

FRIEDMAN INDUSTRIES INC

Form 10-Q

February 13, 2009

**Table of Contents**

---

**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 DECEMBER 31, 2008

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

---

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 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 December 31, 2008, 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**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS-UNAUDITED**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED**

**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**

	December 31, 2008 (Unaudited)	March 31, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 9,489,475	\$ 2,643,922
Accounts receivable, net of allowances for bad debts and cash discounts of \$37,276 at December 31 and March 31, 2008	14,514,867	16,742,000
Inventories	28,091,915	29,900,327
Other	479,701	136,345
<b>TOTAL CURRENT ASSETS</b>	<b>52,575,958</b>	<b>49,422,594</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	1,082,331	1,082,331
Construction in progress		8,706,172
Buildings and yard improvements	7,000,838	3,494,294
Machinery and equipment	29,082,540	21,879,259
Less accumulated depreciation	(19,574,683)	(18,389,983)
	17,591,026	16,772,073
<b>OTHER ASSETS:</b>		
Cash value of officers' life insurance and other assets	762,000	720,001
Deferred income taxes		43,724
<b>TOTAL ASSETS</b>	<b>\$ 70,928,984</b>	<b>\$ 66,958,392</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 8,469,245	\$ 13,499,314
Current portion of long-term debt	54,028	54,028
Dividends payable	815,933	339,972
Income taxes payable	2,424,769	70,069
Contribution to profit sharing plan	275,500	259,500
Employee compensation and related expenses	1,246,416	561,483
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,285,891</b>	<b>14,784,366</b>
<b>LONG-TERM DEBT LESS CURRENT PORTION</b>	<b>27,014</b>	<b>6,667,536</b>
<b>DEFERRED INCOME TAXES</b>	<b>261,967</b>	
<b>POSTRETIREMENT BENEFITS OTHER THAN PENSIONS</b>	<b>598,933</b>	<b>549,749</b>
<b>STOCKHOLDERS' EQUITY:</b>		

Edgar Filing: FRIEDMAN INDUSTRIES INC - Form 10-Q

Common stock, par value \$1:			
Authorized shares	10,000,000		
Issued shares	7,975,160 at December 31 and March 31, 2008	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 December 31 and March 31, 2008)		(5,475,964)	(5,475,964)
Retained earnings		25,252,309	13,453,871
TOTAL STOCKHOLDERS EQUITY		56,755,179	44,956,741
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		\$ 70,928,984	\$ 66,958,392

**Table of Contents**

**FRIEDMAN INDUSTRIES, INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS-UNAUDITED**

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Net sales	\$ 56,182,665	\$ 38,062,240	\$ 186,855,501	\$ 129,747,321
Costs and expenses				
Costs of goods sold	47,775,322	36,092,428	160,237,068	121,575,529
General, selling and administrative costs	1,585,716	1,024,178	5,433,524	3,530,341
Interest expense			23,310	47,740
	49,361,038	37,116,606	165,693,902	125,153,610
Interest and other income	(26,584)	(65,875)	(130,761)	(163,175)
Earnings before income taxes	6,848,211	1,011,509	21,292,360	4,756,886
Provision for income taxes:				
Current	2,192,149	317,913	7,012,409	1,523,175
Deferred	101,897	33,389	305,691	100,167
	2,294,046	351,302	7,318,100	1,623,342
Net income	\$ 4,554,165	\$ 660,207	\$ 13,974,260	\$ 3,133,544
Weighted average number of common shares outstanding:				
Basic	6,799,444	6,712,108	6,799,444	6,712,108
Diluted	6,799,444	6,771,995	6,799,444	6,776,592
Net income per share:				
Basic	\$ 0.67	\$ 0.10	\$ 2.06	\$ 0.47
Diluted	\$ 0.67	\$ 0.10	\$ 2.06	\$ 0.46
Cash dividends declared per common share	\$ 0.12	\$ 0.06	\$ 0.32	\$ 0.22

