UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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x**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2006

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number: 0-27140

NORTHWEST PIPE COMPANY

(Exact name of registrant as specified in its charter)

OREGON **(State or other jurisdiction** **of incorporation or organization)**	**93-0557988** **(I.R.S. Employer** **Identification No.)**

200 S.W. Market Street

Suite 1800

Portland, Oregon 97201

(Address of principal executive offices and zip code)

503-946-1200

(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ] Accelerated Filer [X] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Common Stock, par value $.01 per share	**6,870,220**
(Class)	(Shares outstanding at November 6, 2006)

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NORTHWEST PIPE COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollar amounts in thousands)

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 99	$ 133
Trade and other receivables, less allowance for doubtful accounts of $341 and $500	67,056	64,538
Costs and estimated earnings in excess of billings on uncompleted contracts	67,701	73,161
Inventories	66,273	51,070
Refundable income taxes	78	1,518
Deferred income taxes	2,614	1,543
Prepaid expenses and other	1,024	1,474
Assets held for sale	--	2,900
Total current assets	204,845	196,337
Property and equipment less accumulated depreciation and amortization of $40,336 and $37,912	133,574	117,369
Goodwill	21,451	21,451
Prepaid expenses and other	4,081	3,328
Total assets	$ 363,951	$ 338,485
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 9,554	$ 9,286
Current portion of capital lease obligations	17	75
Accounts payable	48,092	28,914
Accrued liabilities	9,491	7,634
Total current liabilities	67,154	45,909
Note payable to financial institution	34,589	41,353
Long-term debt, less current portion	53,018	53,571
Capital lease obligations, less current portion	--	7
Deferred income taxes	22,903	23,786
Deferred gain on sale-leaseback of equipment	9,006	11,849
Pension and other benefits	2,984	2,545
Total liabilities	189,654	179,020
Commitments and contingencies (Note 7)		
Stockholders equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized,		

	September 30, 2006	December 31, 2005
none issued or outstanding	--	--
Common stock, $.01 par value, 15,000,000 shares authorized, 6,868,720 and 6,839,962 shares issued and outstanding	69	68
Additional paid-in-capital	43,764	42,973
Retained earnings	132,538	118,498
Accumulated other comprehensive loss:		
Minimum pension liability	(2,074)	(2,074)
Total stockholders equity	174,297	159,465
Total liabilities and stockholders equity	$ 363,951	$ 338,485

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

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NORTHWEST PIPE COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	$ 92,418	$86,754	$249,092	$251,938
Cost of sales	77,208	72,515	208,614	211,777
Gross profit	15,210	14,239	40,478	40,161
Selling, general and administrative expense	6,989	6,633	20,298	19,166
Gain on sale of assets	--	--	(7,674)	--
Operating income	8,221	7,606	27,854	20,995
Interest expense, net	1,832	1,897	5,320	5,499
Income before income taxes	6,389	5,709	22,534	15,496
Provision for income taxes	2,310	1,733	8,494	5,501
Net income	$ 4,079	$ 3,976	$ 14,040	$ 9,995
Basic earnings per share	$ 0.59	$ 0.58	$ 2.05	$ 1.48
Diluted earnings per share	$ 0.57	$ 0.56	$ 1.97	$ 1.42
Shares used in per share calculations:				
Basic	6,866	6,822	6,854	6,762
Diluted	7,162	7,112	7,139	7,050

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

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NORTHWEST PIPE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2006	2005
Cash Flows From Operating Activities:		
Net income	$ 14,040	$ 9,995

	Nine Months Ended September 30,	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	2,751	4,009
Amortization of debt issuance costs	222	131
Deferred income taxes	(1,954)	436
Deferred gain on sale-leaseback of equipment	(1,067)	(1,067)
(Gain) loss on disposal of property and equipment	(7,640)	43
Stock based compensation expense	225	--
Tax benefit of stock options exercised	(123)	267
Changes in current assets and liabilities:		
Trade and other receivables, net	(2,518)	(17,137)
Costs and estimated earnings in excess of billings on uncompleted contracts	5,460	(5,825)
Inventories	(15,203)	11,489
Refundable income taxes	1,440	--
Prepaid expenses and other	(525)	1,773
Accounts payable	19,178	(6,037)
Accrued and other liabilities	2,419	(557)
Net cash provided by (used in) operating activities	16,705	(2,480)
Cash Flows From Investing Activities:		
Additions to property and equipment	(20,600)	(14,234)
Proceeds from sale of property and equipment	10,408	--
Net cash used in investing activities	(10,192)	(14,234)
Cash Flows From Financing Activities:		
Proceeds from a sale-leaseback of equipment	--	9,500
Proceeds from sale of common stock	444	1,524
Net (payments) borrowings under notes payable from financial institutions	(6,764)	9,314
Borrowings from long-term debt	4,000	4,500
Payments on long-term debt	(4,285)	(7,214)
Payment of debt issuance costs	--	(131)
Payments on capital lease obligations	(65)	(779)
Tax benefit of stock options exercised	123	--
Net cash (used in) provided by financing activities	(6,547)	16,714
Net (decrease) increase in cash and cash equivalents	(34)	--
Cash and cash equivalents, beginning of period	133	89
Cash and cash equivalents, end of period	$ 99	$ 89

