

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 SEPTEMBER 30, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934 FROM THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-7521

FRIEDMAN INDUSTRIES, INCORPORATED  
(Exact name of registrant as specified in its charter)

TEXAS  
(State or other jurisdiction of  
incorporation or organization)

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

4001 HOMESTEAD ROAD, HOUSTON, TEXAS 77028-5585  
(Address of principal executive office zip code)  
Registrant's telephone number, including area code (713) 672-9433

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Former name, former address and former fiscal year, of 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 X No

At September 30, 1998, the number of shares outstanding of the issuer's  
only class of stock was 6,818,999 shares of Common Stock.

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## PART I -- FINANCIAL INFORMATION

## FRIEDMAN INDUSTRIES, INCORPORATED

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS -- UNAUDITED

## ASSETS

	SEPTEMBER 30, 1998	MARCH 31, 1998
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 80,294	\$ 1,361,693
Accounts receivable, less allowance for doubtful accounts (\$7,276 at September 30, 1998 and March 31, 1998, respectively).....	10,024,133	13,205,113
Inventories -- Note B.....	25,150,805	24,586,863
Prepaid expenses and other current assets.....	268,263	193,879
	-----	-----
Total Current Assets.....	35,523,495	39,347,548
PROPERTY, PLANT AND EQUIPMENT		
Land.....	198,021	198,021
Buildings and improvements.....	3,144,417	2,882,358
Machinery and equipment.....	15,109,396	13,999,439
Less allowance for depreciation.....	(10,813,810)	(10,468,859)
	-----	-----
	7,638,024	6,610,959
OTHER ASSETS		
Cash value of officers' life insurance.....	162,682	80,854
	-----	-----
	\$ 43,324,201	\$ 46,039,361
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable and accrued expenses.....	\$ 4,319,214	\$ 10,925,023
Current portion of long-term debt.....	800,000	800,000
Dividends payable.....	477,319	486,886
Contribution to profit-sharing plan.....	140,400	280,000
Income taxes payable.....	54,257	344,465
Employee compensation and related expenses.....	476,187	600,804
	-----	-----
Total Current Liabilities.....	6,267,377	13,437,178
LONG-TERM DEBT, less current portion.....	9,800,000	6,366,666
PROVISION FOR NONPENSION RETIREMENT BENEFITS.....	113,000	113,000
DEFERRED INCOME TAXES.....	359,560	389,560
STOCKHOLDERS' EQUITY		
Common stock:		
Par value \$1 per share:		
Authorized 10,000,000 shares; Issued and outstanding shares -- 6,818,999 at September 30, 1998 and 6,491,808 at March 31, 1998.....	6,818,999	6,491,808
Additional paid-in capital.....	25,709,766	23,680,628
Retained earnings.....	(5,744,501)	(4,439,479)
	-----	-----
Total Stockholders' Equity.....	26,784,264	25,732,957
	-----	-----
	\$ 43,324,201	\$ 46,039,361
	=====	=====

FRIEDMAN INDUSTRIES, INCORPORATED  
CONSOLIDATED STATEMENTS OF EARNINGS -- UNAUDITED

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
Net sales.....	\$32,178,289	\$36,961,370	\$71,101,458	\$75,261,802
Costs and expenses				
Costs of goods sold.....	29,311,077	34,065,469	65,312,853	69,131,090
General, selling and administrative costs.....	1,223,360	1,251,526	2,531,594	2,605,254
Interest.....	152,991	112,146	255,713	227,734
Interest and other income.....	30,687,428 (47,145)	35,429,141 (10,091)	68,100,160 (86,326)	71,964,078 (27,270)
Earnings before federal income taxes.....	1,538,006	1,542,320	3,087,624	3,324,994
Provision (benefit) for federal income taxes:				
Current.....	537,922	539,389	1,079,792	1,160,499
Deferred.....	(15,000)	(15,000)	(30,000)	(30,000)
	522,922	524,389	1,049,792	1,130,499
Net earnings.....	<u>\$ 1,015,084</u>	<u>\$ 1,017,931</u>	<u>\$ 2,037,832</u>	<u>\$ 2,194,495</u>
Average number of common shares outstanding:				
Basic.....	6,818,999	6,800,995	6,818,999	6,800,995
Diluted.....	6,881,463	6,800,995	6,881,463	6,800,995
Net earnings per share:				
Basic.....	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.32
Diluted.....	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.32
Cash dividends declared per common share.....	\$ 0.07	\$ 0.075	\$ 0.145	\$ 0.145

