

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## FRIEDMAN INDUSTRIES INC

**Form: 10-K**

**Date Filed: 2020-06-30**

Corporate Issuer CIK: 39092

## FORM 10-K

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2020
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-7521

### FRIEDMAN INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

**1121 Judson Road Suite 124, Longview, TX**  
(Address of principal executive offices)

**74-1504405**  
(I.R.S. Employer  
Identification No.)

**75601**  
(Zip Code)

Registrant's telephone number, including area code: **(903) 758-3431**

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of September 30, 2019 (based upon the closing price on the NYSE American on September 30, 2019) was approximately \$44,001,000.

The number of shares of the registrant's Common Stock outstanding at June 29, 2020 was 7,080,444 shares.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders of Friedman Industries, Incorporated for the fiscal year ended March 31, 2020 — Part II.

Proxy Statement for the 2020 Annual Meeting of Shareholders of Friedman Industries, Incorporated — Part III.

### PART I

#### Item 1. Business

Friedman Industries, Incorporated (the “Company”), a Texas corporation incorporated in 1965, is a manufacturer and processor of steel products and operates in two reportable segments: coil products and tubular products. Significant financial information relating to the Company’s business segments for the last two years is contained in Note 9 of the Consolidated Financial Statements included in the Company’s Annual Report to Shareholders for the fiscal year ended March 31, 2020, which financial statements are incorporated herein by reference in Item 8 hereof.

##### *Coil Products*

The coil product segment consists of the operation of two hot-roll coil processing facilities; one in Hickman, Arkansas (“Hickman”) and the other in Decatur, Alabama (“Decatur”). At March 31, 2020, each facility operated 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. At that time, the facilities combined were capable of cutting sheet and plate with thicknesses ranging from 14 gauge to ½” thick in widths ranging from 36” wide to 72” wide. In June 2020, the temper mill and cut-to-length line at the Decatur facility were removed to allow the foundation to be prepared for a new stretcher leveler line that will be installed. Installation is expected to start in October 2020 and commercial use is expected to start in February 2021. The new equipment will expand 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.

The Hickman and Decatur facilities are substantially similar with respect to products produced. The Company makes shipments of coil products based on which facility offers the desired product or, if the product is available at both facilities, based on other factors, such as customer location, freight conditions and the ability of the facility to fulfill the order on a timely basis. Coil products are sold on a wholesale, rapid-delivery basis in competition with other processors of hot-rolled steel coils. Shipments are made via unaffiliated truckers or by rail.

The 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 Products*

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. TTP’s inventory consists of raw materials and finished goods. Raw material inventory consists of hot-rolled steel coils that TTP will manufacture into pipe. Finished goods inventory consists of pipe TTP has manufactured and new mill reject pipe that TTP purchases from U.S. Steel Tubular Products, Inc.

TTP 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.

## Marketing

The following table sets forth the approximate percentage of total sales contributed by each group of products and services during each of the Company's last two fiscal years:

<b>Product and Service Groups</b>	<b>2020</b>	<b>2019</b>
Coil Products	70%	67%
Tubular Products	30%	33%

*Coil Products.* The Company sells coil products and processing services to approximately 185 customers located primarily in the midwestern, southwestern and southeastern regions of the United States. The Company's principal customers for these products and services are steel distributors and customers manufacturing steel products such as steel buildings, railroad cars, barges, tanks and containers, trailers, component parts and other fabricated steel products. During the fiscal years ended March 31, 2020 and 2019, sales of coil products to Trinity Industries, Inc. accounted for approximately 18% and 21% of the Company's total sales, respectively.

The Company sells substantially all of its coil products through its own sales force. At March 31, 2020, the sales force was comprised of the Vice President of Sales – Coil Divisions and five professional sales personnel. Sales personnel are paid on a salary and commission basis.

*Tubular Products.* The Company sells its tubular products nationally to approximately 125 customers. The Company's principal customers for these products are steel and pipe distributors. In fiscal years 2020 and 2019, no individual tubular customer accounted for 10% or more of the Company's total sales.

The Company sells substantially all of its tubular products through its own sales force. At March 31, 2020, the sales force was comprised of the Vice President of Sales – Tubular Division and three professional sales personnel. Sales personnel are paid on a salary and commission basis.

## Competition

The Company is engaged in a non-seasonal, highly-competitive business. The Company competes with other processors of hot-rolled steel coils, tubular manufacturers, steel distributors and brokers.

The Company believes that, generally, its ability to compete is dependent upon its ability to offer products at prices competitive with or below those of other steel suppliers, as well as its ability to provide products meeting customer specifications on a rapid-delivery basis.

## Employees

At March 31, 2020, the Company had 103 full-time employees and no part-time employees.

