Oak Grove community, which was on the outskirts of Hattiesburg but now is included in the city of Hattiesburg. Pine Belt began banking operations on January 19, 1999. In January, 2004, the two banks were consolidated to form one bank, The First, A National Banking Association. In addition to the main office in Hattiesburg and the branch in Laurel, The First also operates two other branches in Hattiesburg, one in Purvis, one in Picayune, and one in Pascagoula, Mississippi. The First recently received approval from the Office of the Comptroller of the Currency to open a branch in Bay St. Louis, MS. The Company and its subsidiary bank engage in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns and individuals. The First is a wholly-owned subsidiary bank of the Company.

Location and Service Area

The First serves the cities of Hattiesburg, Laurel, Purvis, Picayune, Pascagoula, and the surrounding areas of Lamar, Forrest, Jones, Pearl River, Hancock, and Jackson Counties, Mississippi. The First has a main office located in the city of Hattiesburg, Mississippi, in Lamar County. The First has a branch office located on Highway 589 in the city of Purvis, Mississippi, also in Lamar County, a third office located at the intersection of Lincoln Road and South 28th Avenue in Hattiesburg, a fourth location at 3318 Hardy Street in Hattiesburg, a fifth location at Hwy 15 North in Laurel, a sixth location at Hwy 43 South in Picayune, a seventh location at Jackson Avenue in Pascagoula, Mississippi, and an eighth location at Hwy. 90 in Bay St. Louis, Mississippi.

The main office primarily serves the area in and around the northern portion of Lamar County. The Purvis office primarily serves the area in and around Purvis, Mississippi, which is in the east central part of Lamar County and is the county seat. Lamar County is located in the southeastern section of Mississippi. Hattiesburg, one of the largest cities in Mississippi, is located in Forrest and Lamar Counties. The Laurel office serves the city of Laurel and the surrounding area of Jones County, Mississippi. The Picayune office primarily serves the area in and around Picayune, Mississippi, including areas of north Hancock County and Pearl River, LA and Slidell, LA. Picayune is located in the southern part of Pearl River County. Pearl River County is located in the southern section of Mississippi. The Pascagoula office primarily serves the area in and around Pascagoula, Mississippi, including areas of Jackson County. Hattiesburg can be reached via U.S. Highways 98 and 49 and Interstate 59. Major employers located in the Lamar and Forrest County areas include Forrest General Hospital, the University of Southern Mississippi, Wesley Medical Center, Camp Shelby, the Hattiesburg Public Schools, the Hattiesburg Clinic, the City of Hattiesburg, and Marshall Durbin Poultry. The principal components of the economy of the Lamar and Forrest County areas include service industries, wholesale and retail trade, manufacturing, and transportation and public utilities. The Laurel branch is located at 1945 Highway 15 North, Laurel, MS, with the majority of its retail business coming from the local area and the remaining business coming from other areas of Jones County, as well as portions of Jasper County, Wayne County, Smith County, and Covington County. Major employers in the Jones County area include Howard Industries, Sanderson Farms, Inc., and South Central Regional Medical Center. Major employers in the Pearl River County area include Stennis Space Center, Chevron, Texaco, Arizona Chemical, American Crescent Elevator Co., City of Picayune, Crosby Memorial Hospital and the public schools. The principal components of the economy of the Pearl River County area include timber, service industries, wholesale and retail trade, manufacturing, and transportation and public utilities. Major employers in the Jackson County area include Northrop Grumman, Singing River Hospital, and Shell Oil Company. The Bay St. Louis office primarily serves the area in and around Bay St. Louis, MS, including Diamondhead and Kiln, also in Hancock County. Bay St. Louis can be reached via Highway 90. Major employers located in the area include Hollywood Casino, Hancock Medical Center, Stennis Space Center, GE Plastics, Dupont, Wellman, Calgon, City of Bay St. Louis, City of Waveland, Hancock County, and Hancock County School District. The principal components of the economy of the Hancock County area include tourism/gaming, manufacturing and shipping.

Banking Services

The Company strives to provide its customers with the breadth of products and services comparable to those offered by large regional banks, while maintaining the quick response and personal service of a locally owned and managed bank. In addition to offering a full range of deposit services and commercial and personal loans, The First offers products such as mortgage loan originations. The following is a description of the products and services offered or planned to be offered by the Bank.

```
Deposit Services.  The Bank offers a full range of deposit services that are typically a
savings and loan associations, including checking accounts, NOW accounts, savings accoun
of various types, ranging from daily money market accounts to longer-term certificates o
accounts and time certificates are tailored to the Bank's principal market area at rates
offered by other banks in the area.  In addition, the Bank offers certain retirement acc
Individual Retirement Accounts (IRAs).  All deposit accounts are insured by the Federal
Corporation (the "FDIC") up to the maximum amount allowed by law.  The Bank solicits the
individuals, businesses, associations and organizations, and governmental authorities.
```

Loan Products. The Bank offers a full range of commercial and personal loans. Commerci
secured and unsecured loans for working capital (including loans secured by inventory an
business expansion (including acquisition of real estate and improvements), and purchase
machinery. Consumer loans include equity lines of credit and secured and unsecured loan
home improvements, education, and personal investments. The Bank also makes real estate
acquisition loans. The Bank's lending activities are subject to a variety of lending li
law. While differing limits apply in certain circumstances based on the type of loan or
(including the borrower's relationship to the bank), in general the Bank is subject to a
of an amount equal to 15% of the Bank's unimpaired capital and surplus. The Bank may no
director, executive officer, or 10% shareholder unless the loan is approved by the Boar
and is made on terms not more favorable to such a person than would be available to a pe
Bank.

Mortgage Loan Divisions. The Bank has mortgage loan divisions which originate loans to
construct new homes and to refinance existing mortgages.

Other Services. Other bank services include on-line Internet banking services, voice re
service, commercial sweep accounts, cash management services, safe deposit boxes, travel
of payroll and social security checks, and automatic drafts for various accounts. The B
Money Belt, Gulfnet, and Plus networks of automated teller machines that may be used by
throughout Mississippi and other regions. The Banks also offer VISA and MasterCard cred
correspondent bank.

Competition

The Bank generally competes with other financial institutions through the selection of banking products and services offered, the pricing of services, the level of service provided, the convenience and availability of services, and the degree of expertise and the personal manner in which services are offered. Mississippi law permits statewide branching by banks and savings institutions, and many financial institutions in the state have branch networks. Consequently, commercial banking in Mississippi is highly competitive. Many large banking organizations currently operate in the Company s market area, several of which are controlled by out-of-state ownership. In addition, competition between commercial banks and thrift institutions (savings institutions and credit unions) has been intensified significantly by the elimination of many previous distinctions between the various types of financial institutions and the expanded powers and increased activity of thrift institutions in areas of banking which previously had been the sole domain of commercial banks. Recent legislation, together with other regulatory changes by the primary regulators of the various financial institutions, has resulted in the almost total elimination of practical distinctions between a commercial bank and a thrift institution. Consequently, competition among financial institutions of all types is largely unlimited with respect to legal ability and authority to provide most financial services.

The Company faces increased competition from both federally-chartered and state-chartered financial and thrift institutions, as well as credit unions, consumer finance companies, insurance companies, and other institutions in the Company s market area. Some of these competitors are not subject to the same degree of regulation and restriction imposed upon the Company. Many of these competitors also have broader geographic markets and substantially greater resources and lending limits than the Company and offer certain services such as trust banking that the Company does not currently provide. In addition, many of these competitors have numerous branch offices located throughout the extended market areas of the Company that may provide these competitors with an advantage in geographic convenience that the Company does not have at present.

Currently there are numerous other commercial banks, savings institutions, and credit unions operating in The First s primary service area.

Employees

As of June 30, 2006, the Company had 109 full-time employees and 15 part-time employees.

Corporate Information

Our headquarters are located at 6480 U.S. Hwy 98 West, Hattiesburg, Mississippi 39402, and our telephone number at that address is 601-268-8998. We maintain a website at www.thefirstbank.com. Information on the website is not incorporated by reference and is not a part of this prospectus.

The Offering

Common stock offered	365,000 shares
Common stock outstanding after this offering	2,744,630 shares (excludes 250,899 shares exercisable by ou vested options) (also excludes 109,274 shares of common sto be issued upon closing of the merger of First National Bank discussed on page 64 below)
Net proceeds	The net proceeds of this offering will be approximately $8 assuming a public offering price of $22.50 per share.
Use of proceeds	We intend to use the net proceeds of this offering for gene purposes, which may include, among other things, our expans Harrison County and Pearl River County markets, our acquisi National Bank of Wiggins, and our working capital needs and investments in our subsidiary bank to support our
Dividend Policy	It is the company's policy to pay cash dividends on its com annually, subject to the factors as discussed on page 12 fo
Nasdaq Capital Market Symbol	FBMS
Risk Factors	See "Risk Factors" beginning on page 8 for a description of risks related to an investment in our common stock.

The number of shares outstanding after the offering is based upon our shares outstanding as of September 28, 2006 and excludes 250,899 shares issuable under outstanding options granted by us under the Company s stock option plans. All of these options are exercisable as of September 28, 2006 at a weighted average exercise price of $6.53.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth summary historical consolidated financial data from our consolidated financial statements and should be read in conjunction with our consolidated financial statements including the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations which are included elsewhere in this prospectus. This information is derived from our audited consolidated financial statements and related notes, which were audited by T.E. Lott & Company, our independent registered public accounting firm, for the years ended December 31, 2005, 2004, 2003, 2002 and 2001. The summary historical consolidated financial data as of and for the six months ended June 30, 2006 and June 30, 2005 is derived from our unaudited consolidated financial statements for those periods. The unaudited consolidated financial statements include all adjustments, consisting only of normal recurring items, which our management considers necessary for a fair presentation of our financial position and results of operations for these periods. The financial condition and results of operations as of and for the six months ended June 30, 2006 do not purport to be indicative of the financial condition or results of operations to be expected as of or for the fiscal year ending December 31, 2006.

