

FRIEDMAN INDUSTRIES INC

Form 10-Q

February 11, 2011

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

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2010  
OR**

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

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

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

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

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

Yes ☐ No ○

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

Yes ○ No ○

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

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

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

Yes ○ No ☐

At December 31, 2010, 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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CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED**

|                                                                                                                       | DECEMBER 31,<br>2010 | MARCH 31,<br>2010    |
|-----------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                                         |                      |                      |
| <b>CURRENT ASSETS:</b>                                                                                                |                      |                      |
| Cash and cash equivalents                                                                                             | \$ 16,446,866        | \$ 19,812,881        |
| Accounts receivable, net of allowances for bad debts and cash discounts of \$37,276 at December 31 and March 31, 2010 | 7,170,514            | 8,686,151            |
| Inventories                                                                                                           | 27,245,319           | 20,122,296           |
| Other                                                                                                                 | 146,638              | 81,791               |
| <b>TOTAL CURRENT ASSETS</b>                                                                                           | <b>51,009,337</b>    | <b>48,703,119</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                                                                                 |                      |                      |
| Land                                                                                                                  | 1,082,331            | 1,082,331            |
| Buildings and yard improvements                                                                                       | 7,003,239            | 7,000,839            |
| Machinery and equipment                                                                                               | 29,853,708           | 29,374,766           |
| Less accumulated depreciation                                                                                         | (23,370,033)         | (21,963,333)         |
|                                                                                                                       | 14,569,245           | 15,494,603           |
| <b>OTHER ASSETS:</b>                                                                                                  |                      |                      |
| Cash value of officers' life insurance and other assets                                                               | 876,000              | 834,000              |
| <b>TOTAL ASSETS</b>                                                                                                   | <b>\$ 66,454,582</b> | <b>\$ 65,031,722</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                           |                      |                      |
| <b>CURRENT LIABILITIES:</b>                                                                                           |                      |                      |
| Accounts payable and accrued expenses                                                                                 | \$ 7,331,280         | \$ 6,912,741         |
| Current portion of long-term debt                                                                                     |                      | 13,507               |
| Income taxes payable                                                                                                  | 125,651              | 94,563               |
| Dividends payable                                                                                                     | 747,939              | 67,994               |
| Contribution to profit sharing plan                                                                                   | 200,000              | 44,000               |
| Employee compensation and related expenses                                                                            | 574,416              | 443,473              |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                      | <b>8,979,286</b>     | <b>7,576,278</b>     |
| DEFERRED INCOME TAXES                                                                                                 | 373,603              | 414,403              |
| POSTRETIREMENT BENEFITS OTHER THAN PENSIONS                                                                           | 753,816              | 682,631              |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                          |                      |                      |
| Common stock, par value \$1:                                                                                          |                      |                      |
| Authorized shares 10,000,000                                                                                          |                      |                      |
| Issued shares 7,975,160 at December 31 and March 31, 2010                                                             | 7,975,160            | 7,975,160            |
| Additional paid-in capital                                                                                            | 29,003,674           | 29,003,674           |
|                                                                                                                       | (5,475,964)          | (5,475,964)          |

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Treasury stock at cost (1,175,716 shares at December 31 and  
March 31, 2010)

|                                           |               |               |
|-------------------------------------------|---------------|---------------|
| Retained earnings                         | 24,845,007    | 24,855,540    |
| <br>                                      |               |               |
| TOTAL STOCKHOLDERS EQUITY                 | 56,347,877    | 56,358,410    |
| <br>                                      |               |               |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 66,454,582 | \$ 65,031,722 |

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## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS    UNAUDITED**

