

FRIEDMAN INDUSTRIES INC

Form 10-Q

November 13, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FROM THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-7521

FRIEDMAN INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

TEXAS **74-1504405**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification Number)**
19747 HWY 59 N, SUITE 200, HUMBLE, TEXAS 77338
(Address of principal executive offices) (Zip Code)
(713) 672-9433
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At September 30, 2013, 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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	September 30, 2013	March 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash	\$ 13,980,750	\$ 15,923,294
Accounts receivable, net of allowances for bad debts and cash discounts of \$32,276 and \$37,276 at September 30 and March 31, 2013, respectively	7,528,462	9,037,548
Inventories	39,497,612	39,219,168
Other	357,858	103,547
TOTAL CURRENT ASSETS	61,364,682	64,283,557
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,082,331	1,082,331
Buildings and yard improvements	7,014,180	7,014,180
Machinery and equipment	30,446,609	30,293,590
Less accumulated depreciation	(28,025,329)	(27,111,529)
	10,517,791	11,278,572
OTHER ASSETS:		
Cash value of officers' life insurance and other assets	1,044,000	1,013,000
TOTAL ASSETS	\$ 72,926,473	\$ 76,575,129
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 7,880,535	\$ 11,181,804
Deferred credit for LIFO inventory replacement	32,213	
Dividends payable	543,956	543,956
Contribution to profit sharing plan	157,500	52,500
Employee compensation and related expenses	392,153	533,822
TOTAL CURRENT LIABILITIES	9,006,357	12,312,082
DEFERRED INCOME TAXES	236,288	362,279
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	978,103	943,149
STOCKHOLDERS' EQUITY:		
Common stock, par value \$1:		
Authorized shares 10,000,000		
Issued shares 7,975,160 at September 30 and March 31, 2013	7,975,160	7,975,160

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Additional paid-in capital	29,003,674	29,003,674
Treasury stock at cost (1,175,716 shares at September 30 and March 31, 2013)	(5,475,964)	(5,475,964)
Retained earnings	31,202,855	31,454,749
TOTAL STOCKHOLDERS EQUITY	62,705,725	62,957,619
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 72,926,473	\$ 76,575,129

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FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED

	Three months ended September 30,		Six months ended September 30,	
	2013	2012	2013	2012
Net sales	\$ 26,310,369	\$ 33,334,070	\$ 55,892,512	\$ 72,768,840
Costs and expenses				
Costs of goods sold	25,232,456	29,557,272	52,370,754	64,344,285
General, selling and administrative costs	1,045,656	1,322,549	2,350,559	2,882,384
	26,278,112	30,879,821	54,721,313	67,226,669
Interest and other income	(15,500)	(15,527)	(31,007)	(27,734)
Earnings before income taxes	47,757	2,469,776	1,202,206	5,569,905
Provision for (benefit from) income taxes:				
Current	43,243	846,377	492,179	1,882,305
Deferred	(23,145)	(20,930)	(125,991)	(48,583)
	20,098	825,447	366,188	1,833,722
Net earnings	\$ 27,659	\$ 1,644,329	\$ 836,018	\$ 3,736,183
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 per share:				
Basic	\$ 0.00	\$ 0.24	\$ 0.12	\$ 0.55
Diluted	\$ 0.00	\$ 0.24	\$ 0.12	\$ 0.55
Cash dividends declared per common share	\$ 0.08	\$ 0.13	\$ 0.16	\$ 0.26

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FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Six Months Ended September 30,	
	2013	2012
OPERATING ACTIVITIES		
Net earnings	\$ 836,018	\$ 3,736,183
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation	913,800	900,598
Provision for deferred taxes	(125,991)	(48,583)
Provision for postretirement benefits	34,954	44,706
Decrease (increase) in operating assets:		
Accounts receivable, net	1,509,086	7,982,837
Inventories	(278,444)	2,540,748
Other	(254,311)	(209,892)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(3,301,269)	(4,224,595)
Contribution to profit-sharing plan	105,000	105,000
Employee compensation and related expenses	(141,669)	(34,853)
Income taxes payable		(98,464)
Deferred credit for LIFO inventory replacement	32,213	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(670,613)	10,693,685
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(153,019)	(135,196)
Proceeds from sales of assets		42,375
Increase in cash surrender value of officers' life insurance	(31,000)	(31,000)
NET CASH USED IN INVESTING ACTIVITIES	(184,019)	(123,821)
FINANCING ACTIVITIES		
Cash dividends paid	(1,087,912)	(1,767,855)
NET CASH USED IN FINANCING ACTIVITIES	(1,087,912)	(1,767,855)
INCREASE (DECREASE) IN CASH	(1,942,544)	8,802,009
Cash at beginning of period	15,923,294	11,881,548
CASH AT END OF PERIOD	\$ 13,980,750	\$ 20,683,557

