WEBCO INDUSTRIES INC
Form 10-Q
June 08, 2001

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

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2001

or

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

For the transition period from ________________ to ___________________.

Commission File Number: 0-23242

WEBCO INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Oklahoma 73-1097133

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No)

9101 West 21st Street, SAND SPRINGS, OKLAHOMA 74063

(Address of principal executive offices) (Zip Code)

(918) 241-1000

(Registrant's telephone number, including area code)

NOT APPLICABLE

(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.

[X] Yes [ ] No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to distribution of securities under a plan confirmed by a court.

NOT APPLICABLE [ ] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date: 7,073,723 shares of Common Stock, $0.01 par value, as of June 1, 2001.

WEBCO INDUSTRIES, INC. AND SUBSIDIARY

TABLE OF CONTENTS

WEBCO INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)
(Unaudited)

	April 30, 2001	July 31, 2000
ASSETS		
Current assets:		
Cash	$ 182	$ 1,633
Accounts receivable, net	19,036	17,536
Inventories	34,454	35,765
Prepaid expenses	496	435
Deferred income tax asset	2,113	2,047
Total current assets	56,281	57,416
Property, plant and equipment, net	68,469	68,067
Notes receivable from related parties	1,801	1,801
Other assets, net	3,234	2,839
Total assets	$ 129,785	$ 130,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,372	$ 17,938
Accrued liabilities	5,522	5,259
Current portion of long-term debt	4,493	4,090
Total current liabilities	26,387	27,287
Long-term debt	48,235	43,979
Deferred income tax liability	8,723	10,209
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Common stock, $.01 par value, 12,000,000 shares authorized, 7,073,723 shares issued and outstanding	71	71
Additional paid-in capital	35,732	35,732
Retained earnings	10,637	12,845
Total stockholders' equity	46,440	48,648
Total liabilities and stockholders' equity	$ 129,785	$ 130,123

See accompanying notes to unaudited consolidated financial statements.

WEBCO INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2001	2000	2001	2000
Net sales	$ 35,881	$ 36,289	$110,280	104,509
Cost of sales	31,728	31,468	99,201	89,490
Gross profit	4,153	4,821	11,079	15,019
Selling, general and administrative expenses	3,500	3,711	10,978	11,768
Income from operations	653	1,110	101	3,251
Interest expense	1,138	984	3,676	2,732
Income (loss) before income taxes	(485)	126	(3,575)	519
Provision (benefit) for income taxes	(185)	57	(1,367)	204
Net income (loss)	$ (300)	$ 69	$ (2,208)	$ 315
Net income (loss) per common share:				
Basic	$ (.04)	$ .01	$ (.31)	$ .04
Diluted	$ (.04)	$ .01	$ (.31)	$ .04
Weighted average common shares outstanding:				
Basic	7,074	7,074	7,074	7,074
Diluted	7,074	7,082	7,074	7,074

See accompanying notes to unaudited consolidated financial statements.

WEBCO INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended April 30, 2001	Nine Months Ended April 30, 2000
Cash flows from operating activities:		
Net income (loss)	$ (2,208)	$ 315
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,534	4,432
Loss (gain) on disposition of property, plant and equipment	37	33
Deferred tax expense (benefit)	(1,552)	216
(Increase) decrease in:		
Accounts receivable	(1,500)	(1,653)
Inventories	1,311	(4,326)
Prepaid expenses	(239)	(213)
Increase (decrease) in:		
Accounts payable	(1,003)	1,344
Accrued liabilities	225	131
Net cash provided by (used in) operating activities	(395)	279
Cash flows from investing activities:		
Capital expenditures	(5,980)	(8,463)
Proceeds from sale of property, plant and equipment	652	94
Other	(395)	113
Net cash used in investing activities	(5,723)	(8,256)
Cash flows from financing activities:		
Proceeds from long-term debt	105,682	94,540
Principal payments on long-term debt	(101,023)	(86,446)
Increase in book overdrafts	8	349
Net cash provided by financing activities	4,667	8,443
Net increase (decrease) in cash	(1,451)	466
Cash, beginning of period	1,633	180
Cash, end of period	$ 182	$ 646
	======	======

See accompanying notes to unaudited consolidated financial statements.