## Executive Officers of the Company

The following table sets forth as of March 31, 2020, for each executive officer of the Company, the name, age, officer positions and arrangements with other persons regarding his selection as an officer, if any, and the period during which such officer has served in such capacity:

<b>Name</b>	<b>Age</b>	<b>Position, Offices with the Company and Other Arrangements, if any</b>
Michael J. Taylor	61	President and Chief Executive Officer since September 2019; formerly Interim President and Interim Chief Executive Officer since February 2019; Chairman of the Board of Directors since June 2017; member of the Board of Directors since December 2016
Alex LaRue	34	Chief Financial Officer – Secretary and Treasurer since March 2018; formerly Vice President — Secretary and Treasurer since 2014; formerly Assistant Vice President — Secretary and Treasurer since 2013; formerly Controller — Texas Tubular Products since 2011

**Item 1A. Risk Factors**

Not required.

**Item 1B. Unresolved Staff Comments**

Not required.

**Item 2. Properties**

The principal real properties of the Company are described in the following table:

<u>Location</u>	<u>Approximate Size</u>	<u>Ownership</u>
<b>Lone Star, Texas</b>		
Plant — Texas Tubular Products	161,000 sq. feet	Owned(1)
Offices — Texas Tubular Products	12,200 sq. feet	Owned(1)
Land — Texas Tubular Products	122.4 acres	Owned(1)
<b>Longview, Texas</b>		
Offices	3,800 sq. feet	Leased(2)
<b>Hickman, Arkansas</b>		
Plant and Warehouse — Coil Products	64,600 sq. feet	Owned(1)
Offices — Coil Products	2,500 sq. feet	Owned(1)
Land — Coil Products	26.2 acres	Owned(1)
<b>Decatur, Alabama</b>		
Plant and Warehouse — Coil Products	48,000 sq. feet	Owned(1)
Offices — Coil Products	2,000 sq. feet	Owned(1)
Land — Coil Products	47.3 acres	Owned(1)

(1) All of the Company's owned real properties, plants and offices are held in fee and are not subject to any mortgage or deed of trust.

(2) The office lease is with a non-affiliated party, expires on April 30, 2021, and requires a monthly rental payment by the Company of \$4,128.

**Item 3. Legal Proceedings**

The Company is not, and during fiscal year 2020 was not, a party to, nor is its property the subject of, any material pending legal proceedings.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock is traded principally on the NYSE – American (Symbol: FRD).

Reference is hereby made to the sections of the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2020, entitled "Description of Business — Range of High and Low Sales Prices of Common Stock" and "Description of Business — Cash Dividends Declared Per Share of Common Stock", which sections are hereby incorporated herein by reference.

The approximate number of shareholders of record of Common Stock of the Company as of April 24, 2020 was 190. Because many of the Company's common shares are held by brokers and other institutions on behalf of shareholders, the Company is unable to estimate the total number of individual shareholders represented by these record holders.

### Item 6. Selected Financial Data

Not required.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information with respect to Item 7 is hereby incorporated herein by reference from the section of the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2020, entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not required.

### Item 8. Financial Statements and Supplementary Data

The following financial statements and notes thereto of the Company included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2020, are hereby incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2020 and 2019

Consolidated Statements of Operations — Years ended March 31, 2020 and 2019

Consolidated Statements of Stockholders' Equity — Years ended March 31, 2020 and 2019

Consolidated Statements of Cash Flows — Years ended March 31, 2020 and 2019

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Information with respect to supplementary financial information relating to the Company appears in Note 11 — Summary of Quarterly Results of Operations (Unaudited) of the Notes to Consolidated Financial Statements incorporated herein by reference above in this Item 8 from the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2020.

The following supplementary schedule for the Company for the years ended March 31, 2020 and 2019, is included elsewhere in this report:

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the U.S. Securities and Exchange Commission (the "SEC") are not required under the related instructions or are inapplicable and, therefore, have been omitted.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

**Item 9A. Controls and Procedures***Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's principal executive officer ("CEO") and principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, the CEO and principal financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective to ensure that information that is required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

*Internal Control Over Financial Reporting*

Management's report on internal control over financial reporting appears on page 21 of the Company's Annual Report to Shareholders for the year ended March 31, 2020, which is incorporated herein by reference. This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the SEC that permit the Company to provide only management's report in this Annual Report.

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Except as otherwise set forth below, information with respect to Item 10 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2020 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2020 fiscal year.

Information with respect to Item 10 regarding executive officers is hereby incorporated by reference from the information set forth under the caption "Executive Officers of the Company" in Item 1 of this Annual Report on Form 10-K.

The Company has adopted the Friedman Industries, Incorporated Code of Conduct and Ethics (the "Code"), which applies to the Company's employees, directors and officers, including its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy of the Code is filed as an exhibit hereto.

### Item 11. Executive Compensation

Information with respect to Item 11 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2020 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2020 fiscal year.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

#### *Equity Compensation Plan Information*

The disclosure required pursuant to Item 201(d) of Regulation S-K is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2020 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2020 fiscal year.

Additional information with respect to Item 12 regarding equity compensation plan information relating to the Company is hereby incorporated herein by reference from Note 2 — Equity Compensation Plans and Capital Stock included in the Notes to Consolidated Financial Statements of the Company included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2020.

