

FRIEDMAN INDUSTRIES INC

Form 10-Q

November 13, 2009

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009  
OR**

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FROM THE TRANSITION PERIOD FROM TO  
COMMISSION FILE NUMBER 1-7521  
FRIEDMAN INDUSTRIES, INCORPORATED  
(Exact name of registrant as specified in its charter)**

TEXAS 74-1504405  
(State or other jurisdiction of (I.R.S. Employer Identification  
incorporation or organization) Number)  
4001 HOMESTEAD ROAD, HOUSTON, TEXAS 77028-5585  
(Address of principal executive office) (zip code)

Registrant's telephone number, including area code (713) 672-9433

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ○

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ○ No ○

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

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

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

Yes ○ No ☐

At September 30, 2009, the number of shares outstanding of the issuer's only class of stock was 6,799,444 shares of Common Stock.



**TABLE OF CONTENTS**

**Part I FINANCIAL INFORMATION**

Item 1. Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

**Part II OTHER INFORMATION**

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits

**SIGNATURES**

**EXHIBIT INDEX**

EX-31.1

EX-31.2

EX-32.1

EX-32.2

---

**Table of Contents****Part I FINANCIAL INFORMATION****Item 1. Financial Statements**

**FRIEDMAN INDUSTRIES, INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | SEPTEMBER 30,<br>2009<br>(Unaudited) | MARCH 31,<br>2009    |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| CURRENT ASSETS:   |                                      |                      |
| Cash and cash equivalents   | \$ 21,089,469                        | \$ 16,880,110        |
| Accounts receivable, net of allowances for bad debts and cash discounts of \$22,276 and \$37,276 at September 30 and March 31, 2009, respectively | 3,634,288                            | 4,991,239            |
| Inventories   | 17,581,049                           | 19,402,701           |
| Prepaid income taxes  | 1,520,668                            | 1,299,796            |
| Other   | 184,394                              | 99,531               |
| <b>TOTAL CURRENT ASSETS</b>   | <b>44,009,868</b>                    | <b>42,673,377</b>    |
| PROPERTY, PLANT AND EQUIPMENT:  |                                      |                      |
| Land  | 1,082,331                            | 1,082,331            |
| Buildings and yard improvements   | 7,001,389                            | 7,000,839            |
| Machinery and equipment   | 29,383,963                           | 29,080,476           |
| Less accumulated depreciation   | (21,105,158)                         | (20,152,959)         |
|   | 16,362,525                           | 17,010,687           |
| OTHER ASSETS:   |                                      |                      |
| Cash value of officers' life insurance and other assets   | 805,000                              | 776,000              |
| <b>TOTAL ASSETS</b>   | <b>\$ 61,177,393</b>                 | <b>\$ 60,460,064</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| CURRENT LIABILITIES:  |                                      |                      |
| Accounts payable and accrued expenses   | \$ 3,970,924                         | \$ 2,662,209         |
| Current portion of long-term debt   | 40,521                               | 54,028               |
| Deferred credit for LIFO inventory replacement  | 111,052                              |                      |
| Dividends payable   | 67,994                               | 339,972              |
| Contribution to profit sharing plan   | 124,000                              | 40,000               |
| Employee compensation and related expenses  | 312,004                              | 256,804              |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>4,626,495</b>                     | <b>3,353,013</b>     |
| LONG-TERM DEBT LESS CURRENT PORTION   |                                      | 13,507               |
| DEFERRED INCOME TAXES   | 428,539                              | 363,864              |
| POSTRETIREMENT BENEFITS OTHER THAN PENSIONS   | 648,980                              | 615,328              |
| STOCKHOLDERS' EQUITY:   |                                      |                      |
| Common stock, par value \$1:  |                                      |                      |