|                                                       | Three months ended<br>December 31, |               | Nine months ended<br>December 31, |               |
|-------------------------------------------------------|------------------------------------|---------------|-----------------------------------|---------------|
|                                                       | 2010                               | 2009          | 2010                              | 2009          |
| Net sales                                             | \$ 31,135,887                      | \$ 13,470,721 | \$ 89,711,381                     | \$ 41,803,270 |
| Costs and expenses                                    |                                    |               |                                   |               |
| Costs of goods sold                                   | 27,365,134                         | 12,604,699    | 78,614,977                        | 39,723,710    |
| General, selling and administrative costs             | 1,160,888                          | 881,678       | 3,699,609                         | 2,730,880     |
|                                                       | 28,526,022                         | 13,486,377    | 82,314,586                        | 42,454,590    |
| Interest and other income                             | (15,034)                           | (42,988)      | (43,061)                          | (71,988)      |
| Earnings (loss) before income taxes                   | 2,624,899                          | 27,332        | 7,439,856                         | (579,332)     |
| Provision for (benefit from) income taxes:            |                                    |               |                                   |               |
| Current                                               | 905,005                            | 26,071        | 2,527,594                         | (124,238)     |
| Deferred                                              | (13,600)                           | 42,500        | (40,800)                          | (44,860)      |
|                                                       | 891,405                            | 68,571        | 2,486,794                         | (169,098)     |
| Net earnings (loss)                                   | \$ 1,733,494                       | \$ (41,239)   | \$ 4,953,062                      | \$ (410,234)  |
| Weighted average number of common shares outstanding: |                                    |               |                                   |               |
| Basic                                                 | 6,799,444                          | 6,799,444     | 6,799,444                         | 6,799,444     |
| Diluted                                               | 6,799,444                          | 6,799,444     | 6,799,444                         | 6,799,444     |
| Net earnings (loss) per share:                        |                                    |               |                                   |               |
| Basic                                                 | \$ 0.25                            | \$ (0.01)     | \$ 0.73                           | \$ (0.06)     |
| Diluted                                               | \$ 0.25                            | \$ (0.01)     | \$ 0.73                           | \$ (0.06)     |
| Cash dividends declared per common share              | \$ 0.61                            | \$ 0.01       | \$ 0.73                           | \$ 0.05       |

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## FRIEDMAN INDUSTRIES, INCORPORATED

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS    UNAUDITED**

|                                                                                        | <b>Nine Months Ended<br/>December 31</b> |                      |
|----------------------------------------------------------------------------------------|------------------------------------------|----------------------|
|                                                                                        | <b>2010</b>                              | <b>2009</b>          |
| <b>OPERATING ACTIVITIES</b>                                                            |                                          |                      |
| Net earnings (loss)                                                                    | \$ 4,953,062                             | \$ (410,234)         |
| Adjustments to reconcile net earnings (loss) to cash provided by operating activities: |                                          |                      |
| Depreciation                                                                           | 1,406,700                                | 1,421,100            |
| Provision for deferred taxes                                                           | (40,800)                                 | (44,860)             |
| Provision for postretirement benefits                                                  | 71,185                                   | 50,477               |
| Decrease (increase) in operating assets:                                               |                                          |                      |
| Accounts receivable, net                                                               | 1,515,637                                | 1,812,011            |
| Inventories                                                                            | (7,123,023)                              | 981,172              |
| Prepaid income taxes                                                                   |                                          | (18,098)             |
| Other                                                                                  | (64,847)                                 | (54,460)             |
| Increase (decrease) in operating liabilities:                                          |                                          |                      |
| Accounts payable and accrued expenses                                                  | 418,539                                  | 1,195,635            |
| Contribution to profit-sharing plan                                                    | 156,000                                  | 126,000              |
| Employee compensation and related expenses                                             | 130,943                                  | (15,630)             |
| Income taxes payable                                                                   | 31,088                                   |                      |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                       | <b>1,454,484</b>                         | <b>5,043,113</b>     |
| <b>INVESTING ACTIVITIES</b>                                                            |                                          |                      |
| Purchase of property, plant and equipment                                              | (481,342)                                | (367,733)            |
| Increase in cash surrender value of officers' life insurance                           | (42,000)                                 | (43,500)             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                           | <b>(523,342)</b>                         | <b>(411,233)</b>     |
| <b>FINANCING ACTIVITIES</b>                                                            |                                          |                      |
| Cash dividends paid                                                                    | (4,283,650)                              | (611,949)            |
| Principal payments on notes payable                                                    | (13,507)                                 | (40,521)             |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                           | <b>(4,297,157)</b>                       | <b>(652,470)</b>     |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                | <b>(3,366,015)</b>                       | <b>3,979,410</b>     |
| Cash and cash equivalents at beginning of period                                       | 19,812,881                               | 16,880,110           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                      | <b>\$ 16,446,866</b>                     | <b>\$ 20,859,520</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 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, 2010.