#### *Security Ownership Information*

The additional information with respect to Item 12 regarding the security ownership of certain beneficial owners and management, and related matters, is hereby incorporated herein by reference from the Company's proxy statement in respect to the 2020 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2020 fiscal year.

### Item 13. Certain Relationships, Related Transactions and Director Independence

Information with respect to Item 13 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2020 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2020 fiscal year.

### Item 14. Principal Accountant Fees and Services

Information with respect to Item 14 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2020 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2020 fiscal year.



## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) Documents included in this report

#### 1. Financial Statements

The following financial statements and notes thereto of the Company are included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2020, which is incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2020 and 2019

Consolidated Statements of Operations — Years ended March 31, 2020 and 2019

Consolidated Statements of Stockholders' Equity — Years ended March 31, 2020 and 2019

Consolidated Statements of Cash Flows — Years ended March 31, 2020 and 2019

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

#### 2. Financial Statement Schedules

The following financial statement schedule of the Company is included in this report at page S-1:

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

#### 3. Exhibits

Exhibit No.	Description
3.1	— <a href="#">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).</a>
3.2	— <a href="#">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).</a>
3.3	— <a href="#">Amended and Restated Bylaws of the Company (incorporated by reference from Exhibit 3.2 to the Company's Form S-8 filed on December 21, 2016).</a>
10.1	— <a href="#">Friedman Industries, Incorporated 2016 Restricted Stock Plan (incorporated by reference from Exhibit 4.2 to the Company's Form S-8 filed on December 21, 2016).</a>
10.2	— <a href="#">Form of Friedman Industries, Incorporated Restricted Stock Award Agreement (incorporated by reference from Exhibit 4.3 to the Company's Form S-8 filed on December 21, 2016).</a>
10.3	— <a href="#">First Amendment to the Friedman Industries, Incorporated 2016 Restricted Stock Plan (incorporated by reference from Appendix C to the Company's Form DEF 14A filed on July 26, 2019).</a>
**13.1	— <a href="#">The Company's Annual Report to Shareholders for the fiscal year ended March 31, 2020.</a>
**14.1	— <a href="#">Friedman Industries, Incorporated Code of Conduct and Ethics.</a>
**21.1	— <a href="#">List of Subsidiaries.</a>
**23.1	— <a href="#">Consent of Moss Adams LLP.</a>
**31.1	— <a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Michael J. Taylor.</a>
**31.2	— <a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Alex LaRue.</a>
**32.1	— <a href="#">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.</a>
**32.2	— <a href="#">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.</a>

<b>Exhibit No.</b>	<b>Description</b>
**101.INS	— XBRL Instance Document.
**101.SCH	— XBRL Taxonomy Schema Document.
**101.CAL	— XBRL Calculation Linkbase Document.
**101.DEF	— XBRL Definition Linkbase Document.
**101.LAB	— XBRL Label Linkbase Document.
**101.PRE	— XBRL Presentation Linkbase Document.

\*\* Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Friedman Industries, Incorporated has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRIEDMAN INDUSTRIES, INCORPORATED

By:           /S/ MICHAEL J. TAYLOR          

Michael J. Taylor  
*President and Chief Executive Officer*

Dated: June 29, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Friedman Industries, Incorporated in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>          /S/ MICHAEL J. TAYLOR          </u> Michael J. Taylor	President and Chief Executive Officer and Director (Principal Executive Officer)	June 29, 2020
<u>          /S/ ALEX LARUE          </u> Alex LaRue	Chief Financial Officer — Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	June 29, 2020
<u>          /S/ DURGA D. AGRAWAL          </u> Durga D. Agrawal	Director	June 29, 2020
<u>          /S/ MAX REICHENTHAL          </u> Max Reichenthal	Director	June 29, 2020
<u>          /S/ JOEL SPIRA          </u> Joel Spira	Director	June 29, 2020
<u>          /S/ TIM STEVENSON          </u> Tim Stevenson	Director	June 29, 2020
<u>          /S/ JOE L. WILLIAMS          </u> Joe L. Williams	Director	June 29, 2020

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**FRIEDMAN INDUSTRIES, INCORPORATED**

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions		Deductions— Describe(B)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts— Describe(A)		
<b>Year ended March 31, 2020</b>					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	\$ 29,178	\$ —	\$ 677,652	\$ 624,413	\$ 82,417
<b>Year ended March 31, 2019</b>					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	\$ 21,052	\$ —	\$ 765,732	\$ 757,606	\$ 29,178

(A) Allowance for doubtful accounts charged to bad debt expense of \$53,239 and \$15,673 during fiscal years 2020 and 2019, respectively. Cash discounts allowed on sales and charged against revenue of \$624,413 and \$750,059 during fiscal years 2020 and 2019, respectively.

(B) Accounts receivable written off of \$0 and \$7,547 and cash discounts taken on sales of \$624,413 and \$750,059 during fiscal years 2020 and 2019, respectively.