Edgar Filing: FRIEDMAN INDUSTRIES INC - Form 10-Q

|  |  |               |               |
|--|--|---------------|---------------|
| Authorized shares  | 10,000,000                                   |               |               |
| Issued shares  | 7,975,160 at September 30 and March 31, 2009 | 7,975,160     | 7,975,160     |
| Additional paid-in capital   |  | 29,003,674    | 29,003,674    |
| Treasury stock at cost (1,175,716 shares at September 30 and March 31, 2009) |  | (5,475,964)   | (5,475,964)   |
| Retained earnings  |  | 23,970,509    | 24,611,482    |
| <br>   |  |               |               |
| TOTAL STOCKHOLDERS EQUITY  |  | 55,473,379    | 56,114,352    |
| <br>   |  |               |               |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY                                    |  | \$ 61,177,393 | \$ 60,460,064 |

**Table of Contents**

## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS    UNAUDITED**

|  | Three months ended<br>September 30, |               | Six months ended<br>September 30, |                |
|--|-------------------------------------|---------------|-----------------------------------|----------------|
|  | 2009                                | 2008          | 2009                              | 2008           |
| Net sales  | \$ 16,086,330                       | \$ 71,074,140 | \$ 28,332,549                     | \$ 130,672,836 |
| Costs and expenses                                       |                                     |               |                                   |                |
| Costs of goods sold                                      | 15,460,372                          | 60,927,793    | 27,119,011                        | 112,461,746    |
| General, selling and administrative costs                | 926,315                             | 1,866,785     | 1,849,202                         | 3,847,808      |
| Interest expense   |                                     |               |                                   | 23,310         |
|  | 16,386,687                          | 62,794,578    | 28,968,213                        | 116,332,864    |
| Interest and other income                                | (14,500)                            | (62,759)      | (29,000)                          | (104,177)      |
| Earnings (loss) before income taxes                      | (285,857)                           | 8,342,321     | (606,664)                         | 14,444,149     |
| Provision for (benefit from) income taxes:               |                                     |               |                                   |                |
| Current  | (122,110)                           | 2,795,989     | (302,344)                         | 4,820,260      |
| Deferred   | 42,500                              | 101,897       | 64,675                            | 203,794        |
|  | (79,610)                            | 2,897,886     | (237,669)                         | 5,024,054      |
| Net earnings (loss)                                      | \$ (206,247)                        | \$ 5,444,435  | \$ (368,995)                      | \$ 9,420,095   |
| Weighted average number of common shares<br>outstanding: |                                     |               |                                   |                |
| Basic  | 6,799,444                           | 6,799,444     | 6,799,444                         | 6,799,444      |
| Diluted  | 6,799,444                           | 6,799,444     | 6,799,444                         | 6,799,444      |
| Net earnings (loss) per share:                           |                                     |               |                                   |                |
| Basic  | \$ (0.03)                           | \$ 0.80       | \$ (0.05)                         | \$ 1.39        |
| Diluted  | \$ (0.03)                           | \$ 0.80       | \$ (0.05)                         | \$ 1.39        |
| Cash dividends declared per common share                 | \$ 0.01                             | \$ 0.12       | \$ 0.04                           | \$ 0.20        |