**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.

A summary of inventory values by product group follows:

|                             | <b>December 31,<br/>2010</b> | <b>March 31,<br/>2010</b> |
|-----------------------------|------------------------------|---------------------------|
| Prime Coil Inventory        | \$ 8,131,154                 | \$ 4,643,951              |
| Non-Standard Coil Inventory | 519,595                      | 504,351                   |
| Tubular Raw Material        | 1,003,527                    | 3,698,531                 |
| Tubular Finished Goods      | 17,591,043                   | 11,275,463                |
|                             | <b>\$ 27,245,319</b>         | <b>\$ 20,122,296</b>      |

**NOTE C    LONG-TERM DEBT**

In June 2007, the Company incurred an interest-free, long-term liability of \$162,084 related to the purchase of pipe loading equipment which was payable in 36 equal monthly payments. The balance of this liability of \$13,507 at March 31, 2010 was paid in the quarter ended June 30, 2010.

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## NOTE D SEGMENT INFORMATION (in thousands)

|                  | <b>December<br/>31,<br/>2010</b> | <b>March 31,<br/>2010</b> |
|------------------|----------------------------------|---------------------------|
| Segment assets   |                                  |                           |
| Coil             | \$ 22,742                        | \$ 20,377                 |
| Tubular          | 26,389                           | 24,006                    |
|                  | 49,131                           | 44,383                    |
| Corporate assets | 17,324                           | 20,649                    |
|                  | \$ 66,455                        | \$ 65,032                 |

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 E SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid income taxes of approximately \$2,603,000 and \$120,000 in the nine months ended December 31, 2010 and 2009, respectively. The Company paid no interest in the nine months ended December 31, 2010 and 2009, respectively. For the nine months ended December 31, 2010 and 2009, noncash financing activity consisted of accrued dividends of \$4,963,595 and \$339,971, respectively.

## NOTE F NEW ACCOUNTING PRONOUNCEMENTS

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

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

**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, 2010 Compared to Nine Months Ended December 31, 2009*

During the nine months ended December 31, 2010, sales, costs of goods sold and gross profit increased \$47,908,111, \$38,891,267 and \$9,016,844, respectively, from the comparable amounts recorded during the nine months ended December 31, 2009. The increase in sales was related primarily to a substantial increase in tons sold which increased from approximately 72,000 tons in the 2009 period to approximately 122,000 tons in the 2010 period. Also, the average per ton selling price increased from approximately \$580 per ton in the 2009 period to \$734 per ton in the 2010 period. The increase in costs of goods sold was related primarily to the increase in tons sold and an increase in average per ton cost which rose from approximately \$552 per ton in the 2009 period to \$643 in the 2010 period. Gross profit benefited from the sales increase as well as a significant increase in gross margins. Gross profit as a percentage of sales increased from approximately 5.0% in the 2009 period to approximately 12.4% in the 2010 period. During the 2009 period, the Company experienced a significant economic downturn in the U.S. economy and the Company's operations were adversely affected by extremely soft market conditions for durable goods and energy related products. In the 2010 period, the Company experienced improved market conditions for its tubular products but market demand for coil products remained soft. Accordingly, the improvement in results of operations during the 2010 period was related primarily to the tubular product segment of the Company.

Coil product segment sales increased approximately \$15,918,000 during the 2010 period. This increase resulted primarily from an increase in tons sold and a significant increase in the average selling price. Coil tons shipped increased from approximately 45,000 tons in the 2009 period to approximately 58,000 tons in the 2010 period and the average per ton selling price increased from approximately \$555 per ton in the 2009 period to \$703 per ton in the 2010 period. Margins earned on sales of coil products were adversely impacted in both the 2009 and 2010 periods by soft demand. Also, the Company incurred significant increases in cost of coil material in the 2010 period that could not be readily passed on to its customers. Management believes that market conditions for coil products will not improve until the U.S. economy improves and generates significant improvement in the demand for durable goods.

In August 2008, the Company began operating its coil facility in Decatur, Alabama. This operation produced an operating loss of approximately \$750,000 and \$1,240,000 in the 2010 and 2009 periods, respectively. The Company expects that this facility will continue to produce a loss until demand for coil products improves.

The Company is primarily dependent on Nucor Steel Company ( NSC ) for its supply of coil inventory. In the 2010 period, NSC continued to supply the Company with steel coils in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from NSC. Loss of NSC as a supplier could have a material adverse effect on the Company's business.

