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, 2021

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)**

1121 Judson Road, Suite 124, Longview, Texas 75601
(Address of principal executive offices) (Zip Code)

Registrant’s telephone number, including area code (903)758-3431

Former name, former address and former fiscal year, if changed since last report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $1 Par Value	FRD	NYSE American

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 19, 2021, the number of shares outstanding of the issuer’s only class of stock was 6,905,537 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, 2021	MARCH 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,943,597	$ 8,191,001
Accounts receivable, net of allowances for bad debts and cash discounts of $32,834 at September 30, and March 31, 2021	32,333,608	20,377,967
Inventories	67,737,618	36,016,093
Current portion of derivative assets	1,832,840	622,400
Other current assets	6,807,381	12,327,174
TOTAL CURRENT ASSETS	111,655,044	77,534,635
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,179,831	1,179,831
Buildings and yard improvements	8,567,916	9,199,704
Machinery and equipment	30,375,429	35,253,000
Construction in process	5,994,357	9,614
Less accumulated depreciation	(25,340,164)	(30,180,893)
	20,777,369	15,461,256
OTHER ASSETS:		
Cash value of officers' life insurance and other assets	287,154	148,494
Deferred income tax asset	5,102,939	1,864,424
TOTAL ASSETS	$ 137,822,506	$ 95,008,809
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 26,748,702	$ 15,185,038
Dividends payable	138,111	138,117
Contribution to retirement plan	150,000	50,000
Employee compensation and related expenses	4,354,803	2,643,538
Income taxes payable	3,331,540	1,455,099
Current portion of financing lease	103,684	102,689
Current portion of derivative liability	4,600,440	7,979,380
Current portion of Paycheck Protection Program loan	—	1,518,410
TOTAL CURRENT LIABILITIES	39,427,280	29,072,271
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	112,982	108,609
OTHER NON-CURRENT LIABILITIES	3,368,756	315,978
ASSET BASED LENDING FACILITY	14,578,487	—
LONG TERM PORTION OF PAYCHECK PROTECTION PROGRAM LOAN	—	171,975
TOTAL LIABILITIES	57,487,505	29,668,833
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, par value $1: Authorized shares — 10,000,000; Issued shares — 8,340,785 shares and 8,334,785 shares at September 30, and March 31, 2021, respectively	8,340,785	8,334,785
Additional paid-in capital	30,245,203	30,003,462
Accumulated other comprehensive loss	(20,653,993)	(11,187,841)
Treasury stock at cost (1,435,248 shares at September 30, and March 31, 2021)	(7,203,342)	(7,203,342)
Retained earnings	69,606,348	45,392,912
TOTAL STOCKHOLDERS' EQUITY	80,335,001	65,339,976
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 137,822,506	$ 95,008,809

The accompanying notes are an integral part of these financial statements.

FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS — UNAUDITED

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	2021	2020	2021	2020
Net Sales	$ 92,570,895	$ 24,861,680	$ 158,487,334	$ 48,386,280
Costs and expenses:				
Costs of products sold	62,875,913	23,770,583	111,462,417	47,038,429
Selling, general and administrative	5,290,055	1,401,888	8,640,165	2,793,642
Interest expense	72,296	6,255	95,506	12,208
	68,238,264	25,178,726	120,198,088	49,844,279
EARNINGS (LOSS) FROM OPERATIONS	24,332,631	(317,046)	38,289,246	(1,457,999)
Other income (loss), net	(6,840,317)	4,325	(6,528,255)	8,648
EARNINGS (LOSS) BEFORE INCOME TAXES	17,492,314	(312,721)	31,760,991	(1,449,351)
Provision for (benefit from) income taxes:				
Current	4,426,619	46,005	7,494,507	(123,041)
Deferred	(111,919)	(108,721)	(222,927)	(217,443)
	4,314,700	(62,716)	7,271,580	(340,484)
NET EARNINGS (LOSS)	$ 13,177,614	$ (250,005)	$ 24,489,411	$ (1,108,867)
Weighted average number of common shares outstanding:				
Basic	6,903,450	7,067,898	6,901,504	7,074,137
Diluted	6,903,450	7,067,898	6,901,504	7,074,137
Net earnings (loss) per share:				
Basic	$ 1.91	$ (0.04)	$ 3.55	$ (0.16)
Diluted	$ 1.91	$ (0.04)	$ 3.55	$ (0.16)
Cash dividends declared per common share	$ 0.02	$ 0.02	$ 0.04	$ 0.04

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) — UNAUDITED

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	2021	2020	2021	2020
Net earnings (loss)	$ 13,177,614	$ (250,005)	$ 24,489,411	$ (1,108,867)
Other comprehensive income (loss):				
Cash flow hedges, net of tax	4,227,185	—	(9,466,152)	—
	4,227,185	—	(9,466,152)	—
Comprehensive income (loss)	$ 17,404,799	$ (250,005)	$ 15,023,259	$ (1,108,867)

The accompanying notes are an integral part of these financial statements.

FRIEDMAN INDUSTRIES, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED

	SIX MONTHS ENDED SEPTEMBER 30, 2021	SIX MONTHS ENDED SEPTEMBER 30, 2020
OPERATING ACTIVITIES		
Net earnings (loss)	$ 24,489,411	$ (1,108,867)
Adjustments to reconcile net earnings (loss) to cash provided by (used in) operating activities:		
Depreciation	663,164	530,968
Deferred taxes	(222,927)	(217,443)
Compensation expense for restricted stock	247,741	221,627
Change in postretirement benefits	4,373	5,933
Lower of cost or net realizable value inventory adjustment	—	274,093
Gain recognized on open derivatives not designated for hedge accounting	(1,551,840)	—
Deferred realized loss on derivatives	(17,052,580)	—
Forgiveness of Paycheck Protection Program Loan	(1,706,614)	—
Decrease (increase) in operating assets:		
Accounts receivable	(11,955,641)	426,318
Inventories	(31,721,525)	8,894,641
Federal income taxes recoverable	—	(109,230)
Other current assets	(1,274,124)	(1,075,916)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	11,801,806	(4,199,863)
Income taxes payable	1,876,441	—
Contribution to retirement plan	100,000	100,500
Employee compensation and related expenses	1,711,265	(26,484)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(24,591,050)	3,716,277
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,905,751)	(2,933,637)
Proceeds from sale of assets	160,542	—
Increase in cash surrender value of officers’ life insurance	(5,791)	(8,647)
NET CASH USED IN INVESTING ACTIVITIES	(2,751,000)	(2,942,284)
FINANCING ACTIVITIES		
Paycheck Protection Program loan proceeds	—	1,690,385
Cash dividends paid	(275,981)	(283,218)
Cash paid for principal portion of finance lease	(51,097)	(50,121)
Cash paid for share repurchases	—	(410,221)
Asset based lending facility proceeds	14,578,487	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	14,251,409	946,825
INCREASE (DECREASE) IN CASH AND RESTRICED CASH	(13,090,641)	1,720,818
CASH AND RESTRICTED CASH AT BEGINNING OF PERIOD	20,192,486	17,057,751
CASH AND RESTRICTED CASH AT END OF PERIOD	$ 7,101,845	$ 18,778,569

Cash and restricted cash at September 30, 2021 and March 31, 2021 included $4,158,248 and $12,001,485, respectively, of cash required to collateralize open derivative positions. These amounts are reported in "Other current assets" on the Company's consolidated balance sheets at September 30, 2021 and March 31, 2021. At September 30, 2021, the Company had a margin call position of $422,877 to further collateralize open derivative positions. This margin requirement was funded subsequent to quarter end. The Company had $118,125 in restricted cash at September 30, 2020.

The accompanying notes are an integral part of these financial statements.

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, 2021.

NOTE B — NEW ACCOUNTING PRONOUNCEMENTS

In December 2019, the FASB issued Accounting Standards Update 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”), which simplifies accounting for income taxes by revising or clarifying existing guidance in ASC 740, as well as removing certain exceptions within ASC 740. We adopted this guidance on April 1, 2021. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

NOTE C — 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. Cost for prime coil inventory is determined using the average cost method. 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, 2021	March 31, 2021
Prime Coil Inventory	$ 55,050,920	$ 23,079,012
Non-Standard Coil Inventory	1,307,105	1,419,055
Tubular Raw Material	6,596,781	2,607,197
Tubular Finished Goods	4,782,812	8,910,829
	$ 67,737,618	$ 36,016,093

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 the Company has purchased from U.S. Steel Tubular Products, Inc.

NOTE D – DEBT

On June 22, 2021, the Small Business Administration authorized full forgiveness of our Paycheck Protection Program loan. The gain of $1,706,614 from this extinguishment of debt included both principal and interest and is recorded as a component of "Other income (loss), net" on the Company's Condensed Consolidated Statement of Operations for the six months ended September 30, 2021.

On March 8, 2021, the Company entered into a Credit Agreement providing for a $10 million revolving line of credit facility (the "Interim Credit Facility) with JPMorgan Chase Bank, N.A. (the "Bank"). The term of the Interim Credit Facility had an expiration date of July 15, 2021 because the Company was evaluating options for longer term credit arrangements. On April 14, 2021, the Company executed a first amendment to the Interim Credit Facility that increased the size of the facility from $10 million to $20 million. On May 19, 2021, the Company entered into an Amended and Restated Credit Agreement with the Bank that amends and restates the Interim Credit Facility and provides for asset-based revolving loans in an aggregate principal amount up to $40 million (the "ABL Facility"). The ABL Facility matures on May 19, 2026 and replaced the Interim Credit Facility in its entirety. The ABL Facility is secured by substantially all of the assets of the Company and borrowings bear interest at a rate equal to LIBOR plus 1.7% per annum. Availability of funds under the ABL Facility is subject to a borrowing base calculation determined as the sum of (a) 85% of eligible accounts receivable, plus (b) the product of 85% multiplied by the net orderly liquidating value percentage identified in the most recent inventory appraisal multiplied by eligible inventory and plus (c) a machinery and equipment component that is the lesser of 85% of the net orderly liquidating value of eligible equipment or the machinery and equipment component limit which is initially $5 million and reduces over the term of the facility. The ABL Facility contains a financial covenant restricting the Company from allowing its fixed charge coverage ratio be, as of the end of any calendar month, less than 1.10 to 1.00 for the trailing twelve month period then ending. The fixed charge coverage ratio is calculated as the ratio of (a) EBITDA, as defined in the ABL Facility, minus unfinanced capital expenditures to (b) cash interest expense plus scheduled principal payments on indebtedness plus taxes paid in cash plus restricted payments paid in cash plus capital lease obligation payments plus cash contributions to any employee pension benefit plans. The ABL Facility contains other representations and warranties and affirmative and negative covenants that are usual and customary. If certain conditions precedent are satisfied, the ABL facility may be increased by up to an aggregate of $10 million, in minimum increments of $5 million. At September 30, 2021, the Company had a balance of $14,578,487 under the ABL Facility with an applicable interest rate of 1.79%. At September 30, 2021, the Company's borrowing base calculation provided full access to the ABL Facility and the Company was in compliance with all covenants related to the ABL Facility.