**Table of Contents**

## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS    UNAUDITED**

|  | <b>Six Months Ended<br/>September 30</b> |                     |
|--|--|---------------------|
|  | <b>2009</b>                              | <b>2008</b>         |
| <b>OPERATING ACTIVITIES</b>  |  |                     |
| Net earnings (loss)  | \$ (368,995)                             | \$ 9,420,095        |
| Adjustments to reconcile net earnings (loss) to cash provided by operating activities: |  |                     |
| Depreciation   | 952,200                                  | 607,200             |
| Provision for deferred taxes   | 64,675                                   | 203,794             |
| Provision for postretirement benefits  | 33,652                                   | 32,789              |
| Decrease (increase) in operating assets:   |  |                     |
| Accounts receivable, net   | 1,356,951                                | (5,282,581)         |
| Prepaid income taxes   | (220,872)                                |                     |
| Inventories  | 1,821,652                                | (5,515,605)         |
| Other  | (84,863)                                 | (130,522)           |
| Increase (decrease) in operating liabilities:  |  |                     |
| Accounts payable and accrued expenses  | 1,308,715                                | 11,682,799          |
| Contribution to profit-sharing plan  | 84,000                                   | (47,000)            |
| Employee compensation and related expenses   | 55,200                                   | 963,297             |
| Income taxes payable   |  | 312,822             |
| Deferred credit for LIFO inventory replacement   | 111,052                                  |                     |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                       | <b>5,113,367</b>                         | <b>12,247,088</b>   |
| <b>INVESTING ACTIVITIES</b>  |  |                     |
| Purchase of property, plant and equipment  | (304,039)                                | (1,686,455)         |
| Increase in cash surrender value of officers' life insurance                           | (29,000)                                 | (27,999)            |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(333,039)</b>                         | <b>(1,714,454)</b>  |
| <b>FINANCING ACTIVITIES</b>  |  |                     |
| Cash dividends paid  | (543,956)                                | (883,928)           |
| Principal payments on notes payable  | (27,013)                                 | (6,627,014)         |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>   | <b>(570,969)</b>                         | <b>(7,510,942)</b>  |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>4,209,359</b>                         | <b>3,021,692</b>    |
| Cash and cash equivalents at beginning of period                                       | 16,880,110                               | 2,643,922           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                      | <b>\$ 21,089,469</b>                     | <b>\$ 5,665,614</b> |



**Table of Contents**

FRIEDMAN INDUSTRIES, INCORPORATED  
**CONDENSED NOTES TO QUARTERLY REPORT    UNAUDITED**

**NOTE A    BASIS OF PRESENTATION**

The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended March 31, 2009.

**NOTE B    INVENTORIES**

Inventories consist of prime coil, non-standard coil and tubular materials. Prime coil inventory consists primarily of raw materials, non-standard coil inventory consists primarily of finished goods and tubular inventory consists of both raw materials and finished goods. Inventories are valued at the lower of cost or replacement market. Cost for prime coil inventory is determined under the last-in, first-out ( LIFO ) method. Cost for non-standard coil inventory is determined using the specific identification method. Cost for tubular inventory is determined using the weighted average method.

During the six months ended September 30, 2009, LIFO inventories were reduced but are expected to be replaced by March 31, 2010. A deferred credit of \$111,052 was recorded at September 30, 2009 to reflect replacement cost in excess of LIFO cost.

A summary of inventory values by product group follows:

|                             | <b>September 30,<br/>2009</b> | <b>March 31,<br/>2009</b> |
|-----------------------------|-------------------------------|---------------------------|
| Prime Coil Inventory        | \$ 4,602,672                  | \$ 6,504,540              |
| Non-Standard Coil Inventory | 458,622                       | 141,097                   |
| Tubular Raw Material        | 2,215,107                     | 1,783,130                 |
| Tubular Finished Goods      | 10,304,648                    | 10,973,934                |
|                             | <b>\$ 17,581,049</b>          | <b>\$ 19,402,701</b>      |

**NOTE C    LONG-TERM DEBT**

The Company has a \$10 million revolving credit facility (the revolver ) which expires April 1, 2010. There were no amounts outstanding pursuant to the revolver at September 30 and March 31, 2009, respectively. At March 31, 2008, the Company owed \$6,600,000 pursuant to the revolver at an average interest rate of approximately 4.4%. These loans were paid off in April and May 2008.

In June 2007, the Company incurred an interest free, long-term liability of \$162,084 related to the purchase of pipe loading equipment which is payable in 36 equal monthly payments. Regarding this liability, the Company owed \$40,521 and \$67,535 at September 30 and March 31, 2009, respectively.

**NOTE D    STOCK BASED COMPENSATION**

In the six months ended September 30, 2009 and the fiscal year ended March 31, 2009, the Company had no stock-based compensation. There were no unexercised options at September 30, 2009, and no options were exercised or granted nor stock vested during those periods.

