

FRIEDMAN INDUSTRIES INC

Form 10-Q/A

February 14, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

Amendment No. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

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  
(State or other jurisdiction of  
incorporation or organization)

74-1504405  
(I.R.S. Employer Identification  
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

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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, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At September 30, 2004, the number of shares outstanding of the issuer's only class of stock was 7,595,239 shares of Common Stock.

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**EXPLANATORY NOTE**

This quarterly report on Form 10-Q/A ( Form 10-Q/A ) is being filed to amend our quarterly report on Form 10-Q for the quarter ended September 30, 2004 (the Original Form 10-Q ), which was filed with the Securities and Exchange Commission ( SEC ) on November 15, 2004. Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, the Form 10-Q/A contains complete text of Items 1, 2 and 4 of Part I, and Item 6 of Part II as amended as well as currently dated certifications.

In connection with the Company's review of its accrual for accounts payable at December 31, 2004, the Company discovered that it had over accrued accounts payable at September 30, 2004. The error occurred as the result of double booking a liability for materials received. During the quarter ended September 30, 2004, the Company received steel coils and recorded a liability for this purchase. Subsequently, these same coils were shipped to other companies for processing into slit coils or pipe. After processing, the Company received the material and incorrectly recorded a liability for the entire receipt instead of only the processing and shipping charges. Accordingly, our consolidated financial statements for the three and six months ended September 30, 2004 are being restated to correct the accrual for accounts payable.

The amendments contained herein reflect changes resulting from the foregoing adjustment. We have not updated the information contained herein for events occurring subsequent to November 15, 2004, the filing date of the Original Form 10-Q, except to reflect the restatement of the period indicated above. We recommend that this report be read in conjunction with our reports filed subsequent to November 15, 2004.

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

FRIEDMAN INDUSTRIES, INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	SEPTEMBER 30, 2004	MARCH 31, 2004
	Unaudited (Restated)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,099,433	\$ 1,984,763
Accounts receivable, net of allowances for bad debts and cash discounts of \$37,276 and \$44,776 at September 30, 2004 and March 31, 2004, respectively	15,817,403	14,688,702
Inventories	19,933,110	21,043,992
Other	322,404	112,244
	43,172,350	37,829,701
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	437,793	437,793
Buildings and yard improvements	4,088,149	4,088,149
Machinery and equipment	18,497,977	18,013,461
Less accumulated depreciation	(16,276,518)	(15,846,288)
	6,747,401	6,693,115
<b>OTHER ASSETS:</b>		
Cash value of officers' life insurance	528,590	1,302,613
Deferred income taxes	143,694	202,694
	\$ 50,592,035	\$ 46,028,123
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 12,100,552	\$ 10,204,653
Current portion of long-term debt	23,081	63,037
Dividends payable	607,759	151,500
Income taxes payable	223,714	1,134,433
Contribution to profit sharing plan	134,000	280,000
Employee compensation and related expenses	983,706	806,140
Deferred credit for LIFO replacement	157,520	
	14,230,332	12,639,763
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	389,904	356,756
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, par value \$1:		
Authorized shares 10,000,000		
Issued and outstanding shares 7,595,239 and 7,575,239 at September 30, 2004 and March 31, 2004, respectively	7,595,239	7,575,239

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Additional paid-in capital	27,742,409	27,714,669
Retained earnings(deficit)	634,151	(2,258,304)
	<u>                    </u>	<u>                    </u>
TOTAL STOCKHOLDERS EQUITY	35,971,799	33,031,604
	<u>                    </u>	<u>                    </u>
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 50,592,035	\$ 46,028,123
	<u>                    </u>	<u>                    </u>

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## FRIEDMAN INDUSTRIES, INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS UNAUDITED