WEBCO INDUSTRIES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements

Note 1 - General

The accompanying unaudited consolidated financial statements include the accounts of Webco Industries, Inc. ("Webco" or together with its subsidiary, the "Company") and its wholly owned subsidiary Phillips & Johnston, Inc. ("P&J"), a Chicago based sales organization and value-added processor of tubular products. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

The financial statements include, in the opinion of management, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of financial position at April 30, 2001 and results of operations for the three months and nine months ended April 30, 2001 and April 30, 2000, and cash flows for the nine months ended April 30, 2001 and April 30, 2000. Results for the three months and nine months ended April 30, 2001 are not necessarily indicative of results that will be realized for the full fiscal year. The year-end balance sheet was derived from the audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes which can be found in the Company's Form 10-K for the year ended July 31, 2000.

Our independent accountants have performed a review of these interim financial statements in accordance with standards established by the American Institute of Certified Public Accountants. Pursuant to Rule 436 (c) under the Securities Act of 1933 their report of that review should not be considered as part of any registration statements prepared or certified by them within the meaning of Section 7 and 11 of that Act.

Note 2 - Inventories

At April 30, 2001 and July 31, 2000, inventories were as follows:

	April 30, 2001	July 31, 2000
Raw materials	$ 12,659	$ 17,708
Work-in-process	1,329	2,155
Finished goods	17,754	13,469
Maintenance parts and supplies	2,712	2,433
Total inventories	$ 34,454	$ 35,765
	======	======

Note 3 - Contingencies

The Company is a party to various lawsuits and claims arising in the ordinary course of business. Management, after review and consultation with legal counsel, believes that any liability resulting from these matters would not materially affect the results of operations or the financial position of the Company.

WEBCO INDUSTRIES, INC. AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements

Note 4 - Common Stock and Common Stock Equivalents

Presented below is a reconciliation of the differences between actual weighted average shares outstanding and diluted weighted average shares (in thousands, except per share amounts).

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2001	2000	2001	2000
Basic EPS:				
Weighted average shares outstanding	7,074	7,074	7,074	7,074
Effect of dilutive securities: Options	-	8	-	-
Diluted EPS:				
Diluted weighted average shares outstanding	7,074	7,082	7,074	7,074
	====	====	====	====
Anti-dilutive options outstanding:				
Number of options	814	569	814	714
	====	====	====	====
Weighted average exercise price per share	$ 5.12	$ 6.42	$ 5.12	$ 5.92
	====	====	====	====

Note 5 - Segment Information

The Company applies the provisions of FAS 131 "Disclosures about Segments of an Enterprise and Related Information". The Company has two reportable segments: Tubing Products and QuikWater, representing the Company's two strategic business units offering different products. The Company internally evaluates its business by facility, however, because of the similar economic characteristics of the tubing operations, including the nature of products, processes and customers, those operations have been aggregated for segment reporting purposes. The Tubing Products segment manufactures, as well as distributes, tubular products principally made of carbon and stainless steel. QuikWater markets a patented direct contact, high efficiency water heater.

The Company measures segment profit or loss as income (loss) before income taxes. Information on the Company's segments is as follows (Dollars in thousands):

	Tubing Products	**QuikWater**	**Total**
Quarter-ended April 30, 2001:			
Revenues	$ 34,957	$ 924	$ 35,881
Segment pre-tax income (loss)	(407)	(78)	(485)
Quarter-ended April 30, 2000:			
Revenues	35,766	523	36,289
Segment pre-tax income (loss)	578	(452)	126

Nine months ended April 30, 2001:			
Revenues	107,386	2,894	110,280
Segment pre-tax income (loss)	(3,253)	(322)	(3,575)
Nine months ended April 30, 2000:			
Revenues	102,380	2,129	104,509
Segment pre-tax income (loss)	1,715	(1,196)	519

REPORT OF INDEPENDENT ACCOUNTANT

To the Board of Directors and Shareholders of
Webco Industries, Inc.