**Table of Contents**

## NOTE E SEGMENT INFORMATION

|                  | <b>September<br/>30,<br/>2009</b> | <b>March 31,<br/>2009</b> |
|------------------|-----------------------------------|---------------------------|
|                  | (in thousands)                    |                           |
| Segment assets   |                                   |                           |
| Coil             | \$ 19,678                         | \$ 22,791                 |
| Tubular          | 18,079                            | 18,703                    |
|                  | 37,757                            | 41,494                    |
| Corporate assets | 23,420                            | 18,966                    |
|                  | \$ 61,177                         | \$ 60,460                 |

Corporate expenses reflect general and administrative expenses not directly associated with segment operations and consist primarily of corporate executive and accounting salaries, professional fees and services, bad debts, accrued profit sharing expense, corporate insurance expenses and office supplies. Corporate assets consist primarily of cash and cash equivalents and the cash value of officers' life insurance.

## NOTE F SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid income taxes of approximately \$0 and \$4,243,000 in the six months ended September 30, 2009 and 2008, respectively. Interest paid in the six months ended September 30, 2009 and 2008 was approximately \$0 and \$34,000, respectively.

## NOTE G NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2009, the Financial Accounting Standards Board issued Accounting Standards Codification (ASC) that codifies generally accepted accounting principles in the United States (GAAP). Although ASC did not change GAAP, it did change the way the Company references authoritative literature. Effective July 1, 2009, the Company adopted ASC.

ASC Topic 855, Subsequent Events (ASC 855) establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. ASC 855 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted ASC 855 during the quarter ended June 30, 2009, and its application had no impact on the Company's consolidated condensed financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was November 13, 2009.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Results of Operations***Six Months Ended September 30, 2009 Compared to Six Months Ended September 30, 2008*

During the six months ended September 30, 2009, sales, costs of goods sold and gross profit decreased \$102,340,287, \$85,342,735 and \$16,997,552, respectively, from the comparable amounts recorded during the six months ended September 30, 2008. The decrease in sales was related primarily to a substantial decrease in tons sold. Tons sold declined from approximately 144,000 tons in the 2008 period to approximately 50,000 tons in the 2009 period. Average per ton selling prices declined as well. The average per ton selling price decreased from approximately \$909 per ton in the 2008 period to \$571 per ton in the 2009 period. The decrease in costs of goods sold was related primarily to the decline in tons sold and a decrease in average per ton cost which declined from approximately \$782 per ton in the 2008 period to \$547 in the 2009 period. Gross profit was adversely affected by the decrease in tons sold and a substantial reduction in margins. Gross profit as a percentage of sales decreased from approximately 13.9% in the 2008 period to approximately 4.3% in the 2009 period. During the 2008 period, the Company experienced strong market conditions for its tubular products and recorded one of the most profitable periods in Company history. During the 2009 period, the Company's operations continued to be adversely affected by extremely soft market conditions for durable goods and energy related products resulting from the significant downturn in the U.S. economy. Coil product segment sales decreased approximately \$31,470,000 during the 2009 period. This decrease resulted primarily from a decrease in tons sold which declined from approximately 51,000 tons in the 2008 period to approximately 32,000 tons in the 2009 period. Also, the average per ton selling price declined from approximately \$949 per ton in the 2008 period to \$542 in the 2009 period. The Company experienced coil operating losses in both the 2008 and 2009 periods. Coil operating losses as a percentage of coil segment sales were approximately 3.6% and 1.9% in the 2008 and 2009 periods, respectively. Market conditions for coil products and services are related generally to durable goods. The Company believes that market conditions for coil products will remain soft until the U.S. economy improves and generates improved demand for durable goods. In August 2008, the Company began operating its new coil facility in Decatur, Alabama. This operation produced an operating loss of approximately \$850,000 in the 2009 period. The Company expects that this facility will continue to produce a loss until demand for coil products improves. The Company is primarily dependent on Nucor Steel Company ( NSC ) for its supply of coil inventory. In the 2009 period, NSC continued to supply the Company with steel coils in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from NSC. Loss of NSC as a supplier could have a material adverse effect on the Company's business. Tubular product segment sales decreased approximately \$70,870,000 during the 2009 period. This decrease primarily resulted from a decrease in tons sold which declined from approximately 92,000 tons in the 2008 period to approximately 17,000 tons sold in the 2009 period. The average per ton selling price of tubular products decreased from approximately \$887 per ton in the 2008 period to \$625 per ton in the 2009 period. Tubular product segment operating profits as a percentage of segment sales were approximately 22.7% and 5.3% in the 2008 and 2009 periods, respectively. During the 2008 period, market conditions for tubular products were strong, and the Company recorded one of the most profitable periods in Company history. In contrast, extremely soft market conditions were experienced in the 2009 period. The Company believes that market conditions will remain soft until the U.S. economy recovers and generates improved demand for tubular products.