	Three Months Ended September 30,		Six Months Ended September 30,	
	(Restated) 2004	2003	(Restated) 2004	2003
Net sales	\$49,020,241	\$25,410,689	\$93,935,945	\$50,614,859
Costs and expenses				
Costs of goods sold	43,994,292	23,910,932	84,709,449	47,166,445
General, selling and administrative costs	1,506,856	1,045,949	3,159,337	2,280,044
Interest		14,374		23,106
	45,501,148	24,971,255	87,868,786	49,469,595
Interest and other income	(51,120)	(1,873)	(61,083)	(4,021)
Earnings before income taxes	3,570,213	441,307	6,128,242	1,149,285
Provision (benefit) for income taxes:				
Current	1,274,080	159,045	2,189,280	408,758
Deferred	35,000	(9,000)	59,000	(18,000)
	1,309,080	150,045	2,248,280	390,758
Net earnings	\$ 2,261,133	\$ 291,262	\$ 3,879,962	\$ 758,527
Average number of common shares outstanding:				
Basic	7,581,906	7,573,239	7,578,572	7,573,239
Diluted	7,785,196	7,632,571	7,756,424	7,615,163
Net earnings per share:				
Basic	\$ 0.30	\$ 0.04	\$ 0.51	\$ 0.10
Diluted	\$ 0.29	\$ 0.04	\$ 0.50	\$ 0.10
Cash dividends declared per common share	\$ 0.08	\$ 0.03	\$ 0.13	\$ 0.06

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## FRIEDMAN INDUSTRIES, INCORPORATED

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Six Months Ended September 30,	
	(Restated) 2004	2003
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 3,879,962	\$ 758,527
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	441,600	465,000
Provision for deferred taxes	59,000	(18,000)
Provision for postretirement benefits	33,148	
Decrease (increase) in operating assets:		
Accounts receivable	(1,128,701)	690,350
Inventories	1,110,882	1,650,910
Other	(210,160)	(324,339)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,895,899	(4,075,317)
Contribution to profit-sharing plan payable	(146,000)	(128,000)
Employee compensation and related expenses	177,566	(6,534)
Federal income taxes payable	(910,719)	(251,242)
Deferred credit for LIFO replacement	157,520	
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>5,359,997</b>	<b>(1,238,645)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(496,427)	(277,850)
(Increase) decrease in cash value of officers' life insurance	774,023	(6,919)
Proceeds from sale of asset	542	
<b>NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES</b>	<b>278,138</b>	<b>(284,769)</b>
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(531,249)	(378,649)
Principal payments on notes payable	(39,956)	(31,721)
Increase in notes payable		2,000,000
Exercise of stock options	47,740	
<b>NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES</b>	<b>(523,465)</b>	<b>1,589,630</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,114,670</b>	<b>66,216</b>
Cash and cash equivalents at beginning of period	1,984,763	673,127
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 7,099,433</b>	<b>\$ 739,343</b>

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FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED NOTES TO QUARTERLY REPORT UNAUDITED  
SIX MONTHS ENDED SEPTEMBER 30, 2004

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 financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended March 31, 2004.

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 value. 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 quarter ended September 30,2004, LIFO inventories were reduced but are expected to be replaced by March 31, 2005. Accordingly, a deferred credit for LIFO replacement of \$157,520 to reflect the expected cost of such replacement was recorded at September 30, 2004.

A summary of inventory values follows:

	<u>September 30, 2004</u>	<u>March 31, 2004</u>
Prime Coil Inventory	\$ 7,661,637	\$ 4,976,300
Non-Standard Coil Inventory	939,742	4,181,815
Tubular Raw Material	3,557,822	3,515,060
Tubular Finished Goods	7,773,909	8,370,817
	<u>\$ 19,933,110</u>	<u>\$ 21,043,992</u>

NOTE C LONG-TERM DEBT

The following summary reflects long-term debt including the current portion thereon:

	<u>September 30, 2004</u>	<u>March 31, 2004</u>
Notes payable on equipment purchases	\$ 23,081	\$ 63,037

The Company has a \$6 million revolving credit facility which expires April 1, 2006. There were no amounts outstanding pursuant to the facility at September 30, 2004 or March 31, 2004.