We have reviewed the accompanying consolidated balance sheet of Webco Industries, Inc. and subsidiary as of April 30, 2001, and the related consolidated statements of operations for the three-month and nine-month periods ended April 30, 2001 and 2000 and the consolidated statements of cash flows for the nine-month periods ended April 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of July 31, 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated September 21, 2000, except for the third paragraph in Note 6(A) as to which the date is November 13, 2000, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of July 31, 2000 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

Tulsa, Oklahoma
May 23, 2001

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

General

Webco Industries, Inc., an Oklahoma corporation, was founded in 1969 by F. William Weber, Chairman of the Board and Chief Executive Officer. Webco is a specialty manufacturer of high-quality carbon and stainless steel tubing products designed to industry and customer specifications. Webco's tubing products consist primarily of: heat exchanger tubing, carbon steel boiler tubing, stainless steel tube and pipe, and specialty carbon steel mechanical tubing for use in consumer durable and capital goods. Management believes that Webco is a domestic market leader in the manufacture of welded carbon steel heat exchanger and boiler tubing, and the leading supplier of stainless tubing for certain niche applications. The Company's wholly-owned subsidiary, P&J, represents several manufacturers who produce various non-competing mechanical and specialty tubular products made from copper, brass, aluminum, stainless and carbon steel, among others. This access to other tubing products allows the Company to better serve its customers by offering a full range of tubing products. Through its QuikWater division, the Company markets a patented direct contact water heater for commercial and industrial applications. The Company has three production facilities in Oklahoma and Pennsylvania and five distribution facilities in Oklahoma, Texas, Illinois and Michigan, serving more than 1,300 customers throughout North America.

Unless the context otherwise requires, the information contained in this report, and the terms "Webco" and the "Company" when used in this report, include Webco Industries, Inc. and its subsidiary, P&J, on a consolidated basis.

Results of Operations for the Three Months Ended April 30, 2001 Compared with the Three Months Ended April 30, 2000

Manufactured Tubing Product sales for the quarter ended April 30, 2001 were $31,812,000, a decrease of 2.7 percent from the $32,710,000 for the same quarter last year. The $898,000 decrease in net sales is primarily the result of a 8.2 percent decrease in the tonnage of tubing sold, offset by a 5.9 percent increase in the average net sales price per ton. The tonnage of tubing sold was down primarily as a result of decreases in both boiler and mechanical tubing product shipments, which were primarily offset by tonnage increases in pressure tubing products. The slight increase in the average net selling price reflects a change in sales mix.

Gross profit for Manufactured Tubing Products decreased to $3,280,000, or 10.3 percent of net sales, for the third quarter of fiscal 2001 from $4,107,000, or 12.6 percent of net sales, for the same period in fiscal 2000. The decline in gross profit is a function of higher operating expenses at the Oil City facility due to the plant expansion, higher natural gas prices, and a change in sales mix. Pricing pressure on carbon mechanical products and reduced sales of higher margin stainless products added to the decline in margin in the current period.

Other Tubing Products sales are made primarily by Webco s subsidiary, P&J. Sales of these products increased 2.9 percent to $3,145,000 for the quarter ended April 30, 2001 from $3,056,000 for the quarter ended April 30, 2000. Gross profit from Other Tubing Products decreased to $579,000, or 18.4 percent of net sales, for the third quarter of fiscal 2001 from $674,000, or 22.1 percent of net sales, for the same period in fiscal 2000. The slight increase in sales and decline in gross profit percentage is a result of an increase in the tonnage of tubing sold at reduced sales prices to the OEM markets.

Sales for QuikWater were $924,000 for the third quarter of fiscal 2001, which is 76.7 percent more than the $523,000 in sales for the same period in fiscal 2000. Gross profit for QuikWater was $294,000, or 31.8 percent of net sales, for the third quarter of fiscal 2001 as compared with $40,000, or 7.6 percent of net sales, for the same period of fiscal 2000. The increase in sales is a result of improved market conditions for the QuikWater product due to changes in certain environmental standards, primarily on the West coast of the United States, and other long-term marketing efforts. The gross profit percentage increase is a reflection of the new outsourcing arrangement for the manufacturing of the units, which has reduced the amount of unproductive overhead costs incurred.