**Table of Contents**

In recent years, U.S. Steel Tubular Products Inc. ( USS ), an affiliate of United States Steel Corporation, has been the Company's primary supplier of tubular products and coil material used in pipe manufacturing and is a major customer of the Company's finished tubular products. Certain finished tubular products are used in the energy business and are manufactured by the Company and sold to USS. Beginning in December 2008, USS reduced orders for these finished tubular products. Also, in February 2009, USS announced that it was temporarily idling its plant in Lone Star, Texas, due to weak market conditions. Since February 2009, the Company has received few orders from USS and a significantly reduced supply of pipe and coil material from USS. The Company believes that reduced orders for finished tubular products will continue until the U.S. economy recovers and generates improved demand for these products. Loss of USS as a supplier or customer could have an adverse effect on the Company's business. The Company can make no assurances as to orders from USS or the amounts of pipe and coil material that will be available from USS in the future.

The recently-depressed market conditions during the downturn of the U. S. economy, along with the significant decrease in orders from USS and the reduction in the supply of pipe and coil material from USS, have had an adverse effect on the Company's tubular business. As a result, the Company downsized its tubular division to a level more commensurate with current operations.

During the 2009 period, general, selling and administrative costs decreased \$1,998,606 from the amount recorded during the 2008 period. This decrease was related primarily to a reduction in bonuses and commissions associated with reduced earnings and volume.

Income taxes declined \$5,261,723 from the amount recorded in the 2008 period. This decrease was related primarily to the decrease in earnings (loss) before taxes. Effective tax rates were 35% and 39% in the periods ended 2008 and 2009, respectively. In the 2009 period, the Company benefited from recoverable income taxes associated with both federal and state income taxes.

**Table of Contents***Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008*

During the three months ended September 30, 2009, sales, costs of goods sold and gross profit decreased \$54,987,810, \$45,467,421 and \$9,520,389, respectively, from the comparable amounts recorded during the three months ended September 30, 2008. The decrease in sales was related primarily to a substantial decrease in tons sold. Tons sold declined from approximately 67,000 tons in the 2008 quarter to approximately 28,000 tons in the 2009 quarter. Average per ton selling prices declined as well. The average per ton selling price decreased from approximately \$1,055 per ton in the 2008 quarter to \$577 per ton in the 2009 quarter. The decrease in costs of goods sold was related primarily to the decline in tons sold and a decrease in average per ton cost which declined from approximately \$904 per ton in the 2008 quarter to \$554 in the 2009 quarter. Gross profit was adversely affected by the decrease in tons sold and a substantial reduction in margins. Gross profit as a percentage of sales decreased from approximately 14.3% in the 2008 quarter to approximately 3.9% in the 2009 quarter. During the 2008 quarter, the Company experienced strong market conditions for its tubular products and recorded one of the most profitable quarters in Company history. During the 2009 quarter, the Company's operations continued to be adversely affected by extremely soft market conditions for durable goods and energy related products resulting from the significant downturn in the U.S. economy. Coil product segment sales decreased approximately \$12,474,000 during the 2009 quarter. This decrease resulted primarily from a decrease in average selling prices as well as in tons sold. Tons of coil products shipped declined from approximately 21,000 tons in the 2008 quarter to approximately 19,000 tons in the 2009 quarter. The average per ton selling price declined from approximately \$1,112 per ton in the 2008 quarter to \$554 in the 2009 quarter. The Company experienced coil operating losses in both the 2008 and 2009 quarters. Coil operating losses as a percentage of coil segment sales were approximately 10.2% and 3.6% in the 2008 and 2009 quarters, respectively. Market conditions for coil products and services are related generally to durable goods. The Company believes that market conditions for coil products will remain soft until the U.S. economy improves and generates improved demand for durable goods.