**Table of Contents**

## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED**

	<b>Nine Months Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 13,974,260	\$ 3,133,544
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,184,701	847,200
Provision for deferred taxes	305,691	100,167
Provision for postretirement benefits	49,184	39,706
Decrease (increase) in operating assets:		
Accounts receivable	2,227,133	5,563,741
Inventories	1,808,412	5,967,870
Prepaid federal income taxes		(424,739)
Other	(343,356)	(83,796)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(5,030,069)	(9,049,723)
Contribution to profit-sharing plan	16,000	(62,500)
Employee compensation and related expenses	684,933	(168,507)
Federal income taxes	2,354,700	(46,742)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>17,231,589</b>	<b>5,816,221</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(2,003,655)	(3,921,132)
Increase in cash value of officers' life insurance and other assets	(41,999)	(35,400)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,045,654)</b>	<b>(3,956,532)</b>
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(1,699,861)	(1,610,907)
Principal payments on notes payable and revolving credit facility	(6,640,521)	(27,014)
Long-term debt		162,084
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(8,340,382)</b>	<b>(1,475,837)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>6,845,553</b>	<b>383,852</b>
Cash and cash equivalents at beginning of period	2,643,922	1,039,030
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 9,489,475</b>	<b>\$ 1,422,882</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 financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended March 31, 2008.

**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 nine months ended December 31, 2008, LIFO inventories were reduced and are not expected to be replaced by March 31, 2009. The Company expects that the replacement cost and the liquidated cost of material will be approximately equal at March 31, 2009 and that no significant gain or loss will be experienced in the year ended March 31, 2009 as a result of this liquidation. Accordingly, no gain or loss from this liquidation was recognized in the quarter ended December 31, 2008.

In December 2008, average selling prices for finished tubular products declined significantly. As a result, the Company recorded an adjustment of approximately \$1,436,000 to reduce the inventory value of finished tubular goods to reflect the required lower of cost or market valuation at December 31, 2008. This adjustment had the effect of increasing costs of goods sold and reducing earnings before taxes by approximately \$1,436,000.

A summary of inventory values by product group follows:

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
Prime Coil Inventory	\$ 6,672,787	\$ 8,121,728
Non-Standard Coil Inventory	228,802	918,334
Tubular Raw Material	8,130,543	7,444,805
Tubular Finished Goods	13,059,783	13,415,460
	<b>\$ 28,091,915</b>	<b>\$ 29,900,327</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 December 31, 2008. 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 and has a balance due of \$81,042 at December 31, 2008.

**NOTE D    STOCK BASED COMPENSATION**

Under the Company's 1989 and 1996 Stock Option Plans, options were granted to certain officers and key employees to purchase common stock of the Company. Pursuant to the terms of the plans, no additional options may be granted. All options have ten-year terms and become fully exercisable at the end of six months of continued employment. The following is a summary of activity relative to options outstanding during each of the quarters ended

December 31:

	<b>2008</b>		<b>2007</b>
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>
			<b>Weighted Average Exercise Price</b>
Outstanding at beginning of quarter			88,836
Granted			\$ 2.33
Exercised			
Canceled or expired			
Outstanding at end of quarter			88,836
			\$ 2.33

**Table of Contents**

	<b>2008</b>	<b>2007</b>
	<b>Shares</b>	<b>Shares</b>
	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Exercise Price</b>
Exercisable at the end of the quarter		88,836
Weighted average fair value of options granted during the quarter		\$ 2.33

Since no options were outstanding at December 31, 2008, intrinsic value was not applicable.

NOTE E SEGMENT INFORMATION

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
	(in thousands)	(in thousands)
Segment assets		
Coil	\$ 22,482	\$ 29,469
Tubular	38,178	34,041
	60,660	63,510
Corporate assets	10,269	3,448
	\$ 70,929	\$ 66,958

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 \$4,243,000 and \$2,282,000 in the nine months ended December 31, 2008 and 2007, respectively. Interest paid in the nine months ended December 31, 2008 and 2007 was approximately \$23,000 and \$48,000, respectively.