First Bancshares and Subsidiaries - Selected Financial Data

(In Thousands Except Per Share Amounts and Ratios)

	Six Months Ended June 30, (unaudited)		Year Ended December 3			
	2006	**2005**	**2005**	**2004**	**2003**	**20**
Statements of earnings						
Interest income	10,392	7,020	15,692	11,014	10,486	9,8
Interest expense	3,816	2,347	5,542	3,199	3,177	3,7
Net interest income	6,576	4,673	10,150	7,815	7,309	6,1
Provision for possible loan Losses	294	437	921	672	468	3
Net interest income after provision for possible loan losses	6,282	4,236	9,229	7,143	6,841	5,7
Other operating income	1,123	892	1,682	1,963	1,772	1,6
Other operating expense	4,969	3,837	8,138	7,228	7,134	6,1
Income before income taxes	2,436	1,291	2,773	1,878	1,479	1,2
Income tax expense	688	432	864	635	472	4
Net income	1,748	859	1,909	1,243	1,007	8
Net income per share						
Primary	.74	.37	.81	.54	.43	.
Fully diluted	.69	.35	.77	.52	.42	.
Cash dividends per share	.16	.10	.10	.075	.05	.
Weighted average shares outstanding						
Primary	2,377,802	2,356,746	2,358,308	2,331,970	2,338,102	2,330,3
Fully diluted	2,536,381	2,473,480	2,488,890	2,406,682	2,414,484	2,407,2
Statements of condition - averages						
Total assets	316,485	239,343	252,913	186,440	161,039	147,2
Earning assets	291,826	219,682	231,565	168,474	143,345	131,6
Securities available for sale	57,275	26,618	30,971	24,725	25,121	23,1
Investment securities	57,288	26,632	30,985	24,740	25,141	23,1
Loans, net of unearned income	222,790	187,069	189,187	140,052	112,468	103,0
Deposits	262,605	188,869	199,389	139,264	119,910	115,6
Long-term debt	32,254	31,596	34,759	30,292	24,740	16,0
Total stockholders' equity	18,568	16,780	17,278	16,203	15,698	14,8
Selected ratios						
Return on average assets	1.10	.72	.75	.67	.63	.
Return on average equity	18.82	10.24	11.0	7.7	6.4	5
Net interest margin - tax equivalent	4.51	4.25	4.38	4.64	5.10	4.
*Efficiency ratio	64.54	68.95	68.78	73.92	78.56	78.
Loans to deposits	87.5	98.8	81.4	102.9	93.4	85
Allowance for possible loan losses to loans, net of unearned income	1.12	1.03	1.18	1.01	1.01	1.

Net charge-offs (recoveries) to average loans, net of unearned income	.03	.06	.11	.13	.47	.
Dividend payout	10.81	13.51	12.3	14.2	11.6	13
Average equity to average assets	5.87	7.01	6.8	8.7	9.7	10
Leverage ratio	8.45	9.8	8.0	10.8	12.7	12
Tier 1 risk-based	10.87	12.21	12.0	13.7	16.2	15
Total risk-based	13.69	13.27	12.4	14.6	18.6	19

*Excludes the effects of amortization of goodwill and core deposit intangibles.

RISK FACTORS

Making or continuing an investment in securities, including First Bancshares Common Stock, involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on First Bancshares. Additional risks and uncertainties also could adversely affect First Bancshares business and results of operations. If any of the following risks actually occur, First Bancshares business, financial condition or results of operations could be affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Prospectus constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause First Bancshares actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of First Bancshares.

First Bancshares may be vulnerable to certain sectors of the economy.

A portion of First Bancshares loan portfolio is secured by real estate. If the economy deteriorated and depressed real estate values beyond a certain point, that collateral value of the portfolio and the revenue stream from those loans could come under stress and possibly require additional loan loss accruals. First Bancshares ability to dispose of foreclosed real estate at prices above the respective carrying values could also be impinged, causing additional losses.

General economic conditions in the areas where First Bancshares operations or loans are concentrated may adversely affect our customers ability to meet their obligations.

A sudden or severe downturn in the economy in the geographic markets served by First Bancshares in the state of Mississippi may affect the ability of First Bancshares customers to meet loan payments obligations on a timely basis. The local economic conditions in these areas have a significant impact on First Bancshares commercial, real estate, and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing such loans. Changes resulting in adverse economic conditions of First Bancshares market areas could negatively impact the financial results of First Bancshares banking operations and its profitability. Additionally, adverse economic changes may cause customers to withdraw deposit balances, thereby causing a strain on First Bancshares liquidity.

First Bancshares is subject to a risk of rapid and significant changes in market interest rates.

First Bancshares assets and liabilities are primarily monetary in nature, and as a result First Bancshares is subject to significant risks tied to changes in interest rates. First Bancshares ability to operate profitably is largely dependent upon net interest income. Unexpected movement in interest rates markedly changing the slope of the current yield curve could cause First Bancshares net interest margins to decrease, subsequently decreasing net interest income. In addition, such changes could adversely affect the valuation of First Bancshares assets and liabilities.

At present First Bancshares one-year interest rate sensitivity position is slightly asset sensitive, but a gradual increase in interest rates during the next twelve months should not have a significant impact on net interest income during that period. However, as with most financial institutions, First Bancshares results of operations are affected by changes in interest rates and First Bancshares ability to manage this risk. The difference between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities may be affected by changes in market interest rates, changes in relationships between interest rate indices, and/or changes in the relationships between long-term and short-term market interest rates. A change in this difference might result in an increase in interest expense relative to interest income, or a decrease in First

Bancshares interest rate spread.

Certain changes in interest rates, inflation, or the financial markets could affect demand for First Bancshares products and First Bancshares ability to deliver products efficiently.

Loan originations, and potentially loan revenues, could be adversely impacted by sharply rising interest rates. Conversely, sharply falling rates could increase prepayments within First Bancshares securities portfolio lowering interest earnings from those investments. An unanticipated increase in inflation could cause First Bancshares operating costs related to salaries & benefits, technology, & supplies to increase at a faster pace than revenues.

The fair market value of First Bancshares securities portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations.

Changes in the policies of monetary authorities and other government action could adversely affect First Bancshares profitability.

The results of operations of First Bancshares are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, particularly in light of the continuing threat of terrorist attacks and the current military operations in the Middle East, we cannot predict possible future changes in interest rates, deposit levels, loan demand or First Bancshares business and earnings. Furthermore, the actions of the United States government and other governments in responding to such terrorist attacks or the military operations in the Middle East may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

Natural disasters could affect First Bancshares ability to operate

First Bancshares market areas are susceptible to natural disasters such as hurricanes. Natural disasters can disrupt First Bancshares operations, result in damage to properties and negatively affect the local economies in which First Bancshares operates. First Bancshares cannot predict whether or to what extent damage caused by future hurricanes will affect First Bancshares operations or the economies in First Bancshares market areas, but such weather events could cause a decline in loan originations, a decline in the value or destruction of properties securing the loans and an increase in the risk of delinquencies, foreclosures or loan losses.

Greater loan losses than expected may adversely affect First Bancshares earnings.

First Bancshares as lender is exposed to the risk that its customers will be unable to repay their loans in accordance with their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on First Bancshares operating results. First Bancshares credit risk with respect to its real estate and construction loan portfolio will relate principally to the creditworthiness of corporations and the value of the real estate serving as security for the repayment of loans. First Bancshares credit risk with respect to its commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within First Bancshares local markets.

First Bancshares makes various assumptions and judgments about the collectibility of its loan portfolio and provide an allowance for estimated loan losses based on a number of factors. First Bancshares believes that its current allowance for loan losses is adequate. However, if First Bancshares assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. First Bancshares may have to increase its allowance in the future in response to the request of one of its primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of First Bancshares loan portfolio. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions.

First Bancshares may need to rely on the financial markets to provide needed capital

First Bancshares Common Stock is listed and traded on the NASDAQ stock market. Although First Bancshares anticipates that its capital resources will be adequate for the foreseeable future to meet its capital requirements, at times First Bancshares may depend on the liquidity of the NASDAQ stock market to raise equity capital. If the market should fail to operate, or if conditions in the capital markets are adverse, First Bancshares may be constrained in raising capital. First Bancshares maintains a consistent analyst following; therefore, downgrades in First Bancshares prospects by an analyst(s) may cause First Bancshares Common Stock price to fall and significantly limit First Bancshares ability to access the markets for additional capital requirements. Should these risks materialize, First Bancshares ability to further expand its operations through internal growth may be limited.

First Bancshares is subject to regulation by various Federal and State entities

First Bancshares is subject to the regulations of the Securities and Exchange Commission (SEC), the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the OCC. New regulations issued by these agencies may adversely affect First Bancshares ability to carry on its business activities. First Bancshares is subject to various Federal and state laws and certain changes in these laws and regulations may adversely affect First Bancshares operations.

First Bancshares is also subject to the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of First Bancshares and may also require extraordinary efforts or additional costs to implement. Any of these laws or regulations may be modified or changed from time to time, and First Bancshares cannot be assured that such modifications or changes will not adversely affect First Bancshares.

First Bancshares engages in acquisitions of other businesses from time to time.

On occasion, First Bancshares will engage in acquisitions of other businesses. Acquisitions may result in customer and employee turnover, thus increasing the cost of operating the new businesses. The acquired companies may also have legal contingencies, beyond those that First Bancshares is aware of, that could result in unexpected costs.

First Bancshares is subject to industry competition which may have an impact upon its success.

The profitability of First Bancshares depends on its ability to compete successfully. First Bancshares operates in a highly competitive financial services environment. Certain competitors are larger and may have more resources than First Bancshares does. First Bancshares faces competition in its regional market areas from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of First Bancshares nonbank competitors are not subject to the same extensive regulations that govern First Bancshares or the Bank and may have greater flexibility in competing for business.

Another competitive factor is that the financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. First Bancshares future success may depend, in part, on its ability to use technology competitively to provide products and services that provide convenience to customers and create additional efficiencies in First Bancshares operations.

Future issuances of additional securities could result in dilution of shareholders ownership.

First Bancshares may determine from time to time to issue additional securities to raise additional capital, support growth, or to make acquisitions. Further, First Bancshares may issue stock options or other stock grants to retain and motivate First Bancshares employees. Such issuances of Company securities will dilute the ownership interests of First Bancshares shareholders.

Anti-takeover laws and certain agreements and charter provisions may adversely affect share value.

Certain provisions of state and federal law and First Bancshares articles of incorporation may make it more difficult for someone to acquire control of First Bancshares. Under federal law, subject to certain exemptions, a person, entity, or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including First Bancshares shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take into account several factors, including the resources of the acquiror and the antitrust effects of the acquisition. There also are Mississippi statutory provisions and provisions in First Bancshares articles of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in First Bancshares articles of incorporation could result in First Bancshares being less attractive to a potential acquiror.

Securities issued by First Bancshares, including First Bancshares Common Stock, are not FDIC insured.

Securities issued by First Bancshares, including First Bancshares Common Stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC, the Deposit Insurance Fund, or any other governmental agency or instrumentality, or any private insurer, and are subject to investment risk, including the possible loss of principal.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies, and expectations, are generally identifiable by the use of the words anticipate, will, believe, may, could, would, should, es expect, intend, seek, or similar expressions. These forward-looking statements may address, among other things, our business plans, objectives or goals for future operations or expansion, the anticipated effects of the offering of the securities hereunder, our forecasted revenues, earnings, assets, or other measures of performance, or estimates of risks and future costs and benefits. Although these statements reflect our good faith belief based on current expectations, estimates and projections, they are subject to risks, uncertainties and assumptions, and are not guarantees of future performance. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this prospectus are described under Risk Factors and those factors include, but are not limited to:

- Our potential growth, including our entrance or expansion into new markets, and the support that growth;
- Changes in the quality or composition of our loan or investment portfolios, includi borrower industries or in the repayment ability of individual borrowers or issuers;
- An insufficient allowance for loan losses as a result of inaccurate assumptions abo
- The strength of the economies in our market areas, as well as general economic mark
- Changes in demand for loan products and financial services;
- Increased competition or market concentration;
- Concentration of credit exposure;
- Changes in interest rates, yield curves and interest rate spread relationships;
- New state or federal registration, regulations, or the initiation or outcome of lit
- Other circumstances, many of which may be beyond our control.