In August 2008, the Company began operating its new coil facility in Decatur, Alabama. This operation produced an operating loss of approximately \$425,000 in the 2009 quarter. The Company expects that this facility will continue to produce a loss until demand for coil products improves.

The Company is primarily dependent on NSC for its supply of coil inventory. In the 2009 quarter, NSC continued to supply the Company with steel coils in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from NSC. Loss of NSC as a supplier could have a material adverse effect on the Company's business.

Tubular product segment sales decreased approximately \$42,514,000 during the 2009 quarter. This decrease primarily resulted from a decrease in tons sold which declined from approximately 47,000 tons in the 2008 quarter to approximately 9,000 tons sold in the 2009 quarter. The average per ton selling price of tubular products decreased from \$1,030 per ton in the 2008 quarter to \$624 per ton in the 2009 quarter. Tubular product segment operating profits as a percentage of segment sales were approximately 24.2% and 8.6% in the 2008 and 2009 quarters, respectively. During the 2008 quarter, market conditions for tubular products were strong, and the Company recorded one of its most profitable quarters in Company history. In contrast, extremely soft market conditions were experienced in the 2009 quarter. The Company believes that market conditions will remain soft until the U.S. economy recovers and generates improved demand for tubular products.

**Table of Contents**

In recent years, USS has been the Company's primary supplier of tubular products and coil material used in pipe manufacturing and is a major customer of finished tubular products. Certain finished tubular products are used in the energy business and are manufactured by the Company and sold to USS. Beginning in December 2008, USS reduced orders for these finished tubular products. Also, in February 2009, USS announced that it was temporarily idling its plant in Lone Star, Texas, due to weak market conditions. Since February 2009, the Company has received few orders from USS and a significantly reduced supply of pipe and coil material from USS. The Company believes that reduced orders for the Company's finished tubular products will continue until the U.S. economy recovers and generates improved demand for these products. Loss of USS as a supplier or customer could have an adverse effect on the Company's business. The Company can make no assurances as to orders from USS or the amounts of pipe and coil material that will be available from USS in the future.

The recently-depressed market conditions during the downturn of the U. S. economy, along with the significant decrease in orders from USS and the reduction in the supply of pipe and coil material from USS, have had an adverse effect on the Company's tubular business. As a result, the Company downsized its tubular division to a level more commensurate with current operations.

During the 2009 quarter, general, selling and administrative costs decreased \$940,470 from the amount recorded during the 2008 quarter. This decrease was related primarily to a reduction in bonuses and commissions associated with reduced earnings and volume.

Income taxes declined \$2,977,496 from the amount recorded in the 2008 quarter. This decrease was related primarily to the decrease in earnings (loss) before taxes.

**Table of Contents**

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

The Company remained in a strong, liquid position at September 30, 2009. Current ratios were 9.5 and 12.7 at September 30, 2009 and March 31, 2009, respectively. Working capital was \$39,383,373 at September 30, 2009, and \$39,320,364 at March 31, 2009.

During the quarter ended September 30, 2009, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Changes in balance sheet amounts primarily occurred in the ordinary course of business. Cash increased primarily as a result of decreases in accounts receivable and inventories and an increase in accounts payable. Accounts receivable declined due to a substantial decrease in sales in September 2009. Management reduced inventories to a level more commensurate with sales. The Company expects to continue to monitor, evaluate and manage balance sheet components depending on changes in market conditions and the Company's operations.

The Company has an arrangement with a bank which provides for a revolving line of credit facility (the revolver). Pursuant to the revolver, which expires April 1, 2010, the Company may borrow up to \$10 million at an interest rate of the bank's prime rate or 1.5% over LIBOR. The Company uses the revolver to support cash flow and will borrow and repay the note as working capital is required. At March 31, 2009 and September 30, 2009, the Company had no borrowings outstanding under the revolver. At March 31, 2008, the Company owed \$6,600,000 pursuant to the revolver at an average interest rate of approximately 4.4%. These loans were paid off in April and May 2008.