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FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED NOTES TO QUARTERLY REPORT UNAUDITED**NOTE A BASIS OF PRESENTATION**

The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and footnotes of Friedman Industries, Incorporated (the Company) included in its annual report on Form 10-K for the year ended March 31, 2013.

NOTE B INVENTORIES

Inventories consist of prime coil, non-standard coil and tubular materials. Prime coil inventory consists primarily of raw materials, non-standard coil inventory consists primarily of raw materials and tubular inventory consists of both raw materials and finished goods. Inventories are valued at the lower of cost or replacement market. Cost for prime coil inventory is determined using the last-in, first-out (LIFO) method. Cost for non-standard coil inventory is determined using the specific identification method. Cost for tubular inventory is determined using the weighted average method.

During the six-month period ended September 30, 2013, LIFO inventories were reduced. LIFO inventories are expected to be replaced by March 31, 2014. A deferred credit of \$32,213 was recorded at September 30, 2013 to reflect the difference in replacement cost and LIFO cost.

A summary of inventory values by product group follows:

	September 30, 2013	March 31, 2013
Prime Coil Inventory	\$ 9,733,435	\$ 10,981,835
Non-Standard Coil Inventory	2,594,457	3,741,718
Tubular Raw Material	4,018,007	3,308,419
Tubular Finished Goods	23,151,713	21,187,196
	\$ 39,497,612	\$ 39,219,168

NOTE C SEGMENT INFORMATION (in thousands)

	Three Months Ended		Six Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Net sales				

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Coil	\$ 14,678	\$ 16,722	\$ 31,841	\$ 33,552
Tubular	11,632	16,612	24,052	39,217
Total net sales	\$ 26,310	\$ 33,334	\$ 55,893	\$ 72,769
Operating profit (loss)				
Coil	\$ (700)	\$ 274	\$ (522)	\$ 628
Tubular	1,107	2,736	2,757	6,422
Total operating profit	407	3,010	2,235	7,050
Corporate expenses	375	556	1,064	1,508
Interest & other income	(16)	(16)	(31)	(28)
Total earnings before taxes	\$ 48	\$ 2,470	\$ 1,202	\$ 5,570

	September 30, 2013	March 31, 2013
Segment assets		
Coil	\$ 25,363	\$ 29,780
Tubular	32,508	29,834
	57,871	59,614
Corporate assets	15,055	16,961
	\$ 72,926	\$ 76,575

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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 the cash value of officers' life insurance.

NOTE D SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid income taxes of approximately \$551,000 and \$2,286,000 in the six months ended September 30, 2013 and 2012, respectively. The Company paid no interest in the six months ended September 30, 2013 or 2012. Non-cash financing activities consisted of accrued dividends of \$543,956 and \$883,928 in the six month periods ended September 30, 2013 and 2012, respectively.

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

Results of Operations

Six Months Ended September 30, 2013 Compared to Six Months Ended September 30, 2012

During the six months ended September 30, 2013, sales, costs of goods sold and gross profit decreased \$16,876,328, \$11,973,531 and \$4,902,797, respectively, from the comparable amounts recorded during the six months ended September 30, 2012. The decrease in sales was related to both a decrease in the average per ton selling price and a decline in tons sold. The average per ton selling price decreased from approximately \$756 per ton in the 2012 period to \$696 per ton in the 2013 period. Tons sold declined from approximately 96,000 tons in the 2012 period to approximately 80,000 tons in the 2013 period. The decrease in costs of goods sold was related to the decrease in tons sold and a decline in the average per ton cost, which decreased from approximately \$668 per ton in the 2012 period to \$652 per ton in the 2013 period. The decrease in gross profit was related primarily to the decline in sales. Overall, gross profit as a percentage of sales decreased from approximately 11.6% in the 2012 period to approximately 6.3% in the 2013 period. In the 2013 period, the Company experienced softer market conditions and lower demand for its products, resulting in reduced margins.

