

FRIEDMAN INDUSTRIES INC  
Form 10-Q  
August 13, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014**

**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**  
**incorporation or organization)** **Identification Number)**  
**19747 HWY 59 N, SUITE 200, HUMBLE, TEXAS 77338**  
**(Address of principal executive offices) (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  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
(Check one): Yes  No

At June 30, 2014, the number of shares outstanding of the issuer's only class of stock was 6,799,444 shares of Common Stock.

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## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED**

|   | <b>JUNE 30, 2014</b> | <b>MARCH 31, 2014</b> |
|---|----------------------|-----------------------|
| <b>ASSETS</b>   |                      |                       |
| <b>CURRENT ASSETS:</b>  |                      |                       |
| Cash  | \$ 10,788,178        | \$ 15,081,024         |
| Accounts receivable, net of allowances for bad debts and cash discounts of \$27,276 at June 30 and March 31, 2014 | 8,106,496            | 9,347,289             |
| Inventories   | 38,913,148           | 35,288,559            |
| Other   | 29,607               | 129,796               |
| <b>TOTAL CURRENT ASSETS</b>   | <b>57,837,429</b>    | <b>59,846,668</b>     |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>   |                      |                       |
| Land  | 1,410,689            | 1,410,689             |
| Buildings and yard improvements   | 7,188,776            | 7,113,482             |
| Machinery and equipment   | 32,219,380           | 31,773,161            |
| Less accumulated depreciation   | (29,378,451)         | (28,934,601)          |
|   | 11,440,394           | 11,362,731            |
| <b>OTHER ASSETS:</b>  |                      |                       |
| Cash value of officers' life insurance and other assets   | 1,090,250            | 1,075,000             |
| <b>TOTAL ASSETS</b>   | <b>\$ 70,368,073</b> | <b>\$ 72,284,399</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                      |                       |
| <b>CURRENT LIABILITIES:</b>   |                      |                       |
| Accounts payable and accrued expenses   | \$ 5,562,808         | \$ 7,206,340          |
| Dividends payable   | 135,989              | 135,989               |
| Contribution to profit sharing plan   | 105,000              | 52,500                |
| Employee compensation and related expenses  | 323,045              | 375,860               |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>6,126,842</b>     | <b>7,770,689</b>      |
| <b>DEFERRED INCOME TAXES</b>  | <b>152,550</b>       | <b>189,998</b>        |
| <b>POSTRETIREMENT BENEFITS OTHER THAN PENSIONS</b>  | <b>1,032,264</b>     | <b>1,013,056</b>      |
| <b>STOCKHOLDERS' EQUITY:</b>  |                      |                       |
| <b>Common stock, par value \$1:</b>   |                      |                       |
| Authorized shares 10,000,000  |                      |                       |
| Issued shares 7,975,160 at June 30 and March 31, 2014   | 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 June 30 and March 31, 2014)   | (5,475,964)          | (5,475,964)           |

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|   |                   |                   |
|---|-------------------|-------------------|
| Retained earnings                         | 31,553,547        | 31,807,786        |
| <b>TOTAL STOCKHOLDERS EQUITY</b>          | <b>63,056,417</b> | <b>63,310,656</b> |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 70,368,073     | \$ 72,284,399     |

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## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS    UNAUDITED**

|  | <b>THREE MONTHS ENDED JUNE 30,</b> |               |
|--|------------------------------------|---------------|
|  | <b>2014</b>                        | <b>2013</b>   |
| Net Sales                                    | \$ 27,904,521                      | \$ 29,582,144 |
| Costs and expenses                           |                                    |               |
| Costs of goods sold                          | 26,862,460                         | 27,138,300    |
| General, selling and administrative costs    | 1,134,576                          | 1,304,900     |
|  | 27,997,036                         | 28,443,200    |
| Interest and other income                    | (15,252)                           | (15,506)      |
| Earnings (loss) before income taxes          | (77,263)                           | 1,154,450     |
| Income tax provision (benefit):              |                                    |               |
| Current                                      | 78,435                             | 448,936       |
| Deferred                                     | (37,448)                           | (102,845)     |
|  | 40,987                             | 346,091       |
| Net earnings (loss)                          | \$ (118,250)                       | \$ 808,359    |
| Average number of common shares outstanding: |                                    |               |
| Basic  | 6,799,444                          | 6,799,444     |
| Diluted                                      | 6,799,444                          | 6,799,444     |
| Net earnings (loss) per share:               |                                    |               |
| Basic  | \$ (0.02)                          | \$ 0.12       |
| Diluted                                      | \$ (0.02)                          | \$ 0.12       |
| Cash dividends declared per common share     | \$ 0.02                            | \$ 0.08       |