NOTE E — LEASES

The Company's lease of its office space in Longview, Texas is the only operating lease included in the Company's right-of-use ("ROU") asset and lease liability. The lease calls for monthly rent payments of $4,878 and expires on April 30, 2024. The Company's other operating leases for items such as IT equipment and storage space are either short-term in nature or immaterial.

In October 2019, the Company received a new heavy-duty forklift under a 5-year finance lease arrangement with a financed amount of $518,616 and a monthly payment of $9,074.

The components of expense related to leases for the three and six months ended September 30, 2021 and 2020 are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Finance lease – amortization of ROU asset	$ 25,610	$ 25,121	$ 51,097	$ 50,121
Finance lease – interest on lease liability	1,613	2,102	3,349	4,325
Operating lease expense	14,634	14,634	29,268	27,018
	$ 41,857	$ 41,857	$ 83,714	$ 81,464

The following table illustrates the balance sheet classification for ROU assets and lease liabilities as of September 30, 2021 and March 31, 2021:

	September 30, 2021	**March 31, 2021**	**Balance Sheet Classification**
Assets			
Operating lease right-of-use asset	$ 137,967	$ 4,850	Other assets
Finance lease right-of-use asset	468,914	481,880	Property, plant & equipment
Total right-of-use assets	$ 606,881	$ 486,730	
Liabilities			
Operating lease liability, current	$ 50,477	$ 4,850	Accrued expenses
Finance lease liability, current	103,684	102,689	Current portion of finance lease
Operating lease liability, non-current	87,490	—	Other non-current liabilities
Finance lease liability, non-current	213,466	265,557	Other non-current liabilities
Total lease liabilities	$ 455,117	$ 373,096	

As of September 30, 2021, the weighted-average remaining lease term was 2.6 years for operating leases and 3.0 years for finance leases. The weighted average discount rate was 7% for operating leases and 1.9% for finance leases.

Maturities of lease liabilities as of September 30, 2021 were as follows:

	Operating Leases	**Finance Leases**
Fiscal 2022 (remainder of fiscal year)	29,268	54,446
Fiscal 2023	58,536	108,888
Fiscal 2024	58,536	108,888
Fiscal 2025	4,878	54,445
Fiscal 2026	—	—
Total undiscounted lease payments	$ 151,218	$ 326,667
Less: imputed interest	(13,251)	(9,517)
Present value of lease liability	$ 137,967	$ 317,150

NOTE F — PROPERTY, PLANT AND EQUIPMENT

On May 25, 2021, the Company announced plans for a new facility in Sinton, Texas that will be part of the coil product segment. The new facility will be on the campus of Steel Dynamics, Inc.'s ("SDI") new flat roll steel mill currently under construction in Sinton, Texas. The Company's new location will consist of an approximately 70,000 square foot building located on approximately 26.5 acres leased from SDI under a 99-year agreement with an annual rental payment of $1. The Company has selected Red Bud Industries to build a stretcher leveler cut-to-length line for the facility that is capable of handling material up to 1” thick, widths up to 96” and yields exceeding 100,000 psi. The Company expects the location to commence operations in April 2022 and estimates the total cost of the project to be $21 million. At September 30, 2021, the Company's construction in process related to the Sinton project was $5,994,357 consisting of $2,760,289 in cash payments and $3,234,068 of accrued capital expenditures.

During the three and six months ended September 30, 2021, the Company wrote off fully depreciated fixed assets that were no longer in use with an original cost and accumulated depreciation of approximately $115,578 and $2,060,226, respectively. During the three months ended September 30, 2021, the Company disposed of the temper mill that was taken out of the Decatur facility prior to the new stretcher leveler coil processing line being installed. The Company received $160,542 in proceeds from the disposal of the equipment which had an original cost of $3,604,209 and accumulated depreciation of $3,447,465.

NOTE G — 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.

The following table summarizes the activity related to restricted stock awards for the six months ended September 30, 2021:

	Number of Shares	**Weighted Average Grant Date Fair Value Per Share**
Unvested at March 31, 2021	339,625	$ 6.07
Cancelled or forfeited	—	—
Granted	6,000	13.00
Vested	(25,000)	4.41
Unvested at September 30, 2021	320,625	$ 6.33

Compensation expense is recognized over the requisite service period applicable to each award. The Company recorded compensation expense of $247,741 and $221,627 in the six months ended September 30, 2021 and 2020, respectively, relating to the stock awards issued under the Plan. As of September 30, 2021, unrecognized compensation expense related to stock awards was approximately $696,921, which is expected to be recognized over a weighted average period of approximately 2.6 years. As of September 30, 2021, a total of 134,375 shares were still available to be issued under the Plan.

NOTE H — DERIVATIVE FINANCIAL INSTRUMENTS

In June 2020, the Company implemented its first commodity price risk management activities by transacting hot-rolled coil futures. From time to time, we expect to use derivative financial instruments to minimize our exposure to commodity price risk that is inherent in our business. At the time derivative contracts are entered into, we assess whether the nature of the instrument qualifies for hedge accounting treatment according to the requirements of ASC 815 – Derivatives and Hedging (“ASC 815”). By using derivatives, the Company is exposed to credit and market risk. The Company’s exposure to credit risk includes the counterparty’s failure to fulfill its performance obligations under the terms of the derivative contract. The Company attempts to minimize its credit risk by entering into transactions with high quality counterparties, and uses exchange-traded derivatives when available. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in commodity prices. The Company manages market risk by continually monitoring exposure within its risk management strategy and portfolio. For those transactions designated as hedging instruments for accounting purposes, we document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the various hedge transactions. We also assess, both at the hedge’s inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows or fair value of hedged items.

From time to time, derivatives designated for hedge accounting may be closed prior to contract expiration. The accounting treatment of closed positions depends on whether the closure occurred due to the hedged transaction occurring early or if the hedged transaction is still expected to occur as originally forecasted. For hedged transactions that occur early, the closure results in the realized gain or loss from closure being recognized in the same period the accelerated hedged transaction affects earnings. For hedged transactions that are still expected to occur as originally forecasted, the closure results in the realized gain or loss being deferred until the hedged transaction affects earnings.

If it is determined that hedged transactions associated with cash flow hedges are no longer probable of occurring, the gain or loss associated with the instrument is recognized immediately into earnings.

From time to time, we may have derivative financial instruments for which we do not elect hedge accounting.

The Company has a forward physical purchase supply agreement in place with one of its suppliers for a portion of its monthly physical steel needs. This supply agreement is not subject to mark-to-market accounting due to the Company electing the normal purchase normal sale exclusion provided in ASC 815.

At September 30, 2021 and March 31, 2021, the Company held hot-rolled coil futures contracts which were designated as hedging instruments and classified as cash flow hedges, either as hedges of variable purchase prices or as hedges of variable sales prices. Accordingly, realized and unrealized gains and losses associated with the instruments are reported as a component of other comprehensive income and reclassified into earnings during the period in which the hedged transaction affects earnings. During the three and six month periods ended September 30, 2021, some of the Company's cash flow hedges were closed prior to expiration but the hedged transactions were still expected to occur as originally forecasted resulting in the realized gain or loss being deferred in other comprehensive income until the hedged transactions occur and affect earnings. At September 30, 2021, the Company removed some derivative instruments from hedge accounting due to the hedged transactions no longer being expected to occur. This was the result of the Company reducing its forecasted sales for the quarter ending December 31, 2021 due to anticipated customer reaction to plateauing and declining steel prices. Since these hedged sales are no longer expected to occur, a loss of $9,930,720 associated with these instruments was immediately recognized into earnings and is reported as a component of “Other income (loss), net” on the Condensed Consolidated Statement of Operations. During the three and six month periods ended September 30, 2021, the Company also entered into hot-rolled coil futures contracts that were not designated as hedging instruments for accounting purposes. Accordingly, the change in fair value related to these instruments was immediately recognized in earnings.

The following table summarizes the fair value of the Company’s derivative financial instruments and the respective line in which they were recorded in the Consolidated Balance Sheet as of September 30, 2021:

	Asset Derivatives		Liability Derivatives	
Derivatives designated as cash flow hedges:	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Hot-rolled coil steel contracts hedging sales	Current portion of derivative assets	$ 1,282,600	Current portion of derivative liability	$ 4,549,120
Hot-rolled coil steel contracts hedging sales			Other non-current liabilities	$ 67,800
Derivatives not designated as hedging instruments:				
Hot-rolled coil steel contracts	Current portion of derivative assets	$ 550,240	Current portion of derivative liability	$ 51,320

All derivatives are presented on a gross basis on the Consolidated Balance Sheet.

The following table summarizes the fair value of the Company’s derivative financial instruments and the respective line in which they were recorded in the Consolidated Balance Sheet as of March 31, 2021:

	Asset Derivatives		Liability Derivatives	
Derivatives designated as cash flow hedges:	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Hot-rolled coil steel contracts hedging purchases	Current portion of derivative assets	$ 530,640		
Hot-rolled coil steel contracts hedging sales	Current portion of derivative assets	$ 91,760	Current portion of derivative liability	$ 7,890,700
Hot-rolled coil steel contracts hedging sales			Other non-current liabilities	$ 50,420
Derivatives not designated as hedging instruments:				
Hot-rolled coil steel contracts			Current portion of derivative liability	$ 88,680

All derivatives are presented on a gross basis on the Consolidated Balance Sheet.

At September 30, 2021, the Company reported $1,049,320 in "Other current assets" on its Consolidated Balance Sheet related to futures contracts for the month of September 2021 that reached expiration but were pending cash settlement. At March 31, 2021, the Company reported $501,360 in "Accounts payable and accrued expenses" on its Consolidated Balance Sheet related to futures contracts for the month of March 2021 that had reached expiration but were pending cash settlement.

The notional amounts (quantities) of our cash flow hedges outstanding at September 30, 2021 consisted of 22,500 tons hedging sales with maturity dates ranging from January 2022 to December 2022.