Coil product segment sales decreased approximately \$1,711,000 during the 2013 period. This decrease resulted primarily from a decrease in the average per ton selling price. The average per ton selling price decreased from approximately \$753 per ton in the 2012 period to \$691 per ton in the 2013 period. Coil tons shipped increased from approximately 45,000 tons in the 2012 period to approximately 46,000 tons in the 2013 period. The coil product segment recorded an operational loss of approximately \$522,000 in the 2013 period. In the 2012 period, the coil product segment recorded operational income of approximately \$628,000. Management believes that the operations of this segment have been adversely impacted in both the 2013 and 2012 periods by soft demand related primarily to a weak U.S. economy and that market conditions will remain soft until the U.S. economy experiences sustained, significant improvement.

The Company is primarily dependent on Nucor Steel Company (NSC) for its supply of coil inventory. In the 2013 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 decreased approximately \$15,165,000 during the 2013 period. This decrease resulted from both a decline in tons sold and a decrease in the average per ton selling price. Tons sold declined from approximately 52,000 tons in the 2012 period to approximately 34,000 tons in the 2013 period. The average per ton

selling price of tubular products decreased from approximately \$758 per ton in the 2012 period to \$703 per ton in the 2013 period. The tubular product segment recorded a decrease in operational income of approximately \$3,665,000 during the 2013 period. Tubular product segment operating profits as a percentage of segment sales were approximately 11.5% and 16.4% in the 2013 and 2012 periods, respectively. In the 2013 period, the tubular product segment experienced a reduction in tons sold which had the effect of increasing the per ton cost of production and decreasing margins earned. Management believes the decrease in sales was related to soft market conditions created by oversupply, foreign competition and, more significantly, a weak U.S. economy.

U. S. Steel Tubular Products, Inc. (USS) is the Company's primary supplier of tubular products and coil material used in pipe manufacturing and is a major customer of finished tubular products. Certain finished tubular products used in the energy business are manufactured by the Company and sold to USS. Loss of USS as a supplier or customer could have a material adverse effect on the Company's business. The Company can make no assurances as to orders from USS or the amounts of pipe and coil material that will be available from USS in the future.

During the 2013 period, general, selling and administrative costs decreased \$531,825 from the amount recorded during the 2012 period. This decrease was related primarily to decreases in bonuses and commissions associated with decreased earnings and sales volume.

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Income taxes in the 2013 period decreased \$1,467,534 from the amount recorded in the 2012 period. This decrease was related primarily to the decrease in earnings before taxes in the 2013 period. Effective tax rates were 30.5% and 32.9% in the periods ended 2013 and 2012, respectively.

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

During the three months ended September 30, 2013, sales, costs of goods sold and gross profit decreased \$7,023,701, \$4,324,816 and \$2,698,885, respectively, from the comparable amounts recorded during the three months ended September 30, 2012. The decrease in sales was related to both a decline in tons sold and a decrease in the average per ton selling price. Tons sold declined from approximately 46,000 tons in the 2012 quarter to approximately 38,000 tons in the 2013 quarter. The average per ton selling price decreased from approximately \$720 per ton in the 2012 quarter to \$686 per ton in the 2013 quarter. The decrease in costs of goods sold was related primarily to the decrease in tons sold. The average per ton cost increased from approximately \$638 per ton in the 2012 quarter to \$658 per ton in the 2013 quarter. The decline in gross profit was related primarily to the sales decrease and reduced margins. Gross profit as a percentage of sales declined from approximately 11.3% in the 2012 quarter to approximately 4.1% in the 2013 quarter. In the 2013 quarter, the Company experienced increased material cost but was unable to pass the increased cost to its customers due to soft market conditions.

Coil product segment sales decreased approximately \$2,044,000 during the 2013 quarter. This decrease was related to both a decrease in the average per ton selling price and a decline in tons sold. The average selling price per ton decreased from approximately \$735 per ton in the 2012 quarter to \$694 per ton in the 2013 quarter. Coil tons shipped decreased from approximately 23,000 tons in the 2012 quarter to 21,000 tons in the 2013 quarter. Coil segment operations reflected an operational loss of approximately \$700,000 in the 2013 quarter. In the 2012 quarter, coil segment operations generated an operational income of approximately \$274,000. Management believes that the operations of this segment have been adversely impacted in both the 2013 and 2012 quarters by soft demand related primarily to a weak U.S. economy and that market conditions will remain soft until the U.S. economy experiences sustained, significant improvement.

