

FRIEDMAN INDUSTRIES INC

Form 10-Q/A

April 20, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 2

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

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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Certification Pursuant to Section 906, signed by Jack Friedman

Certification Pursuant to Section 906, signed by Ben Harper

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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) filed with the Securities and Exchange Commission (SEC) on November 15, 2004, as amended by Amendment No. 1 on Form 10-Q/A (Amendment No. 1) filed with the SEC on February 14, 2005. Accordingly, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the Form 10-Q/A contains complete text of Item 1 of Part I and Item 6 of Part II as amended, as well as currently dated certifications.

By letter dated April 13, 2005, the SEC's Staff provided comments to the Company relating to Item 4.02 of the Company's Form 8-K filed with the SEC on February 11, 2005. In response thereto, the Company has added Note F to the Condensed Notes to Quarterly Report Unaudited included herein in *Item 1. Financial Statements*.

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 as previously modified in Amendment No. 1 to reflect the restatement of the Company's consolidated financial statements for the three and six months ended September 30, 2004. We recommend that this report be read in conjunction with our reports filed subsequent to November 15, 2004.

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FRIEDMAN INDUSTRIES, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	SEPTEMBER 30, 2004	MARCH 31, 2004
	Unaudited (Restated)	
CURRENT ASSETS:		
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
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	43,172,350	37,829,701
PROPERTY, PLANT AND EQUIPMENT:		
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)
	<hr/>	<hr/>
	6,747,401	6,693,115
OTHER ASSETS:		
Cash value of officers' life insurance	528,590	1,302,613
Deferred income taxes	143,694	202,694
	<hr/>	<hr/>
TOTAL ASSETS	\$ 50,592,035	\$ 46,028,123
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
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	
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	14,230,332	12,639,763
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	389,904	356,756
STOCKHOLDERS' EQUITY:		
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
OPERATING ACTIVITIES		
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	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,359,997	(1,238,645)
INVESTING ACTIVITIES		
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	
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	278,138	(284,769)
FINANCING ACTIVITIES		
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	
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	(523,465)	1,589,630
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,114,670	66,216
Cash and cash equivalents at beginning of period	1,984,763	673,127
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 7,099,433	\$ 739,343

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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:

	September 30, 2004	March 31, 2004
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:

	September 30, 2004	March 31, 2004
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
BASIC EARNINGS PER COMMON SHARE:				
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
DILUTED EARNINGS PER COMMON SHARE:				
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
Net sales				
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>
Operating profit				
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>
Segment assets				
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.

NOTE F RESTATEMENT:

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

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for the three and six months ended September 30, 2004 are being restated to correct the accrual for accounts payable.

Set forth below are the originally reported and as restated amounts:

Balance Sheets

	<u>September 30, 2004 as Reported</u>	<u>September 30, 2004 as Restated</u>
Accounts payable and accrued expenses	\$ 12,592,548	\$ 12,100,552
Income Taxes payable	78,685	223,714
Employee compensation and related expenses	918,270	983,706
Retained earnings	352,620	634,151

Income Statements

	<u>Three Months Ended September 30, 2004</u>		<u>Six Months Ended September 30, 2004</u>	
	<u>as Reported</u>	<u>as Restated</u>	<u>as Reported</u>	<u>as Restated</u>
Costs of goods sold	\$ 44,486,288	\$ 43,994,292	\$ 85,201,445	\$ 84,709,449
General selling and administrative costs	1,441,420	1,506,856	3,093,901	3,159,337
Current income taxes	1,129,051	1,274,080	2,044,251	2,189,280
Net earnings	1,979,602	2,261,133	3,598,431	3,879,962
Net earnings per share				
Basic	\$ 0.26	\$ 0.30	\$ 0.47	\$ 0.51
Diluted	\$ 0.25	\$ 0.29	\$ 0.46	\$ 0.50

Statements of Cash Flows

	<u>Six Months Ended September 30, 2004</u>	
	<u>as Reported</u>	<u>as Restated</u>
Net earnings	3,598,431	3,879,962
Accounts Payable and accrued expense	2,387,895	1,895,899
Employee compensation and restated expenses	112,130	177,566
Federal income taxes payable	(1,055,748)	(910,719)

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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
- 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

Exhibit No.	Description
Exhibit 31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Jack Friedman
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 Jack Friedman
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