Tubular product segment sales increased approximately \$31,990,000 during the 2010 period. This increase primarily resulted from an increase in tons sold which increased from approximately 27,000 tons in the 2009 period to approximately 64,000 tons sold in the 2010 period. The average per ton selling price of tubular products increased from approximately \$623 per ton in the 2009 period to \$762 per ton in the 2010 period. Tubular product segment operating profits as a percentage of segment sales were approximately 9.0% and 18.4% in the 2009 and 2010 periods, respectively. Our tubular product segment experienced extremely soft market conditions in the 2009 period as compared to stronger market conditions in the 2010 period. Also, since February 2010, the Company has received an increase in orders for finished tubular products from U. S. Steel Tubular Products, Inc. ( USS ), an affiliate of United States Steel Corporation.

In recent years, USS has been the Company's primary supplier of tubular products and coil material used in pipe manufacturing and has been 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. Beginning in December 2008, USS reduced orders for these finished tubular products. Also, in February 2009, USS announced that it was temporarily idling its plant in Lone Star, Texas, due to weak market conditions. From February 2009 until February 2010, the Company received few orders from USS and a significantly reduced supply of pipe and coil material from USS. During this period, USS reopened its Lone Star facility and since February 2010, the Company has received from USS an increase in orders for finished tubular products and an increase in supply of tubular products and coil material used in the

production of pipe. Loss of USS as a supplier or customer could have an adverse effect on the Company's business. The Company can make no assurances as to orders from USS or the amounts of pipe and coil material that will be available from USS in the future.

From February 2009 until February 2010, the Company downsized its tubular division to a level more commensurate with operations. Since February 2010, the Company increased the level of operations of the tubular division to support modest increases in production requirements.

During the 2010 period, general, selling and administrative costs increased \$968,729 from the amount recorded during the 2009 period. This increase was related primarily to increases in bonuses and commissions associated with increased earnings and volume.

Income taxes increased \$2,655,892 from the amount recorded in the 2009 period. This increase was related primarily to the increase in earnings before taxes in the 2010 period compared to a loss before taxes in the 2009 period. Effective tax rates were 33% and 29% in the periods ended 2010 and 2009, respectively. In the 2009 period, the Company benefited from true-up adjustments reflecting state income tax differences between our books and tax returns for fiscal 2009.

**Table of Contents***Three Months Ended December 31, 2010 Compared to Three Months Ended December 31, 2009*

During the three months ended December 31, 2010, sales, costs of goods sold and gross profit increased \$17,665,166, \$14,760,435 and \$2,904,731, respectively, from the comparable amounts recorded during the three months ended December 31, 2009. The increase in sales was related primarily to a substantial increase in tons sold which increased from approximately 22,000 tons in the 2009 quarter to approximately 43,000 tons in the 2010 quarter. Also, the average per ton selling price increased from approximately \$601 per ton in the 2009 quarter to \$723 per ton in the 2010 quarter. The increase in costs of goods sold was related primarily to the increase in tons sold and an increase in average per ton cost which increased from approximately \$562 per ton in the 2009 quarter to \$636 per ton in the 2010 quarter. Gross profit benefited from the sales increase as well as a significant increase in gross margins. Gross profit as a percentage of sales increased from approximately 6.4% in the 2009 quarter to approximately 12.1% in the 2010 quarter. During the 2009 quarter, the Company experienced a significant economic downturn in the U.S. economy and the Company's operations were adversely affected by extremely soft market conditions for durable goods and energy related products. In the 2010 quarter, the Company experienced improved market conditions for both its tubular products and coil products. Management believes these improved market conditions are related to a modest improvement in the U.S. economy.

Coil product segment sales increased approximately \$8,001,000 during the 2010 quarter. This increase resulted primarily from a significant increase in tons of coil products sold which increased from approximately 13,000 tons in the 2009 quarter to approximately 23,000 tons in the 2010 quarter. The average selling price per ton increased from approximately \$589 per ton in the 2009 quarter to \$673 in the 2010 quarter. Market conditions for coil products were somewhat stronger in the 2010 quarter and management believes that this improvement was related to a modest improvement in the U.S. economy. Management also believes that market conditions for coil products will not improve significantly until the U.S. economy recovers and generates a stronger demand for durable goods.