## NOTE G NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, except for the measurement of share-based payments. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective, for the Company, beginning the first quarter of fiscal year 2009. For certain types of financial instruments, SFAS No. 157 requires a limited form of retrospective transition, whereby the cumulative impact of the change in principle is recognized in the opening balance of retained earnings in the fiscal year of adoption. All other provisions of SFAS No. 157 were applied prospectively beginning in the first quarter of fiscal year 2009. Adoption of SFAS No. 157 did not have a material impact on our consolidated financial statements in the nine months ended December 31, 2008.

**Table of Contents**

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

**Results of Operations**

*Nine Months Ended December 31, 2008 Compared to Nine Months Ended December 31, 2007*

During the nine months ended December 31, 2008, sales, costs of goods sold and gross profit increased \$57,108,180, \$38,661,539 and \$18,446,641, respectively, from the comparable amounts recorded during the nine months ended December 31, 2007. The increase in sales was related primarily to an increase in average selling prices. The average per ton selling price increased from approximately \$622 per ton in the 2007 period to approximately \$950 per ton in the 2008 period. Total tons shipped declined from approximately 208,000 tons in the 2007 period to 197,000 tons in the 2008 period. The increase in costs of goods sold was primarily related to an increase in the average per ton cost of goods which increased from approximately \$583 per ton in the 2007 period to \$815 per ton in the 2008 period. The increase in gross profit in the 2008 period was related to substantially improved margins earned on pipe sales. Gross profit as a percentage of sales increased from approximately 6.3% in the 2007 period to 14.2% in the 2008 period. The Company experienced strong demand for its pipe products in the 2008 period and margins improved significantly. In addition, the Company benefited from lower cost inventory sold at substantially improved selling prices.

Coil product segment sales increased approximately \$3,010,000 during the 2008 period. This increase resulted primarily from an increase in the average per ton selling price which increased from approximately \$648 per ton in the 2007 period to \$950 per ton in the 2008 period. In the 2008 period, the Company experienced a loss of approximately \$559,000 related to the coil operations compared to a profit of \$1,938,000 in the 2007 period. Coil products are used primarily in durable goods and demand for such products was depressed in the 2008 period. As a result, tons sold declined from approximately 92,000 tons during the 2007 period to approximately 66,000 tons in the 2008 period. Also, the Company incurred a significant increase in cost of coil products during the 2008 period. Average per ton cost increased from approximately \$616 per ton in the 2007 period to \$939 per ton in the 2008 period. The Company was unable to pass all of this increased cost to its customers in the 2008 period. 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 the 2008 period, LIFO inventory of coil products was reduced and is not expected to be replaced by March 31, 2009. Cost of material related to this liquidation had a cost approximately the same as the current replacement cost. Accordingly, this liquidation had no significant impact on earnings in the 2008 period.

In August 2008, the Company began operations at the new coil facility located at Decatur, Alabama. This operation produced a loss of approximately \$555,000 during the 2008 period. The Company expects that this facility will continue to produce a loss during the ramp up period and until demand for coil products improves.

The Company is primarily dependent on Nucor Steel Company ( NSC ) for its supply of coil inventory. NSC continues to supply the Company with steel coils in amounts that are adequate for the Company's purposes. Loss of NSC as a supplier could have an adverse effect on the Company's business.

Tubular product segment sales increased approximately \$54,099,000 during the 2008 period. This increase resulted from both an increase in average selling prices and an increase in tons sold. The average selling price per ton increased from approximately \$602 per ton in the 2007 period to \$950 per ton in the 2008 period. The Company sold approximately 116,000 tons of pipe in the 2007 period compared to approximately 132,000 tons in the 2008 period. Tubular product segment operating profit as a percentage of segment sales improved from 6.3% in the 2007 period to 20.1% in the 2008 period. The Company experienced strong market conditions for its pipe products in the 2008 period and margins improved significantly. In addition, the Company benefited from lower cost inventory sold at substantially improved selling prices.