If one or more of these risks or uncertainties materialize, or if any of our underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from future results, performance or achievements expressed or implied by these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this section. We do not intend to and assume no responsibility for updating or revising any forward-looking statements contained in this prospectus, whether as a result of new information, future events, or otherwise.

USE OF PROCEEDS

We estimate that our net proceeds from our sale of the shares of common stock we are offering will be approximately $8 million assuming a public offering price of $22.50 per share, after expenses incurred in connection with the offering.

We will invest the net proceeds of the offering in our bank, where these proceeds would be available for general corporate purposes, including the bank s lending and investment activities associated with its current and anticipated growth. Specifically, the Company intends to pursue a branch expansion into the Harrison County, Mississippi market, as well as an additional branch expansion in the Picayune, Pearl River County, Mississippi market. Based upon the Company's prior experience and general knowledge of land, construction, and other costs in these areas, the expansions are expected to incur costs of approximately $4 million, or approximately $2 million per branch. In addition, the Company will use a portion of the proceeds to fund its acquisition of First National Bank of Wiggins in Stone County, Mississippi. Under the Agreement and Plan of Merger entered into with First National Bank of Wiggins ("FNB Wiggins") as of May 19, 2006 (discussed below), the Company is obligated to pay up to a maximum of $2,076,200 in cash to FNB Wiggins shareholders. This maximum payment represents fifty percent (50%) of the total Merger Consideration payable under the Agreement and Plan of Merger. We will retain the remaining net proceeds of approximately $2 million for our general corporate purposes and working capital to position us for future growth opportunities. Pending these uses, the net proceeds will be invested by us in our bank and in a variety of short-term assets, including federal funds, interest-bearing deposits in other banks and similar investments.

10

CAPITALIZATION

The following table sets forth our capitalization and certain capital ratios as of June 30, 2006. Our capitalization is presented on an actual basis and on an as adjusted basis to reflect the sale of 100%, 60% and 30% of the 365,000 shares of our common stock in this offering and our receipt of corresponding percentages of the $8.1 million in estimated maximum net proceeds from this offering, assuming a public offering price of $22.50 per share and after deducting the estimated expenses of the offering.

	As of June 30, 2006		
	Actual	Adjusted (Amount of Of 100%	60%
	(Dollars in thousands, except per share data)		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Noninterest-bearing	$55,142	$55,142	$55
Time, $100,000 or more	58,880	58,880	58
Interest-bearing	154,615	154,615	154
TOTAL DEPOSITS	268,637	268,637	268
Interest payable	665	665	
Borrowed funds	28,831	28,831	28
Subordinated debentures	11,217	11,217	11
Other liabilities	420	420	
TOTAL LIABILITIES	309,770	309,770	309
SHAREHOLDERS' EQUITY:			

Common stock, $1 par value. Authorized 10,000,000 shares; 2,406,124 issued at June 30, 2006.	2,406	2,771	2
Preferred stock, par value $1 per share, 10,000,000 shares authorized; no shares issued or outstanding	-	-	
Treasury stock, at cost, 26,494 shares at June 30, 2006.	(464)	(464)	(
Additional paid-in capital	12,067	19,886	16
Retained earnings	6,063	6,063	6
Accumulated other comprehensive income (loss)	(613)	(613)	(
TOTAL SHAREHOLDERS' EQUITY	19,459	27,643	24
	$329,229	$337,413	$334

11

PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND INFORMATION

Our common stock is currently traded on The Nasdaq Capital Market under the symbol FBMS. Prior to May 26, 2006, our common stock was traded on the over-the-counter bulletin board under the symbol FBMS and before early 2003, our common stock was not traded on any national exchange or other market. In addition, this chart reflects a two-for-one split of our common stock which was effectuated in the form of a 100% stock dividend on March 15, 2006.

The following table shows the high and low sales price information for our common stock for the quarters indicated. For the period following May 26, 2006, these sales prices are as reported on The Nasdaq Capital Market. For the period prior to May 26, 2006 these sales were prices as quoted on the OTCBB.

Year	Period	High	Low
2006:	First Quarter	$ 24.75	$ 15.50
	Second Quarter	26.85	19.95
	Third Quarter (Through Sept. 28, 2006	24.72	21.09
2005:	First Quarter	12.50	8.85
	Second Quarter	13.125	10.125
	Third Quarter	13.875	11.525
	Fourth Quarter	17.125	12.50
2004:	First Quarter	8.25	6.555
	Second Quarter	8.75	7.40
	Third Quarter	8.75	7.50
	Fourth Quarter	9.125	7.75

On September 25, 2006, the last reported sale price for our common stock on the Nasdaq Capital Market was $23.50 per share. The trading in our common stock has generally been limited and occurred at varying prices and may not have created an active market for our common stock. The prices at which trades occurred may not be representative of the actual value of our common stock. At September 28, 2006, we had approximately 1,074 shareholders of record.

Holders of our common stock are entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. In the first quarter of 2005 and 2006, the Company declared and paid dividends of $.10 and $.16 per common share, respectively. Prior to the first quarter of 2005 the Company declared and paid dividends in the first quarter of 2002 of $.05, in the first quarter of 2003 of $.05, and in the first quarter of 2004 of $.075 per common share. Our ability to pay dividends will depend on our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to our common stock, including our outstanding trust preferred securities and accompanying junior subordinated debentures, and other factors deemed relevant by our board of directors. In order to pay dividends to shareholders, we must receive cash dividends from our bank. As a result, our ability to pay future dividends will depend upon the earnings of our bank, its financial condition and its need for funds.

Moreover, there are certain regulations that restrict our bank s ability to pay dividends. A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless the bank has transferred to surplus no less than one-tenth of its net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. In addition, under FDICIA, the banks may not pay a dividend if, after paying the dividend, the bank would be undercapitalized. These policies and regulations may have the effect of reducing or eliminating the amount of dividends that we can declare and pay to our shareholders in the future.

SELECTED FINANCIAL DATA

The following table sets forth selected historical consolidated financial data from our consolidated financial statements and should be read in conjunction with our consolidated financial statements including the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations which are included elsewhere in this prospectus. The selected financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002, and 2001 is derived from our consolidated financial statements as audited by T.E.Lott & Company, our independent registered public accounting firm. The selected financial data as of and fo\r the six months ended June 30, 2006 and June 30, 2005 is derived from our unaudited consolidated financial statements for those periods. The unaudited consolidated financial statements include all adjustments, consisting only of normal recurring items, which our management considers necessary for a fair presentation of our financial position and results of operations for these periods. The financial condition and results of operations as of and for the six months ended June 30, 2006 do not purport to be indicative of the financial condition or results of operations to be expected as of or for the fiscal year ending December 31, 2006.

First Bancshares and Subsidiaries - Selected Financial Data

(In Thousands Except Per Share Amounts and Ratios)

	Six Months Ended June 30, (unaudited)		Year Ended Decemb			
	2006	**2005**	**2005**	**2004**	**2003**	**20**
Statements of earnings						
Interest income	10,392	7,020	15,692	11,014	10,486	9,8
Interest expense	3,816	2,347	5,542	3,199	3,177	3,7
Net interest income	6,576	4,673	10,150	7,815	7,309	6,1
Provision for possible loan Losses	294	437	921	672	468	3
Net interest income after provision for possible loan losses	6,282	4,236	9,229	7,143	6,841	5,7
Other operating income	1,123	892	1,682	1,963	1,772	1,6
Other operating expense	4,969	3,837	8,138	7,228	7,134	6,1
Income before income taxes	2,436	1,291	2,773	1,878	1,479	1,2

Income tax expense	688	432	864	635	472	4
Net income	1,748	859	1,909	1,243	1,007	8
Net income per share						
Primary	.74	.37	.81	.54	.43	.
Fully diluted	.69	.35	.77	.52	.42	.
Cash dividends per share	.16	.10	.10	.075	.05	.
Weighted average shares outstanding						
Primary	2,377,802	2,356,746	2,358,308	2,331,970	2,338,102	2,330,3
Fully diluted	2,536,381	2,473,480	2,488,890	2,406,682	2,414,484	2,407,2
Statements of condition - averages						
Total assets	316,485	239,343	252,913	186,440	161,039	147,2
Earning assets	291,826	219,682	231,565	168,474	143,345	131,6
Securities available for sale	57,275	26,618	30,971	24,725	25,121	23,1
Investment securities	57,288	26,632	30,985	24,740	25,141	23,1
Loans, net of unearned income	222,790	187,069	189,187	140,052	112,468	103,0
Deposits	262,605	188,869	199,389	139,264	119,910	115,6
Long-term debt	32,254	31,596	34,759	30,292	24,740	16,0
Total stockholders' equity	18,568	16,780	17,278	16,203	15,698	14,8
Selected ratios						
Return on average assets	1.10	.72	.75	.67	.63	.
Return on average equity	18.82	10.24	11.0	7.7	6.4	5
Net interest margin - tax equivalent	4.51	4.25	4.38	4.64	5.10	4.
*Efficiency ratio	64.54	68.95	68.78	73.92	78.56	78.
Loans to deposits	87.5	98.8	81.4	102.9	93.4	85
Allowance for possible loan losses to loans, net of unearned income	1.12	1.03	1.18	1.01	1.01	1.
Net charge-offs (recoveries) to average loans, net of unearned income	.03	.06	.11	.13	.47	.
Dividend payout	10.81	13.51	12.3	14.2	11.6	13
Average equity to average assets	5.87	7.01	6.8	8.7	9.7	10
Leverage ratio	8.45	9.8	8.0	10.8	12.7	12
Tier 1 risk-based	10.87	12.21	12.0	13.7	16.2	15
Total risk-based	13.69	13.27	12.4	14.6	18.6	19

*Excludes the effects of amortization of goodwill and core deposit intangibles.

Historical Per Share Information

The following table sets forth certain historical with respect to income per share, book value per share and cash dividends per share for the First Bancshares Common Stock. The information that follows should be read in conjunction with the audited historical financial statements and notes thereto of First Bancshares incorporated by reference herein.

Net Income (a)	
For the six months ended June 30, 2006	.74

For the year ended December 31,	
2005	.81
2004	.54
2003	.43
Cash Dividends (b)	
For the six months ended June 30, 2006	.16
For the year ended December 31,	
2005	.10
2004	.075
2003	.05
Book Value (c)	
As of June 30, 2006	8.18
As of December 31, 2005	7.70
As of December 31, 2004	7.08
As of December 31, 2003	6.64

(a) Net income per common share is based on weighted average common shares outstanding.
(b) Cash dividends represent historical cash dividends of First Bancshares.
(c) Book value per common share is based on total period-end shareholders' equity.

15

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Purpose

The purpose of management s discussion and analysis is to make the reader aware of the significant components, events, and changes in the consolidated financial condition and results of operations of the Company and its subsidiaries during the year ended December 31, 2005, and during the six months ended June 30, 2006. The Company s consolidated financial statements and related notes should also be considered.