Historically, the Company has renewed the revolver approximately one year before its expiration date. As a result of the current lending environment, the Company may not be able to amend or extend the revolver or enter into a new credit arrangement on terms as favorable to the Company as the current revolver. As a result, the Company has chosen not to renew the revolver at the present time.

The Company has in the past and may in the future borrow funds on a term basis to build or improve facilities. The Company currently has no plans to borrow any significant amount of funds on a term basis.

Notwithstanding the current market conditions, the Company believes its cash flows from operations and borrowing capability due to its strong balance sheet are adequate to fund its expected cash requirements for the next twenty-four months.

**CRITICAL ACCOUNTING POLICIES**

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. One such accounting policy which requires significant estimates and judgments is the valuation of LIFO inventories in the Company's quarterly reporting. The quarterly valuation of inventory requires estimates of the year end quantities which is inherently difficult. Historically, these estimates have been materially correct. In the quarter ended September 30, 2009, LIFO inventories were reduced and are expected to be replaced by March 31, 2010. A deferred credit of \$111,052 was recorded at September 30, 2009, to reflect the replacement cost in excess of the LIFO cost.

**FORWARD-LOOKING STATEMENTS**

From time to time, the Company may make certain statements that contain forward-looking information (as defined in the Private Securities Litigation Reform Act of 1996) and that involve risk and uncertainty. These forward-looking statements may include, but are not limited to, future results of operations, future production capacity, product quality and proposed expansion plans. Forward-looking statements may be made by management orally or in writing including, but not limited to, this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Company's filings with the Securities and Exchange Commission under the Securities Act of 1933 and the Securities Exchange Act of 1934. Actual results and trends in the future may differ materially depending on a variety of factors including, but not limited to, changes in the demand for and prices of the Company's products, changes in the demand for steel and steel products in general and the Company's success in executing its internal operating plans, including any proposed expansion plans.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not Required

**Table of Contents**

**Item 4. Controls and Procedures**

The Company's management, with the participation of the Company's principal executive officer ( CEO ) and principal financial officer ( CFO ), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act )), as of the end of the fiscal quarter ended September 30, 2009. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter ended September 30, 2009 to ensure that information that is required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents**

**FRIEDMAN INDUSTRIES, INCORPORATED**

**Three Months Ended September 30, 2009**

**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Not applicable

**Item 1A. Risk Factors**

Not applicable

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

a). Not applicable

b). Not applicable

c). Not applicable

**Item 3. Defaults Upon Senior Securities**

a). Not applicable

b). Not applicable

**Item 4. Submission of Matters to a Vote of Security Holders**

At the Annual Meeting of Shareholders held on September 3, 2009, the Company's shareholders elected ten directors to the Company's Board of Directors. The number of shares voted for and withheld with respect to the election of each director was as follows:

| <b>Name</b>      | <b>Shares Voted For</b> | <b>Shares Withheld</b> |
|------------------|-------------------------|------------------------|
| William E. Crow  | 4,142,909               | 1,975,560              |
| Harold Friedman  | 4,278,645               | 1,839,824              |
| Jack Friedman    | 4,278,080               | 1,840,389              |
| Durga D. Agrawal | 4,220,043               | 1,898,426              |
| Charles W. Hall  | 4,194,292               | 1,924,177              |
| Alan M. Rauch    | 5,478,474               | 639,995                |
| Max Reichenthal  | 4,197,633               | 1,920,836              |
| Hershel M. Rich  | 5,482,953               | 635,516                |
| Joel Spira       | 5,331,460               | 787,009                |
| Joe L. Williams  | 4,199,097               | 1,919,372              |

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

## Edgar Filing: FRIEDMAN INDUSTRIES INC - Form 10-Q

### Exhibits

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper



**Table of Contents**

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| Exhibit 31.1       | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow  |
| Exhibit 31.2       | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper   |
| Exhibit 32.1       | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by William E. Crow |
| Exhibit 32.2       | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by Ben Harper      |