NOTE D STOCK BASED COMPENSATION

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The Company follows Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ), for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The following schedule reflects the impact on net income and earnings per common share if the Company had applied the fair value recognition provisions of Statements of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, to stock based employee compensation for each period indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	(Restated) 2004	2003	(Restated) 2004	2003
Reported net income	\$ 2,261,133	\$ 291,262	\$ 3,879,962	\$ 758,527
Less: compensation expenses per SFAS No. 123, net of tax	.00	.00	.00	31,582
Pro forma net income	\$ 2,261,133	\$ 291,262	\$ 3,879,962	\$ 726,945
<b>BASIC EARNINGS PER COMMON SHARE:</b>				
Reported net income	.30	.04	.51	.10
Less: compensation expense per SFAS No. 123, net of tax	.00	.00	.00	.00
Pro forma net income	.30	.04	.51	.10
<b>DILUTED EARNINGS PER COMMON SHARE:</b>				
Reported net income	.29	.04	.50	.10
Less: compensation expense per SFAS No. 123, net of tax	.00	.00	.00	.00
Pro forma net income	.29	.04	.50	.10

During the six months ended September 30, 2004, options for 20,000 shares Common Stock were exercised which resulted in proceeds of \$47,740 to the Company. In the 2004 period, no options were granted.

The fair value of options was estimated using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.0%, a dividend yield of 3.4%, volatility factor of the expected market price of the Company's common stock of 0.42, and a weighted average expected life of the option of four years.

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## NOTE E SEGMENT INFORMATION

	Three Months Ended September 30		Six Months Ended September 30	
	(Restated) 2004	2003	(Restated) 2004	2003
<b>Net sales</b>				
Coil	\$ 28,157	\$ 13,157	\$ 54,693	\$ 26,552
Tubular	20,863	12,254	39,243	24,063
Total net sales	<u>\$ 49,020</u>	<u>\$ 25,411</u>	<u>\$ 93,936</u>	<u>\$ 50,615</u>
<b>Operating profit</b>				
Coil	\$ 1,849	\$ 299	\$ 3,224	\$ 1,009
Tubular	2,564	660	4,874	1,429
Total operating profit	<u>4,413</u>	<u>959</u>	<u>8,098</u>	<u>2,438</u>
Corporate expenses	894	506	2,031	1,270
Interest expense		14		23
Interest & other income	(51)	(2)	(61)	(4)
Total earnings before taxes	<u>\$ 3,570</u>	<u>\$ 441</u>	<u>\$ 6,128</u>	<u>\$ 1,149</u>
<b>Segment assets</b>				
Coil			\$ 20,572	\$ 21,770
Tubular			22,112	20,624
			<u>42,684</u>	<u>42,394</u>
Corporate assets			7,908	3,634
			<u>50,592</u>	<u>46,028</u>

Segment amounts reflected above are stated in thousands. General 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 consists primarily of cash and cash equivalents and the cash value of officers' life insurance.

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

**Results of Operations**

Six Months Ended September 30, 2004 Compared to Six Months Ended September 30, 2003

During the six months ended September 30, 2004, sales, costs of goods sold and gross profit increased \$43,321,086, \$37,543,004 and \$5,778,082, from the respective amounts recorded during the six months ended September 30, 2003. The increases in sales and costs of goods were related primarily to increases in the average per ton selling price and average per ton cost of goods sold of approximately 80% and 74%, respectively. Total tons shipped increased from approximately 152,000 tons in the 2003 period to 157,000 tons in the 2004 period. Gross profit benefited from the increase in sales as well as improved margins. In the 2004 period, gross profit and costs of goods as a percentage of sales were approximately 9.8% and 90.2%, respectively, compared to 6.8% and 93.2%, respectively, in the 2003 period. During the 2004 period, the Company experienced a significant improvement in market conditions for its products as compared to market conditions during the 2003 period.

Coil product segment sales increased approximately \$28,141,000 during the 2004 period. This increase was related primarily to an increase in the average per ton selling price. Tons shipped actually declined from approximately 83,000 tons in the 2003 period to 78,000 tons in the 2004 period. This decrease was related primarily to a decrease in tons sold by the Company's XSCP Division ( XSCP ). During the 2004 period, XSCP, which markets non-standard coils received from Nucor Steel Company ( NSC ), agreed with NSC to suspend the purchase of non-standard coils. XSCP accounted for approximately 5% of total sales during the 2004 period. Due to the increased cost of this material, management did not believe that the material could be resold at a profit. Management continues to monitor this situation closely and confers regularly with NSC regarding this suspension. In the near term, management expects this suspension to continue. In the event management decided to redeploy XSCP assets, the XSCP operating assets could be used at the Company's Hickman, Arkansas coil facility ( Hickman ). Total coil operating profit as a percentage of coil segment sales increased from 3.8% in the 2003 period to 5.9% in the 2004 period. Improved market conditions for coil segment products produced increases in sales and margins during the 2004 period.