The following table summarizes the pre-tax loss recognized in other comprehensive income and the gain (loss) reclassified from accumulated other comprehensive loss into earnings for derivative financial instruments designated as cash flow hedges for the periods presented:

	Pre-Tax Gain (Loss) Recognized in OCI	Location of Gain (Loss) Reclassified from AOCI into Net Earnings	Pre- Tax Gain (Loss) Reclassified from AOCI into Net Earnings
For the three months ended September 30, 2021:			
Hot-rolled coil steel contracts	$ 1,557,820	**Sales**	$ (3,086,780)
		Costs of goods sold	9,001,500
Total	$ 1,557,820		$ 5,914,720
For the six months ended September 30, 2021:			
Hot-rolled coil steel contracts	$ (20,013,560)	**Sales**	$ (8,184,800)
		Costs of goods sold	10,583,700
Total	$ (20,013,560)		$ 2,398,900

The estimated amount of losses recognized in AOCI at September 30, 2021 expected to be reclassified into net earnings (loss) within the succeeding twelve months is $26,353,840. This amount consists of $23,467,120 in realized losses associated with closed hedges and $2,886,720 associated with open hedges that was computed using the fair value of the cash flow hedges as of September 30, 2021 and is subject to change before actual reclassification from AOCI to net earnings (loss).

The following table summarizes the loss recognized in earnings for derivative instruments not designated as hedging instruments during the three and six month periods ended September 30, 2021:

	Location of Loss Recognized in Earnings	Loss Recognized in Earnings for the Three Months Ended September 30, 2021
Hot-rolled coil steel contracts	Other income (loss), net	$ (6,830,780)

	Location of Loss Recognized in Earnings	Loss Recognized in Earnings for the Six Months Ended September 30, 2021
Hot-rolled coil steel contracts	Other income (loss), net	$ (8,219,740)

The notional amount (quantity) of our derivative instruments not designated as hedging instruments at September 30, 2021 consisted of 9,160 tons of long positions with maturity dates ranging from October 2021 to January 2022 and 3,440 tons of short positions with maturity dates ranging from October 2021 to December 2022.

The following table reflects the change in accumulated other comprehensive income (loss), net of tax, for the six months ended September 30, 2021:

	Gain (Loss) on Derivatives
Balance at March 31, 2021	$ (11,187,841)
Other comprehensive loss, net of income, before reclassification	(15,178,284)
Total loss reclassified from AOCI (1)	5,712,132
Net current period other comprehensive loss	(9,466,152)
Balance at September 30, 2021	$ (20,653,993)

(1) The loss reclassified from AOCI is presented net of taxes of $1,819,688 which are included in provision for (benefit from) income taxes on the Company's Consolidated Statement of Operations for the six month period ended September 30, 2021.

At September 30, 2021 and March 31, 2021, cash of $4,158,248 and $12,001,485, respectively, was held by our clearing agent to collateralize our open derivative positions. These cash requirements are included in "Other current assets" on the Company's Consolidated Balance Sheets at September 30, 2021 and March 31, 2021. At September 30, 2021, the Company had a margin call position of $422,877 to further collateralize open derivative positions. This margin requirement was funded subsequent to quarter end.

The Company had no cash flow hedges during the three and six months ended September 30, 2020, thus no AOCI or other comprehensive income or loss related to hedges.

NOTE I — FAIR VALUE MEASUREMENTS

Accounting standards provide a comprehensive framework for measuring fair value and sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. Levels within the hierarchy are defined as follows:

- Level 1 – Quoted prices for identical assets and liabilities in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly or indirectly.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Recurring Fair Value Measurements

At September 30, 2021, our financial liabilities, net, measured at fair value on a recurring basis were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Commodity futures – financial liabilities, net	$ (2,835,400)	$ —	$ —	$ (2,835,400)
Total	$ (2,835,400)	$ —	$ —	$ (2,835,400)

At March 31, 2021, our financial liabilities, net, measured at fair value on a recurring basis were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Commodity futures – financial liabilities, net	$ (7,407,400)	$ —	$ —	$ (7,407,400)
Total	$ (7,407,400)	$ —	$ —	$ (7,407,400)

At September 30, 2021 and March 31, 2021, the Company did not have any fair value measurements on a non-recurring basis.

NOTE J — SEGMENT INFORMATION (in thousands)

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Six Months Ended September 30, 2021	Six Months Ended September 30, 2020
Net sales				
Coil	$ 78,324	$ 18,456	$ 131,019	$ 33,889
Tubular	14,247	6,406	27,468	14,497
Total net sales	$ 92,571	$ 24,862	$ 158,487	$ 48,386
Operating profit (loss)				
Coil	$ 24,273	$ 751	$ 37,529	$ 291
Tubular	1,997	(344)	4,598	(285)
Total operating profit	26,270	407	42,127	6
General corporate expenses	1,866	718	3,742	1,452
Interest expense	72	6	96	12
Other income (loss), net	(6,840)	4	(6,528)	9
Total earnings (loss) before income taxes	$ 17,492	$ (313)	$ 31,761	$ (1,449)

	September 30, 2021	March 31, 2021
Segment assets		
Coil	$ 112,826	$ 56,670
Tubular	17,399	17,884
	130,225	74,554
Corporate assets	7,598	20,455
	$ 137,823	$ 95,009

Operating profit is total net sales less operating expenses, excluding general corporate expenses, interest expense and other income (loss). General corporate expenses reflect general and administrative expenses not directly associated with segment operations and consist primarily of corporate and accounting salaries, professional fees and services, bad debts, retirement plan contribution expense, corporate insurance expenses, restricted stock plan compensation expense and office supplies. Other income (loss) for the three months ended September 30, 2021 consisted primarily of a $6,830,780 loss related to derivatives not designated for hedge accounting. Other income (loss) for the six months ended September 30, 2021 consisted primarily of a $8,219,740 loss related to derivatives not designated for hedge accounting partially offset by a $1,706,614 gain from the PPP Loan forgiveness. Corporate assets consist primarily of cash, restricted cash and the cash value of officers' life insurance. Although inventory is transferred at cost between product groups, there are no sales between product groups.

NOTE K — 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 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 Company did not generate any revenue from pipe finishing services during either of the three month or six month periods ended September 30, 2021 or September 30, 2020. The pipe finishing facility is currently idled due to market conditions. 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, 2021 and 2020, respectively:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2021	2020	2021	2020
Coil Segment:				
Prime Coil	74,928,149	17,049,230	124,507,742	30,356,698
Non-standard Coil	3,028,787	1,201,135	5,851,990	3,142,138
Customer Owned Coil	366,991	205,721	658,925	390,034
	78,323,927	18,456,086	131,018,657	33,888,870
Tubular Segment:				
Manufactured Pipe	11,376,626	5,296,334	20,983,436	12,458,184
Mill Reject Pipe	2,870,342	1,109,260	6,485,241	2,039,226
	14,246,968	6,405,594	27,468,677	14,497,410

NOTE L — STOCKHOLDERS' EQUITY

The following tables reflect the changes in stockholders' equity for each of the six month periods ended September 30, 2021 and September 30, 2020:

	Common Stock	Accumulated Other Comprehensive Loss, Net of Tax	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
BALANCE AT MARCH 31, 2021	$ 8,334,785	(11,187,841)	$ 30,003,462	$ (7,203,342)	$ 45,392,912	$ 65,339,976
Net earnings	—	—	—	—	11,311,797	11,311,797
Other comprehensive loss	—	(13,693,337)	—	—	—	(13,693,337)
Paid in capital – restricted stock awards	—	—	121,704	—	—	121,704
Cash dividends ($0.02 per share)	—	—	—	—	(137,865)	(137,865)
BALANCE AT JUNE 30, 2021	$ 8,334,785	$ (24,881,178)	$ 30,125,166	$ (7,203,342)	$ 56,566,844	$ 62,942,275
Net earnings	—	—	—	—	13,177,614	13,177,614
Other comprehensive income	—	4,227,185	—	—	—	4,227,185
Issuance of restricted stock	6,000	—	(6,000)	—	—	—
Paid in capital – restricted stock awards	—	—	126,037	—	—	126,037
Cash dividends ($0.02 per share)	—	—	—	—	(138,110)	(138,110)
BALANCE AT SEPTEMBER 30, 2021	$ 8,340,785	$ (20,653,993)	$ 30,245,203	$ (7,203,342)	$ 69,606,348	$ 80,335,001

	Common Stock	Accumulated Other Comprehensive Income, Net of Tax	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
BALANCE AT MARCH 31, 2020	$ 8,295,160	—	$ 29,565,416	$ (5,525,964)	$ 34,530,755	$ 66,865,367
Net loss	—	—	—	—	(858,862)	(858,862)
Issuance of restricted stock	11,000	—	(11,000)	—	—	—
Paid in capital – restricted stock awards	—	—	110,814	—	—	110,814
Cash dividends ($0.02 per share)	—	—	—	—	(143,229)	(143,229)
BALANCE AT JUNE 30, 2020	$ 8,306,160	$ —	$ 29,665,230	$ (5,525,964)	$ 33,528,664	$ 65,974,090
Net loss	—	—	—	—	(250,005)	(250,005)
Paid in capital – restricted stock awards	—	—	110,813	—	—	110,813

Repurchase of shares	—	—	—	(410,221)	—	(410,221)
Cash dividends ($0.02 per share)	—	—	—	—	(143,181)	(143,181)
BALANCE AT SEPTEMBER 30, 2020	$ 8,306,160	$ —	$ 29,776,043	$ (5,936,185)	$ 33,135,478	$ 65,281,496

NOTE M — OTHER COMPREHENSIVE INCOME

The following table summarizes the tax effects on each component of Other Comprehensive Income (Loss) for the periods presented:

	Three Months Ended September 30, 2021		
	Before-Tax	**Tax**	**Net-of-Tax**
Cash flow hedges	$ 5,573,820	$ (1,346,635)	$ 4,227,185
Other comprehensive income (loss)	$ 5,573,820	$ (1,346,635)	$ 4,227,185

	Six Months Ended September 30, 2021		
	Before-Tax	**Tax Benefit**	**Net-of-Tax**
Cash flow hedges	$ (12,481,740)	$ 3,015,588	$ (9,466,152)
Other comprehensive income (loss)	$ (12,481,740)	$ 3,015,588	$ (9,466,152)

For the six month period ended September 30, 2020, the Company did not have transactions to report in comprehensive income.

NOTE N — SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid interest of approximately $96,000 during the six months ended September 30, 2021 and $12,000 during the six months ended September 30, 2020. The Company paid income taxes of approximately $5,645,000 and $10,000 during the six months ended September 30, 2021 and September 30, 2020, respectively. At September 30, 2021, the “Construction in process” balance of $5,994,357 consisted of $3,234,068 of accrued capital expenditures for which cash outlay had not occurred.

