FRIEDMAN INDUSTRIES INC
Form 10-Q
November 14, 2018

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 SEPTEMBER 30, 2018

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 incorporation or organization)	**(I.R.S. Employer Identification Number)**

1121 JUDSON ROAD, SUITE 124, LONGVIEW, TEXAS 75601

(Address of principal executive offices) (Zip Code)

(903) 758-3431

(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). (Check one): Yes No

At November 14, 2018, the number of shares outstanding of the issuer's only class of stock was 7,009,444 shares of Common Stock.

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Part I — FINANCIAL INFORMATION

Item 1. Financial Statements

FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS — UNAUDITED

	September 30, 2018	March 31, 2018 As Adjusted
ASSETS		
CURRENT ASSETS:		
Cash	$3,671,139	$4,052,582
Accounts receivable, net of allowances for bad debts and cash discounts of $21,052 at September 30, 2018 and March 31, 2018	17,450,660	17,458,289
Inventories	54,647,180	45,329,434
Other	1,064,802	429,101
TOTAL CURRENT ASSETS	76,833,781	67,269,406
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,452,799	1,452,799
Buildings and yard improvements	8,813,031	8,710,958
Machinery and equipment	39,386,523	39,282,944
Less accumulated depreciation	(35,995,892)	(35,280,700)
	13,656,461	14,166,001
OTHER ASSETS:		
Cash value of officers' life insurance and other assets	230,450	217,900
TOTAL ASSETS	$90,720,692	$81,653,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$12,808,316	$10,233,431
Income taxes payable	913,139	—
Dividends payable	420,567	140,189
Contribution to retirement plan	135,000	45,000
Employee compensation and related expenses	699,544	612,015
TOTAL CURRENT LIABILITIES	14,976,566	11,030,635

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	189,917	175,056
DEFERRED INCOME TAX LIABILITY	1,864,320	1,872,166
TOTAL LIABILITIES	17,030,803	13,077,857
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, par value $1:		
Authorized shares — 10,000,000		
Issued shares — 8,185,160 at September 30 and March 31, 2018	8,185,160	8,185,160
Additional paid-in capital	29,299,354	29,154,874
Treasury stock at cost (1,175,716 shares at September 30 and March 31, 2018)	(5,475,964)	(5,475,964)
Retained earnings	41,681,339	36,711,380
TOTAL STOCKHOLDERS' EQUITY	73,689,889	68,575,450
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$90,720,692	$81,653,307

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FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS — UNAUDITED

	Three months ended September 30,		Six months ended September 30,	
	2018	**2017 As Adjusted**	**2018**	**2017 As Adjusted**
Net sales	$53,432,029	$26,077,710	$101,625,347	$49,160,979
Costs and expenses				
Costs of goods sold	49,487,488	24,577,299	91,488,328	46,117,258
General, selling and administrative costs	1,289,438	924,525	2,782,178	1,962,919
Interest expense	15,753	—	15,753	—
	50,792,679	25,501,824	94,286,259	48,080,177
Interest and other income	(6,275)	(4,375)	(69,050)	(8,750)
Earnings before income taxes	2,645,625	580,261	7,408,138	1,089,552
Provision for (benefit from) income taxes:				
Current	748,719	15,640	1,815,175	15,640
Deferred	(104,010)	169,287	(7,846)	314,248
	644,709	184,927	1,807,329	329,888
Net earnings	$2,000,916	$395,334	$5,600,809	$759,664
Weighted average number of common shares outstanding:				
Basic	7,009,444	7,009,444	7,009,444	7,009,444
Diluted	7,009,444	7,009,444	7,009,444	7,009,444
Net earnings per share:				
Basic	$0.29	$0.05	$0.80	$0.11
Diluted	$0.29	$0.05	$0.80	$0.11
Cash dividends declared per common share	$0.06	$0.01	$0.09	$0.02

FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED

	Six Months Ended September 30,	
	2018	**2017 As Adjusted**
OPERATING ACTIVITIES		
Net earnings	$5,600,809	$759,664
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation	715,192	638,480
Deferred taxes	(7,846)	314,248
Compensation expense for restricted stock	144,480	144,480
Change in postretirement benefits	14,861	3,439
Decrease (increase) in operating assets:		
Accounts receivable, net	7,629	155,069
Inventories	(9,317,746)	(5,627,744)
Other current assets	(635,701)	(193,629)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	2,574,885	5,676,463
Income taxes payable	913,139	15,640
Contribution to retirement plan	90,000	72,750
Employee compensation and related expenses	87,529	115,057
NET CASH PROVIDED BY OPERATING ACTIVITIES	187,231	2,073,917
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(205,652)	(182,739)
Increase in cash surrender value of officers' life insurance	(12,550)	(8,750)
NET CASH USED IN INVESTING ACTIVITIES	(218,202)	(191,489)
FINANCING ACTIVITIES		
Cash dividends paid	(350,472)	(140,188)
NET CASH USED IN FINANCING ACTIVITIES	(350,472)	(140,188)
INCREASE (DECREASE) IN CASH	(381,443)	1,742,240
Cash at beginning of period	4,052,582	1,461,695
CASH AT END OF PERIOD	$3,671,139	$3,203,935

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 consolidated 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, 2018.

NOTE B — CHANGE IN ACCOUNTING PRINCIPLE

Effective April 1, 2018, the Company changed its method for valuing prime coil inventory of the coil segment from the last-in, first-out (“LIFO”) method to the average cost method. The effects of the change in accounting principle from LIFO to average cost have been retrospectively applied to all prior periods presented in all sections of this quarterly report on Form 10-Q. The Company believes the average cost method is preferable as it more closely resembles the physical flow of our inventory, it better matches revenues with expenses and it aligns with how we internally manage our business. As a result of the retrospective application of the change in accounting principle, certain financial statement line items in the Company’s consolidated balance sheet as of March 31, 2018, its consolidated statement of operations for the three and six months ended September 30, 2017 and its consolidated statement of cash flows for the six months ended September 30, 2017 were adjusted as presented in the table below. In addition, retained earnings as of April 1, 2017 increased $4,418,318 as a result of the change in accounting principle.

	As Originally Reported	**Effect of Change**	**As Adjusted**

Consolidated Statement of Operations, Three Months Ended September 30, 2017			
Cost of goods sold	24,700,540	(123,241)	24,577,299
Income tax provision	146,981	37,946	184,927
Net earnings	310,039	85,295	395,334
Net earnings per share:			
Basic	0.04	0.01	0.05
Diluted	0.04	0.01	0.05
Consolidated Statement of Operations, Six Months Ended September 30, 2017			
Cost of goods sold	46,520,386	(403,128)	46,117,258
Income tax provision	205,765	124,123	329,888
Net earnings	480,659	279,005	759,664
Net earnings per share:			
Basic	0.07	0.04	0.11
Diluted	0.07	0.04	0.11
Consolidated Statement of Cash Flows, Six Months Ended September 30, 2017			
Net earnings	480,659	279,005	759,664
Change in inventories	(5,224,616)	(403,128)	(5,627,744)
Change in deferred income taxes	205,765	108,483	314,248
Change in income taxes payable	-	15,640	15,640
Consolidated Balance Sheet, as of March 31, 2018			
Inventories	38,039,332	7,290,102	45,329,434
Deferred income tax liability	103,198	1,768,968	1,872,166
Retained earnings	31,190,246	5,521,134	36,711,380

The following table shows the effect of the change in accounting principle from LIFO to average cost on the three and six months ended September 30, 2018:

	As Computed Under LIFO	**As Computed Under Average Cost**	**Effect of Change**
Consolidated Statement of Operations, Three Months Ended September 30, 2018			
Earnings before income taxes	1,448,925	2,645,625	1,196,700
Income tax provision	353,190	644,709	291,519
Net earnings	1,095,735	2,000,916	905,181
Net earnings per share:			
Basic	0.16	0.29	0.13
Diluted	0.16	0.29	0.13
Consolidated Statement of Operations, Six Months Ended September 30, 2018			
Earnings before income taxes	3,549,365	7,408,138	3,858,773
Income tax provision	867,318	1,807,329	940,011
Net earnings	2,682,047	5,600,809	2,918,762
Net earnings per share:			
Basic	0.38	0.80	0.42
Diluted	0.38	0.80	0.42