Selling, general and administrative expenses were $3,500,000 for the third quarter of fiscal 2001 compared with $3,711,000 for the same quarter of fiscal 2000. The decrease in the current quarter is primarily the result of a $185,000 decrease in information technology expenses incurred in support of the Company's enterprise resource planning ("ERP") system, and a $53,000 decrease in administrative labor and overhead expenses realized as a result of certain cost saving measures implemented during the first and second quarters of fiscal 2001.

Interest expense for the current period was $1,138,000 ($1,208,000 prior to interest capitalization) as compared to interest expense of $984,000 ($1,058,000 prior to interest capitalization) for the same quarter last year. The increase in interest prior to interest capitalization is the result of the average level of debt under the bank Loan and Security Agreement for the three months ended April 30, 2001 being $49.2 million as compared to $45.9 million for the same period last year. In addition, the related average interest rate increased to 8.80 percent in the third quarter of fiscal 2001 from 7.94 percent in the third quarter of fiscal 2000. The Company has historically elected for its term debt and a significant portion of its outstanding revolver to bear interest at a floating rate based on LIBOR. Higher borrowing levels have resulted from declines in operating cash flow and the expansion in Oil City, Pennsylvania. Due to the recent reductions in the LIBOR and prime rate levels, the Company expects a lower average interest rate in the fourth quarter of fiscal 2001 when compared to fiscal 2001 third quarter results.

The recorded income tax expense for the quarter ended April 30, 2001 is based upon the estimated annual combined effective federal and state income tax rates.

Results of Operations for the Nine Months Ended April 30, 2001 Compared with the Nine Months Ended April 30, 2000

Manufactured Tubing Product sales for the nine months ended April 30, 2001 increased 3.7 percent to $96,582,000 as compared with $93,135,000 for the same period last year. The $3,447,000 increase in net sales is primarily the result of a 4.6 percent increase in the average net sales price per ton, which is partially offset by a .9 percent decrease in the tonnage of tubing sold. The overall tonnage of tubing sold was up primarily as a result of increased pressure tubing volumes. The slight decrease in the average net selling price is primarily due to sales mix.

Gross profit for Manufactured Tubing Products was $8,224,000, or 8.5 percent of net sales, for the first nine months of fiscal 2001 compared to $12,473,000, or 13.4 percent of net sales, for the same period in fiscal 2000. This is a function of a 11.6 percent increase in the average manufactured cost per ton of tubing sold and the .9 percent decrease in the average net selling price per ton, noted above. A one-week suspension at the Sand Springs facility in August and higher payrolls while training new personnel and higher operating expenses at the Oil City facility due to the recently completed plant expansion negatively impacted margins in the current period. Margins have further been reduced by increased natural gas prices and pricing pressure in carbon mechanical tubing product markets.

Other Tubing Products sales are made primarily by Webco s subsidiary, P&J. Sales of these products increased 16.9 percent to $10,804,000 for the nine-month period ended April 30, 2001 from $9,245,000 for the same period ended April 30, 2000. Gross profit from Other Tubing Products decreased to $2,060,000, or 19.1 percent of net sales, for the first nine months of fiscal 2001 from $2,166,000, or 23.4 percent of net sales, for the same period in fiscal 2000. The increase in sales and decline in gross profit percentage is a result of an increase in the tonnage of tubing sold at reduced sales prices to the OEM market.

Sales for QuikWater were $2,894,000 for year to date fiscal 2001 compared to $2,129,000 sales for the same period in fiscal 2000. Gross profit for QuikWater was $795,000, or 27.5 percent of net sales, for the first nine months of fiscal 2001 as compared with $380,000, or 17.8 percent of net sales, for the same period of fiscal 2000. The increase in sales is a result of improved market conditions for the QuikWater product due to changes in certain environmental standards, primarily on the West coast of the United States, and long-term marketing efforts. The gross profit percentage increase is a reflection of the new outsourcing arrangement for the manufacturing of the units, which has reduced the amount of unproductive overhead costs incurred.