NOTE O — INCOME TAXES

For the six months ended September 30, 2021, the Company recorded an income tax provision of $7,271,580, or 22.9% of earnings before income taxes, compared to a tax benefit of $340,484, or 23.5% of loss before income taxes for the six months ended September 30, 2020. Typically, the Company’s effective tax rate differs from the federal statutory rate due to the inclusion of state tax expenses or benefits in the provision. However, for the six months ended September 30, 2021, the Company’s effective tax rate differed from the federal statutory rate due to a combination of the inclusion of state tax expenses in the provision and the exclusion of the non-taxable gain associated with forgiveness of the Company’s PPP Loan from the provision. For the six months ended September 30, 2020, the effective tax rate differed from the federal statutory rate due primarily to the inclusion of state tax benefits in the provision.

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-rolled coil processing facilities; one in Hickman, Arkansas and the other in Decatur, Alabama. The Hickman 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. The Hickman facility is capable of cutting sheet and plate with thicknesses ranging from 14 gauge to ½” thick in widths ranging from 36” wide to 72” wide. The Decatur facility underwent an equipment replacement project during our fiscal year ended March 31, 2021 and now operates a stretcher leveler cut-to-length line that was placed into service in March 2021. This new equipment expands the coil segment’s processing capabilities to include material up to 96” wide and material of higher grades and allows the Decatur facility to cut material that is up to ½” thick compared to the previous equipment’s capability of 5/16” thick. In addition, sheet and plate that has been stretcher leveled is preferable to some customers and applications compared to material that has been leveled through the temper mill process. 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.

On May 25, 2021, the Company announced plans for the construction of a new facility in Sinton, Texas that will be part of the coil product segment. The new facility will be on the campus of Steel Dynamics, Inc.'s ("SDI") new flat roll steel mill currently under construction in Sinton, Texas. The Company's new location will consist of an approximately 70,000 square foot building located on approximately 26.5 acres leased from SDI under a 99-year agreement. The lease agreement calls for an annual rental payment of $1. The Company has selected Red Bud Industries to build one of the world’s largest stretcher leveler cut-to-length lines, capable of handling material up to 1” thick, widths up to 96” and yields exceeding 100,000 psi. The Company expects the location to commence operations in April 2022 and estimates the total cost of the project to be $21 million. At September 30, 2021, the Company's construction in process related to the Sinton project was $5,994,357 consisting of $2,760,289 in cash payments and $3,234,068 of accrued capital expenditures. The Company expects to fund the remainder of the Sinton capital expenditure through a combination of cash generated from operations and funds drawn under the ABL Facility. After an initial ramp up period during calendar 2022, the Company expects the facility’s annual shipments could be in the range of 110,000 tons to 140,000 tons for calendar 2023.

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 an API licensed 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 currently idled due to market conditions. 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 purchased from U.S. Steel Tubular Products, Inc.

Results of Operations

Six Months Ended September 30, 2021 Compared to Six Months Ended September 30, 2020

During the six months ended September 30, 2021 (the " 2021 period"), sales, costs of goods sold and gross profit increased $110,101,054, $64,423,988 and $45,677,066, respectively, compared to the amounts recorded during the six months ended September 30, 2020 (the " 2020 period"). The increase in sales was related to both an increase in the average per ton selling price and an increase in tons sold. Tons sold increased from approximately 81,500 tons for the 2020 period to approximately 108,500 tons for the 2021 period. Sales volume for the 2020 period was negatively impacted by both the initial effects of the COVID-19 pandemic and the removal of the processing equipment at the Decatur, AL facility for an equipment replacement project. For the 2021 period, sales volume recovered well from the initial pandemic decline and because the new Decatur equipment was operational. Discussion of the change in sales is expanded upon at the segment level in the following paragraphs. Gross profit increased from $1,347,851 for the 2020 period to $47,024,917 for the 2021 period. Gross profit as a percentage of sales increased from approximately 2.8% for the 2020 period to approximately 29.7% for the 2021 period. Gross profit for the 2021 period included $2,398,900 of recognized net gains associated with hedging activities while the 2020 period did not have any significant recognized hedging related gains or losses. Excluding the effect of hedging activities, gross profit related to physical material as a percentage of sales was approximately 26.8% for the 2021 period. Our operating results are significantly impacted by the market price of hot-rolled steel coil. The improved results for the 2021 period were driven by a historic rise in steel prices with prices for the 2021 period being approximately 245% higher than prices for the 2020 period. The impact of this rise in steel prices on each of our segments is discussed further in the following paragraphs.

Coil Segment

Coil product segment sales for the 2021 period totaled $131,018,657 compared to $33,888,870 for the 2020 period. For a more complete understanding of the average selling prices of goods sold, it is helpful to exclude any hedging related gains or losses that are captured in sales and any sales generated from processing of customer owned material. Coil segment sales for the 2021 period were reduced by $7,751,460 for the recognition of hedging related losses. Coil segment sales for the 2020 period were not impacted by any hedging related gains or losses. Sales generated from processing of customer owned material totaled $658,925 for the 2021 period compared to $390,034 for the 2020 period. Sales generated from coil segment inventory, excluding the impact of any hedging related gains or losses, totaled $138,111,192 for the 2021 period compared to $33,498,836 for the 2020 period. The average per ton selling price related to these shipments increased from approximately $556 per ton for the 2020 period to approximately $1,681 per ton for the 2021 period. Inventory tons sold increased from approximately 60,000 tons in the 2020 period to approximately 82,000 tons in the 2021 period. Sales volume for the 2020 period was significantly impacted by the onset of the COVID-19 pandemic with volume for the 2020 period being down approximately 21% compared to pre-pandemic average volumes for the fiscal year ended March 31, 2020 ("fiscal 2020"). Volume for the 2021 period was approximately 8% higher than pre-pandemic average volumes for fiscal 2020. Volume for the 2021 period benefitted from the new equipment at the Decatur facility being placed into service in March 2021. The prior equipment at the Decatur facility was removed during the 2020 period for the equipment replacement project. We have been pleased with the initial customer response to Decatur's new capabilities. Sales volume for the Decatur plant averaged approximately 2,800 tons per month for the 2021 period. Based on prior years with the prior equipment in place, the Decatur plant's average monthly sales volume was approximately 1,700 tons. The Decatur plant is currently staffed to operate a single shift with a monthly processing capability of approximately 5,500 tons based on operating a single shift. Coil segment operations recorded an operating profit of approximately $37,529,000 for the 2021 period compared to an operating profit of approximately $291,000 for the 2020 period. Operating results for the 2021 period benefitted from a significant increase in steel prices and associated improvement in our margins. Operating profit for the 2021 period includes recognized net profit on hedging activities of approximately $2,609,000 while the Company did not have any significant hedging related gains or losses affecting operating results for the 2020 period. The 2020 period was negatively impacted by low margins associated with declines in hot-rolled steel prices.

The Company's coil segment purchases its inventory from a limited number of suppliers. Loss of any of these suppliers could have a material adverse effect on the Company's business.

Tubular Segment

Tubular product segment sales for the 2021 period totaled $27,468,677 compared to $14,497,410 for the 2020 period. Sales increased due to both an increase in the volume sold and an increase in the average selling price per ton. For a more complete understanding of the average selling prices of goods sold, it is helpful to exclude any hedging related gains or losses that are captured in sales. Tubular segment sales for the 2021 period were reduced by $433,340 for the recognition of hedging related losses. Tubular segment sales for the 2020 period were not impacted by any hedging related gains or losses. Sales generated from tubular segment inventory, excluding the impact of any hedging related gains or losses, totaled $27,902,017 for the 2021 period compared to $14,497,410 for the 2020 period. The average per ton selling price related to these shipments increased from approximately $680 per ton in the 2020 period to approximately $1,060 per ton in the 2021 period. Tons sold increased from approximately 21,000 tons in the 2020 period to approximately 26,500 tons in the 2021 period. Sales volume for the 2020 period was significantly impacted by the onset of the COVID-19 pandemic with volume for the 2020 period being down approximately 26% compared to pre-pandemic average volumes for fiscal 2020. Volume for the 2021 period was approximately 4% lower than pre-pandemic average volumes for fiscal 2020. The tubular segment operations recorded operating profit of approximately $4,598,000 for the 2021 period compared to an operating loss of approximately $285,000 for the 2020 period. Operating results for the 2021 period benefitted from a significant increase in steel prices and associated improvement in our margins. Operating profit for the 2021 period includes recognized net losses on hedging activities of approximately $210,000 while the Company did not have any significant hedging related gains or losses affecting operating results for the 2020 period. The 2020 period was negatively impacted by low margins associated with declines in hot-rolled steel prices and weak energy industry conditions.

The tubular segment purchases its inventory from a limited number of suppliers. Loss of any of these suppliers could have a material adverse effect on the Company's business. In March 2020, U.S. Steel announced the idling of their Lone Star Tubular Operations which was our sole supplier of mill reject pipe. U.S. Steel's facility was idled as announced and the Company's receipts of mill reject pipe ceased in August 2020. At September 30, 2021 , we had approximately 8,900 tons of mill reject inventory which we believe to be slightly less than one year of inventory. We expect the idling to have a negative impact on our operations as we eventually sell out of mill reject pipe inventory. For the 2021 period, sales of mill reject pipe totaled approximately $6,485,000 and accounted for approximately $2,393,000 of the tubular segment's operating profit for the period with approximately $805,000 of allocated operating, administrative and selling expenses included in the calculation of operating profit related to mill reject pipe. For the fiscal year ended March 31, 2021, sales of mill reject pipe totaled approximately $5,283,645 and accounted for approximately $1,313,000 of the tubular segment's operating profit for the period with approximately $802,000 of allocated operating, administrative and selling expenses included in the calculation of operating profit related to mill reject pipe.

General, Selling and Administrative Costs

During the 2021 period, general, selling and administrative costs increased $5,846,523 compared to the 2020 period. The increase was related primarily to incentive compensation associated with increased earnings and professional fees.

Other Income

During the 2021 period, the Company reported other loss of $6,528,255. This loss consists primarily of a loss of $8,219,740 on derivative instruments not designated for hedge accounting partially offset by a $1,706,614 gain associated with the forgiveness of the Company's Paycheck Protection Program loan.

Income Taxes

Income taxes increased from a benefit for the 2020 period of $340,484 to a provision for the 2021 period of $7,271,580. This increase was related primarily to the shift from a loss before taxes for the 2020 period to having earnings before tax for the 2021 period.