The Company is primarily dependent on NSC for its supply of coil inventory. In the 2010 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 increased approximately \$9,664,000 during the 2010 quarter. This increase primarily resulted from an increase in tons sold which increased from approximately 9,000 tons in the 2009 quarter to approximately 20,000 tons sold in the 2010 quarter. The average per ton selling price of tubular products increased from approximately \$617 per ton in the 2009 quarter to \$782 in the 2010 quarter. Tubular product segment operating profits as a percentage of segment sales were approximately 16.0% and 17.3% in the 2009 and 2010 quarters, respectively. Our tubular product segment experienced soft market conditions in the 2009 quarter as compared to stronger market conditions in the 2010 quarter. Also, since February 2010, the Company has received an increase in orders for finished tubular products from USS.

In recent years, USS has been the Company's primary supplier of tubular products and coil material used in pipe manufacturing and has been 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. Beginning in December 2008, USS reduced orders for these finished tubular products. Also, in February 2009, USS announced that it was temporarily idling its plant in Lone Star, Texas, due to weak market conditions. From February 2009 until February 2010, the Company received few orders from USS and a significantly reduced supply of pipe and coil material from USS. During this period, USS reopened its Lone Star facility and since February 2010, the Company has received from USS an increase in orders for finished tubular products and an increase in supply of tubular products and coil material used in the production of pipe. Loss of USS as a supplier or customer could have an adverse effect on the Company's business. The Company can make no assurances as to orders from USS or the amounts of pipe and coil material that will be available from USS in the future.

From February 2009 until February 2010, the Company downsized its tubular division to a level more commensurate with operations. Since February 2010, the Company increased the level of operations of the tubular division to support increases in production requirements.

During the 2010 quarter, general, selling and administrative costs increased \$279,210 from the amount recorded during the 2009 quarter. This increase was related primarily to increases in bonuses and commissions associated with increased earnings and volume.

Income taxes increased \$822,834 from the amount recorded in the 2009 quarter. This increase was related primarily to the increase in earnings before taxes in the 2010 quarter. The effective tax rate was 34% in the quarter ended 2010. Income taxes in the 2009 quarter were not significant. The effective tax rate in the 2009 quarter was unusually high due to true-up adjustments related to filings of 2009 income tax returns that were applied to substantially reduced earnings before taxes in the 2009 quarter.

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**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

The Company remained in a strong, liquid position at December 31, 2010. Current ratios were 5.7 and 6.4 at December 31, 2010 and March 31, 2010, respectively. Working capital was \$42,030,051 at December 31, 2010, and \$41,126,841 at March 31, 2010.

During the quarter ended December 31, 2010, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Cash was used primarily to increase inventory levels and to pay a special cash dividend of \$0.50 per share to our shareholders. 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, 2010, the Company purchased approximately \$481,000 in fixed assets. These assets were related primarily to improvements associated with the Company's tubular operations.

Previously, the Company had an arrangement with a bank which provided for a revolving line of credit facility (the revolver). The revolver expired April 1, 2010. Historically, the Company renewed the revolver approximately one year before its expiration date. As a result of the current lending environment, the Company was not able to amend or extend the revolver or enter into a new credit arrangement on terms as favorable to the Company as the expired revolver. As a result, the Company chose not to renew the revolver.

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.

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

**CRITICAL ACCOUNTING POLICIES**

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. One such accounting policy which requires significant estimates and judgments is the valuation of LIFO inventories in the Company's quarterly reporting. The quarterly valuation of inventory requires estimates of the fiscal year end quantities which is inherently difficult. Historically, these estimates have been materially correct.

**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 Securities and Exchange Commission under the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. Actual results and trends in the future may differ materially depending on a variety of factors including, but not limited to, changes in the demand for and prices of the Company's products, changes in the demand for steel and steel products in general and the Company's success in executing its internal operating plans, including any proposed expansion plans.

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

Not required

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**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, 2010. 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, 2010 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, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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**FRIEDMAN INDUSTRIES, INCORPORATED**

**Three Months Ended December 31, 2010**

**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Not applicable

**Item 1A. Risk Factors**

Not required

**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. [Removed and Reserved]**

**Item 5. Other Information**

Not applicable

**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 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



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**EXHIBIT INDEX**

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