Selling, general and administrative expenses year to date for fiscal 2001 were $10,978,000 compared with $11,768,000 for the same period of fiscal 2000. The decrease in the current period is primarily the result of decreases of $78,000 in legal fees principally related to Thermatool (See Part II, Item 1, Legal Proceedings of this form 10Q) and certain labor matters, a $304,000 decrease in information technology expenses incurred in support of the new ERP system, and a $446,000 decrease in administrative labor and overhead expenses realized as a result of certain cost saving measures implemented during the first and second quarters of fiscal 2001.

Interest expense for the current nine-month period was $3,676,000 ($4,050,000 prior to interest capitalization) as compared with interest expense of $2,732,000 ($2,949,000 prior to interest capitalization) for the same period last year. The increase in interest prior to interest capitalization is the result of the average level of debt under the bank Loan and Security Agreement for the nine months ended April 30, 2001 being $48.6 million as compared with $43.8 million for the same period last year. In addition, the related average interest rate increased to 8.96% for the first nine months of fiscal 2001 from 7.69% for the same period in fiscal 2000. The Company has historically elected for its term debt and a significant portion of its outstanding revolver to bear interest at a floating rate based on LIBOR. Higher borrowing levels have resulted from declines in operating cash flow and the expansion in Oil City, Pennsylvania. Due to the current LIBOR and prime rate levels and the Company's amended bank agreement with its primary lender, the Company expects a higher average interest rate in the fourth quarter of fiscal 2001 and for the remainder of the current fiscal year when compared to prior year results.

The recorded income tax expense for the six months ended April 30, 2001 is based upon the estimated combined annual effective federal and state income tax rates.

Liquidity and Capital Resources

Net cash used in operations was $395,000 for the nine months ended April 30, 2001 versus net cash provided by operations of $279,000 for the nine months ended April 30, 2000. Accounts receivable increased $1,500,000 during the current period and increased $1,653,000 during the same period last year, primarily due to stronger sales late in the third quarter of fiscal 2001. Inventories decreased $1,311,000 for the nine months ended April 30, 2001, primarily due to management's efforts to reduce raw materials inventory. Inventories increased $4,326,000 for the nine months ended April 30, 2000 due to strategic purchases of raw materials, which were made in anticipation of rising prices. Accounts payable decreased $1,003,000 during the current period and increased $1,344,000 for the same period last year, while book overdrafts also increased $349,000 during the prior year period principally related to the increase in inventory.

Net cash used in investing activities for the nine months ended April 30, 2001 was $5,723,000, which was $2,533,000 less than the $8,256,000 used in investing activities during the same period in fiscal 2000. Capital expenditures made during the current period primarily related to the expansion of the Oil City facility, which was completed during the third quarter of 2001.

The Company s capital requirements have historically been to fund equipment purchases and for general working capital needs resulting from the growth that the Company has experienced. The Company has followed an aggressive capital expenditure plan as part of its growth strategy and to enable it to continue to be a leader in tubular manufacturing technologies. Now that the Company has completed the expansion in Oil City, the focus will turn to debt reduction and working capital management. The Company currently intends to retain earnings to support this strategy and does not anticipate paying dividends in the foreseeable future.

The Company's financing arrangements provide for a term loan of $25 million, a line of credit of $25 million and a capital expenditure ("CAPEX") facility in the amount of $5 million to finance equipment at the Oil City, Pennsylvania plant. As of April 30, 2001, the Company had $23.1 million outstanding on the term loan, $21.3 million under the revolving line of credit and $4.6 million outstanding on the CAPEX facility. These loans mature on August 31, 2002, and are collateralized by substantially all of the Company s assets other than the Sand Springs real estate. The Company may have borrowings and outstanding letters of credit ($1,056,000 at April 30, 2001) under the revolving credit facility up to the lesser of $25 million or an amount determined by a formula based on the amount of eligible inventories and accounts receivable. At April 30, 2001, $2.6 million was available for borrowing under this line of credit. The CAPEX loan was fully funded during the second quarter of fiscal 2001 leaving no remaining borrowing capacity. Principal payments of $208,000, plus interest, are due on the term loan each month until maturity. Principal payments on the CAPEX facility of $83,000, plus interest, are due each month until maturity.