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

During the three months ended September 30, 2021 (the “2021 quarter”), sales, costs of goods sold and gross profit increased $67,709,215, $39,105,330 and $28,603,885, respectively, compared to the amounts recorded during the three months ended September 30, 2020 (the “2020 quarter”). The increase in sales was related to both an increase in the average per ton selling price and an increase in tons sold. Tons sold increased from approximately 43,000 tons in the 2020 quarter to approximately 54,500 tons in the 2021 quarter. Sales volume for the 2020 quarter was negatively impacted by both the initial effects of the COVID-19 pandemic and the removal of the processing equipment at the Decatur, AL facility for an equipment replacement project. For the 2021 quarter, sales volume had recovered well from the initial pandemic decline and because the new Decatur equipment was operational. Discussion of the change in sales is expanded upon at the segment level in the following paragraphs. Gross profit increased from $1,091,097 for the 2020 quarter to $29,694,982 for the 2021 quarter. Gross profit as a percentage of sales increased from approximately 4.4% in the 2020 quarter to approximately 32.1% in the 2021 quarter. Gross profit for the 2021 quarter included $5,914,720 in recognized net gains associated with hedging activities while the 2020 quarter did not have any significant recognized hedging related gains or losses. Excluding the impact of hedging activities, gross profit related to physical material as a percentage of sales was approximately 24.9% for the 2021 quarter. Our operating results are significantly impacted by the market price of hot-rolled steel coil. The improved results for the 2021 quarter were driven by a historic rise in steel prices with prices for the 2021 quarter being approximately 280% higher than prices for the 2020 quarter. The impact of this rise in steel prices on each of our segments is discussed further in the following paragraphs.

Coil Segment

Coil product segment sales for the 2021 quarter totaled $78,323,927 compared to $18,456,086 for the 2020 quarter. For a more complete understanding of the average selling prices of goods sold, it is helpful to exclude any hedging related gains or losses that are captured in sales and any sales generated from processing of customer owned material. Coil segment sales for the 2021 quarter were reduced by $3,065,780 for the recognition of hedging related losses. Coil segment sales for the 2020 quarter were not impacted by any hedging related gains or losses. Sales generated from processing of customer owned material totaled $366,991 for the 2021 quarter compared to $205,721 for the 2020 quarter. Sales generated from coil segment inventory, excluding the impact of any hedging related gains or losses, totaled $81,022,716 for the 2021 quarter compared to $18,250,365 for the 2020 quarter. The average per ton selling price related to these shipments increased from approximately $548 per ton in the 2020 quarter to approximately $1,884 per ton in the 2021 quarter. Inventory tons sold increased from approximately 33,000 tons in the 2020 quarter to approximately 43,000 tons in the 2021 quarter. Sales volume for the 2020 quarter was impacted by the onset of the COVID-19 pandemic with volume for the 2020 quarter being down approximately 13% compared to pre-pandemic average volumes for the fiscal year ended March 31, 2020 ("fiscal 2020"). Volume for the 2021 quarter was approximately 13% higher than pre-pandemic average volumes for fiscal 2020.Volume for the 2021 quarter benefitted from the new equipment at the Decatur facility being placed into service in March 2021. Coil segment operations recorded an operating profit of approximately $24,273,000 for the 2021 quarter compared to an operating profit of approximately $751,000 for the 2020 quarter. Operating results for the 2021 quarter benefitted from a significant increase in steel prices and associated improvement in our margins. Operating profit for the 2021 quarter includes recognized net gains on hedging activities of approximately $5,712,000 while the Company did not have any significant hedging related gains or losses affecting operating results for the 2020 quarter. The 2020 quarter was negatively impacted by low margins associated with declines in hot-rolled steel prices.

The Company’s coil segment purchases its inventory from a limited number of suppliers. Loss of any of these suppliers could have a material adverse effect on the Company’s business.

Tubular Segment

Tubular product segment sales for the 2021 quarter totaled $14,246,968 compared to $6,405,594 for the 2020 quarter. Sales increased due to both an increase in the volume sold and an increase in the average selling price per ton. For a more complete understanding of the average selling prices of goods sold, it is helpful to exclude any hedging related gains or losses that are captured in sales. Tubular segment sales for the 2021 quarter were reduced by $21,000 for the recognition of hedging related losses. Tubular segment sales for the 2020 quarter were not impacted by any hedging related gains or losses. Sales generated from tubular segment inventory, excluding the impact of any hedging related gains or losses, totaled $14,267,968 for the 2021 quarter compared to $6,405,594 for the 2020 quarter. The average per ton selling price related to these shipments increased from approximately $634 per ton in the 2020 quarter to approximately $1,223 per ton in the 2021 quarter. Tons sold increased from approximately 10,000 tons in the 2020 quarter to approximately 11,500 tons in the 2021 quarter. Sales volume for the 2020 quarter was significantly impacted by the onset of the COVID-19 pandemic with volume for the 2020 quarter being down approximately 29% compared to pre-pandemic average volumes for fiscal 2020. Volume for the 2021 quarter was approximately 15% lower than pre-pandemic average volumes for fiscal 2020. The tubular segment recorded operating profit of approximately $1,997,000 for the 2021 quarter compared to an operating loss of approximately $344,000 for the 2020 quarter. Operating results for the 2021 quarter benefitted from a significant increase in steel prices and associated improvement in our margins. Operating profit for the 2021 quarter includes recognized net gains on hedging activities of approximately $203,000 while the Company did not have any significant hedging related gains or losses affecting operating results for the 2020 quarter. The 2020 quarter was negatively impacted by low margins associated with declines in hot-rolled steel prices and weak energy industry conditions.

The tubular segment purchases its inventory from a limited number of suppliers. Loss of any of these suppliers could have a material adverse effect on the Company’s business. As disclosed previously, the Company is no longer supplied with mill reject pipe from U.S. Steel's Lone Star Tubular Operations due to the idling of that facility. At September 30, 2021, we had approximately 8,900 tons of mill reject inventory which we believe to be slightly less than one year of inventory. We expect the idling to have a negative impact on our operations as we eventually sell out of mill reject pipe inventory.

General, Selling and Administrative Costs

During the 2021 quarter, general, selling and administrative costs increased $3,888,167 compared to the 2020 quarter. The increase was related primarily to incentive compensation associated with increased earnings and professional fees.

Other Income

During the 2021 quarter, the Company reported other loss of $6,840,317. This loss consists primarily of a $6,830,780 loss on derivative instruments not designated for hedge accounting.

Income Taxes

Income taxes increased from a benefit for the 2020 quarter of $62,716 to a provision for the 2021 quarter of $4,314,700. This increase was related primarily to the shift from a loss before taxes for the 2020 quarter to having earnings before tax for the 2021 quarter.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company’s current ratio was 2.8 at September 30, 2021 and 2.7 at March 31, 2021. Working capital was $72,227,764 at September 30, 2021 and $48,462,364 at March 31, 2021.

During the six months ended September 30, 2021, 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. Accounts receivable, inventories and accounts payable increased significantly due primarily to the significant increase in steel prices. Inventories and accounts payable were also impacted by the timing of inventory receipts. Derivative liabilities are primarily associated with short positions on hot-rolled coil futures. Cash decreased primarily from the Company's operating activities and from the purchase of property, plant and equipment partially offset by cash provided from the Company's credit facility. The Company expects to continue to monitor, evaluate and manage balance sheet components depending on changes in market conditions and the Company’s operations.

In June 2021, the Small Business Administration authorized full forgiveness of the Company's Paycheck Protection Program loan.

On March 8, 2021, the Company entered into a Credit Agreement providing for a $10 million revolving line of credit facility (the "Interim Credit Facility) with JPMorgan Chase Bank, N.A. (the "Bank"). The term of the Interim Credit Facility had an expiration date of July 15, 2021 because the Company was evaluating options for longer term credit arrangements. On April 12, 2021, the Company executed a first amendment to the Interim Credit Facility that increased the size of the facility from $10 million to $20 million. On May 19, 2021, the Company entered into an Amended and Restated Credit Agreement with the Bank that amends and restates the Interim Credit Facility and provides for asset-based revolving loans in an aggregate principal amount up to $40 million (the "ABL Facility"). The ABL Facility matures on May 19, 2026 and replaced the Interim Credit Facility. The ABL Facility is secured by substantially all of the assets of the Company and interest shall accrue on outstanding borrowings at a rate equal to LIBOR plus 1.7% per annum. More details regarding the ABL Facility may be found in Note D. As of the filing date of this Form 10-Q, the Company had borrowings of $11,758,879 outstanding under the ABL Facility and the Company had full access to the ABL Facility.

The Company believes that its current cash position along with cash flows from operations and borrowing capability due to its financial position are adequate to fund its expected cash requirements for the next 12 months.

DERIVATIVE CONTRACTS

From time to time, the Company may use futures contracts to partially manage exposure to commodity price risk. The Company elects hedge accounting for some of its derivatives and classifies the transactions as either cash flow hedges or fair value hedges. All of the derivatives designated for hedge accounting during the three month and six month periods ended September 30, 2021 were classified as cash flow hedges. From time to time, the Company may also transact futures contracts where hedge accounting is not elected. The Company recognized gains related to derivatives designated for hedge accounting of $5,914,720 and $2,398,900 for the three month and six month periods ended September 30, 2021, respectively. The Company recognized losses related to derivatives not designated for hedge accounting of $6,830,780 and $8,219,740 for the three month and six month periods ended September 30, 2021, respectively. See Note H for further information.

OUTLOOK

The Company expects margins to decline slightly during its fiscal third quarter ending December 31, 2021 but to remain at a level well above historical average margins. A modest decline in sales volume is expected due to a combination of typical demand seasonality around the holidays and customer hesitancy with steel prices showing decline in the third quarter. The Company also expects to reclassify a loss of approximately $14,717,000 into earnings during the third quarter related to derivatives designated for hedge accounting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The more significant estimates and judgements include forecasted purchases of hot-rolled coil and forecasted sales of prime coil inventory and manufactured pipe inventory in relation to hedging activities and the fair value of the pipe-finishing facility, when impaired. From time to time, the Company hedges these forecasted purchases and sales and may designate those transactions for hedge accounting. If the actual volume of these purchases and sales differs from the forecasted volumes, it may impact the application of hedge accounting related to those transactions and may disallow the use of hedge accounting on a go forward basis. Determination of forecasted purchases of hot-rolled coil and forecasted sales of prime coil inventory and manufactured pipe inventory require the Company to make assumptions related to customer demand and the volume and timing of inventory purchases. The pipe-finishing facility impairment analysis requires assumptions related to future operations of the facility and estimates related to the replacement cost and value in exchange for the assets. Actual results could differ from these estimates.