THE COMPANY'S ANNUAL  
REPORT TO SHAREHOLDERS FOR  
THE FISCAL YEAR ENDED MARCH 31, 2020

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**2020**  
**ANNUAL REPORT**

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## FINANCIAL HIGHLIGHTS

	2020	2019
Net sales	\$ 142,102,324	\$ 187,154,493
Net earnings (loss)	\$ (5,249,210)	\$ 5,099,924
Net earnings (loss) per share (Basic)	\$ (0.75)	\$ 0.73
Cash dividends per share	\$ 0.10	\$ 0.19
Stockholders' equity	\$ 66,865,367	\$ 72,481,577
Working capital	\$ 55,566,158	\$ 62,091,305

### TO OUR SHAREHOLDERS:

Fiscal year 2020 was a challenging year for Friedman Industries, Incorporated (the "Company") but also a year where a foundation was laid for the Company's future and greater shareholder value. We continued to experience significant price volatility during much of fiscal year 2020. We began the year with hot-rolled coil ("HRC") at approximately \$700 per ton and bottomed in November at approximately \$490 per ton. The Company experienced margin compression throughout the first three quarters of the year as steel prices were declining resulting in an operating loss for the nine months ended December 31, 2019 of approximately \$1,095,000. HRC prices started to increase in November and continued increasing into the fourth quarter. This pivot in pricing allowed the margin compression to ease and the Company had an operating profit of approximately \$1,121,000 for the three months ended March 31, 2020 excluding an impairment loss recognized related to the tubular segment's pipe finishing facility at March 31, 2020. Operating profit or loss is net sales less operating expenses, excluding general corporate expenses, interest expense and interest and other income.

The Company's coil segment continued to show year over year sales growth during fiscal 2020 with sales volume increasing 8% compared to fiscal 2019. During fiscal 2020, we commenced a 22,000 square foot building expansion at our Hickman, Arkansas ("Hickman") coil processing facility. This project was completed in April 2020 on time and under budget. The expansion provides additional finished goods storage space, removing that constraint to growth, and also provides safety improvements. We also commenced a project to replace the existing temper mill and cut-to-length line at our Decatur, Alabama ("Decatur") coil processing facility with a stretcher leveler line. This new equipment will allow the Decatur location and our overall coil segment to process material that is thicker, wider and higher strength. In addition, material that has been leveled by the stretcher leveling process is preferable to certain customers and applications compared to material that has been leveled by the temper mill process. In June 2020, we removed the previous equipment from Decatur and we are now preparing the foundation for installation of the new equipment. We expect installation to start in October 2020 and commercial use to begin in February 2021.

The Company's tubular segment experienced challenging demand during fiscal 2020. The US energy sector showed a steady decline in demand throughout the fiscal year. The US drilling rig count entered the year at 1,006 rigs and concluded the year at 728 rigs. In this challenging environment, we worked hard to establish new customers and expand market share seeing manufactured pipe sales volume decline only 4%. At March 31, 2020, we determined it was necessary to review the tubular segment's pipe finishing facility for impairment. The impairment review resulted in the recognition of a \$4,338,419 impairment loss at March 31, 2020. We regret that changes in customer relationships and market conditions have not allowed this facility to operate as initially expected when the investment decision was made. We have implemented a rigorous process to vet all future capital expenditure projects to ensure that shareholder capital is being deployed in a manner that provides maximum shareholder value.

During fiscal 2020, we initiated an in-depth strategic review to recognize the strengths within our business and the opportunities available to us as well as the risks that we face. While this level of strategic thinking is a continuous process, it was of significant importance with fiscal 2020 being my first year as President and CEO of the Company and allowed us to establish a foundation for how we prioritize our time and capital. From this strategic review, we have initiated the capital projects at Hickman and Decatur. Additionally, we have implemented a stable dividend philosophy with an intention to pay a dividend at a level we can maintain for the foreseeable future coupled with a desire to increase the dividend when operations become supportive of a new amount we believe is sustainable. With the release of this Annual Report, we are also announcing a Board authorized share repurchase program. The Board's approval of this program reflects our confidence in the Company's future and is an additional means to our commitment of enhancing stockholder value. We are also excited to announce that in June 2020 we implemented our first price-risk management actions by participating in the financial futures market for hot-rolled steel coil. We believe price-risk management is a critical tool for improving the consistency of our financial results in a volatile commodity-based business.

As we concluded fiscal 2020, we were faced with unprecedented circumstances due to the global COVID-19 pandemic. We have implemented changes to our operations to help ensure the safety and health of our employees. Our facilities have continued to operate throughout this crisis and we are pleased to report that only one of our employees has tested positive for the virus and that employee has since recovered. Our coil segment experienced a significant drop in demand for April 2020 but a rapid improvement for May 2020 and June 2020. Our tubular segment experienced a significant drop in demand as well but has not seen as quick of a recovery due to COVID-19 having a significant impact on the energy industry and other underlying issues within the energy industry. The Company expects to report a net loss for the quarter ended June 30, 2020 due primarily to the demand deterioration associated with COVID-19.

You are invited to attend the Annual Meeting of Shareholders scheduled to start at 10:00 a.m. (Central Time) on Thursday, September 10, 2020, in the offices of Norton Rose Fulbright US LLP, 1301 McKinney, 51st Floor, Houston, Texas 77010.