Critical Accounting Policies

In the preparation of the Company s consolidated financial statements, certain significant amounts are based upon judgment and estimates. The most critical of these is the accounting policy related to the allowance for loan losses. The allowance is based in large measure upon management s evaluation of borrowers abilities to make loan payments, local and national economic conditions, and other subjective factors. If any of these factors were to deteriorate, management would update its estimates and judgments which may require additional loss provisions.

Overview

The Company was incorporated on June 23, 1995, and serves as a financial holding company for The First, A National Banking Association (The First), located in Hattiesburg, Mississippi. The First began operations on August 5, 1996, from its main office in the Oak Grove community, which is on the western side of Hattiesburg. The Company organized another bank, the First National Bank of the Pine Belt (Pine Belt) which was formed in Laurel, Mississippi, and began operations on January 19, 1999. In January, 2004, The First and Pine Belt merged into one bank. The First currently operates its main office and two branches in Hattiesburg, one in Laurel, one in Purvis, one in Picayune, and one in Pascagoula, Mississippi. In February, 2006, The First received approval from the Office of the Comptroller of the Currency to open a branch in

Bay St. Louis, MS. The Company and its subsidiary bank engages in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns, and individuals. The First is a wholly-owned subsidiary bank of the Company.

The Company s primary source of revenue is interest income and fees, which it earns by lending and investing the funds which are held on deposit. Because loans generally earn higher rates of interest than investments, the Company seeks to employ as much of its deposit funds as possible in the form of loans to individuals, businesses, and other organizations. To ensure sufficient liquidity, the Company also maintains a portion of its deposits in cash, government securities, deposits with other financial institutions, and overnight loans of excess reserves (known as federal funds sold) to correspondent banks. The revenue which the Company earns (prior to deducting its overhead expenses) is essentially a function of the amount of the Company s loans and deposits, as well as the profit margin (interest spread) and fee income which can be generated on these amounts.

16

YEAR-END ANALYSIS

The Company grew from approximately $212.4 million in total assets, $164.4 million in loans, $156.8 million in deposits, and $16.7 million in shareholders equity at December 31, 2004 to approximately $294.4 million in total assets, $200.3 million in loans, $241.9 million in deposits, and $18.5 million in shareholders equity at December 31, 2005. The First reported net income of $2,138,000 and $1,361,000 for the years ended December 31, 2005, and 2004, respectively. For the years ended December 31, 2005 and 2004, the Company reported consolidated net income of $1,909,000 and $1,243,000, respectively. The following discussion should be read in conjunction with the Selected Consolidated Financial Data and the Company s Consolidated Financial Statements and the Notes thereto and the other financial data included elsewhere.

The following table demonstrates the Company s growth during each calendar year.

SELECTED CONSOLIDATED FINANCIAL HIGHLIGHTS
(Dollars In Thousands, Except Per Share Data)

	December 31,			
	2005	2004	2003	2002
Earnings:				
Net interest income	$ 10,150	$ 7,815	$ 7,309	$ 6,136
Provision for loan losses	921	672	468	369
Noninterest income	1,682	1,963	1,772	1,690
Noninterest expense	8,138	7,228	7,134	6,180
Net income	1,909	1,243	1,007	864
Per Share Data:				
Basic net income per share	$ 1.62	$ 1.07	$ .86	$ .74
Diluted net income per share	1.53	1.03	.83	.72
Selected Year End Balances:				
Total assets	$294,390	$212,396	$164,941	$157,427
Securities	50,660	28,522	31,445	25,895
Loans, net of allowance	197,943	162,716	114,076	106,541
Deposits	241,949	156,830	121,698	118,121
Stockholders' Equity	18,478	16,740	15,651	14,923

Results of Operations

The following is a summary of the results of operations by the subsidiary bank for the years ended December 31, 2005 and 2004.

	2005
	(In thousan
Interest income	$ 15,676
Interest expense	5,163
Net interest income	10,513
Provision for loan losses	921
Net interest income after provision for loan losses	9,592
Other income	1,619
Other expense	8,037
Income tax expense	1,036
Net income	$ 2,138

The following reconciles the above table to the amounts reflected in the consolidated financial s
December 31, 2005 and 2004:

	2005
	(In thousa
Net interest income:	
Net interest income of subsidiary bank	$ 10,513
Intercompany eliminations	(363)
	$ 10,150
Net income:	
Net income of subsidiary bank	$ 2,138
Net loss of the Company, excluding intercompany accounts	$ (229)
	$ 1,909

Consolidated Net Income

The Company reported consolidated net income of $1,909,000 for the year ended December 31, 2005, compared to a consolidated net income of $1,243,000 for the year ended December 31, 2004. This was the result of an increase in interest income due to the continued growth of earning assets. The increases in income were partially offset by a net increase in noninterest expense of $910,000, which was the result of anticipated staff additions and other operating costs related to the growth of the subsidiary bank and the opening of the new location in Pascagoula.

Consolidated Net Interest Income

The largest component of net income for the company is net interest income, which is the difference between the income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on the Company s interest-earning assets and the rates paid on its interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

Consolidated net interest income was $10,150,000 for the year ended December 31, 2005, as compared to $7,815,000 for the year ended December 31, 2004. This increase was the direct result of an increase in average earning assets for the year 2005 to $231,565,000 compared to $168,474,000 for the year 2004. This increase in earning assets was funded by an increase in deposits and by Federal Home Loan Bank (FHLB) borrowings. Deposits at December 31, 2005, totaled $241,949,000 compared to $156,830,000 at December 31, 2004. Average interest-bearing liabilities for the year 2005 were $195,382,000 compared to $141,599,000 for the year 2004. At December 31, 2005, the net interest spread, the difference between the yield on earning assets and the rates paid on interest-bearing liabilities, was 3.94% compared to 4.28% at December 31, 2004. The net interest margin (which is net interest income divided by average earning assets) was 4.38% for the year 2005 compared to 4.64% for the year 2004. Rates paid on average interest-bearing liabilities increased from 2.26% for the year 2004 to 2.84% for the year 2005. Interest earned on assets and interest accrued on liabilities is significantly influenced by market factors, specifically interest rates as set by Federal agencies. Average loans comprised 81.7% of average earning assets for the year 2005 compared to 83.1% for the year 2004.

Average Balances, Income and Expenses, and Rates. The following tables depict, for the periods indicated, certain information related to the average balance sheet and average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

Average Balances, Income and Expenses, and Rates

	Years Ended December 31,					
	2005			2004		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
				(Dollars in thousands)		
Assets						
Earning Assets						
Loans (1) (2)	$189,187	$14,097	7.45%	$ 140,052	$10,143	7.2
Tax exempt securities.............	30,985	1,170	3.78%	24,740	814	3.2
Federal funds sold...............	10,564	388	3.67%	2,942	39	1.3
Other............................	829	37	4.46%	740	17	2.3
Total earning assets.......	231,565	15,692	6.78%	168,474	11,013	6.5
Cash and due from banks............	8,380			5,498		
Premises and equipment.............	8,478			8,382		
Other assets.......................	6,507			5,442		
Allowance for loan losses........	(2,017)			(1,356)		
Total assets.....................	$252,913			$186,440		
Liabilities						
Interest-bearing liabilities	$195,382	$ 5,543	2.84%	$141,599	$ 3,198	2.2
Demand deposits (1)................	38,766			27,957		
Other liabilities..................	1,487			681		
Shareholders' equity...............	17,278			16,203		

Total liabilities and shareholders' equity...........................	$252,913		$186,440	
Net interest spread................		3.94%		4.2
Net yield on interest-earning assets	$ 10,149	4.38%	$ 7,815	4.6

(1) All loans and deposits were made to borrowers in the United States. The Company had no during the periods presented. Loans include held for sale loans.
(2) Includes loan fees of $755, $891, and $1,652, respectively.

Analysis of Changes in Net Interest Income. The following table presents the consolidated dollar amount of changes in interest income and interest expense attributable to changes in volume and to changes in rate. The combined effect in both volume and rate which cannot be separately identified has been allocated proportionately to the change due to volume and due to rate.

Analysis of Changes in Consolidated Net Interest Income

	Year Ended December 31,			Year Ended December 31		
	2005 versus 2004 Increase (decrease) due to			2004 versus 2003 Increase (decrease) due		
	Volume	**Rate**	**Net**	**Volume**	**Rate**	**N**
	(Dollars in thousands)					
Earning Assets						
Loans..........................	$ 3,557	$ 397	$3,954	$ 2,369	$(1,882)	$
Securities.....................	205	151	356	(12)	61	
Federal funds sold	247	102	349	(18)	11	
Other short-term investments....	2	18	20	(2)	-	
Total interest income........	4,011	668	4,679	2,337	(1,810)	
Interest-Bearing Liabilities						
Interest-bearing transaction accounts.....................	56	223	279	6	(25)	
Money market accounts...........	155	175	330	36	82	
Savings deposits................	36	88	124	11	10	
Time deposits..................	680	585	1,265	(78)	(283)	
Borrowed funds.................	35	312	347	522	(260)	
Total interest expense.......	962	1,383	2,345	497	(476)	
Net interest income............	$3,049	$ (715)	$2,334	$ 1,840	$(1,334)	

Interest Sensitivity. The Company monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on its net interest income. A monitoring technique employed by the Company is the measurement of the Company s interest sensitivity gap, which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. The Company also performs asset/liability modeling to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. The Company evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and repricing, funding sources and pricing, and off-balance sheet commitments in order to decrease interest rate sensitivity risk.

The following tables illustrate the Company s consolidated interest rate sensitivity and consolidated cumulative gap position at December 31, 2003, 2004, and 2005.