Beginning in December 2008, the Company experienced a significant decline in average selling prices for finished tubular products. As a result, the Company recorded an adjustment of approximately \$1,436,000 to reduce the value of finished tubular products to reflect the required lower of cost or market valuation at December 31, 2008. This

adjustment had the effect of reducing earnings before income taxes by \$1,436,000 during the 2008 period. The Company believes that the decline in average selling prices is a result of lack of demand related primarily to the decline in the U. S. economy.

U. S. Steel Tubular Products, Inc. ( USS ), an affiliate of United States Steel Corporation, 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. In the 2008 period, USS accounted for approximately 30% of total Company sales. Certain finished tubular products are used in the energy business and are manufactured by the Company and sold to USS. Beginning in December 2008 and continuing in the quarter ending March 31, 2009, USS reduced orders for these finished tubular products. The Company expects 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.

During the 2008 period, general, selling and administrative costs increased \$1,903,183 from the amount recorded during the 2007 period. This increase was related primarily to increases in commissions and bonuses associated with the increase in earnings.

Income taxes increased \$5,694,758 from the comparable amount recorded during the 2007 period. This increase was primarily related to the increase in earnings before taxes. Effective tax rates were 34.4% and 34.1% in the 2008 and 2007 periods, respectively. The Company incurred an increase in state income taxes in the 2008 period.

**Table of Contents**

*Three Months Ended December 31, 2008 Compared to Three Months Ended December 31, 2007*

During the three months ended December 31, 2008, sales, costs of goods sold and gross profit increased \$18,120,425, \$11,682,894 and \$6,437,531, respectively, from the comparable amounts recorded during the three months ended December 31, 2007. The sales increase was primarily related to an increase in the average selling price which increased from approximately \$601 per ton in the 2007 quarter to approximately \$1,061 per ton in the 2008 quarter. In the 2007 quarter, the Company sold approximately 63,000 tons compared to approximately 57,000 tons in the 2008 quarter. The increase in costs of goods sold was primarily related to an increase in the average per ton cost of goods which increased from approximately \$570 per ton in the 2007 quarter to \$902 per ton in the 2008 quarter. The increase in gross profit in the 2008 quarter was related to substantially improved margins earned on pipe sales. Gross profit as a percentage of sales increased from approximately 5.2% in the 2007 quarter to 15.0% in the 2008 quarter. The Company experienced strong demand for its pipe products in the 2008 quarter and margins improved significantly. In addition, the Company benefited from lower cost inventory sold at substantially improved selling prices.

Coil product segment sales decreased approximately \$5,227,000 during the 2008 quarter. This decrease resulted from a decrease in tons sold that was partially offset by an increase in the average per ton selling price. The average selling price per ton increased from approximately \$620 per ton in the 2007 quarter to \$954 per ton in the 2008 quarter. Tons sold declined from approximately 31,000 tons during the 2007 quarter to approximately 15,000 tons in the 2008 quarter. Operating profit in the 2008 quarter increased approximately \$730,000. Coil operations benefited from a significant reduction in the cost of coil material in the 2008 quarter which had the effect of reducing the current cost applied to revenue. Coil products are used primarily in durable goods and demand for such products continued to be depressed in the 2008 quarter. 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 operations at the new coil facility located at Decatur, Alabama. This operation produced a loss of approximately \$465,000 during the 2008 quarter. The Company expects that this facility will continue to produce a loss during the ramp up period and until demand for coil products improves.

The Company is primarily dependent on Nucor Steel Company ( NSC ) for its supply of coil inventory. NSC continues to supply the Company with steel coils in amounts that are adequate for the Company's purposes. Loss of NSC as a supplier could have an adverse effect on the Company's business.

Tubular product segment sales increased approximately \$23,348,000 during the 2008 quarter. This increase resulted from both an increase in average selling prices and an increase in tons sold. The average selling price per ton increased from approximately \$582 per ton in the 2007 quarter to \$1,102 per ton in the 2008 quarter. The Company sold approximately 32,000 tons pipe in the 2007 quarter compared to approximately 38,000 tons in the 2008 quarter. Tubular product segment operating profits as a percentage of segment sales improved from 4.7% in the 2007 quarter to 15.0% in the 2008 quarter. The Company experienced strong market conditions for its pipe products in the 2008 quarter and margins improved significantly. In addition, the Company benefited from lower cost inventory sold at substantially improved selling prices.