NOTE C — NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 states that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The update supersedes prior revenue recognition guidance, including industry-specific guidance. Effective April 1, 2018, the Company adopted the new standard through the modified retrospective method applied to those contracts that were not completed as of April 1, 2018 and those contracts initiated on or after April 1, 2018. Results for reporting periods beginning on or after April 1, 2018 are presented under the new standard, while prior period amounts are unadjusted and reported in accordance with historic accounting under the prior guidance. The modified retrospective method requires that the cumulative effect of initially applying the new guidance be recorded as an adjustment to the opening balance of retained earnings in the condensed consolidated balance sheet. The adoption of this new accounting guidance did not have an impact on any prior period earnings and no adjustment was recorded to the opening retained earnings balance as of April 1, 2018. The adoption did not have a financial statement impact to the Company but did result in expanded disclosures which are provided in Note H.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. The Company adopted this new guidance effective April 1, 2018. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 establishes a new lease accounting standard that requires lessees to recognize a right of use asset and related lease liability for most leases having lease terms of more than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. This new guidance is effective for annual and interim periods beginning after December 15, 2018, but can be early adopted. The Company is evaluating the impact that adoption of the provisions of ASU 2016-02 will have on its consolidated financial statements but does not expect a material impact.

NOTE D — 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. Effective April 1, 2018, the Company changed the inventory valuation method of its prime coil inventory from the LIFO method to the average cost method. Prime coil inventory value for both periods presented in the table below are based on average cost valuation. Cost for non-standard coil inventory is determined using the specific identification method. Cost for tubular inventory is determined using the average cost method. All inventories are valued at the lower of cost or net realizable value.

A summary of inventory values by product group follows:

	September 30, 2018	**March 31, 2018** **As Adjusted**
Prime Coil Inventory	$22,435,760	$14,185,858
Non-Standard Coil Inventory	3,882,182	2,971,324
Tubular Raw Material	13,018,944	6,734,076
Tubular Finished Goods	15,310,294	21,438,176
	$54,647,180	$45,329,434

Tubular raw material inventory consists of hot-rolled steel coils that the Company will manufacture into pipe. Tubular finished goods inventory consists of pipe the Company has manufactured and new mill reject pipe that the Company purchases from U.S. Steel Tubular Products, Inc. At September 30, 2018, the Company carried quantities of mill reject pipe on hand that exceeded the sales volume for fiscal year ended March 31, 2018. Based on improved market conditions and overall economic conditions as well as recent sales trends, the Company reasonably expects the sales volume for the future twelve month period to approximate or at least be a substantial portion of the September 30, 2018 quantity on hand, hence current classification of this inventory on the Company's balance sheet. The Company's projections are subject to significant estimates which may be different from actual results.

NOTE E - DEBT

On December 11, 2017, the Company entered into a loan agreement for a $7,500,000 revolving line of credit facility (the "Credit Facility") with Citizens National Bank (the "Bank"). The Credit Facility expires on December 11, 2018 and is collateralized by the Company's accounts receivable and inventory. Borrowings under the credit facility bear interest at the Bank's prime rate minus 0.55% resulting in an applicable interest rate of 4.70% as of September 30, 2018. Interest payments on amounts advanced are due monthly and principal payments may be made at any time without penalty. All outstanding principal and accrued interest is due upon expiration of the Credit Facility. The Credit Facility contains financial covenants that require the Company to not permit: (1) tangible common shareholders' equity to be less than $50.0 million and (2) maximum debt to exceed 50% of tangible common shareholders' equity. At September 30, 2018 and as of the filing date of this Form 10-Q, the Company had no borrowings outstanding under the Credit Facility.

NOTE F — STOCK BASED COMPENSATION

The Company maintains the Friedman Industries, Incorporated 2016 Restricted Stock Plan (the “Plan”). The Plan is administered by the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) and continues indefinitely until terminated by the Board or until all shares allowed by the Plan have been awarded and earned. The aggregate number of shares of the Company’s Common Stock eligible for award under the Plan is 500,000 shares. Subject to the terms and provisions of the Plan, the Committee may, from time to time, select the employees to whom awards will be granted and shall determine the amount and applicable restrictions of each award. Forfeitures are accounted for upon their occurrence.

As of September 30, 2018, the total number of restricted shares awarded under the Plan was 210,000 shares. All of the awarded shares have five year cliff vesting restrictions with vesting occurring on January 4, 2022. No other shares have been awarded under the Plan. The grant date fair value of the awarded shares is $1,444,800 and is being recognized as compensation expense over the 60 month requisite service period. Compensation expense related to stock awards issued under the plan was $72,240 in each of the quarters ended September 30, 2018 and September 30, 2017 and $144,480 in each of the six month periods ended September 30, 2018 and September 30, 2017.