CAUTIONARY NOTE REGARDING 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. Such statements may include those risks disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report and our expectations for the construction and performance of our new Sinton, TX facility. 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"), including the Company's Annual Report on Form 10-K and its other Quarterly Reports on Form 10-Q. Forward-looking statements include those preceded by, followed by or including the words "will," "expect," "intended," "anticipated," "believe," "project," "forecast," "propose," "plan," "estimate," "enable," and similar expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in the oil and natural gas industry. These forward-looking statements are not guarantees of future performance. These statements are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. Although forward-looking statements reflect our current beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. 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 government policy regarding steel, changes in the demand for steel and steel products in general and the Company's success in executing its internal operating plans, changes in and availability of raw materials, unplanned shutdowns of our production facilities due to equipment failures or other issues, increased competition from alternative materials and risks concerning innovation, new technologies, products and increasing customer requirements. Accordingly, undue reliance should not be placed on our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except to the extent law requires.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required

Item 4. Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, as amended). We have established disclosure controls and procedures designed to ensure that material information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and that any material information relating to us is recorded, processed, summarized and reported to our management including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, our management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. In reaching a reasonable level of assurance, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal control over financial reporting was not effective as of the end of the period covered by this Quarterly Report on Form 10-Q because the Company has not yet completed its remediation of the material weakness previously identified and disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2021.

Notwithstanding the identified material weakness, the Company's management, including our Chief Executive Officer and Chief Financial Officer, believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present in all material respects our financial condition and results of operations for the three month and six month periods ended September 30, 2021 and 2020 in accordance with U.S. Generally Accepted Accounting Principles.

Material Weakness in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

During the audit process related to our fiscal year ended March 31, 2021, management, in connection with our independent auditors, identified a material weakness in our controls related to the review of the annual income tax provision prepared by a third-party firm. Specifically, we did not maintain effective controls to sufficiently review the completeness and accuracy of the annual tax provision.

Plan for Remediation of Material Weakness

Our Company is relatively small with106 employees as of the filing date of this Quarter Report on Form 10-Q. Our accounting and finance team consisted of two degreed accountants as of March 31, 2021. Leading up to, and during the financial statement audit period, considerable time was expended by our accounting and finance team to finalize the ABL facility and to select our general contractor and equipment manufacturer related to our planned new facility in Sinton, Texas and to finalize contracts with such parties. This resulted in the Company falling behind in the timeline necessary to complete the audit process and regulatory filings in a timely manner. In an effort to meet regulatory deadlines, the Company did not perform a sufficient review of third-party materials. The Company concludes that the best remediation of the material weakness is an investment in human capital that will allow it to meet its regulatory requirements and growth objectives. On May 24, 2021, the Company hired an additional degreed accountant. The timing of this hire in relation to the audit process made it difficult for the hire to have a beneficial impact on the process related to our fiscal year end March 31, 2021. However, the Company believes the investment in human capital will provide sufficient remediation in future periods and the Company will continue to evaluate the appropriate level of staffing to ensure the controls over financial reporting are adhered to and the Company can meet its regulatory requirements in a timely manner.

We will continue to monitor the design and effectiveness of these procedures and controls and make any further changes the Company determines appropriate. We believe the additional investment in human capital described above will remediate the material weakness the Company has identified. However, this material weakness will not be considered remediated until the applicable remedial actions operate effectively for a sufficient period of time.

Changes in Internal Controls over Financial Reporting

Except as discussed above, there were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

FRIEDMAN INDUSTRIES, INCORPORATED
Three Months Ended September 30, 2021

Part II — OTHER INFORMATION

Item 6. Exhibits

Exhibits

3.1	—	Articles of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 to the Company's Form S-8 filed on December 21, 2016).
3.2	—	Articles of Amendment to the Articles of Incorporation of the Company, as filed with the Texas Secretary of State on September 22, 1987 (incorporated by reference from Exhibit 3.1 to the Company's Form S-8 filed on December 21, 2016).
3.3	—	Amended and Restated Bylaws of the Company, as amended on November 8, 2021.
31.1	—	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Michael J. Taylor.
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 Michael J. Taylor.
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	—	Inline XBRL Instance Document.
101.SCH	—	Inline XBRL Taxonomy Schema Document.
101.CAL	—	Inline XBRL Calculation Linkbase Document.
101.DEF	—	Inline XBRL Definition Linkbase Document.
101.LAB	—	Inline XBRL Label Linkbase Document.
101.PRE	—	Inline XBRL Presentation Linkbase Document.
104	—	Cover Page Interactive File (formatted as Inline XBRL and contained in Exhibit 101)

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 19, 2021

By /s/ ALEX LARUE

Alex LaRue, Chief Financial Officer – Secretary and Treasurer (Principal Financial Officer)

FRIEDMAN INDUSTRIES, INCORPORATED

ADOPTED ON FEBRUARY 8, 2006

AS AMENDED ON NOVEMBER 8, 2021

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AMENDED AND RESTATED BYLAWS

ARTICLE I

OFFICES

Section 1.01 ***Principal Place of Business***. The principal place of business of the corporation and the office of its transfer agent or registrar may be located outside the State of Texas.

Section 1.02 ***Other Offices***. The corporation may also have offices at such other places both within and without the State of Texas as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 2.01 ***Time and Place of Meetings***. Meetings of shareholders for any purpose may be held at such time and place within or without the State of Texas as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2.02 ***Annual Meeting***. The annual meeting of shareholders shall be held annually at such date and time as shall be designated from time to time by the board of directors and stated in the notice of meeting.

Section 2.03 ***Special Meetings***. Special meetings of the shareholders for any purpose or purposes may be called by the president and shall be called by the president or secretary at the request in writing of a majority of the board of directors, or at the request in writing of shareholders owning at least ten percent of all the shares entitled to vote at the meetings. A request for a special meeting shall state the purpose or purposes of the proposed meeting, and business transacted at any special meeting of shareholders shall be limited to the purposes stated in the notice.

Section 2.04 ***Notice of Meeting***. Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the president, the secretary, or the officer or persons calling the meeting, to each shareholder entitled to vote at such meeting.

Section 2.05 ***Quorum***. The holders of a majority of the shares issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business except as otherwise provided by statute or by the articles of incorporation. If, however, a quorum shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. After an adjournment, at any reconvened meeting any business may be transacted that might have been transacted if the meeting had been held in accordance with the original notice thereof, provided a quorum shall be present or represented thereat.

Section 2.06 ***Vote Required***. With respect to any matter, other than the election of directors, the affirmative vote of the holders of a majority of the shares entitled to vote on that matter and represented in person or by proxy at a meeting of shareholders at which a quorum is present, shall decide such matter, unless the matter is one upon which a different vote is required by law or by the articles of incorporation. Unless otherwise required by law or by the articles of incorporation, directors shall be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a meeting of shareholders at which a quorum is present.

Section 2.07 ***Voting; Proxies***. Each outstanding share having voting power shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders. Any shareholder may vote either in person or by proxy executed in writing by the shareholder. A telegram, telex, cablegram or similar transmission by the shareholder, or a photographic, photostatic, facsimile or similar reproduction of a writing executed by the shareholder shall be treated as an execution in writing for purposes of this Section 2.07.

Section 2.08 ***Action Without Meeting***. Any action required to, or which may, be taken at any annual or special meeting of shareholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken shall be signed by the holder or holders of all the shares entitled to vote with respect to the action that is the subject of the consent. A telegram, telex, cablegram or similar transmission by a shareholder, or a photographic, photostatic, facsimile or similar reproduction of a writing signed by a shareholder, shall be regarded as signed by a shareholder for purposes of this Section 2.08.

Section 2.09 ***Notice of Shareholder Business and Nominations***

(a) *Annual Meetings of Shareholders.*

(i) Nominations of persons for election to the board of directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders only (A) pursuant to the corporation’s notice of meeting (or any supplement thereto), (B) by or at the direction of the board of directors, or (C) by any shareholder of the corporation who (1) was a shareholder of record of the corporation at the time the notice provided for in this Section 2.09 is delivered to the secretary of the corporation and at the time of the annual meeting, (2) shall be entitled to vote at such meeting, and (3) complies with the notice procedures set forth in this Section 2.09 as to such nomination or business. Clause (C) above shall be the exclusive means for a shareholder to make nominations or submit business (other than matters properly brought under Rule 14a-8 (or any successor thereto) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and indicated in the corporation’s notice of meeting) before an annual meeting of shareholders.

(ii) Without qualification, for nominations or any other business to be properly brought before an annual meeting by a shareholder pursuant to Section 2.09(a)(i)(C), the shareholder, in addition to any other applicable requirements, must have given timely notice thereof in writing to the secretary of the corporation and any such proposed business must constitute a proper matter for shareholder action. To be timely, a shareholder's notice must be delivered to the secretary of the corporation at the principal executive offices of the corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than sixty (60) days after such anniversary date, notice by the shareholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the corporation). In no event shall the public announcement of an adjournment or postponement of the annual meeting of shareholders commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. To be in proper form, a shareholder's notice to the secretary (whether pursuant to this Section 2.09(a) or Section 2.09(b)) shall set forth:

(A) as to each person, if any, whom the shareholder proposes to nominate for election as a director (1) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, (2) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, (3) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the shareholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant " for purposes of such rule and the nominee were a director or executive officer of such registrant; and (4) with respect to each nominee for election or reelection to the board of directors, include a completed and signed questionnaire, representation and agreement required by Section 2.09(d);

(B) if the notice relates to any business (other than the nomination of persons for election as directors) that the shareholder proposes to bring before the meeting, (1) a brief description of the business desired to be brought before the annual meeting, (2) the reasons for conducting such business at the annual meeting, (3) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend these bylaws of the corporation, the language of the proposed amendment), (4) any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made, and (5) a description of all agreements, arrangements and understandings between such shareholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such shareholder;

(C) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (1) the name and address of such shareholder, as they appear on the corporation's books, and of such beneficial owner, if any, (2)(a) the class or series and number of shares of capital stock of the corporation that are, directly or indirectly, owned beneficially and of record by such shareholder and by such beneficial owner, (b) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of capital stock of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such shareholder and by such beneficial owner, if any, and any other direct or indirect opportunity held or owned beneficially by such shareholder and by such beneficial owner, if any, to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (c) any proxy, contract, arrangement, understanding, or relationship pursuant to which such shareholder or beneficial owner, if any, has a right to vote any shares of any security of the corporation, (d) any short interest in any security of the corporation (for purposes of this Section 2.09, a person shall be deemed to have a short interest in a security if such person directly or indirectly, through a contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (e) any right to dividends on the shares of capital stock of the corporation owned beneficially by such shareholder or such beneficial owner, if any, which right is separated or separable from the underlying shares, (f) any proportionate interest in shares of capital stock of the corporation or Derivative Instrument held, directly or indirectly, by a general or limited partnership in which such shareholder or such beneficial owner, if any, is a general partner or with respect to which such shareholder or such beneficial owner, if any, directly or indirectly, beneficially owns an interest in a general partner, and (g) any performance-related fees (other than an asset-based fee) to which such shareholder or such beneficial owner, if any, is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, in each case with respect to the information required to be included in the notice pursuant to clauses (a) through (g) above, as of the date of such notice and including, without limitation, any such interests held by members of such shareholder's or such beneficial owner's immediate family sharing the same household (which information shall be supplemented by such shareholder and such beneficial owner, if any, (i) not later than 10 days after the record date for the annual meeting to disclose such ownership as of the record date, (ii) 10 days before the annual meeting date, and (iii) immediately prior to the commencement of the annual meeting, by delivery to the Secretary of the corporation of such supplemented information), (3) any other information relating to such shareholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, (4) a representation that the shareholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (5) a representation whether the shareholder or the beneficial owner, if any, intends or is part of a group that intends (i) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee or (ii) otherwise to solicit proxies from shareholders in support of such proposal or nomination; and

(D) such other information as the corporation may reasonably require or that is otherwise reasonably necessary (1) to determine the eligibility of such proposed nominee to serve as a director of the corporation, (2) to determine whether such nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any publicly-disclosed corporate governance guideline or committee charter of the corporation; and (3) that could be material to a reasonable shareholder's understanding of the independence and qualifications, or lack thereof, of such nominee.