The Company is primarily dependent on NSC for its supply of coil inventory. In the 2013 quarter, NSC continued to supply the Company with steel coils in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from NSC. Loss of NSC as a supplier could have a material adverse effect on the Company's business.

Tubular product segment sales decreased approximately \$4,980,000 during the 2013 quarter. This decrease resulted from both a decline in tons sold and a decrease in the average per ton selling price. Tons sold decreased from approximately 24,000 tons in the 2012 quarter to 17,000 tons in the 2013 quarter. The average per ton selling price of tubular products decreased from approximately \$705 per ton in the 2012 quarter to \$677 per ton in the 2013 quarter. The tubular product segment recorded a decrease in operational income of approximately \$1,629,000 during the 2013 quarter. Tubular product segment operating profits as a percentage of segment sales were approximately 9.5% and 16.5% in the 2013 and 2012 quarters, respectively. In the 2013 quarter, the tubular product segment experienced a reduction in tons sold which had the effect of increasing the per ton cost of production and decreasing margins earned. Management believes the decrease in sales was related to soft market conditions created by oversupply, foreign competition and, more significantly, a weak U.S. economy.

USS is the Company's primary supplier of tubular products and coil material used in pipe manufacturing and is a major customer of finished tubular products. Certain finished tubular products used in the energy business are manufactured by the Company and sold to USS. Loss of USS as a supplier or customer could have a material adverse effect on the Company's business. The Company can make no assurances as to orders from USS or the amounts of pipe and coil

material that will be available from USS in the future.

During the 2013 quarter, general, selling and administrative costs decreased \$276,893 from the amount recorded during the 2012 quarter. This decrease was related primarily to decreases in bonuses and commissions associated with decreased earnings and sales volume.

Income taxes in the 2013 quarter decreased \$805,349 from the amount recorded in the 2012 quarter. This decrease was related primarily to the decrease in earnings before taxes in the 2013 quarter. The effective tax rates were approximately 42.1% and 33.4% in the 2013 and 2012 quarters, respectively.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company remained in a strong, liquid position at September 30, 2013. The current ratios were 6.8 and 5.2 at September 30, 2013 and March 31, 2013, respectively. Working capital was \$52,358,325 at September 30, 2013 and \$51,971,475 at March 31, 2013.

At September 30, 2013, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Changes in balance sheet amounts occurred in the ordinary course of business. Cash was primarily used in the reduction of accounts payable and payment of 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.

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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 due to its strong balance sheet are adequate to fund its expected cash requirements for the next 24 months.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. One such accounting policy that requires significant estimates and judgments is the valuation of LIFO inventories in the Company's quarterly reporting. The quarterly valuation of inventories requires estimates of the year-end quantities, which is inherently difficult. Historically, these estimates have been materially correct. In the six month period ended September 30, 2013, LIFO inventories were reduced and are expected to be replaced by March 31, 2014. A deferred credit of \$32,213 was recorded at September 30, 2013 to reflect the difference between replacement cost and LIFO cost.

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 changes in the Company's financial condition or results of operations, future production capacity, product quality and proposed expansion plans. Forward-looking statements may be made by management orally or in writing including, but not limited to, this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Company's filings with the U.S. Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Actual results and trends in the future may differ materially depending on a variety of factors including, but not limited to, changes in the demand for and prices of the Company's products, changes in the demand for steel and steel products in general and the Company's success in executing its internal operating plans, including any proposed expansion plans.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's principal executive officer ("CEO") and principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), as of the end of the fiscal quarter ended September 30, 2013. Based on this evaluation, the Company's CEO and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter ended September 30, 2013 to ensure that information that is required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2013 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 September 30, 2013

Part II OTHER INFORMATION

Item 6. Exhibits

Exhibits

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Alex LaRue
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Alex LaRue
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRIEDMAN INDUSTRIES, INCORPORATED

Date: November 13, 2013

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

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Exhibit No.	Description
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 Alex LaRue
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 Alex LaRue
101.INS	XBRL Instance Document
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