NOTE G — SEGMENT INFORMATION (in thousands)

	Three Months Ended September 30,		**Six Months Ended September 30,**	
	2018	**2017 As Adjusted**	**2018**	**2017 As Adjusted**
Net sales				
Coil	$34,828	$ 20,128	$65,957	$ 38,138
Tubular	18,604	5,950	35,668	11,023
Total net sales	$53,432	$ 26,078	$101,625	$ 49,161
Operating profit				
Coil	$1,925	$ 675	$5,103	$ 1,709
Tubular	1,376	316	3,698	314
Total operating profit	3,301	991	8,801	2,023
Corporate expenses	661	415	1,462	942
Interest & other income	(6)	(4)	(69)	(9)
Total earnings before taxes	$2,646	$ 580	$7,408	$ 1,090

	September 30, 2018	**March 31, 2018 As Adjusted**
Segment assets		
Coil	$ 43,535	$ 34,359
Tubular	43,237	43,010
	86,772	77,369
Corporate assets	3,949	4,284
	$ 90,721	$ 81,653

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, retirement plan contribution expense, corporate insurance expenses and office supplies. Corporate assets consist primarily of cash and the cash value of officers’ life insurance.

NOTE H — REVENUE

Revenue is generated primarily from contracts to manufacture or process steel products. Most of the Company's revenue is generated by sales of material out of the Company's inventory but a portion of the Company's revenue is derived from processing of customer owned material. Generally, the Company's performance obligations are satisfied, control of our products is transferred, and revenue is recognized at a single point in time, when title transfers to our customer for product shipped or when services are provided. Revenues are recorded net of any sales incentives. Shipping and other transportation costs charged to customers are treated as fulfillment activities and are recorded in both revenue and cost of sales at the time control is transferred to the customer. Costs related to obtaining sales contracts are incidental and expensed when incurred. Because customers are invoiced at the time title transfers and the Company's rights to consideration are unconditional at that time, the Company does not maintain contract asset balances. Additionally, the Company does not maintain contract liability balances, as performance obligations are satisfied prior to customer payment for product. The Company offers industry standard payment terms.

The Company has two reportable segments: Coil and Tubular. Coil primarily generates revenue from temper passing and cutting to length hot-rolled steel coils. Coil segment revenue consists of three main product types: Prime Coil, Non-Standard Coil and Customer Owned Coil. Tubular primarily generates revenue from the manufacture, distribution and processing of steel pipe. Tubular segment revenue consists of three main product or service types: Manufactured Pipe, Mill Reject Pipe and Pipe Finishing Services. The following table disaggregates our revenue by product for each of our reportable business segments for the three and six month periods ended September 30, 2018 and 2017, respectively:

	Three Months Ended September 30,		**Six Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Coil Segment:				
Prime Coil	29,575,814	15,459,712	54,351,845	29,735,302
Non-standard Coil	4,894,421	4,442,760	11,004,879	7,811,364
Customer Owned Coil	358,209	225,367	600,920	591,008
	34,828,444	20,127,839	65,957,644	38,137,674
Tubular Segment:				
Manufactured Pipe	14,214,209	2,989,288	25,169,596	6,322,722
Mill Reject Pipe	4,306,980	1,814,391	9,727,841	3,036,327
Pipe Finishing Services	82,396	1,146,192	770,266	1,664,256
	18,603,585	5,949,871	35,667,703	11,023,305

NOTE I — SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid income taxes of approximately $721,000 and $8,000 in the six months ended September 30, 2018 and 2017, respectively. The Company paid interest of $15,753 in the six months ended September 30, 2018. The Company paid no interest in the six months ended September 30, 2017. Noncash financing activities consisted of accrued dividends of $630,850 and $70,094 in the six months ended September 30, 2018 and 2017, respectively. In the six months ended September 30, 2017, there was a noncash transaction of $246,000 for the transfer of ownership of a life insurance policy from the Company to an officer upon his retirement.