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## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED**

|  | <b>THREE MONTHS ENDED JUNE 30,</b> |                      |
|--|------------------------------------|----------------------|
|  | <b>2014</b>                        | <b>2013</b>          |
| <b>OPERATING ACTIVITIES</b>  |                                    |                      |
| Net earnings (loss)  | \$ (118,250)                       | \$ 808,359           |
| Adjustments to reconcile net earnings (loss) to cash provided by (used in) operating activities: |                                    |                      |
| Depreciation   | 443,849                            | 456,898              |
| Provision for deferred taxes   | (37,448)                           | (102,845)            |
| Change in postretirement benefits  | 19,208                             | 22,353               |
| Decrease (increase) in operating assets:   |                                    |                      |
| Accounts receivable  | 1,240,793                          | 579,356              |
| Inventories  | (3,624,589)                        | 7,197,984            |
| Other current assets   | 100,189                            | 92,311               |
| Increase (decrease) in operating liabilities:  |                                    |                      |
| Accounts payable and accrued expenses  | (1,643,532)                        | (6,851,767)          |
| Contribution to profit sharing plan  | 52,500                             | 52,500               |
| Employee compensation and related expenses   | (52,815)                           | (62,729)             |
| Deferred credit for LIFO inventory replacement   |                                    | 54,625               |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                                       | <b>(3,620,095)</b>                 | <b>2,247,045</b>     |
| <b>INVESTING ACTIVITIES</b>  |                                    |                      |
| Purchase of property, plant and equipment  | (521,512)                          | (14,590)             |
| Increase in cash surrender value of officers' life insurance                                     | (15,250)                           | (15,500)             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(536,762)</b>                   | <b>(30,090)</b>      |
| <b>FINANCING ACTIVITIES</b>  |                                    |                      |
| Cash dividends paid  | (135,989)                          | (543,956)            |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>   | <b>(135,989)</b>                   | <b>(543,956)</b>     |
| <b>INCREASE (DECREASE) IN CASH</b>   | <b>(4,292,846)</b>                 | <b>1,672,999</b>     |
| Cash at beginning of period  | 15,081,024                         | 15,923,294           |
| <b>CASH AT END OF PERIOD</b>   | <b>\$ 10,788,178</b>               | <b>\$ 17,596,293</b> |

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## 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 U.S. 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 of Friedman Industries, Incorporated (the Company ) included in its annual report on Form 10-K for the year ended March 31, 2014.

**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 raw materials, 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 using 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.

A summary of inventory values by product group follows:

|                             | <b>June 30,<br/>2014</b> | <b>March 31,<br/>2014</b> |
|-----------------------------|--------------------------|---------------------------|
| Prime Coil Inventory        | \$ 9,963,999             | \$ 7,685,177              |
| Non-Standard Coil Inventory | 1,798,628                | 2,572,787                 |
| Tubular Raw Material        | 2,164,364                | 463,254                   |
| Tubular Finished Goods      | 24,986,157               | 24,567,341                |
|                             | <b>\$ 38,913,148</b>     | <b>\$ 35,288,559</b>      |

**NOTE C    SEGMENT INFORMATION (in thousands)**

|                 | <b>THREE MONTHS ENDED<br/>JUNE 30,</b> |             |
|-----------------|--|-------------|
|                 | <b>2014</b>                            | <b>2013</b> |
| Net sales       |  |             |
| Coil            | \$ 17,906                              | \$ 17,163   |
| Tubular         | 9,999                                  | 12,419      |
| Total net sales | \$ 27,905                              | \$ 29,582   |