	December 31, 2003			
	Within Three Months	After Three Through Twelve Months	Within Within One Year	Greate Than One Year Nonsensiti
	(Dollars in thousands)			
Assets				
Earning Assets:				
Loans	$ 36,277	$ 25,077	$ 61,354	$ 53,88
Securities (2)	9,833	323	10,156	21,14
Funds sold and other	518	301	819	
Total earning assets	46,628	25,701	72,329	75,02
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
NOW accounts (1)	$ -	$ 17,340	$ 17,340	$
Money market accounts	18,103	-	18,103	
Savings deposits (1)	-	3,457	3,457	
Time deposits	14,744	21,538	36,282	26,52
Total interest-bearing deposits	32,847	42,335	75,182	26,52
Borrowed funds	3,954	3,903	7,857	12,12
Total interest-bearing liabilities	36,801	46,238	83,039	38,65
Interest-sensitivity gap per period	$ 9,827	$ (20,537)	$(10,710)	$36,37
Cumulative gap at December 31, 2003	$ 9,827	$ (10,710)	$(10,710)	$25,66
Ratio of cumulative gap to total earning assets at December 31, 2003	6.67%	(7.27%)	(7.27%)	17.42

December 31, 2004

	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year Nonsensiti
	(Dollars in thousands)			
Assets				
Earning Assets:				
Loans.............................	$ 69,419	$ 23,899	$ 93,318	$ 71,05
Securities (2)....................	6,042	3,968	10,010	18,36
Funds sold and other..............	1,267	302	1,569	-
Total earning assets............	76,728	28,169	104,897	89,41
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
NOW accounts (1)..................	$ -	$ 26,100	$ 26,100	$
Money market accounts.............	28,757	-	28,757	
Savings deposits (1)	-	7,129	7,129	
Time deposits.....................	14,082	24,790	38,872	25,60
Total interest-bearing deposits.	42,839	58,019	100,858	25,60
Borrowed funds......................	6,355	5,213	11,568	19,28
Total interest-bearing liabilities	49,194	63,232	112,426	44,89
Interest-sensitivity gap per period...	$ 27,534	$ (35,063)	$ (7,529)	$44,52
Cumulative gap at December 31, 2004...	$ 27,534	$ (7,529)	$ (7,529)	$36,99
Ratio of cumulative gap to total earning assets at December 31, 2004	14.17%	(3.87%)	(3.87%)	19.04

24

	December 31, 2005			
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year Nonsensiti
	(Dollars in thousands)			
Assets				
Earning Assets:				
Loans.............................	$ 81,679	$ 29,211	$110,890	$ 89,41
Securities (2)....................	9,110	5,650	14,760	35,75
Funds sold and other..............	16,639	105	16,744	
Total earning assets............	107,428	34,966	142,394	125,16
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
NOW accounts (1)..................	$ -	$ 29,160	$ 29,160	$
Money market accounts.............	33,122	-	33,122	
Savings deposits (1)	-	17,786	17,786	

Time deposits....................	11,832	74,169	86,001	26,29
Total interest-bearing deposits.	44,954	121,115	166,069	26,29
Borrowed funds......................	-	3,999	3,999	21,46
Total interest-bearing liabilities	44,954	125,114	170,068	47,76
Interest-sensitivity gap per period...	$62,474	$ (90,148)	$(27,674)	$ 77,40
Cumulative gap at December 31, 2005...	$62,474	$ (27,674)	$(27,674)	$ 49,73
Ratio of cumulative gap to total earning assets at December 31, 2005	23.3%	(10.3%)	(10.3%)	18.6

(1) NOW and savings accounts are subject to immediate withdrawal and repricing. These deposits immediately react to changes in interest rates and the Company believes these deposits are a funding source. Therefore, these deposits are included in the repricing period that managem matches the periods in which they are likely to reprice rather than the period in which the contractually.
(2) Securities include mortgage backed and other installment paying obligations based upon state

The Company generally would benefit from increasing market rates of interest when it has an asset-sensitive gap and generally from decreasing market rates of interest when it is liability sensitive. The Company currently is liability sensitive within the one-year time frame. However, the Company's gap analysis is not a precise indicator of its interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates such as those paid on non-core deposits. Accordingly, management believes a liability sensitive-position within one year would not be as indicative of the Company's true interest sensitivity as it would be for an organization which depends to a greater extent on purchased funds to support earning assets. Net interest income is also affected by other significant factors, including changes in the volume and mix of earning assets and interest-bearing liabilities.

Provision and Allowance for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events which it believes to be reasonable, but which may not prove to be accurate, particularly given the Company's short operating history and rapid growth. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

Additions to the allowance for loan losses, which are reported as the provision for loan losses on the Company's consolidated statements of income, are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The allowance consists of two components: allocated and unallocated. The allocated portion of the allowance is based upon specific allocations to specific loans, including impaired loans, and upon historical loan loss experience of the bank and its peer group ratios. Because the subsidiary bank was recently formed and has not yet established a reliable long term loss experience, management has elected to consider the loss experience of the bank's peer groups in determining an appropriate allowance based upon internal loan grades.

In August 2005, the bank's service area was impacted by Hurricane Katrina. In a significant portion of the service area, the damage can best be described as moderate; however, in our Pascagoula, Mississippi, branch location, the damage can be described as severe. The impact of damage caused by Hurricane Katrina on the quality of the bank's loan portfolio and the related loan loss exposure is extremely difficult to estimate and the situation has created an uncertainty in this regard. The uncertainty arises out of a number of circumstances over which the bank has no control and, at present, an inability to reasonably estimate an effect. The more significant uncertainties are: possible damage to or destruction of assets providing collateral to loans; continuing unresolved issues with insurance companies claiming no liability for damage to insured properties because of flooding, which is not covered under conventional residential and building policies; unknown number of business and individual bank borrowers impacted by business interruptions and related unemployment; and the unknown number of business borrowers that have lost, at least temporarily, a majority of their customer base. In addition, government officials and banking regulators have requested the Bank to extend or renew loans directly impacted by the Hurricane that might have otherwise been considered past due. As a result of this matter, the bank has increased its allowance for loan losses over that which would have resulted from utilization of its historical methodology by $300,000. The ultimate resolution of this matter may have a significant impact on the financial statements of the period in which the matters are resolved, however, as of June 30, 2006, no loss or increased delinquency can be attributed to loans affected by Hurricane Katrina.

The unallocated component reflects management's estimate of the probable inherent but undetected losses within the portfolio due to uncertainties about economic conditions, changes in collateral values and borrower financial condition, as well as other risk factors that have not yet manifested themselves. The unallocated component is based upon the level of the allowance of the bank's peer groups.

The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the allowance during a given period, and current and anticipated economic conditions.

A Roman" SIZE="2">

Long-term inventories:		
Finished goods	2,997	2,554
Total inventories	$96,598	$83,441

Long-term inventories are recorded in other assets. The lower of cost or market adjustment was $4.0 million at March 31, 2011 and $4.5 million at December 31, 2010.

3. 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.

5

Table of Contents

The authoritative guidance establishes a fair value hierarchy which 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 March 31, 2011	Level 1	Level 2	Level 3
Financial Assets				
Escrow account	$ 2,726	$ 2,726	$	$
Deferred compensation plan assets	4,584	4,584		
Total Assets	$ 7,310	$ 7,310	$	$
Financial Liabilities				
Derivatives	$ (1,011)	$	$ (1,011)	$

Description	Balance at December 31, 2010	Level 1	Level 2	Level 3
Financial Assets				
Escrow account	$ 2,726	$ 2,726	$	$
Deferred compensation plan assets	4,560	4,560		
Total Assets	$ 7,286	$ 7,286	$	$
Financial Liabilities				
Derivatives	$ (622)	$	$ (622)	$

4. 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. These derivative contracts are consistent with the Company s strategy for financial risk management. The Company uses cash flow hedge accounting treatment for qualifying foreign currency forward contracts. The Company initially reports any gain or loss on the effective portion of a cash flow hedge as a component of other comprehensive income and subsequently reclassifies any gain or loss to net sales when the hedged revenues are recorded. Instruments that do not qualify for cash flow hedge accounting treatment are re-measured at fair value on each balance sheet date and resulting gains and losses are recognized in net income. As of March 31, 2011 and December 31, 2010, the total notional amount of the derivative contracts not designated as hedges was $1.0 million (CAD$1.0 million) and $1.3 million (CAD$1.3 million), respectively. As of March 31, 2011 and December 31, 2010, the total notional amount of the derivative contracts designated as hedges was $16.3 million (CAD$15.8 million) and $15.1 million (CAD$15.0 million), respectively.

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 the derivatives are designated 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 fair values or cash flows of hedged items. The effective portion of these hedged items is reflected in other comprehensive income (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.

Though most Canadian forward contracts have maturities not longer than 12 months at March 31, 2011, two of the Company s contracts at that date with a total notional value of $3.6 million (CAD$3.4 million) have maturities greater than 12 months, with the greatest maturity being 18 months.

Table of Contents

The balance sheet location and the fair values of derivative instruments are:

Foreign Currency Forward Contracts	March 31, 2011	December 31, 2010
	(in thousands)	
Liabilities		
Derivatives designated as hedging instruments		
Accrued liabilities	$ 320	$ 317
Derivatives not designated as hedging instruments		
Accrued liabilities	691	305
Total liabilities	$ 1,011	$ 622

The amounts of the gains and losses related to the Company s derivative contracts designated as hedging instruments for the three months ended March 31, 2011 and March 31, 2010 are (in thousands):

	March 31, 2011				
	Pretax Loss Recognized in Comprehensive Income on Effective Portion of Derivative	Pretax Loss Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Loss on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	Location	Amount
Foreign currency forward contracts	$ (253)	Net sales	$ (248)	Net sales	$ (25)

	March 31, 2010				
	Pretax Loss Recognized in Comprehensive Income on Effective Portion of Derivative	Pretax Gain Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Loss on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	Location	Amount
Foreign currency forward contracts	$ (134)	Net sales	$ (104)	Net sales	$ 20

At March 31, 2011, the effective portion of our cash flow hedges was a pretax loss of $287,000, all of which is expected to be reclassified from comprehensive income to net sales within the next 12 months.

For the three months ended March 31, 2011, losses from our derivative contracts not designated as hedging instruments recognized in net sales were $0.2 million. For the three months ended March 31, 2010, losses from our derivative contracts not designated as hedging instruments recognized in net sales were $0.4 million.

5. Commitments and Contingencies

Securities Litigation. On November 20, 2009, a complaint against the Company, captioned *Richard v. Northwest Pipe Co. et al*., No. C09-5724 RBL, was filed in the United States District Court for the Western District of Washington. The plaintiff is allegedly a purchaser of the Company s stock. In addition to the Company, Brian W. Dunham, the Company s former President and Chief Executive Officer, and Stephanie J. Welty, the Company s former Chief Financial Officer, are named as defendants. The complaint alleges that defendants violated Section 10(b) of the Securities Exchange Act of 1934 by making false or misleading statements between April 23, 2008 and November 11, 2009. Plaintiff seeks to represent a class of persons who purchased the Company s stock during the same period, and seeks damages for losses caused by the alleged wrongdoing.

Table of Contents

A similar complaint, captioned *Plumbers and Pipefitters Local Union No. 630 Pension-Annuity Trust Fund v. Northwest Pipe Co. et al.*, No. C09-5791 RBL, was filed against the Company in the same court on December 22, 2009. In addition to the Company, Brian W. Dunham, Stephanie J. Welty and William R. Tagmyer, the Company s current Chairman of the Board, are named as defendants in the *Plumbers* complaint. In the *Plumbers* complaint, as in the *Richard* complaint, the plaintiff is allegedly a purchaser of the Company s stock and asserts that defendants violated Section 10(b) of the Securities Exchange Act of 1934 by making false or misleading statements between April 23, 2008 and November 11, 2009. Plaintiff seeks to represent a class of persons who purchased the Company s stock during that period, and seeks damages for losses caused by the alleged wrongdoing.

The *Richard* action and the *Plumbers* action were consolidated on February 25, 2010. Plumbers and Pipefitters Local No. 630 Pension-Annuity Trust Fund was appointed lead plaintiff in the consolidated action. Defendants and lead plaintiff subsequently agreed that defendants did not need to respond immediately to either of the two outstanding complaints, and that a consolidated amended complaint would be filed within 45 days of us having completed the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 and our 2009 Form 10-K with the SEC. A consolidated amended complaint was filed by the plaintiff on December 21, 2010, and our motion to dismiss was filed on February 25, 2011, as were similar motions filed by the individual defendants. Under the scheduling order currently in effect, briefing on those motions will conclude by May 24, 2011. We intend to vigorously defend ourselves against these claims. This securities litigation is at an early stage and, at this time, it is not possible to predict its outcome. Therefore, we have not accrued any charges related to this litigation.