NOTE J — INCOME TAXES

For the six months ended September 30, 2018, the Company recorded an income tax provision of $1,807,329, or 24.4% of pre-tax income, compared to $329,888, or 30.3% of pre-tax income, for the six months ended September 30,

2017. The provision for the six months ended September 30, 2017 has been adjusted by the retroactive application of the change in accounting principle disclosed in Note B.

On December 22, 2017, the U.S. government signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, lowered the U.S. corporate income tax rate applicable to the Company from 34% to 21% effective January 1, 2018. For the six months ended September 30, 2018, the Company's effective tax rate differed from the corporate statutory rate due primarily to the inclusion of state tax expenses in the Company's income tax provision. For the six months ended September 30, 2017, the Company's effective tax rate differed from the corporate statutory rate due primarily to tax benefits related to the ownership transfer of a life insurance policy from the Company to an officer upon retirement.

While the Company has substantially completed its analysis of the income tax effects of the Tax Act and recorded a reasonable provisional estimate of such effects, certain items related to the Tax Act may differ, possibly materially, due to further refinement of the calculations, changes in interpretations and assumptions made, additional guidance that may be issued by the U.S. government, and actions related to accounting policy decisions the Company may make as a result of the Tax Act. Pursuant to Staff Accounting Bulletin 118 ("SAB 118") issued by the Securities and Exchange Commission on December 22, 2017, the Company will complete its analysis of these items over a one-year measurement period ending December 22, 2018 and any adjustments during this measurement period will be recorded as discrete adjustments to income tax expense in the period in which adjustments become estimable and/or are finalized.

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

Overview

Friedman Industries, Incorporated is a manufacturer and processor of steel products and operates in two reportable segments; coil products and tubular products.

The coil product segment includes the operation of two hot-roll coil processing facilities; one in Hickman, Arkansas and the other in Decatur, Alabama. Each facility operates a temper mill and a cut-to-length line. The temper mill improves the flatness and surface qualities of the coils and the cut-to-length line levels the steel and cuts the coils into sheet and plate of prescribed lengths. Combined, the facilities are capable of cutting sheet and plate with thicknesses ranging from 14 gauge to ½" thick. The coil product segment sells its prime grade inventory under the Friedman Industries name but also maintains an inventory of non-standard coil products, consisting primarily of mill secondary and excess prime coils, which are sold through the Company's XSCP division. The coil product segment also processes customer-owned coils on a fee basis. Effective April 1, 2018, the Company changed the inventory valuation method for the coil segment's prime coil inventory from the LIFO method to the average cost method. The impact of this change in accounting principle to both the current fiscal year periods and, as applied retrospectively, to the comparable periods of the prior fiscal year are disclosed in Note B of this quarterly report on Form 10-Q. Prior period information provided in this Management's Discussion and Analysis has been updated to reflect the retrospective application of the change in accounting principle.

The tubular product segment consists of the Company's Texas Tubular Products division ("TTP") located in Lone Star, Texas. TTP operates two electric resistance welded pipe mills with a combined outside diameter ("OD") size range of 2 3/8" OD to 8 5/8" OD. Both pipe mills are American Petroleum Institute ("API") licensed to manufacture line pipe and oil country pipe and also manufacture pipe for structural purposes that meets other recognized industry standards. TTP has a pipe finishing facility that threads and couples oil country tubular goods and performs other services that are customary in the pipe finishing process. The pipe finishing facility is API licensed and focuses on threading semi-premium connections. TTP's inventory consists of raw materials and finished goods. Raw material inventory consists of hot-rolled steel coils that TTP will manufacture into pipe. Finished goods inventory consists of pipe TTP has manufactured and new mill reject pipe that TTP purchases from U.S. Steel Tubular Products, Inc. ("USS").

Results of Operations

Six Months Ended September 30, 2018 Compared to Six Months Ended September 30, 2017

During the six months ended September 30, 2018, sales, costs of goods sold and gross profit increased $52,464,368, $45,371,070 and $7,093,298, respectively, from the comparable amounts recorded during the six months ended September 30, 2017. The increase in sales was related to both an increase in tons sold and an increase in the average per ton selling price. Tons sold increased approximately 72% from approximately 72,000 tons in the 2017 period to approximately 124,000 tons in the 2018 period. Discussion of the sales improvement is expanded upon at the segment level in the following paragraphs. Gross profit as a percentage of sales increased from approximately 6.2% in the 2017 period to approximately 10.0% in the 2018 period.

Coil Segment