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

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NORTHWEST PIPE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements as of and for the three and nine months ended September 30, 2006 and 2005 have been prepared in conformity with accounting principles generally accepted in the United States of America. The financial information as of December 31, 2005 is derived from the audited financial statements presented in the Northwest Pipe Company (the Company) Annual Report on Form 10-K for the year ended December 31, 2005. Certain information or footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair statement of the results of the interim periods presented. The accompanying financial statements should be read in conjunction with the Company s audited financial statements for the year ended December

31, 2005, as presented in the Company s Annual Report on Form 10-K.

Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2006 or any portion thereof.

Effective January 1, 2006, the Company elected to change its accounting method related to depreciation of certain equipment from the straight-line method of depreciation to the units of production method of depreciation, which is considered a preferable method of accounting for such long-lived, nonfinancial assets. The Company has determined this change to be preferable under accounting principles generally accepted in the United States as it more accurately reflects the pattern of consumption of the equipment. In accordance with Financial Accounting Standards (SFAS) No. 154 Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3 this change, accounted for as a change in estimate effected by a change in accounting principle, has been applied prospectively. The impact of the change in the current period was a decrease in depreciation expense of $1.6 million during the nine months ended September 30, 2006, or $0.14 per diluted share.

2. Earnings per Share

Basic earnings per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares outstanding during the period. Incremental shares of 295,862 and 290,001 for the three months ended September 30, 2006 and 2005, respectively, and incremental shares of 285,208 and 287,334 for the nine months ended September 30, 2006 and 2005, respectively, were used in the calculations of diluted earnings per share. For the nine months ended September 30, 2006, options to purchase 3,187 shares were excluded from the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the underlying common stock during these periods and thus the options would be antidilutive. For the three months ended September 30, 2006 and for the three and nine months ended September 30, 2005, the calculation of diluted earnings per share included all common equivalent shares.

3. Inventories

Inventories are stated at the lower of cost or market. Finished goods and Tubular Products and Fabricated Products raw materials are valued on a first-in, first-out cost basis. Materials and supplies are valued on a moving average cost basis. Water Transmission steel inventory is valued on a specific identification basis, and coating and lining materials are valued on a moving average cost basis. Inventories consist of the following:

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	September 30, 2006	December 31, 2005
	(In thousands)	
Finished goods	$31,591	$24,682
Raw materials	32,123	24,145
Materials and supplies	2,559	2,243
	$66,273	$51,070

4. Asset Held for Sale

On May 31, 2006, the Company completed the sale of its manufacturing facility in Riverside, California, included in Assets Held for Sale at December 31, 2005. A gain of $7.7 million was recorded.

5. Segment Information

The Company s operations are organized in three business segments, which are based on the nature of the products sold. Management evaluates segment performance based on segment gross profit. There were no material transfers between segments in the periods presented.

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
Net sales:				
Water Transmission	$65,481	$61,747	$172,771	$177,743
Tubular Products	22,272	20,486	63,765	62,932
Fabricated Products	4,665	4,521	12,556	11,263
Total	$92,418	$86,754	$249,092	$251,938
Gross profit:				
Water Transmission	$12,725	$12,709	$ 32,714	$ 35,501
Tubular Products	2,242	1,076	6,804	3,960
Fabricated Products	243	454	960	700
Total	$15,210	$14,239	$ 40,478	$ 40,161

6. Recent Accounting and Reporting Developments

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is assessing FIN 48 and has not determined the impact that the adoption of FIN 48 will have on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is assessing SFAS 157 and has not determined the impact that the adoption of SFAS 157 will have on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). SFAS 158 requires employers to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its statement of financial position. Further, SFAS 158 requires employers to recognize changes in the funded status in the year in which the changes occur through comprehensive income. SFAS 158 is effective for fiscal years ending after December 15, 2006. The Company is assessing SFAS 158 and has not determined the impact that the adoption of SFAS 158 will have on its financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No, 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors considered, is material. SAB 108 is effective for fiscal years ending on or after November 15, 2006, with early application encouraged. The Company does not believe that SAB 108 will have a material impact on its financial position or results of operations.

In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) related to EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-3). EITF 06-3 concludes that the presentation of any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value added, and some excise taxes on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy that should be disclosed. In addition, for any such taxes that are reported on a gross basis, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The provisions of EITF 06-3 should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006, with earlier adoption permitted. The Company does not believe that the adoption of EITF 06-3 will have a material impact on its financial position or results of operations.