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

Neither the Company nor the defendants are required to respond to the current complaint. Pursuant to an agreement among the parties, the Court on February 15, 2011, entered an Order staying the *Ruggles* action until after the same Court has ruled on the motions to dismiss the securities class action described above. Any amended complaint in the *Ruggles* action would be due within 45 days after such a ruling. It should also be noted that derivative claims by their nature do not seek to recover damages from us, but purport instead to seek to recover damages for the benefit of us. This litigation is at a very early stage and, at this time, it is not possible to predict its outcome. Therefore, we have not accrued any charges related to this litigation.

SEC Investigation. On March 8, 2010, the staff of the Enforcement Division of the SEC issued a formal order of investigation and a subpoena for the production of documents. The Company is cooperating with the SEC, but does not know when the inquiry and investigation will be resolved or what, if any, actions the SEC may require as part of that resolution. Any action by the SEC or other governmental agency could result in civil or criminal sanctions against the Company and/or certain of its current or former officers, directors and/or employees. The investigation is at an early stage and, at this time, it is not possible to predict its outcome. Therefore, the Company has not accrued any charges related to this investigation.

Environmental Litigation. On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor was included on the National Priorities List at the request of the U.S. Environmental Protection Agency (the EPA). While the Company s Portland, Oregon manufacturing facility does not border the Willamette River, an outfall from the facility s storm water system drains into a neighboring property s privately owned slip. The Company and approximately 140 other parties have been notified by the EPA and the Oregon Department of Environmental Quality (the ODEQ) of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). As of March 2011, approximately 326 entities on and nearby the river have been asked to file information disclosure reports with the EPA. By agreement with the EPA, the ODEQ is responsible with overseeing remedial investigation and source control activities for all upland sites to prevent future contamination to the river. A remedial investigation and feasibility study of the Portland Harbor is currently being directed by a group of potentially responsible parties known as the Lower Willamette Group (the LWG). The Company made a payment of $175,000 to the LWG in June 2007 as part of an interim settlement, and is under no obligation to make any further payment. A draft remedial investigation report was submitted to the EPA by the LWG in the fall of 2009; the final remediation investigation is expected to be complete in 2011. The feasibility study is underway, and a draft is expected to be completed by the LWG in 2011.

In 2001, groundwater containing elevated organic compounds (VOCs) was identified in one localized area of the Company s property furthest from the river. Assessment work in 2002 and 2003 to further characterize the groundwater is consistent with the initial conclusion that the source of the VOC s is located off of Company-owned property. In February 2005, the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures (Agreement) with the ODEQ. The Company is one of 90 Upland Source Control Sites working with the ODEQ on Source Control and is ranked a medium priority. The Company performed Remedial Investigation work required under the

Agreement and submitted a draft Remedial Investigation/Source Control Evaluation Report on December 30, 2005. The conclusions of the report indicated that the VOCs found in the groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River. The report also indicated there is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments. In 2009, the ODEQ requested the Company to revise its Remedial Investigation/Source Control Evaluation Report to include recent information available related to nearby properties. ODEQ approved the Company s remediation plan in August 2010.

Also, based on the remedial investigation and reporting required under the Portland, Oregon manufacturing facility s National Pollutant Discharge Elimination System permit for storm water, the Company and the ODEQ have identified small amounts of polynuclear aromatic compounds and polychlorinated biphenyls and have periodically identified trace amounts of zinc in storm water. Storm water from the Portland, Oregon manufacturing facility site is discharged to a neighboring property s privately owned slip, as is storm water from surrounding industrial properties. The slip was historically used for shipbuilding and subsequently for ship breaking and metal recycling. Studies of the river sediments have revealed concentration of polynuclear aromatic compounds, polychlorinated biphenyls and zinc, which are common constituents in urban storm water discharges. To minimize the zinc traces in its storm water, the Company painted a substantial part of the Portland facility s roofs and made certain paving improvements at the Portland facility. In June 2009, under the ODEQ Agreement, the Company submitted a Final Supplemental Work Plan to evaluate and assess soil and storm water, and further assess groundwater risk. The Company is working with the City of Portland and the ODEQ to facilitate further soil and storm water source control measures. Expected expenditures in 2011 are approximately $1.9 million to address these issues.

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

The Trustees have encouraged potentially responsible parties to voluntarily participate in the funding of their injury assessments. In 2009, one of the Tribal Trustees (the Yakima Nation) resigned and has requested funding from the same parties to support its own assessment. The Company has not assumed any payment obligation or liability related to either request. The extent of the Company s obligation with respect to Portland Harbor matters is not known, and no further adjustment to the consolidated financial statements has been recorded as of March 31, 2011.

We operate our facilities under numerous governmental permits and licenses relating to air emissions, storm water run-off, and other environmental matters. Our 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. We believe we are in material compliance with our permits and licenses and these laws and regulations, and we do not 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.

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. 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 $11.2 million at March 31, 2011. The stand-by letters of credit relate to workers compensation insurance and certain suppliers.

6. Segment Information

The Company s operations are organized in two reportable segments, the Water Transmission Group and the Tubular Products Group, which are based on the nature of the products and the manufacturing process. The Water Transmission Group manufactures large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, 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, agricultural and traffic signpost systems. These 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.

9

Table of Contents

	Three months ended March 31, 2011	2010
	(in thousands)	
Net sales:		
Water Transmission	$ 58,645	$ 52,685
Tubular Products	52,813	27,697
Total	$ 111,458	$ 80,382
Gross profit:		
Water Transmission	$ 10,191	$ 6,673
Tubular Products	5,393	2,424
Total	$ 15,584	$ 9,097
Operating income:		
Water Transmission	$ 8,557	$ 4,656
Tubular Products	4,368	1,854
Corporate	(4,656)	(4,058)
Total	$ 8,269	$ 2,452

7. 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 and performance awards. In addition, the Company has two inactive stock option plans, the 1995 Stock Option Plan for Nonemployee Directors and the Amended 1995 Stock Incentive Plan, under which previously granted options remain outstanding.

The Company recognizes compensation cost as service is rendered based on the fair value of the awards. The following summarizes share-based compensation expense recorded:

	Three months ended March 31, 2011	2010
	(in thousands)	
Cost of sales	$ 5	$ 27
Selling, general and administrative expenses	213	466
Total	$ 218	$ 493

As of March 31, 2011, unrecognized compensation expense related to the unvested portion of the Company s restricted stock units and performance awards was $321,000, which is expected to be recognized over a weighted average period of 1.2 years.

10

Table of Contents

Stock Option Awards

A summary of the status of the Company s stock options as of March 31, 2011 and changes during the three months then ended is presented below:

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Balance, January 1, 2011	145,209	$ 17.64		
Options granted				
Options exercised or exchanged	(2,215)	15.97		
Options canceled				
Balance, March 31, 2011	142,994	17.67	2.48	$ 875
Exercisable, March 31, 2011	142,994	17.67	2.48	$ 875

The total intrinsic value, defined as the difference between the current market value and the grant price, of options exercised or exchanged during the three months ended March 31, 2011 was $17,000.

Restricted Stock Units and Performance Awards

A summary of the status of the Company s restricted stock units and performance awards as of March 31, 2011 and changes during the three months then ended is presented below:

	Number of Restricted Stock Units and Performance Awards	Weighted Average Grant Date Fair Value
Unvested restricted stock units and performance awards at January 1, 2011	55,843	$ 37.00
Restricted stock units and performance awards granted	18,000	23.79
Restricted stock units and performance awards vested	(14,980)	37.66
Restricted stock units and performance awards canceled	(8,254)	37.97
Unvested restricted stock units and performance awards at March 31, 2011	50,609	31.95

Restricted stock units (RSU s) and performance stock awards (PSA s) are measured at market value on the date of grant. RSU s are service-based awards and generally vest equally over a three-year period. PSA s are performance and service-based awards. PSA s are awarded at the end of a three-year performance period, if certain performance objectives are met, and vest equally over a two-year period. The Company recognizes compensation expense related to the performance awards based on the probable outcome of the performance conditions.

8. 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 U.S. Federal, state or foreign income tax examinations for years before 2007.

The Company had $125,000 of unrecognized tax benefits at March 31, 2011 and December 31, 2010. The Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will change significantly in the following twelve months; however, actual results could differ from those currently expected.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company provided for income taxes at estimated effective tax rates of 38.7% and 47.1% for the three month periods ended March 31, 2011 and March 31, 2010, respectively.

Table of Contents

9. Comprehensive Income

Comprehensive income is reconciled to net income for the three months ended March 31, 2011 and 2010 as follows:

	Three Months Ended March 31, 2011	2010
	(In thousands)	
Net income	$ 3,566	$ 1,056
Pension liability adjustment, net of tax	44	44
Unrealized gain (loss) on derivative financial instruments, net of tax	19	(30)
Total comprehensive income	$ 3,629	$ 1,070

10. Earnings per Share

Net income per basic and diluted weighted average common share outstanding was calculated as follows for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	2010
Net income (in thousands)	$ 3,566	$ 1,056
Basic weighted-average common shares outstanding	9,304,481	9,249,240
Effect of potentially dilutive common shares(1)	39,339	92,772
Diluted weighted-average common shares outstanding	9,343,820	9,342,012
Net income per common share:		
Net income per basic common share	$ 0.38	$ 0.11
Net income per diluted common share	$ 0.38	$ 0.11
Antidilutive shares not included in diluted common share calculation	45,600	13,117

(1) Represents the effect of the assumed exercise of stock options and the vesting of restricted stock units and performance stock awards, based on the treasury stock method.

11. Recent Accounting and Reporting Developments

In December 2010, the FASB issued amendments that modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. These amendments were effective January 1, 2011. The adoption of this guidance did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

12. Subsequent Events

On April 1, 2011, the Company sold its interest in NWPA for $0.8 million. Under the terms of the sales agreement, $0.3 million was due at signing, $0.3 million is due on or before June 30, 2011 and $0.2 million is due on or before August 18, 2011.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Management s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Report contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 and Section 21E of the Exchange Act that are based on current expectations, estimates and projections about our business, management s beliefs, and assumptions made by management. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, forecasts, should, could , and variations of such 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, excess or shortage of production capacity, international trade policy and regulations and other risks discussed in our 2010 Form 10-K and from time to time in our other Securities and Exchange Commission 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 Report. 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.

Overview

We are a leading North American manufacturer of large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems, and we also manufacture other welded steel pipe products for use in a wide range of applications, including energy, construction, agriculture, industrial and traffic signpost systems. Our pipeline systems are also used for hydroelectric power systems, wastewater systems and other applications, and we also make products for industrial plant piping systems and certain structural applications. These pipeline systems are produced by our Water Transmission Group from seven manufacturing facilities located in Portland, Oregon; Denver, Colorado; Adelanto, California; Parkersburg, West Virginia; Saginaw, Texas; Pleasant Grove, Utah; and Monterrey, Mexico. Our Water Transmission Group accounted for approximately 53% of net sales in the first three months of 2011.