Sincerely,



Michael J. Taylor  
President and Chief Executive Officer  
Chairman of the Board of Directors

# OFFICERS

Michael J. Taylor  
*President and Chief Executive Officer*

Howard Henderson  
*Vice President of Operations — Texas Tubular Division*

Jonathan Holcomb  
*Vice President of Sales — Coil Divisions*

Alex LaRue  
*Chief Financial Officer — Secretary and Treasurer*

Robert McCain  
*Vice President — Decatur Facility*

Steve Teeter  
*Vice President of Operations — Coil Divisions*

Michael Thompson  
*Vice President of Sales — Tubular Division*

## COMPANY OFFICES AND WEBSITES

CORPORATE OFFICE & COIL PRODUCTS SALES OFFICE  
1121 Judson Road, Suite 124  
Longview, Texas 75601  
903-758-3431

TUBULAR PRODUCTS SALES OFFICE  
3681 FM 250  
Lone Star, Texas 75668  
903-639-2511

WEBSITES\*  
[www.friedmanindustries.com](http://www.friedmanindustries.com)  
[www.texastubular.com](http://www.texastubular.com)

COUNSEL  
Norton Rose Fulbright US LLP  
1301 McKinney, Suite 5100  
Houston, Texas 77010

AUDITORS  
Moss Adams LLP  
500 Dallas Street, Suite 2500  
Houston, TX 77002

TRANSFER AGENT AND REGISTRAR  
American Stock Transfer & Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219

\* Information on our websites is expressly not incorporated by reference into this document.



# DIRECTORS

Durga D. Agrawal  
*President, Piping Technology & Products, Inc. (pipe fabrication)*  
*Houston, Texas*

Max Reichenthal  
*President, Texas Iron and Metal (steel product sales)*  
*Houston, Texas*

Joel Spira  
*Private investor; formerly, Partner, Weinstein Spira & Company (accounting firm)*  
*Houston, Texas*

Tim Stevenson  
*Chief Executive Officer and Founder, Metal Edge Partners (metals price risk management and strategic advisory services)*  
*Plymouth, Minnesota*

Michael J. Taylor, *Chairman of the Board*  
*President and Chief Executive Officer of the Company*  
*Houston, Texas*

Joe L. Williams  
*Partner, Pozmantier, Williams and Stone Insurance Consultants, LLC (insurance and risk management consultants)*  
*Houston, Texas*

## ANNUAL REPORT ON FORM 10-K

Shareholders may obtain without charge a copy of the Company's Annual Report on Form 10-K for the year ended March 31, 20 20 as filed with the U.S. Securities and Exchange Commission. Written requests should be addressed to: Alex LaRue, Chief Financial Officer — Secretary and Treasurer, Friedman Industries, Incorporated, P.O. Box 2192, Longview, Texas 75606.

# DESCRIPTION OF BUSINESS

Friedman Industries, Incorporated (the "Company") is a manufacturer and processor of steel products and operates in two product segments: coil products and tubular products.

## *Coil Products*

The coil product segment consists of the operation of two hot-roll coil processing facilities; one in Hickman, Arkansas ("Hickman") and the other in Decatur, Alabama ("Decatur"). At March 31, 2020, each facility operated 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. At that time, the facilities combined were capable of cutting sheet and plate with thicknesses ranging from 14 gauge to ½" thick in widths ranging from 36" wide to 72" wide. In June 2020, the temper mill and cut-to-length line at the Decatur facility were removed to allow the foundation to be prepared for a new stretcher leveler line that will be installed. Installation is expected to begin in October 2020 and commercial use is expected to start in February 2021. The new equipment will expand 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.

The Hickman and Decatur facilities are substantially similar with respect to products produced. The Company makes shipments of coil products based on which facility offers the desired product or, if the product is available at both facilities, based on other factors, such as customer location, freight conditions and the ability of the facility to fulfill the order on a timely basis. Coil products are sold on a wholesale, rapid-delivery basis in competition with other processors of hot-rolled steel coils. Shipments are made via unaffiliated truckers or by rail.

The coil product 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.

The Company sells coil products and processing services to approximately 185 customers located primarily in the midwestern, southwestern and southeastern regions of the United States. The Company's principal customers for these products and services are steel distributors and customers manufacturing steel products such as steel buildings, railroad cars, barges, tanks and containers, trailers, component parts and other fabricated steel products.

## *Tubular Products*

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. TTP's inventory consists of raw materials and finished goods. Raw material inventory consists of hot-rolled steel coils that TTP will manufacture into pipe. Finished goods inventory consists of pipe TTP has manufactured and new mill reject pipe that TTP purchases from U.S. Steel Tubular Products, Inc.

The Company sells its tubular products nationally to approximately 125 customers. The Company's principal customers for these products are steel and pipe distributors.

TTP 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.

Significant financial information relating to the Company's two product groups, coil and tubular products, is contained in Note 9 of the Notes to the Company's Consolidated Financial Statements appearing herein.