The Company's debt agreement contains various covenants regarding debt coverage, the ratio of indebtedness to equity and the maintenance of a minimum borrowing base availability without considering the $25 million revolving loan cap. As of April 30, 2001, the Company was in compliance with all such covenants.

The Company has arranged financing with various public agencies related to the Oil City facility, of which, $2.5 million was outstanding at April 30, 2001 and an additional $500,000 was subsequently funded in May 2001. The agency loans are collateralized by the underlying real estate and/or equipment and the guarantee of the principal stockholder/officer. The notes mature over a 4 to 10 year period and bear interest at rates ranging from 3 to 5 percent.

P&J has a line of credit agreement for $2,000,000 and a term loan of $500,000 with its primary lender. As of April 30, 2001, the Company had $760,000 outstanding under the line of credit and $322,000 outstanding on the term loan. The line of credit matures on November 30, 2001, and the term loan matures in April 2004. Both loans are collateralized by P&J s assets. At April 30, 2001, $1.24 million was available for borrowing under the line of credit.

Safe Harbor for Forward Looking Statements:

Certain statements in this Form 10-Q, including statements preceded by, or predicated upon the words "believes", "expects", "appears" or "plans", constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance or achievements expressed or implied herein. Such risks, uncertainties and factors include, among others: general economic and business conditions, competition from imports, changes in manufacturing technology, industry capacity, domestic competition, raw material costs and availability, loss of significant customers and customer and vendor work stoppages, and technical and data processing capabilities of customers and vendors. The reader should refer to Part I, Item 1: "Forward Looking Statements" of the Company's Form 10-K for the year ended July31, 2000 for additional information regarding this matter.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In August 1997, the Company filed an action, Webco Industries, Inc. vs. Thermatool Corporation and Alpha Industries, Inc., relating to certain cut-off equipment sold to the Company and installed on Mill 3, which did not perform to specifications. The case, filed in the United States District Court for the Northern District of Oklahoma (Case No. 97-CV-708H (W)), sought recoveries including, but not limited to, the cost of the equipment and other incidental and consequential damages, including lost profits, suffered by the Company. On May 27, 1999 a jury awarded the Company $1.1 million in its claims against Thermatool. On December 1, 1998, the court ruled that the Company could not collect lost profits and certain other incidental and consequential damages, and limited the Company's possible recovery to the purchase price of the equipment plus the cost of improvements and interest. The damages awarded by the jury, accordingly, do not include lost profits by the Company. Now that the first trial has been decided in the Company's favor, the Company has appealed the pre-trial order that prevented the Company from recovering lost profits, and has appealed the trial court's denial of attorneys' fees and pre-judgment interest. There can be no assurances that the Company will be successful on appeal or that if successful, lost profits or other damages awarded by the appeals court or in the succeeding trial, if any, will be commensurate with actual lost profits and damages and expenses suffered by the Company. Thermatool has appealed the jury's verdict and there can be no assurances as to what the outcome of that appeal will be.

The Company is also a party to various other lawsuits and claims arising in the ordinary course of business. Management, after review and consultation with legal counsel, considers that any liability resulting from these matters would not materially affect the results of operations or the financial position of the Company. The Company maintains liability insurance against risks arising out of the normal course of business.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

Exhibit 15.1: Letter Regarding Unaudited Interim Financial Information.

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.

WEBCO INDUSTRIES, INC.

June 8, 2001 /s/Michael P. Howard

Michael P. Howard
Treasurer
Chief Accounting Officer
Vice President of Finance and Administration

EXHIBIT 15.1

WEBCO INDUSTRIES, INC.
LETTER RE UNAUDITED INTERIM FINANCIAL INFORMATION

Securities and Exchange Commission
450 Fifth Street, N. W.
Washington, D.C. 20549

Re: Webco Industries, Inc.
Registration on Form S-3 and S-8

We are aware that our report dated February 23, 2001, on our review of the interim financial information of Webco Industries, Inc. for the periods ended April 30, 2001 and 2000, and included in this Form 10-Q is incorporated by reference in the Company's registration statements on Form S-3 (File nos. 333-22779 and 333-67923) and S-8 (File no. 333-49219).

PricewaterhouseCoopers LLP

Tulsa, Oklahoma
June 7, 2001