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|                                     |    |       |          |
|-------------------------------------|----|-------|----------|
| Operating profit (loss)             |    |       |          |
| Coil                                | \$ | (404) | \$ 178   |
| Tubular                             |    | 772   | 1,650    |
|                                     |    |       |          |
| Total operating profit              |    | 368   | 1,828    |
| Corporate expenses                  |    | 460   | 689      |
| Interest & other income             |    | (15)  | (15)     |
|                                     |    |       |          |
| Earnings (loss) before income taxes | \$ | (77)  | \$ 1,154 |

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|                  | <b>June 30,<br/>2014</b> | <b>March 31,<br/>2014</b> |
|------------------|--------------------------|---------------------------|
| Segment assets   |                          |                           |
| Coil             | \$ 24,451                | \$ 22,308                 |
| Tubular          | 34,016                   | 33,795                    |
|                  | 58,467                   | 56,103                    |
| Corporate assets | 11,901                   | 16,181                    |
|                  | \$ 70,368                | \$ 72,284                 |

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, profit sharing expense, corporate insurance expenses and office supplies. Corporate assets consist primarily of cash and the cash value of officers' life insurance.

**NOTE D SUPPLEMENTAL CASH FLOW INFORMATION**

The Company paid income taxes of approximately \$93,000 and \$106,000 in the quarters ended June 30, 2014 and 2013, respectively. No interest was paid in the quarters ended June 30, 2014 and 2013, respectively. Noncash financing activities consisted of accrued dividends of \$135,989 and \$543,956 in the quarters ended June 30, 2014 and 2013, respectively.

**NOTE E INCOME TAXES**

The Company's effective tax rate for the quarter ended June 30, 2014 differed from the statutory rate due primarily to a change in estimate related to state income taxes payable as of March 31, 2014. The Company's effective tax rate for the quarter ended June 30, 2013 differed from the statutory rate due primarily to the benefit of tax deduction allowed to manufacturing companies.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Results of Operations***Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013*

During the three months ended June 30, 2014, sales, costs of goods sold and gross profit decreased \$1,677,623, \$275,840 and \$1,401,783, respectively, from the comparable amounts recorded during the three months ended June 30, 2013. The decrease in sales resulted from a decline in tons sold partially offset by an increase in the average selling price. Tons sold declined from approximately 42,000 tons in the 2013 quarter to approximately 39,000 tons in the 2014 quarter. The average per ton selling price increased from approximately \$705 per ton in the 2013 quarter to approximately \$710 per ton in the 2014 quarter. The decrease in gross profit was related primarily to a decrease in margins earned on sales. Gross profit as a percentage of sales decreased from approximately 8.3% in the 2013 quarter to approximately 3.7% in the 2014 quarter. In the 2014 quarter, the Company experienced soft market conditions and reduced demand for its products and services.

Coil product segment sales increased approximately \$743,000 during the 2014 quarter. This increase was related primarily to an increase in the average per ton selling price, which increased from approximately \$688 per ton in the

2013 quarter to approximately \$745 per ton in the 2014 quarter. Tons sold declined from approximately 25,000 tons in the 2013 quarter to approximately 24,000 tons in the 2014 quarter. Coil segment operations recorded an operating loss of approximately \$404,000 in the 2014 quarter and an operating profit of approximately \$178,000 in the 2013 quarter. In the 2014 quarter, the Company experienced an increase in material cost and was unable to pass all of this increase along to its customers. Management believes that the operations of this segment have been adversely impacted in both the 2014 and 2013 quarters by soft demand related primarily to a weak U.S. economy and that market conditions will remain soft until the U.S. economy experiences sustained, significant improvement.