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RANGE OF HIGH AND LOW SALES PRICES OF COMMON STOCK

	Fiscal 2020		Fiscal 2019	
	High	Low	High	Low
First Quarter	\$ 8.05	\$ 6.27	\$ 10.22	\$ 5.55
Second Quarter	7.04	5.78	11.47	8.17
Third Quarter	7.24	5.80	9.70	6.23
Fourth Quarter	6.14	3.72	8.48	6.69

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CASH DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

	Fiscal 2020	Fiscal 2019
First Quarter	\$ .04	\$ .03
Second Quarter	.02	.06
Third Quarter	.02	.06
Fourth Quarter	.02	.04

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The Company's Common Stock is traded principally on the NYSE American (trading symbol FRD).

The approximate number of shareholders of record of Common Stock of the Company as of April 24, 2020 was 190. Because many of the Company's common shares are held by brokers and other institutions on behalf of shareholders, the Company is unable to estimate the total number of individual shareholders represented by these record holders.

# CONSOLIDATED BALANCE SHEETS

## ASSETS

	March 31	
	2020	2019
<b>CURRENT ASSETS:</b>		
Cash	\$ 17,057,751	\$ 11,667,161
Accounts receivable, net of allowances for bad debts and cash discounts of \$82,417 and \$29,178 at March 31, 2020 and 2019, respectively	11,705,344	13,183,411
Inventories	35,668,243	49,062,086
Other	780,179	543,549
<b>TOTAL CURRENT ASSETS</b>	<b>65,211,517</b>	<b>74,456,207</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	1,179,831	1,452,799
Buildings and yard improvements	9,008,869	8,821,253
Machinery and equipment	29,339,893	38,176,497
Construction in process	3,797,364	—
Less accumulated depreciation	(31,825,401)	(36,540,591)
	<b>11,500,556</b>	<b>11,909,958</b>
<b>OTHER ASSETS:</b>		
Cash value of officers' life insurance and other assets	183,350	235,817
Income taxes recoverable	448,665	—
<b>TOTAL ASSETS</b>	<b>\$ 77,344,088</b>	<b>\$ 86,601,982</b>

## LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31	
	2020	2019
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 8,944,614	\$ 11,577,664
Income taxes payable	—	159,694
Dividends payable	139,989	279,978
Contribution to retirement plan	50,250	50,250
Employee compensation and related expenses	409,778	297,316
Current portion of financing lease	100,728	—
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,645,359</b>	<b>12,364,902</b>
<b>POSTRETIREMENT BENEFITS OTHER THAN PENSIONS</b>	<b>99,864</b>	<b>210,257</b>
<b>DEFERRED INCOME TAX LIABILITY</b>	<b>361,146</b>	<b>1,545,246</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>372,352</b>	<b>—</b>
<b>TOTAL LIABILITIES</b>	<b>10,478,721</b>	<b>14,120,405</b>
<b>COMMITMENTS AND CONTINGENCIES (SEE NOTE 5 AND NOTE 8)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, par value \$1:		
Authorized shares — 10,000,000		
Issued shares — 8,295,160 shares and 8,205,160 shares at March 31, 2020 and 2019, respectively	8,295,160	8,205,160
Additional paid-in capital	29,565,416	29,322,472
Treasury stock at cost (1,225,716 shares and 1,225,716 shares at March 31, 2020 and 2019, respectively)	(5,525,964)	(5,525,964)
Retained earnings	34,530,755	40,479,909
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>66,865,367</b>	<b>72,481,577</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 77,344,088</b>	<b>\$ 86,601,982</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31	
	2020	2019
Net sales	\$ 142,102,324	\$ 187,154,493
Costs and expenses:		
Cost of products sold	139,491,989	174,247,456
Selling, general and administrative	5,124,572	4,782,510
Impairment loss for long-lived assets	4,338,419	1,723,539
Interest expense	4,806	17,546
	<u>148,959,786</u>	<u>180,771,051</u>
EARNINGS (LOSS) FROM OPERATIONS	(6,857,462)	6,383,442
Interest and other income	19,260	440,503
EARNINGS (LOSS) BEFORE INCOME TAXES	<u>(6,838,202)</u>	<u>6,823,945</u>
Provision for (benefit from) income taxes:		
Current	(404,892)	2,050,941
Deferred	(1,184,100)	(326,920)
	<u>(1,588,992)</u>	<u>1,724,021</u>
NET EARNINGS (LOSS)	<u>\$ (5,249,210)</u>	<u>\$ 5,099,924</u>
Weighted average number of common shares outstanding:		
Basic	7,000,403	7,010,266
Diluted	7,000,403	7,010,266
Net earnings (loss) per share:		
Basic	\$ (0.75)	\$ 0.73
Diluted	\$ (0.75)	\$ 0.73