In June 2006, the FASB ratified the consensus reached by the EITF related to EITF Issue No. 06-5 "Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"), which requires that a policyholder consider additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the life insurance policy. EITF 06-5 provides additional guidance for determining the amount to be realized, including the policy level for which the analysis should be performed, amounts excluded and measurement criteria. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company is assessing EITF 06-5 and has not determined the impact that the adoption of EITF 06-5 will have on its financial position or results of operations.

7. Contingencies

In November 1999, the Oregon Department of Environmental Quality (ODEQ) requested performance of a preliminary assessment of the Company s plant located at 12005 N. Burgard in Portland, Oregon. The purpose of the assessment is to determine whether the plant has contributed to sediment contamination in the Willamette River. The Company entered into a Voluntary Letter Agreement with ODEQ in mid-August 2000, and began working on the assessment. On December 1, 2000, a section of the lower Willamette River known as the Portland Harbor was included on the National Priorities List (NPL) at the request of the U.S. Environmental Protection Agency (EPA). EPA has not fully defined the stretch of the river that will make up the site. However, the full and final site will include all suitable areas in proximity to the contamination necessary for the implementation of the response action including upland portions of the Site that contain sources of contamination to the sediments in the river. The Company s plant is not located on the Willamette River; it lies in what may be the uplands portion of the Portland Harbor Site. EPA and ODEQ have agreed to share responsibility for leading the investigation and cleanup of the Portland Harbor Site. ODEQ has the lead responsibility for conducting the upland work. The actual work in both the river and uplands is being performed by various owners or operators of land and facilities within the Site.

EPA and ODEQ have notified the Company and 68 other parties of potential liability under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and the Resource Conservation and Recovery Act ("RCRA") with respect to the Portland Harbor Site. EPA and ODEQ have urged the Company and other parties receiving the letters to voluntarily enter into negotiations to participate in a remedial investigation and feasibility study ("RI/FS") at the Portland Harbor Site. That RI/FS is currently being conducted by a group of potentially responsible parties known as the Lower Willamette Group (LWG). The Company and other parties are currently in negotiation with EPA, ODEQ and the LWG regarding what role, if any, the Company will play in ongoing RI/FS work. Therefore, the extent of the Company s participation in this work is not known, and no accruals for potential exposure have been recorded for this matter.

In 2001, groundwater containing elevated volatile 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 a source of the VOCs is located off site. There is no evidence at this time showing a connection between detected VOCs in groundwater and Willamette River sediments. ODEQ recommended a remedial investigation and feasibility study for further evaluation of both groundwater and stormwater at the plant. On January 25, 2005, ODEQ and the Company entered into a Voluntary Agreement for Remedial Investigation and Source Control Measures. The Company completed the additional assessment work required by the Agreement and submitted a Remedial Investigation/Source Control Evaluation Report to ODEQ on December 30, 2005. The conclusions of the report indicate that VOCs in groundwater do not present an unacceptable risk to human or ecological receptors in the Willamette River, stormwater is appropriately managed under the Company s NPDES permit and the risk assessment screening results justify a No Further Action determination for the facility. The ODEQ review of this report is ongoing. ODEQ is expected to make its recommendations by late-2006.

The Company operates under numerous governmental permits and licenses relating to air emissions, stormwater run-off, and other matters. The Company is not aware of any current material violations or citations relating to any of these permits or licenses. It has a policy of reducing consumption of hazardous materials in its operations by substituting non-hazardous materials when possible. The Company s operations are also governed by many other laws and regulations, including those relating to workplace safety and worker health, principally the Occupational Safety and Health Act and regulations thereunder which, among other requirements, establish noise and dust standards. The Company believes that it is in material compliance with these laws and regulations and does not believe that future compliance with such laws and regulations will have a material adverse effect on its results of operations or financial condition.

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 it believes to be adequate. Management believes that it is not presently a party to any other litigation, the outcome of which would have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

8. Share-based Compensation

The Company has one active stock option plan, the 1995 Stock Option Plan for Nonemployee Directors, which provides for the grant of nonqualified options at an exercise price which is not less than 100 percent of the fair value on the grant date. In addition, the Company has one inactive stock option plan, the Amended 1995 Stock Incentive Plan, under which previously granted options remain outstanding and continue to vest. There were 697,578 shares of common stock reserved for issuance under the Company s stock compensation plans at September 30, 2006, against which 688,578 options have been granted and remain outstanding. The plans provide that options become exercisable according to vesting schedules, which range from immediate for nonemployee directors to ratably over a 60-month period for all other options. Options terminate 10 years from the date of grant.

In December 2004, the FASB issued SFAS No. 123(R)