The Company is primarily dependent on Nucor Steel Company ( NSC ) for its supply of coil inventory. In the 2014 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 \$2,420,000 during the 2014 quarter. This decrease resulted from both a decrease in the average per ton selling price and a decline in tons sold. The average per ton selling price of tubular products decreased from approximately \$730 per ton in the 2013 quarter to approximately \$656 per ton in the 2014 quarter. Tons sold declined from approximately 17,000 tons in the 2013 quarter to approximately 15,000 tons in the 2014 quarter. Tubular product segment operating profits for the 2014 quarter decreased approximately \$878,000 from operating profits for the 2013 quarter. Operating profits as a percentage of segment sales were approximately 7.7% and 13.3% in the 2014 and 2013 quarters, respectively. In the 2014 quarter, the Company experienced soft market conditions for its tubular products. Also, a reduction in tons produced had the effect of increasing the per ton cost of production and decreasing margins earned on sales. Management believes the lower demand for its tubular products is related to soft market conditions associated with oversupply, foreign competition and a weak U.S. economy.

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U. S. Steel Tubular Products, Inc. ( USS ) is 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 used in the energy business are manufactured by the Company and sold to USS. Loss of USS as a supplier or customer could have a material 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.

During the 2014 quarter, general, selling and administrative costs decreased \$170,324 from the amount recorded during the 2013 quarter. This decrease was related primarily to a decrease in bonuses and commissions associated with the decreased earnings and product sales volumes.

Income taxes in the 2014 quarter decreased \$305,104 from the amount recorded in the 2013 quarter. This decrease was related primarily to the decrease in earnings before taxes in the 2014 quarter. The Company's operations resulted in a loss before income taxes of approximately \$77,000 in the 2014 quarter. The Company reported income tax expense of approximately \$41,000 in the 2014 quarter which resulted primarily from the true up of state income taxes.

## **FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

The Company remained in a strong, liquid position at June 30, 2014. The current ratios were 9.4 at June 30, 2014 and 7.7 at March 31, 2014. Working capital was \$51,710,587 at June 30, 2014, and \$52,075,979 at March 31, 2014.

During the quarter ended June 30, 2014, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Changes in balance sheet amounts occurred in the ordinary course of business. Cash decreased primarily as a result of the reduction of accounts payable and an increase in inventories offset by a decrease in accounts receivable. 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 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.

Construction continues on the Company's pipe-finishing facility to be located in Lone Star, Texas. The Company plans to finance the estimated \$9,200,000 total cost of this facility from internal sources. As of June 30, 2014, capitalized expenditures related to the construction of the facility totaled approximately \$2,000,000. The Company expects the facility to be completed and operational in the fourth quarter of fiscal 2015.

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 24 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 that 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 June 30, 2013, LIFO inventories were reduced. A deferred credit of \$54,625 was recorded at June 30, 2013 to reflect the difference between replacement costs and LIFO costs.

## **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, as amended) 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 U.S. Securities and Exchange Commission (the SEC) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act). 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.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not Required

**Item 4. Controls and Procedures**

The Company's management, with the participation of the Company's principal executive officer ( CEO ) and principal financial officer, 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 Exchange Act), as of the end of the fiscal quarter ended June 30, 2014. Based on this evaluation, the Company's CEO and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter ended June 30, 2014 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 principal financial officer, 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 June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**FRIEDMAN INDUSTRIES, INCORPORATED****Three Months Ended June 30, 2014****Part II OTHER INFORMATION****Item 6. Exhibits****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 Alex LaRue   |
| 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 Alex LaRue      |
| 101.INS | XBRL Instance Document.   |
| 101.SCH | XBRL Taxonomy Schema Document.  |
| 101.CAL | XBRL Calculation Linkbase Document.   |
| 101.DEF | XBRL Definition Linkbase Document.  |
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**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.

FRIEDMAN INDUSTRIES, INCORPORATED

Date: August 13, 2014

By */s/ ALEX LARUE*  
Alex LaRue, Assistant Vice President Secretary and  
Treasurer (Principal Financial Officer)



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| <b>Exhibit</b> |   |
|----------------|---|
| <b>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  |
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