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings
BALANCE AT MARCH 31, 2018 (as adjusted)	\$ 8,185,160	\$ 29,154,874	\$ (5,475,964)	\$ 36,711,380
Net earnings	—	—	—	5,099,924
Forfeiture of restricted stock	—	—	(50,000)	—
Issuance of restricted stock	20,000	—	—	—
Paid in capital – restricted stock awards	—	167,598	—	—
Cash dividends (\$0.19 per share)	—	—	—	(1,331,395)
BALANCE AT MARCH 31, 2019	\$ 8,205,160	\$ 29,322,472	\$ (5,525,964)	\$ 40,479,909
Net loss	—	—	—	(5,249,210)
Issuance of restricted stock	90,000	—	—	—
Paid in capital – restricted stock awards	—	242,944	—	—
Cash dividends (\$0.10 per share)	—	—	—	(699,944)
BALANCE AT MARCH 31, 2020	<u>\$ 8,295,160</u>	<u>\$ 29,565,416</u>	<u>\$ (5,525,964)</u>	<u>\$ 34,530,755</u>

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31	
	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ (5,249,210)	\$ 5,099,924
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation	1,524,961	1,340,492
Impairment loss for long-lived assets	4,338,419	1,723,539
Deferred taxes	(1,184,100)	(326,920)
Compensation expense for restricted stock	332,944	137,598
Change in post-retirement benefits other than pensions	10,903	35,201
Lower of cost or net realizable value inventory adjustment	955,605	—
Changes in operating assets and liabilities:		
Accounts receivable	1,478,067	4,274,878
Inventories	12,438,238	(3,732,652)
Federal income taxes recoverable	(448,665)	—
Other current assets	(236,630)	(114,448)
Accounts payable and accrued expenses	(2,680,481)	1,344,233
Income taxes payable	(159,694)	159,694
Employee compensation and related expenses	112,462	(314,699)
Contribution to retirement plan	—	5,250
Net cash provided by operating activities	11,232,819	9,632,090
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(4,935,361)	(807,989)
Increase in cash value of officers' life insurance	(17,295)	(17,917)
Net cash used in investing activities	(4,952,656)	(825,906)
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(839,933)	(1,191,605)
Cash paid for principal portion of finance lease	(49,640)	—
Net cash used in financing activities	(889,573)	(1,191,605)
Increase in cash	5,390,590	7,614,579
Cash at beginning of year	11,667,161	4,052,582
Cash at end of year	\$ 17,057,751	\$ 11,667,161

See accompanying notes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF CONSOLIDATION:** The consolidated financial statements include the accounts of Friedman Industries, Incorporated and its subsidiary (collectively, the "Company"). All material intercompany amounts and transactions have been eliminated.

**REVENUE RECOGNITION:** Revenue is generated primarily from contracts to manufacture or process steel products and is recognized when performance obligations are complete. 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. Revenue is recorded in an amount that reflects the consideration expected to be received in exchange for those goods or services. See Note 10 for further information.

**TRADE RECEIVABLES:** The Company's receivables are recorded when billed, advanced or accrued and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for doubtful accounts and cash discounts allowed, represents their estimated net realizable value. The Company estimates its allowance for doubtful accounts based on historical collection trends, the age of outstanding receivables and existing economic conditions. Trade receivables are generally considered past due after 30 days from invoice date. Past-due receivable balances are written-off when the Company's internal collection efforts have been unsuccessful in collecting the amount due. The balance of the Company's allowance for doubtful accounts was \$67,417 and \$14,178 at March 31, 2020 and March 31, 2019, respectively.

**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. During the second quarter of fiscal 2020, tubular finished goods inventory was written down \$955,605 to lower the carrying value to net realizable value. Obsolete or slow-moving inventories are not significant based on the Company's review of inventories. Accordingly, no allowance has been provided for such items.

The following is a summary of inventory by product group:

	March 31	
	2020	2019
Prime coil inventory	\$ 17,190,435	\$ 26,240,439
Non-standard coil inventory	1,550,734	2,078,008
Tubular raw material	4,888,542	4,418,750
Tubular finished goods	12,038,532	16,324,889
	<u>\$ 35,668,243</u>	<u>\$ 49,062,086</u>

Tubular raw material inventory consists of hot-rolled steel coils that the Company will manufacture into pipe. Tubular finished goods inventory consists of pipe the Company has manufactured and new mill reject pipe that the Company purchases from U.S. Steel Tubular Products, Inc.

Effective April 1, 2018, the Company changed its method for valuing prime coil inventory of the coil segment from the last-in, first-out ("LIFO") method to the average cost method. All of the fiscal 2020 and fiscal 2019 amounts reported in this Annual Report are based on the average cost method. The March 31, 2018 stockholders' equity information presented in this Annual Report was adjusted as a result of the retrospective application of this change in accounting principle.

**PROPERTY, PLANT AND EQUIPMENT:** Property, plant and equipment is stated at cost. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the various classes of assets as follows:

Buildings (in years)	20
Machinery and equipment (in years)	10 to 15
Yard improvements (in years)	5 to 15
Loaders and other rolling stock (in years)	5 to 10

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company assesses recoverability by comparing the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If an asset is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset's carrying amount exceeds its estimated fair value. Long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less cost to sell. At March 31, 2020, the Company determined that indicators of impairment were present for the Company's pipe finishing facility due to inconsistent operating results and uncertainty related to future operating expectations. The Company performed an impairment review of the facility's assets which resulted in an impairment loss of \$4,338,419 being recognized at March 31, 2020. See Note 5 for further information related to this impairment review.