Our water infrastructure products are generally sold to installation contractors, who include our products in their bids to municipal agencies or privately-owned water companies for specific projects. Within the total pipeline, our products best fit the larger-diameter, higher-pressure applications. We believe our sales are substantially driven by spending on new water infrastructure with additional spending on water infrastructure upgrades, replacements, and repairs. Pricing of our water infrastructure products is largely determined by the competitive environment in each regional market, and the regional markets generally operate independently of each other. We operate our Water Transmission business with a long-term time horizon. Projects are often planned for many years in advance, and are sometimes part of fifty-year build out plans. However, in the near-term, we expect strained municipal budgets will impact the Water Transmission Group.

Our Tubular Products Group manufactures other welded steel products in three facilities: Atchison, Kansas; Houston, Texas; and Bossier City, Louisiana. We produce a range of products used in several different markets. We currently make pipe for a wide variety of uses, including energy, industrial, construction, agricultural, and traffic signpost systems, which are sold to distributors and used in many different applications. Our Tubular Products Group s sales volume is typically driven by energy spending, non-residential construction spending, highway spending and general economic conditions. We believe the greatest potential for significant sales growth in our Tubular Products Group is through our energy products. Our Tubular Products Group generated approximately 47% of net sales in the first three months of 2011.

Purchased steel represents a substantial portion of our cost of sales, and changes in our selling prices often correlate directly to changes in steel costs. This correlation is the greatest in our Tubular Products Group. Tubular Products margins are highly sensitive to changes in steel costs, although the amounts of margins are also influenced by the current level of demand in the marketplace.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. As discussed in our Form 10-K for the year ended December 31, 2010, we performed our annual goodwill impairment analysis as of December 31, 2010 and determined no impairment had occurred. A description of all other critical accounting policies and related judgments and estimates that affect the preparation of our consolidated financial statements is set forth in our Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

Recent Accounting Pronouncements

See Note 11 of the Condensed Consolidated Financial Statements in Part I Item I, Financial Statements for a description of recent accounting pronouncements, including the dates of adoption and estimated effects on financial position, results of operations and cash flows.

Results of Operations

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

	Three months ended March 31, 2011	2010
Net sales		
Water Transmission	52.6%	65.5%
Tubular Products	47.4	34.5
Total net sales	100.0	100.0
Cost of sales	86.0	88.7
Gross profit	14.0	11.3
Selling, general and administrative expense	6.6	8.2
Operating income	7.4	3.1
Other (income) expense	0.1	(0.8)
Interest income	(0.0)	(0.3)
Interest expense	2.1	1.7
Income before income taxes	5.2	2.5
Provision for income taxes	2.0	1.2
Net income	3.2%	1.3%
Gross profit as a percentage of segment net sales:		
Water Transmission	17.4%	12.7%
Tubular Products	10.2	8.8

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Net sales. Net sales increased 38.7% to $111.5 million for the first quarter of 2011 compared to $80.4 million for the first quarter of 2010. One customer in the Tubular Products segment accounted for 10.9% of total net sales in the first quarter of 2011. No single customer accounted for 10% of net sales in the first quarter of 2010.

Water Transmission sales increased by 11.3% to $58.6 million in the first quarter of 2011 from $52.7 million in the first quarter of 2010. The increase in sales in the first quarter of 2011 compared to the first quarter of 2010 was due to a 23% increase in selling prices per ton partially offset by a 10% decrease in volume. The increase in selling prices per ton in the first three months of 2011 was due to an increase in steel costs over 2010 and our mix of contracts produced during the quarter. Higher steel costs generally lead to higher contract values. Steel prices are discussed further in the gross margin analysis. The decrease in volume also resulted from continued weakness of municipal markets. Bidding activity, backlog and production levels may vary significantly from period to period affecting sales volumes.

Tubular Products sales increased 90.7% to $52.8 million in the first quarter of 2011 from $27.7 million in the first quarter of 2010. The sales increase in the first quarter of 2011 as compared to the first quarter of 2010 was due to a 65% increase in tons sold and a 16% increase in selling price per ton. The most significant increase in demand was the result of increases in natural gas and oil drilling operations, with energy pipe representing 94% of the total Tubular Product volume increase in the first quarter of 2011 compared to the first quarter of 2010. In the first quarter of 2010, there were large amounts of imported energy pipe in the U.S. As import duties imposed by the U.S. Government took effect in the second quarter of 2010, volumes of energy pipe imported in the U.S. declined, leading to the higher volumes and profits in the first quarter of 2011. With the increase in demand, we installed manufacturing equipment in our Bossier City, Louisiana facility in 2010, increasing our capacity for energy pipe. Energy pipe volume increased 117% and energy pipe selling prices per ton increased 20% in the first quarter of 2011 compared to the first quarter of 2010.

Gross profit. Gross profit increased 71.3% to $15.6 million (14.0% of total net sales) in the first quarter of 2011 from $9.1 million (11.3% of total net sales) in the first quarter of 2010.

Table of Contents

Water Transmission gross profit increased $3.5 million, or 52.7%, to $10.2 million (17.4% of segment net sales) in the first quarter of 2011 from $6.7 million (12.7% of segment net sales) in the first quarter of 2010. Our gross margin was impacted by the higher sales discussed above and higher materials cost per ton, including steel. Our Water Transmission materials cost per ton increased by 22% in the first quarter of 2011 compared to the first quarter of 2010 as a result of higher steel costs. Gross margins were positively impacted as lower margin projects awarded in 2009 which flowed through the 2010 income statement had less impact in 2011.

Gross profit from Tubular Products increased $3.0 million, or 122.5%, to $5.4 million (10.2% of segment net sales) in the first quarter of 2011 from $2.4 million (8.8% of segment net sales) in the first quarter of 2010. As noted above, demand for our Tubular Products increased significantly, particularly for our energy products, which had sales revenue of $13.2 million in the first quarter of 2010 and increased 161% to $34.5 million in the first quarter of 2011. The significant increase in volume contributed to the increase in gross profit in 2011, as the market conditions led to higher production which allowed us to recover more of our fixed costs than in the same period in 2010. The increased margins were partially offset by higher steel costs per ton of 10% in the first quarter of 2011 compared to the first quarter of 2010 and by our inventory lower of cost or market adjustment, which decreased by $678,000 in the first quarter of 2010 compared to no change in the first quarter of 2011.

Selling, general and administrative expenses. Selling, general and administrative expenses increased to $7.3 million (6.6% of total net sales) in the first quarter of 2011 from $6.6 million (8.2% of total net sales) in the first quarter of 2010. In the first quarter of 2011 as compared to the first quarter of 2010, bonus expense of $402,000 was recorded as a result of improved financial outlook, Tubular Product sales commission expense increased $311,000 with the increase in our Tubular Products sales volume, and severance costs increased $377,000 related to the departure of our former Chief Financial Officer in January, 2011. These were partially offset by reduced accounting investigation costs of $565,000.

Interest expense. Interest expense was $2.4 million in the first quarter of 2011 and $1.3 million in the first quarter of 2010. Higher average borrowings and higher average interest rates increased interest expense in the first quarter of 2011 compared to the first quarter of 2010.

Income Taxes. The tax provision was $2.2 million in the first quarter of 2011 (an effective tax rate of 38.7%) while the tax provision for the first quarter of 2010 was $0.9 million (an effective tax rate of 47.1%). Our effective tax rate of 38.7% exceeds our federal statutory rate of 35% due primarily to state taxes and the relationship of permanent income tax deductions and tax credits to estimated pre-tax income for the year 2011. When pre-tax earnings move between loss and income positions, the effective income tax rate can change significantly depending on the relationship of permanent income tax deductions and tax credits to estimated pre-tax income or loss. Accordingly, the comparison of effective rates between periods is not meaningful in those situations.

Liquidity and Capital Resources

Sources and Uses of Cash

Our principal sources of liquidity generally include operating cash flow and our bank credit agreement. Our principal uses of liquidity generally include capital expenditures, working capital and debt service. Information regarding our cash flows for the three months ended March 31, 2011 is presented in our condensed consolidated statements of cash flows contained in this Form 10-Q, and is further discussed below.

As of March 31, 2011, our working capital (current assets minus current liabilities) was $163.3 million as compared to $155.2 million as of December 31, 2010.

Net cash used in operating activities in the first three months of 2011 was $2.9 million. This was primarily the result of fluctuations in our working capital accounts, which result from timing differences between production, shipment and invoicing of our products, as well as changes in levels of production and costs of materials. We typically have a relatively large investment in working capital, as we are generally obligated to pay for goods and services early in the life cycle of a Water Transmission segment project while cash is not received until much later in the project. Our revenues in the Water Transmission segment are recognized on a percentage-of-completion method; therefore, there is little correlation between revenue and cash receipts and the elapsed time can be significant. As such, our payment cycle is a significantly shorter interval than our collection cycle, although the effect of this difference in the cycles may vary from period to period.

Net cash used in investing activities in the first three months of 2011 was $3.5 million, primarily for capital expenditures for capacity expansion in our Tubular Products plants. Capital expenditures in 2011 are expected to be approximately $16 million to $18 million for standard capital replacement and recently announced strategic investment projects. These include an expansion at our Atchison, Kansas facility that will increase its production capacity by more than 50%, improve productivity and enable the facility to produce product up to 0.375 inch wall. In addition, we are upgrading our Houston, Texas mill to facilitate production of 2-3/8 and 2-7/8 inch tubing with physical properties suitable for heat treating.

15

Table of Contents

Net cash provided by financing activities in the first three months of 2011 was $6.4 million, which resulted primarily from net borrowings of $9.5 million under our Amended and Restated Credit Agreement (Credit Agreement), partially offset by long-term debt payments of $2.8 million.

We anticipate that our existing cash and cash equivalents, cash flows expected to be generated by operations, and amounts available under our credit agreements will be adequate to fund our working capital and capital requirements for at least the next twelve months. We also expect to continue to rely on cash generated from operations and other sources of available funds to make required principal payments under our long term debt during 2011. To the extent necessary, we may also satisfy capital requirements through additional bank borrowings, senior notes, term notes, subordinated debt, and capital and operating leases, if such resources are available on satisfactory terms. See the discussion below under Line of Credit and Long-Term Debt for a discussion of recent developments regarding compliance with the terms of our line of credit and long-term debt agreements. We have from time to time evaluated and continue to evaluate opportunities for acquisitions and expansion. Any such transactions, if consummated, may use a portion of our working capital or necessitate additional bank borrowings or other sources of funding.

Line of Credit and Long-Term Debt

We had the following significant components of debt at March 31, 2011: a $125.0 million Credit Agreement, under which $77.5 million was outstanding; $6.4 million of Series A Term Note, $6.0 million of Series B Term Notes, $5.7 million of Series C Term Notes and $2.6 million of Series D Term Notes.

The Credit Agreement expires on May 31, 2012, and bears interest at rates related to LIBOR plus 2.50% to 4.50%, or the lending institution s prime rate, plus 1.50% to 3.50%. Borrowings under the Credit Agreement are collateralized by substantially all of our personal property.