(iii) Notwithstanding anything in the second sentence of Section 2.09(a)(ii) to the contrary, in the event that the number of directors to be elected to the board of directors of the corporation at an annual meeting is increased and there is no public announcement by the corporation naming all of the nominees for director or specifying the size of the increased board of directors at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this Section 2.09 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary of the corporation at the principal executive offices of the corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the corporation.

(b) *Special Meetings of Shareholders.* Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the corporation's notice of meeting (i) by or at the direction of the board of directors or (ii) provided that the board of directors has determined that the directors shall be elected at such meeting, by any shareholder of the corporation who is a shareholder of record at the time the notice provided for in this Section 2.09 is delivered to the secretary of the corporation and at the time of the special meeting, who is entitled to vote at the meeting and upon such election, and who complies with the notice procedures set forth in this Section 2.09. In the event the corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the board of directors, any such shareholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the corporation's notice of meeting, if the shareholder's notice in the same form as required by paragraph (a)(ii) of this Section 2.09 with respect to any nomination (including the completed and signed questionnaire, representation and agreement required by Section 2.09(d)) shall be delivered to the secretary at the principal executive offices of the corporation not earlier than the close of business on the one hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above.

(c) *General.*

(i) Subject to Section 3.03, only such persons who are nominated in accordance with the procedures set forth in this Section 2.09 shall be eligible to be elected at an annual or special meeting of shareholders of the corporation to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.09. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (A) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 2.09 and (B) if any proposed nomination or business was not made or proposed in compliance with this Section 2.09, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 2.09, unless otherwise required by law, if the shareholder (or a qualified representative of the shareholder) does not appear at the annual or special meeting of shareholders of the corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation. For purposes of this Section 2.09, to be considered a qualified representative of the shareholder, a person must be authorized by a writing executed by such shareholder or an electronic transmission delivered by such shareholder to act for such shareholder as proxy at the meeting of shareholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of the shareholders.

(ii) For purpose of this Section 2.09, “public announcement” shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act and the rules and regulations promulgated thereunder.

(iii) Nothing in this Section 2.09, shall be deemed to affect any rights (A) of shareholders to request inclusion of proposals or nominations in the corporation’s proxy statement pursuant to Rule 14a-8 (or any successor thereto) promulgated under the Exchange Act or (B) of the holders of any series of Preferred Stock to nominate and elect directors pursuant to and to the extent provided in any applicable provisions of the articles of incorporation.

(d) *Submission of Questionnaire, Representation and Agreement*. To be eligible to be a nominee for election or reelection as a director of the corporation, a person must deliver (in accordance with the time periods prescribed for delivery of notice under Section 2.09 of these bylaws) to the secretary at the principal executive offices of the corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the secretary upon written request) and a written representation and agreement (in the form provided by the secretary upon written request) that such person (a) is not and will not become a party to (i) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the corporation or (ii) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the corporation, with such person's fiduciary duties under applicable law, (b) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, and (c) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock trading policies and guidelines of the corporation.

ARTICLE III

DIRECTORS

Section 3.01 ***Powers***. The powers of the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

Section 3.02 ***Number, Election and Term***. The number of directors that shall constitute the whole board of directors shall be not less than one. Such number of directors shall from time to time be fixed and determined by the directors and shall be set forth in the notice of any meeting of shareholders held for the purpose of electing directors. The directors shall be elected at the annual meeting of shareholders, except as provided in Section 3.03 of these bylaws, and each director elected shall hold office until his successor shall be elected and qualify. Directors need not be residents of Texas or shareholders of the corporation.

Section 3.03 ***Vacancies***. Any vacancy occurring in the board of directors may be filled by election at an annual meeting or special meeting of shareholders called for that purpose or by a majority of the remaining directors though less than a quorum of the board of directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Section 3.04 ***Change in Number***. The number of directors may be increased or decreased from time to time as provided in these bylaws but no decrease shall have the effect of shortening the term of any incumbent director. Any directorship to be filled by reason of an increase in the number of directors may be filled by election at an annual or special meeting of shareholders or may be filled by the board of directors for a term of office continuing only until the next election of one or more directors by the shareholders; provided that the board of directors may not fill more than two such directorships during the period between any two successive annual meetings of shareholders.

Section 3.05 ***Removal***. Any director may be removed either for or without cause at any special meeting of shareholders duly called and held for such purpose.

Section 3.06 ***Place of Meetings***. Meetings of the board of directors, regular or special, may be held either within or without the State of Texas.

Section 3.07 ***Regular Meetings***. The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the shareholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event that the shareholders fail to fix the time and place of such first meeting, it shall be held without notice immediately following the annual meeting of shareholders, and at the same place, unless by the unanimous consent of the directors then elected and serving such time or place shall be changed.

Section 3.08 ***Notice of Regular Meetings***. Regular meetings of the board of directors may be held upon such notice, or without notice, and at such time and at such place as shall from time to time be determined by the board.

Section 3.09 ***Special Meetings***. Special meetings of the board of directors may be called by the chairman of the board of directors or the president and shall be called by the secretary on the written request of two directors. Notice of each special meeting of the board of directors shall be given to each director at least two days before the date of the meeting.

Section 3.10 ***Waiver and Requirements of Notice***. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Except as may be otherwise provided by law or by the articles of incorporation or by these bylaws, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 3.11 ***Quorum; Vote Required***. At all meetings of the board of directors a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, unless otherwise specifically provided by law, the articles of incorporation or these bylaws. If a quorum shall not be present at any meeting of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.12 ***Committees***. The board of directors, by resolution passed by a majority of the full board, may from time to time designate a member or members of the board to constitute committees that shall in each case consist of one or more directors and may designate one or more of its members as alternate members of any committee, who may, subject to any limitations imposed by the board of directors, replace absent or disqualified members at any meeting of that committee. Any such committee shall have and may exercise such powers, as the board may determine and specify in the respective resolutions appointing them. A majority of all the members of any such committee may determine its action and fix the time and place of its meetings, unless the board of directors shall otherwise provide. The board of directors shall have power at any time to change the number, subject as aforesaid, and members of any such committee, to fill vacancies and to discharge any such committee.

Section 3.13 ***Action Without Meeting***. Any action required or permitted to be taken at a meeting of the board of directors or any committee may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all the members of the board of directors or committee, as the case may be.

Section 3.14 ***Compensation***. By resolution of the board of directors, the directors may be paid their expenses, if any, of attendance at each meeting of the board of directors, or a meeting of a committee thereof, and may be paid a fixed sum for attendance at each meeting of the board of directors, or a meeting of a committee thereof, or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

NOTICES

Section 4.01 ***Form of Notice; Delivery***. Any notice to directors or shareholders shall be in writing and shall be delivered personally or mailed to the directors or shareholders at their respective addresses appearing on the books of the corporation. Notice by mail shall be deemed to be given at the time when the same shall be deposited in the United States mail, postage prepaid. Notice to directors may also be given by telegram, telex, cablegram, facsimile or other similar transmission.

Section 4.02 ***Waiver***. Whenever any notice is required to be given under the provisions of the statutes or of the articles of incorporation or of these bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE V

OFFICERS

Section 5.01 ***Officers***. The officers of the corporation shall be elected be the board of directors and shall consist of a president and a secretary, neither of whom need be a member of the board of directors. Two or more offices may be held by the same person.

Section 5.02 ***Additional Officers***. The board of directors may also elect a chairman of the board, a vice chairman of the board, an assistant president, a treasurer, and one or more vice presidents, assistant secretaries and assistant treasurers. The board of directors may appoint such other officers and assistant officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall have such authority and exercise such powers and perform such duties as shall be determined from time to time by the board by resolution not inconsistent with these bylaws.

Section 5.03 ***Compensation***. The salaries of all officers and agents of the corporation shall be fixed by the board of directors or at its direction. The board of directors shall have the power to enter into contracts for the employment and compensation of officers for such terms as the board deems advisable.

Section 5.04 ***Term; Removal; Vacancies***. The officers of the corporation shall hold office until their successors are elected or appointed and qualify, or until their death or until their resignation or removal from office. Any officer elected or appointed by the board of directors may be removed at any time by the board, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Any vacancy occurring in any office of the corporation by death, resignation, removal or otherwise shall be filled by the board of directors.

Section 5.05 ***Chairman of the Board***. The chairman of the board, if one is elected, may preside, or may direct that the president to preside, at all meetings of the shareholders and at all meetings of the directors. In the absence of the chairman of the board, or if no chairman of the board is elected, the president shall so preside. If the board of directors shall elect a person to be the chairman of the board and shall designate such person the chief executive officer of the corporation, the chairman of the board shall supervise and direct the operations of the business of the corporation in accordance with the policies determined by the board of directors.

Section 5.06 ***Vice Chairman of the Board***. The vice chairman of the board, if one is elected, shall, in the absence or disability of the chairman of the board, perform the duties and have the authority and exercise the powers of the chairman of the board. He shall perform such other duties and have such other authority and powers as the board of directors may from time to time prescribe or as the chairman of the board may from time to time delegate.