## FRIEDMAN INDUSTRIES, INCORPORATED

## CONSOLIDATED STATEMENTS OF CASH FLOWS -- UNAUDITED

	SIX MONTHS ENDED SEPTEMBER 30,	
	1998	1997
<b>OPERATING ACTIVITIES</b>		
Net earnings.....	\$ 2,037,832	\$ 2,194,495
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation.....	344,952	334,202
Provision for deferred taxes.....	(30,000)	(30,000)
Decrease (increase) in operating assets:		
Accounts receivable.....	3,180,980	(1,098,932)
Inventories.....	(563,942)	251,590
Other.....	(74,384)	(313,699)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses.....	(6,605,809)	(307,269)
Contribution to profit-sharing plan.....	(139,600)	(117,002)
Employee compensation and related expenses.....	(124,617)	92,821
Federal income taxes payable.....	(290,208)	(256,434)
	-----	-----
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	(2,264,796)	749,772
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment.....	(1,372,016)	(1,509,095)
(Increase) decrease in cash value of officers' life insurance.....	(81,828)	(23,828)
	-----	-----
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES.....	(1,453,844)	(1,532,923)
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid.....	(1,001,354)	(824,871)
Principal payments on long-term debt.....	(400,000)	(400,000)
Proceeds from borrowings of long term debt.....	3,833,333	1,900,000
Exercise of stock options.....	5,262	13,850
	-----	-----
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES.....	2,437,241	688,979
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(1,281,399)	(94,172)
Cash and cash equivalents at beginning of period.....	1,361,693	168,245
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 80,294	\$ 74,073
	=====	=====

## FRIEDMAN INDUSTRIES, INCORPORATED

NOTES TO QUARTERLY REPORT -- UNAUDITED  
THREE MONTHS ENDED SEPTEMBER 30, 1998

## 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, 1998.

## NOTE B -- INVENTORIES

Coil inventory consists primarily of raw materials. Tubular inventory is comprised of both raw materials and finished goods.

## NOTE C -- EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share, which is required to be adopted for financial statements issued for periods ending after December 31, 1997. This new standard did not have a significant effect on earnings per share. The difference between the average number of shares outstanding used for basic and diluted earnings per share is attributable to stock options. Applicable per share amounts have been adjusted to give effect to stock dividends.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SIX MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO SIX MONTHS ENDED SEPTEMBER 30, 1997

During the six month period ended September 30, 1998, sales, costs of goods sold and gross profit were approximately even with the respective amounts recorded during the six month period ended September 30, 1997. Decreases in sales and gross profit produced by the Company's tubular division were offset by increases in sales and gross profit generated by coil operations. Operations of the tubular division were adversely affected by decreased market demand for tubular products which reduced volume and margins. The Company's coil operations benefited from increased volume and margins.

Interest expense during the 1998 period increased \$27,979 from the amount recorded during the 1997 period. This increase was primarily related to interest paid on additional borrowings pursuant to the Company's line of credit arrangement with a bank.

Interest and other income increased \$59,056 from the amount recorded in the 1997 period. This increase was primarily related to other income associated with an increase in the cash surrender value of officers' life insurance.

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1997

During the three months ended September 30, 1998, sales, costs of goods sold and gross profit declined \$4,783,081, \$4,754,392 and \$28,689, respectively, from comparable amounts recorded during the three months ended September 30, 1997. The decreases in sales and costs of goods sold were primarily related to the Company's tubular operations. Decreased market demand for tubular products reduced volume and margins during the 1998 quarter. A decline in gross profit earned by tubular operations was partially offset by an increase in gross profit earned by the Company's coil operations. Steady demand for coil products and reduced cost of material benefited coil operations which reflected improved margins during the 1998 quarter.

Interest expense increased \$40,845 from the amount recorded during the 1997 quarter. This increase was primarily related to interest paid on additional borrowings pursuant to the Company's line of credit arrangement with a bank.

Interest and other income increased \$37,054 from the amount recorded during the 1997 quarter. This increase was primarily related to other income associated with an increase in the cash surrender value of officers' life insurance.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company remained in a strong, liquid position at September 30, 1998. Current ratios were 5.7 and 2.9 at September 30, 1998 and March 31, 1998, respectively. Working capital was \$29,256,118 at September 30, 1998 and \$25,910,370 at March 31, 1998.