During 2010, we entered into several amendments to our Credit Agreement and our Amended and Restated Note Purchase and Private Shelf Agreement (Note Purchase Agreement). The amendments, among other things, reduced the aggregate availability of our Credit Agreement, increased interest rates charged on outstanding balances and waived compliance with certain covenants in the Agreements for the year ended December 31, 2009 and the quarters ended March 31, 2010 and June 30, 2010. Upon delivery to the lenders of the Company s financial statements and Compliance Certificate for the period ended September 30, 2010, the availability under the Credit Agreement was increased to $117.5 million. Upon delivery of the March 31, 2011 Compliance Certificate, amounts available under our Credit Agreement will increase to $125 million. In addition, the amendments changed the definitions, method of application and amounts of certain covenants. At March 31, 2011, we had $77.5 million outstanding under the Credit Agreement bearing interest at a weighted average rate of 4.64%. At March 31, 2011, we had an additional net borrowing capacity under the credit facility of $26.5 million.

The Series A Term Note in the principal amount of $6.4 million matures on February 25, 2014 and requires annual payments in the amount of $2.1 million plus interest of 10.75% paid quarterly on February 25, May 25, August 25 and November 25. The Series B Term Notes in the principal amount of $6.0 million mature on June 21, 2014 and require annual payments in the amount of $1.5 million plus interest of 10.47% paid quarterly on March 21, June 21, September 21 and December 21. The Series C Term Notes in the principal amount of $5.7 million mature on October 26, 2014 and require annual payments of $1.4 million plus interest of 9.36% paid quarterly on January 26, April 26, July 26 and October 26. The Series D Term Notes in the principal amount of $2.6 million mature on January 24, 2015 and require annual payments in the amount of $645,000 plus interest of 9.32% paid quarterly on January 24, April 24, July 24 and October 24. The Series A Term Note, the Series B Term Notes, the Series C Term Notes, and the Series D Term Notes (together, the Term Notes) are collateralized by accounts receivable, inventory and certain equipment.

We had $8.6 million of capital lease outstanding at March 31, 2011, under which certain equipment used in the manufacturing process is leased. The average interest rate on the capital lease is 5.70%.

Our capital lease outstanding as of March 31, 2011 consists of an agreement entered into as of September 2009 to finance our Bossier City, Louisiana facility (the Financing Arrangement). As part of the Financing Arrangement, a $10 million escrow account was provided for the Company by a local government entity through a financial institution and funds are released upon qualifying purchase requisitions. As we purchase equipment for the facility, we enter into a sale-leaseback transaction with the governmental entity as part of the Financing Arrangement. As of March 31, 2011, $2.7 million was held in the escrow account, which is included in other assets, as a result of proceeds from the Financing Arrangement. The Financing Arrangement requires us to meet certain loan covenants, measured at the end of each fiscal quarter. These loan covenants follow the covenants required by our Credit Agreement.

Table of Contents

The Credit Agreement, the Note Purchase Agreement and certain of our leases place various restrictions on our ability to, among other things, incur certain additional indebtedness, create liens or other encumbrances on assets, and incur additional capital expenditures. The Credit Agreement, Note Purchase Agreement, and certain of our leases require us to be in compliance with certain financial covenants. The results of our financial covenants as of March 31, 2011 are below.

- The Consolidated Senior Leverage Ratio must not be greater than 6.25:1.0. Our ratio as of March 31, 2011 is 4.28:1.0.
- The Consolidated Total Leverage Ratio must not be greater than 6.25:1.0. Our ratio as of March 31, 2011 is 4.28:1.0.
- The Consolidated Tangible Net Worth must be greater than $195 million. Our tangible net worth as of March 31, 2011 is $228 million.
- The Asset Coverage Ratio cannot be less than 1.0:1.0. Our ratio as of March 31, 2011 is 1.83:1.0.
- The Minimum Consolidated EBITDA cannot be less than $18.5 million. Our consolidated EBITDA as of March 31, 2011 is $22.5 million.
- The Consolidated Rental and Operating Lease Expense to Consolidated Revenue Ratio must not be greater than 6.0%. Our ratio as of March 31, 2011 is 1.5%.

As of March 31, 2011, we are in compliance with all financial covenants. In accordance with the requirements, the Consolidated Fixed Charge Coverage Ratio will next be calculated as of June 30, 2011.

Based on our business plan and forecasts of operations, we believe we will remain in compliance with our amended covenants for the next 12 months.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future material effect on our financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

For a discussion of the Company s market risk associated with foreign currencies and interest rates, see Item 7A, Quantitative and Qualitative Disclosures about Market Risk in Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010. For the three months ended March 31, 2011, there has been no material change in market risk factors.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosures.

In connection with the preparation of this March 2011 Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2011. As described below, management has identified material weaknesses in our internal controls over financial reporting, which is an integral component of our disclosure controls and procedures. As a result of those material weaknesses, our CEO and CFO have concluded that, as of March 31, 2011, our disclosure controls and procedures were not effective.

Table of Contents

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 that materially affected or are reasonably likely to materially affect our internal control over financial reporting. However, as described below under Plans for Remediation of Material Weaknesses, we are dedicating significant resources to support our efforts to improve the control environment and to remedy the control weaknesses described herein.

Management s Report on Internal Control over Financial Reporting

In connection with management s assessment of our internal control over financial reporting described in our 2010 Form 10-K, management has identified the following deficiencies that constituted individually, or in the aggregate, material weaknesses in our internal control over financial reporting as of December 31, 2010:

We did not maintain an effective control environment, which is necessary for effective internal control over financial reporting, as evidenced by: (i) an insufficient number of personnel with an appropriate level of generally accepted accounting principles (GAAP) knowledge and experience or ongoing training in the application of GAAP commensurate with the Company s financial reporting requirements, and (ii) insufficient number of personnel appropriately qualified to perform an appropriately detailed review of the accounting for nonroutine transactions, which resulted in prior periods in erroneous or unsupported judgments regarding the proper application of GAAP. This control environment weakness also contributed to the additional material weaknesses described below.

We did not have effective controls to ensure regular validation of management assumptions used in certain of our accounting estimates.

We did not have effective controls over certain spreadsheets. Specifically, the Company did not have sufficient review procedures in place to ensure an accurate preparation of spreadsheets used to support the preparation of financial information.

We did not maintain effective controls to ensure timely internal notification of business transactions and decisions requiring accounting entries. Specifically, our sales and human resources teams and plant personnel did not communicate to our accounting staff all of the information necessary to make accurate accounting determinations for certain accounts receivable and accrued liability balances.

The material weaknesses described above could result in a misstatement in our annual or interim consolidated financial statements that would not be prevented or detected in a timely manner. Although we did not identify a material misstatement in 2011 which resulted from these deficiencies, management does not believe that the controls in place as of March 31, 2011 are sufficiently designed and effectively operating to prevent or detect such misstatement. Accordingly, management has determined that each of the control deficiencies above constitutes a material weakness and concluded that we did not maintain effective internal control over financial reporting as of March 31, 2011.

Plans for Remediation of Material Weaknesses

Our Board, the Audit Committee and management are adding resources and developing and implementing new processes and procedures to remediate, among other things, the material weaknesses that existed in our internal control over financial reporting, and our disclosure controls and procedures, as of March 31, 2011.

We have developed a remediation plan (the Remediation Plan) to address the material weaknesses for each of the affected areas presented above. The Remediation Plan ensures that each area affected by a material control weakness is put through a comprehensive remediation process. The Remediation Plan entails a thorough analysis which includes the following phases:

Define and assess each control deficiency: ensure a thorough understanding of the as is state, process owners, and procedural or technological gaps causing the deficiency. This work is underway for all identified areas;

Design and evaluate a remediation action for each control deficiency for each affected area: validate or improve the related policy and procedures; evaluate skills of the process owners with regard to the policy and adjust as required. The Remediation Plan will require an assessment of all control failures; we expect that many of the recent improvements will provide an appropriate starting point for the specific action plans;

Implement specific remediation actions: train process owners, allow time for process adoption and adequate transaction volume for next steps;

Test and measure the design and effectiveness of the remediation actions; test and provide feedback on the design and operating effectiveness of the controls, and;

Review and acceptance of completion of the remediation effort by management.

Table of Contents

Additionally, we are evaluating and enhancing our entity level controls as part of our Remediation Plan. The following are steps we have taken in this process:

- In March 2010, our Board of Directors appointed a new CEO;
- In August 2010, we hired a Director of Compliance and Controls to direct our remediation efforts;
- In August 2010, our Board of Directors elected a new, independent member to the Board of Directors;
- In the third quarter of 2010, we implemented a new sub-certification process with our management group in order to demonstrate a clear commitment to corporate integrity and compliance and a duty to report financial irregularities;
- In the third quarter of 2010, we undertook an effort to enhance existing and adopt new, written policies and procedures; specifically, we have focused on our cost-to-cost percentage-of-completion revenue recognition method to describe more clearly our guiding principles related to the accounting for our Water Transmission segment contracts;
- In December of 2010, our employees acknowledged, by way of signature, compliance with and understanding of our Code of Conduct;
- In January of 2011, our Board of Directors appointed a new CFO, who oversaw the preparation of the 2010 Form 10-K.

The Remediation Plan is being administered by our Director of Compliance and Controls and involves key leaders from across the organization, including the CEO and CFO. Each specific area of action within the Remediation Plan has been assigned an owner who will coordinate the resources required for timely completion of the remediation activities. The Director of Compliance and Controls will report quarterly and as needed to the Audit Committee of our Board of Directors on the progress made toward completion of the Remediation Plan.

We believe the steps taken to date have improved the effectiveness of our internal control over financial reporting; however, we have not completed the corrective processes and procedures identified herein. Accordingly, as we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above, we will perform additional procedures prescribed by management including the use of manual mitigating control procedures and employ any additional tools and resources deemed necessary to ensure that our financial statements continue to be fairly stated in all material respects.

Part II Other Information

Item 1. Legal Proceedings

Information required by this Item 1 is contained in Note 5 to the Condensed Consolidated Financial Statements, Part I - Item 1, Financial Statements of this report, under the caption Commitments and Contingencies. The text under such caption is incorporated by reference into this Item 1.

Item 1A. Risk Factors

In addition to the other information set forth in this report, the factors discussed in Part I - Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 could materially affect our business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. There are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial, that may also materially adversely affect our business, financial condition, or operating results.

There have been no material changes in the risk factors previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

Item 6. Exhibits

(a) The exhibits filed as part of this Report are listed below:

Exhibit Number	Description
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
10.1	Separation Agreement and Release between Northwest Pipe Company and Stephanie J. Welty, dated as of January 20, 2011, incorporated by reference to the Company s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on January 24, 2011

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 10, 2011

NORTHWEST PIPE COMPANY

By: /s/ RICHARD A. ROMAN
Richard A. Roman
President and Chief Executive Officer

By: /s/ ROBIN GANTT
Robin Gantt
Vice President, Chief Financial Officer
(Principal Financial Officer)