Section 5.07 ***President***. Unless the board of directors shall have elected a chairman of the board of directors and designated such person the chief executive officer of the corporation, the president shall be the chief executive officer of the corporation, supervising and directing the operations of the business of the corporation in accordance with the policies determined by the board of directors. If the board of directors shall have elected a person as chairman of the board and designated such person as a chief executive officer of the corporation, the president shall be responsible for the general supervision and control of the business and the affairs of the corporation subject to the directions of the chairman of the board and the board of directors. If the board of directors shall have elected a person chairman of the board and shall designate such person the chief executive officer of the corporation, the president, in the absence or incapacity of such chairman of the board, shall perform the duties of that office.

Section 5.08 ***Vice Presidents***. The vice presidents in the order of their seniority, unless otherwise determined by the board of directors, shall, in the absence or disability of the president, perform the duties and have the authority and exercise the powers of the president. They shall perform such other duties and have such other authority and powers as the board of directors may from time to time prescribe or as the president may from time to time delegate.

Section 5.09 ***Secretary***. The secretary shall attend all meetings of the board of directors and all meetings of shareholders and record all of the proceedings of the meetings of the board of directors and of the shareholders in a minute book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the shareholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or president, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation and, when authorized by the board of directors, shall affix the same to any instrument requiring it and, when so affixed, it shall be attested by his signature or by the signature of an assistant secretary or of the treasurer. The secretary shall perform such other duties and have such other powers as the board of directors may from time to time prescribe or as the president may from time to time delegate.

Section 5.10 ***Assistant Secretaries***. The assistant secretaries in the order of their seniority, unless otherwise determined by the board of directors, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary. They shall perform such other duties and have such other powers as the board of directors may from time to time prescribe or as the president may from time to time delegate.

Section 5.11 ***Treasurer***. The treasurer, if one is elected, shall have custody of the corporate funds and securities and shall keep full and accurate accounts and records of receipts, disbursements and other transactions in books belonging to the corporation, and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated from time to time by the board of directors. The treasurer shall disburse the funds of the corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render the president and the board of directors, when so directed, an account of all his transactions as treasurer and of the financial condition of the corporation. The treasurer shall perform such other duties and have such other powers as the board of directors may from time to time prescribe or as the president may from time to time delegate. If required by the board of directors, the treasurer shall give the corporation a bond of such type, character and amount as the board of directors may require.

Section 5.12 ***Assistant Treasurers***. The assistant treasurers in the order of their seniority, unless otherwise determined by the board of directors, shall, in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer. They shall perform such other duties and have such other powers as the board of directors may from time to time prescribe or the president may from time to time delegate.

ARTICLE VI

CERTIFICATES REPRESENTING SHARES

Section 6.01 ***Certificates***. The shares of the corporation shall be represented by certificates signed by the president or a vice president and the secretary or an assistant secretary of the corporation, and may be sealed with the seal of the corporation or a facsimile thereof.

Section 6.02 ***Facsimile Signatures***. The signatures of the president or a vice president and the secretary or an assistant secretary upon a certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer at the date of its issue.

Section 6.03 ***Lost Certificates***. The board of directors may direct a new certificate to be issued in place of any certificate theretofore issued by the corporation alleged to have been lost or destroyed. When authorizing such issue of a new certificate, the board of directors, in its discretion and as a condition precedent to the issuance thereof, may prescribe such terms and conditions as it deems expedient and may require such indemnities as it deems adequate to protect the corporation from any claim that may be made against it with respect to any such certificate alleged to have been lost or destroyed.

Section 6.04 ***Transfers***. Upon surrender to the corporation or the transfer agent of the corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto and the old certificate canceled and the transaction recorded upon the transfer records of the corporation.

Section 6.05 ***Closing of Transfer Records***. For the purpose of determining shareholders (i) entitled to notice of or to vote at any meeting of shareholders, or, after an adjournment thereof, at any reconvened meeting, (ii) entitled to receive a distribution (other than a distribution involving a purchase or redemption by the corporation of any of its own shares) or a share dividend or (iii) for any other proper purpose (other than determining shareholders entitled to consent to action by shareholders proposed to be taken without a meeting of shareholders), the board of directors may provide that the share transfer records shall be closed for a stated period but not to exceed, in any case, sixty days. If the share transfer records shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such records shall be closed for at least ten days immediately preceding such meeting. In lieu of closing the share transfer records, the board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than sixty days and, in the case of a meeting of shareholders, not less than ten days, prior to the date on which the particular action requiring such determination of shareholders, is to be taken. If the share transfer records are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive a distribution (other than a distribution involving a purchase or redemption by the corporation of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the board of directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section 6.05, such determination shall be applied after an adjournment thereof to any reconvened meeting except where the determination has been made through the closing of the share transfer records and the stated period of closing has expired.

Section 6.06 ***Fixing Record Dates for Consents to Action***. Unless a record date shall have previously been fixed or determined, whenever action by shareholders is proposed to be taken by consent in writing without a meeting of shareholders, the board of directors may fix a record date for the purpose of determining shareholders entitled to consent to that action which record date shall not precede, and shall not be more than ten days after, the date upon which the resolution fixing the record date is adopted by the board of directors. If no record date has been fixed by the board of directors and prior action of the board of directors is not required by law, the record date for determining shareholders entitled to consent to action in writing without a meeting shall be the first date on which a signed written consent setting forth the action taken proposed to be taken is delivered to the corporation in the manner required by Section 2.08 of these bylaws. If no record date shall have been fixed by the board of directors and prior action of the board of directors is required by law, the record date for determining shareholders entitled to consent to action in writing without a meeting shall be at the close of business on the date on which the board of directors adopts a resolution taking such prior action.

Section 6.07 ***Registered Shareholders***. Except as otherwise required by law, the corporation shall be entitled to regard the person in whose name any shares are registered in the share transfer records at any particular time as the owner of those shares at that time for purposes of voting those shares, receiving distributions, share dividends or notices in respect thereof, transferring those shares, exercising rights of dissent with respect to those shares, exercising or waiving any preemptive right with respect to those shares, entering into agreements with respect to those shares or giving proxies with respect to those shares. Except as otherwise required by law, neither the corporation nor any of its officers, directors, employees or agents shall be liable for regarding that person as the owner of those shares at that time for those purposes, regardless of whether that person does not possess a certificate for those shares.

Section 6.08 ***List of Shareholders***. The officer or agent having charge of the transfer books for shares shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of each and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office or principal place of business of the corporation and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof, shall be prima facie evidence as to who are the shareholders entitled to examine such list or share ledger or transfer book or to vote at any meeting of the shareholders.

ARTICLE VII

GENERAL PROVISIONS

Section 7.01 ***Distributions and Share Dividends***. Subject to the provisions of the articles of incorporation relating thereto, if any, distributions and share dividends may be declared by the board of directors, in its discretion, at any regular or special meeting, pursuant to law. Subject to any provisions of the articles of incorporation, distributions may be made by the transfer of money or other property (except the corporation’s own shares or rights to acquire such shares) or by the issuance of indebtedness of the corporation, and share dividends may be paid in the corporation’s own authorized but unissued shares or in treasury shares.

Section 7.02 ***Reserve Funds***. Before payment of any distribution or share dividend, there may be set aside out of any funds of the corporation available for distributions or share dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve fund for meeting contingencies, or for equalizing distributions or share dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 7.03 ***Checks***. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

Section 7.04 ***Fiscal Year***. The fiscal year of the corporation shall be fixed by resolution of the board of directors; provided, that if such fiscal year is not fixed by the board of directors it shall be the calendar year.

Section 7.05 ***Seal***. The corporate seal shall be in such form as may be prescribed by the board of directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

Section 7.06 ***Books and Records***. The corporation shall keep books and records of account and shall keep minutes of the proceedings of its shareholders, its board of directors and each committee of its board of directors. The corporation shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of the original issuance of shares issued by the corporation and a record of each transfer of those shares that have been presented to the corporation for registration of transfer. Such records shall contain the names and addresses of all past and current shareholders of the corporation and the number and class or series of shares issued by the corporation held by each of them.

Section 7.07 ***Invalid Provisions***. If any provision of these bylaws is held to be illegal, invalid, or unenforceable under present or future laws, such provision shall be fully severable; these bylaws shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid, or unenforceable provision there shall be added automatically as a part of these bylaws a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable.

Section 7.08 ***Headings***. The headings used in these bylaws are for reference purposes only and do not affect in any way the meaning of these bylaws.

ARTICLE VIII

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article 2.02-1 of the Texas Business Corporation Act (the “Article”) permits the corporation to indemnify its present and former directors and officers to the extent and under the circumstances set forth therein. In addition, in some instances, indemnification is required by the Article. The corporation hereby elects to and does hereby indemnify all such persons to the fullest extent permitted or required by the Article promptly upon request of any such person making a request for indemnity hereunder. Such obligation to so indemnify and to so make such determinations may be specifically enforced by resort to any court of competent jurisdiction. Further, the corporation shall pay or reimburse the reasonable expenses of such persons covered hereby in advance of the final disposition of any proceeding to the fullest extent permitted by the Article and subject to the conditions thereof.

ARTICLE IX

AMENDMENTS

These bylaws may be altered, amended, or repealed or new bylaws may be adopted by the affirmative vote of a majority of the whole board of directors at any regular or special meeting; provided, that these bylaws may not be altered, amended, or repealed so as to be inconsistent with law or any provision of the articles of incorporation.

EXHIBIT 31.1

I, Michael J. Taylor, certify that:

1. I have reviewed this report on Form 10-Q of Friedman Industries, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 19, 2021

/s/ MICHAEL J. TAYLOR

President and Chief Executive Officer

EXHIBIT 31.2

I, Alex LaRue, certify that:

1. I have reviewed this report on Form 10-Q of Friedman Industries, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 19, 2021

/s/ ALEX LARUE

Chief Financial Officer – Secretary and Treasurer

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

Not Filed Pursuant to the Securities Exchange Act of 1934

In connection with the Quarterly Report of Friedman Industries, Incorporated (the “Company”) on Form 10-Q for the period ended September 30, 2021, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Michael J. Taylor, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 19, 2021

By	/s/ Michael J. Taylor
Name:	Michael J. Taylor
Title:	President and Chief Executive Officer

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

Not Filed Pursuant to the Securities Exchange Act of 1934

In connection with the Quarterly Report of Friedman Industries, Incorporated (the “Company”) on Form 10-Q for the period ended September 30, 2021, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Alex LaRue, Chief Financial Officer – Secretary and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 19, 2021

By	/s/ Alex LaRue
Name:	Alex LaRue
Title:	Chief Financial Officer – Secretary and Treasurer