In the 2004 period, the Company's Lone Star coil facility ( LSCF ) continued to experience a lack of supply of coil products from its primary coil supplier, Lone Star Steel Company ( LSS ). LSCF, which accounted for approximately 8% of total sales in the 2004 period, has from time to time purchased coils from other suppliers. However, freight costs associated with these purchases diminishes the Company's competitiveness in a very competitive industry. LSCF produced a profit from operations in the 2004 period. A further reduction in supply could have an adverse effect on coil segment operations. Management confers regularly with LSS and continues to monitor this situation closely.

The Company is dependent on LSS and NSC for its supply of coil inventory. NSC continues to supply Hickman with steel coils in amounts that are adequate for the Company's purposes. While current levels are adequate to sustain the Company's operations, a reduction in the supply of steel coils could have an adverse effect on the Company's coil operations.

Tubular product segment sales increased approximately \$15,180,000 during the 2004 period. This increase resulted from both an increase in tons shipped and from an approximately 42% increase in the average per ton selling price. Tons shipped increased from approximately 68,000 tons in the 2003 period to 79,000 tons in the 2004 period. Tubular product segment operating profits as a percentage of segment sales were approximately 12.4 % and 5.9 % in the 2004 and 2003 periods, respectively. This segment benefited from significantly improved market conditions for tubular products during the 2004 period as compared to market conditions in the 2003 period.

During the 2004 quarter, LSS, the Company's primary supplier of tubular products and coil material used in pipe manufacturing, continued to supply such products in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from LSS.

During the 2004 period, general, selling and administrative costs increased \$879,293 from the amount recorded during the 2003 period. This increase was related primarily to bonuses associated with increased earnings and an increase in legal and professional expenses.

Income taxes increased \$1,857,522 from the comparable amount recorded during the 2003 period. This increase was primarily related to the increase in earnings before taxes. The effective tax rates were 36.7% and 34% in the 2004 period and 2003 period, respectively. In the 2004 period, the Company recorded additional taxes of \$114,180 and \$50,500 reflecting the net effect of state income taxes and taxes related to the surrender of life insurance policies, respectively.

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

During the quarter ended September 30, 2004, sales, costs of goods sold and gross profit increased \$23,609,552, \$20,083,360 and \$3,526,192, from the respective amounts recorded during the quarter ended September 30, 2003. The increases in sales and costs of goods were related primarily to increases in the average per ton selling price and average per ton cost of goods sold of approximately 94% and 85%, respectively. Total tons shipped remained constant at approximately 75,000 tons in both quarters. Gross profit benefited from the increase in sales as well as improved margins. In the 2004 quarter, gross profit and costs of goods as a percentage of sales were approximately 10.3% and 89.7%, respectively, compared to 5.9% and 94.1%, respectively, in the 2003 quarter. During the 2004 quarter, the Company experienced a significant improvement in market conditions for its products as compared to market conditions during the 2003 quarter.

Coil product segment sales increased approximately \$15,000,000 during the 2004 quarter. This increase was related primarily to an increase in the average per ton selling price of approximately 135%. Tons shipped declined from approximately 41,000 tons in the 2003 quarter to 37,000 tons in the 2004 quarter. This decrease was related primarily to a decrease in tons sold by XSCP. Coil operating profit as a percentage of coil segment sales increased from approximately 2.3% in the 2003 quarter to 6.6% in the 2004 quarter. Significantly improved market conditions for coil segment products produced increased sales and margins during the 2004 quarter.