The Company has a credit arrangement with a bank that provides for a revolving line of credit facility (the "revolving facility") and a term credit facility (the "term facility"). Pursuant to the revolving facility which expires April 1, 2000, the Company may borrow up to \$8 million at an interest rate no greater than the bank's prime rate. At September 30, 1998, the Company had borrowings outstanding under the revolving facility of \$7 million. The term facility includes borrowings of \$1.2 million from a previous term note and also provides for additional advances up to \$3.5 million, all of which convert to a term loan on December 31, 1998. The amount outstanding under the term facility bears interest at a stated rate of LIBOR plus 1.25% and requires quarterly principal payments of \$200,000 plus accrued interest through March 1, 2003. In July 1997, the Company entered into a swap transaction with the bank pursuant to which it exchanged the term facility's LIBOR-based interest rate obligation for a fixed interest rate obligation of 8% to remain in effect for the entire term of the term facility. As of September 30, 1998, the principal amount of indebtedness outstanding under the term facility was \$3.6 million.

## EFFECT OF YEAR 2000 ISSUE

The Year 2000 issue is the result of computer programming being written using two digits rather than four to define the applicable year. Any of the Company's systems, as well as those of key vendors, payors and customers, that have date sensitive logic may interpret a date using "00" as the year 1900 rather than 2000. This may cause inaccurate processing or possible system failure and may potentially disrupt operations. This disruption may result in, among other things, a temporary inability to process transactions, send bills for services or engage in similar normal business activities.

In 1998, the Company completed an assessment of the readiness of its internal computer systems and related applications to accommodate date-sensitive information relating to the year 2000 and developed a plan to resolve all major issues by the end of 1999. As a result, the Year 2000 issue is not expected to pose significant operational or financial problems for the Company.

The Company will continue to analyze systems and services that utilize date-embedded codes that may experience operational problems when the year 2000 is reached. The Company will continue to communicate with its suppliers, third-party payors and customers to coordinate Year 2000 compliance. Because the ability of these third parties to address their Year 2000 issues is outside the Company's control, the failure of third parties to adequately address their respective Year 2000 issues may have a material adverse effect on the Company's results of operations and financial condition.

The foregoing statements are intended to be and are hereby designated "Year 2000 Readiness Disclosure" statements within the meaning of the Year 2000 Information and Readiness Disclosure Act.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

## PART II -- OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Not applicable

## ITEM 2. CHANGES IN SECURITIES

- a). Not applicable
- b). Not applicable
- c). Not applicable
- d). 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

At the Annual Meeting of Shareholders held on August 21, 1998, the Company's shareholders elected eight directors to the Company's Board of Directors. The number of shares voted for and withheld with respect to the election of each director was as follows:

NAME ----	SHARES VOTED FOR -----	SHARES WITHHELD -----
Jack Friedman.....	6,417,174	9,915
Harold Friedman.....	6,417,174	9,915
William E. Crow.....	6,417,174	9,915
Charles W. Hall.....	6,417,174	9,915
Alan M. Rauch.....	6,417,174	9,915
Hershel M. Rich.....	6,417,174	9,915
Henry Spira.....	6,417,174	9,915
Kirk K. Weaver.....	6,417,174	9,915

## ITEM 5. OTHER INFORMATION

Not applicable

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## a). Exhibits

27.1 -- Financial Data Schedule

## b). Reports on Form 8-K

None

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 16, 1998

By /s/ BEN HARPER

-----  
Ben Harper, Senior Vice  
President-Finance  
(Chief Accounting Officer)

Date November 16, 1998

By /s/ HAROLD FRIEDMAN

-----  
Harold Friedman, Vice Chairman  
of the Board

## INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
27.1	-- Financial Data Schedule.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
FORM 10Q QUARTER ENDED 9/30/98.

0000039092

FRIEDMAN INDUSTRIES, INCORPORATED

3-MOS	
	MAR-31-1998
	JUL-01-1998
	SEP-30-1998
	80,294
	0
	10,024,133
	0
	25,150,805
	35,523,495
	18,451,834
	10,813,810
	43,324,201
	6,267,377
	9,800,000
	0
	0
	6,818,999
	19,965,265
43,324,201	
	32,178,289
	32,178,289
	29,311,077
	30,534,437
	0
	0
	152,991
	1,538,006
	522,922
	1,015,084
	0
	0
	0
	1,015,084
	0.15
	0.15