Beginning in December 2008, the Company experienced a significant decline in average selling prices for finished tubular products. As a result, the Company recorded an adjustment of approximately \$1,436,000 to reduce the value of finished tubular products to reflect the required lower of cost or market valuation at December 31, 2008. This adjustment had the effect of reducing earnings before income taxes by \$1,436,000 during the 2008 quarter. The Company believes that the decline in average selling prices is a result of a lack of demand related primarily to the decline in the U. S. economy.

U. S. Steel Tubular Products, Inc. ( USS ), an affiliate of United States Steel Corporation, 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 are used in the energy business and are manufactured by the Company and sold to USS. Beginning in December 2008 and continuing in the quarter ending March 31, 2009, USS reduced orders

for these finished tubular products. The Company expects 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.

During the 2008 quarter, general, selling and administrative costs increased \$561,538 from the amount recorded during the 2007 quarter. This increase was related primarily to increases in commissions and bonuses associated with the increase in earnings.

Income taxes increased \$1,942,744 from the comparable amount recorded during the 2007 quarter. This increase was primarily related to the increase in earnings before taxes. Effective tax rates were 33.5% and 34.7% in the 2008 and 2007 quarters, respectively. In the 2008 quarter, the Company benefited from a domestic manufacturing credit allowed for federal income taxes and from a reduction in state taxes.

**Table of Contents**

**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

The Company remained in a strong, liquid position at December 31, 2008. Current ratios were 4.0 and 3.3 at December 31, 2008 and March 31, 2008, respectively. Working capital was \$39,290,067 at December 31, 2008 and \$34,638,228 at March 31, 2008.

During the nine months ended December 31, 2008, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Changes in current assets and liabilities during the 2008 period were related primarily to the ordinary course of business of the Company. During the 2008 period, cash increased primarily as the result of net income and a reduction in accounts receivable and inventories. Cash was used primarily to reduce accounts payable, pay off long term debt, purchase property and equipment and pay cash dividends. The Company expects to continue to monitor, evaluate and manage balance sheet components depending on changes in market conditions and the Company's operations.

During the nine months ended December 31, 2008, the Company purchased approximately \$2,000,000 in fixed assets. These assets were related primarily to equipment associated with the new coil operating facility located in Decatur, Alabama which began operations in August 2008. At the Decatur facility, the Company operates a steel temper mill and a steel cut-to-length line including a leveling line. At December 31, 2008, the Company had invested approximately \$10,000,000 in this facility.

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 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 December 31, 2008, 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 4.4%. These loans were paid off in April and May 2008.

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 under its revolver 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. On an ongoing basis, the Company evaluates estimates and judgments. 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, 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 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**

In the normal course of business the Company is exposed to market risks primarily from changes in the cost of steel in inventory and in interest rates. The Company closely monitors exposure to market risks and develops appropriate strategies to manage risk. With respect to steel purchases, there is no recognized market to purchase derivative financial instruments to reduce the inventory exposure risk on changing commodity prices. The exposure to market risk associated with interest rates relates primarily to debt. Recent debt balances are minimal and, as a result, direct exposure to interest rates changes is not significant.

**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 December 31, 2008. 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 December 31, 2008 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 December 31, 2008 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 December 31, 2008**

**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**

None

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

a). Exhibits

10.1 Consulting agreement dated October 31, 2008, by and between Jack Friedman and Friedman Industries, Incorporated (incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed with the Commission on November 6, 2008).

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**

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.

Date February 13, 2009

FRIEDMAN INDUSTRIES,  
INCORPORATED

By:                   /s/ BEN HARPER  
                          Ben Harper, Senior Vice  
                          President-Finance  
                          (Principal Financial and Accounting  
                          Officer)

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
Exhibit 10.1	Consulting agreement dated October 31, 2008, by and between Jack Friedman and Friedman Industries, Incorporated (incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed with the Commission on November 6, 2008).
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