Tubular product segment sales increased approximately \$8,609,000 during the 2004 quarter. This increase resulted from both an increase in tons shipped and from an approximately 55% increase in the average per ton selling price. Tons shipped increased from approximately 35,000 tons in the 2003 quarter to 38,000 tons in the 2004 quarter. Tubular product segment operating profits as a percentage of segment sales were approximately 12.3% and 5.4% in the 2004 and 2003 quarters, respectively. This segment benefited from improved market conditions for tubular products during the 2004 quarter as compared to market conditions in the 2003 quarter.

During the 2004 quarter, general, selling and administrative costs increased \$460,907 from the amount recorded during the 2003 quarter. This increase was related primarily to bonuses associated with increased earnings.

Income taxes increased \$1,159,035 from the comparable amount recorded during the 2003 quarter. This increase was primarily related to the increase in earnings before taxes. The effective tax rates were 37% and 34% in the 2004 quarter and 2003 quarter, respectively. In the 2004 quarter, the Company recorded additional taxes of \$69,960 and \$25,250 reflecting the net effect of state income taxes and taxes related to the surrender of life insurance policies, respectively.

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

The Company remained in a strong, liquid position at September 30, 2004. Current ratios were 3.0 at both September 30, 2004 and March 31, 2004. Working capital was \$28,942,018 at September 30, 2004 and \$25,189,938 at March 31, 2004.

During the three months ended September 30, 2004, the Company maintained assets and liabilities at levels it believed were commensurate with operations. The Company expects to continue to monitor, evaluate and manage balance sheet components depending on changes in the market conditions and the Company's operations.

During the six months ended September 30, 2004, the Company purchased approximately \$496,000 in fixed assets. This purchase was related primarily to a small diameter pipe mill which began operation in April 2004.

In June 2004 and July 2004, the Company surrendered for cash, certain split-dollar life insurance policies on the lives of Jack and Harold Friedman, respectively. The Company received the total cash surrender value of \$812,432.

During the six months ended September 30, 2004, cash and cash equivalents increased \$5,114,670 primarily as the result of earnings during the 2004 period.

The Company has an arrangement with a bank which provides for a revolving line of credit facility (the revolving facility). Pursuant to the revolving facility, which expires April 1, 2006, the Company may borrow up to \$6 million at the bank's prime rate or 1.5% over LIBOR. The Company uses the revolving facility to support cash flow and will borrow and repay the note as working capital is required. At September 30, 2004 and March 31, 2004, the Company had no borrowings outstanding under the revolving facility.

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 funds on a term basis.

Notwithstanding the current market conditions, the Company believes its cash flows from operations and borrowing capability under its revolving facility 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 addition, the Company maintains an allowance for doubtful accounts receivable by providing for specifically identified accounts where collectibility is doubtful and a general allowance based on the aging of the receivables compared to past experience and current trends. On an ongoing basis, the Company evaluates estimates and judgements. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances.

### **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 and product quality. 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 and prices of the Company products, changes in the demand for steel and steel products in general and the Company's success in executing its internal operating plans.

### **Item 4. Controls and Procedures**

The Company maintains 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)) that are designed 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 recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

At the time the original Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 was prepared and filed, 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 of the end of the fiscal quarter ended September 30, 2004. Based on this evaluation, the CEO and CFO had originally concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter ended September 30, 2004 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 recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

In conjunction with the Company's decision to restate its financial statements for the period ended September 30, 2004, the Company identified a material weakness in its internal control over financial reporting (as defined in Public Company Accounting Oversight Board, Auditing Standard No. 2, a material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected) and, as a result thereof, reevaluated its disclosure controls and procedures over the accrual of accounts payable and concluded that these controls were not effective. The Company has taken steps to identify, rectify and prevent the recurrence of the circumstances that resulted in the determination to restate the financial statements for the period ended September 30, 2004. As part of this undertaking, the Company intends to incorporate additional levels of review of the processes and supporting documentation related to its accruals, including but not limited to those for accounts payable. The Company believes these enhancements to its systems of internal control over financial reporting and disclosure controls and procedures will be adequate to provide reasonable assurance that the control objectives will be met.

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**FRIEDMAN INDUSTRIES, INCORPORATED**

**Three Months Ended September 30, 2004**

**Part II OTHER INFORMATION**

**Item 6. Exhibits**

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Jack Friedman
- 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 Jack Friedman
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**EXHIBIT INDEX**

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