Maintenance and repairs are expensed as incurred.

**POSTRETIREMENT BENEFITS OTHER THAN PENSIONS:** The Company maintains life insurance policies on each officer. From time to time and in its discretion, the Board of Directors of the Company has approved the transfer of the applicable policy to an officer upon their retirement. The Company's accrued liability for these potential future transfers was \$99,864 and \$210,257 at March 31, 2020 and March 31, 2019, respectively. The transfer of a life insurance policy to an officer is a noncash transaction.

**SHIPPING COSTS:** Sales are increased for freight billed to customers and freight costs are charged to cost of products sold.

**SUPPLEMENTAL CASH FLOW INFORMATION:** The Company paid interest of approximately \$5,000 and \$17,500 in fiscal 2020 and 2019, respectively. The Company paid income taxes of approximately \$261,000 and \$1,846,000 in fiscal 2020 and 2019, respectively. In fiscal 2020, there were noncash transactions totaling \$121,000 for the transfer of ownership of life insurance policies from the Company to officers upon their retirement. In fiscal 2020, non-cash investing activities consisted of the initial recognition of a finance lease right of use asset in the amount of \$518,616. In fiscal 2020, the Company wrote off fully depreciated fixed assets that were no longer in use with an original cost and accumulated depreciation of approximately \$4,721,500.

**INCOME TAXES:** The Company accounts for income taxes under the liability method, whereby the Company recognizes deferred tax assets and liabilities, which represent differences between the financial and income tax reporting bases of its assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. The Company has assessed, using all available positive and negative evidences, the likelihood that the deferred tax assets will be recovered from future taxable income.

The Company has also analyzed tax positions taken on tax returns filed and does not believe that any are more likely than not to be overturned by the respective tax jurisdiction. Therefore, no liability for uncertain tax positions has been recognized.

**USE OF 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. Significant estimates that are subject to the Company's assumptions include the fair value of the pipe-finishing facility, determination of useful lives for fixed assets, determination of the allowance for doubtful accounts and the determination of net realizable value relative to inventory. 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. The determination of useful lives for depreciation of fixed assets requires the Company to make assumptions regarding the future productivity of the Company's fixed assets. The allowance for doubtful accounts requires the Company to draw conclusions on the future collectability of the Company's accounts receivable. The determination of net realizable value when reviewing inventory value requires the Company to make assumptions concerning sales trends, customer demand and steel industry market conditions. Actual results could differ from these estimates.

**FINANCIAL INSTRUMENTS:** Since the Company's financial instruments are considered short-term in nature, their carrying values approximate fair value.

**EARNINGS PER SHARE:** The Company uses the two-class method of calculating earnings per share, which determines earnings per share for each class of common stock and participating security as if all earnings of the period had been distributed. As the holders of restricted stock are entitled to vote and receive dividends during the restriction period, unvested shares of restricted stock qualify as participating securities. Unvested restricted shares participate on an equal basis with common shares; therefore, there is no difference in undistributed earnings allocated to each participating security. Accordingly, unvested restricted shares are included in the basic computation of earnings per share. Net income per basic common share is computed using the weighted average number of common shares and participating securities outstanding during the period. Net income per diluted common share is computed using the weighted average number of common shares, participating securities and potential common shares outstanding during the period.



**ECONOMIC RELATIONSHIP:** The Company purchases its inventory from a limited number of suppliers. Loss of any of these suppliers could have a material adverse effect on the Company. In March 2020, U.S. Steel announced the idling of their Lone Star Tubular Operations which is our sole supplier of mill reject pipe. At March 31, 2020, we had approximately 26,500 tons of mill reject inventory which we believe to be one to two years of inventory. Mill reject pipe sales contributed gross profit of approximately \$1,471,000 in fiscal 2020 and \$1,617,000 in fiscal 2019. We expect the idling to have a negative impact on our operations as we eventually sell out of inventory.

Coil segment sales to Trinity Industries, Inc. accounted for approximately 18% and 21% of total Company sales in fiscal 2020 and 2019, respectively. No other customers accounted for 10% or more of total sales in the two years ended March 31, 2020. Loss of Trinity as a customer could have a material adverse effect on the Company's business.

The Company's sales are concentrated primarily in the midwestern, southwestern, and southeastern regions of the United States and are primarily to customers in the steel distributing and fabricating industries. The Company performs periodic credit evaluations of the financial conditions of its customers and generally does not require collateral. Generally, receivables are due within 30 days.

**RISKS AND UNCERTAINTIES: COVID-19** - In March 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic. In addition to the devastating effects on human life, this contagious virus has adversely affected economies globally. It has also disrupted the normal operations of many businesses, including ours and many of our customers. Our facilities have continued to operate during this crisis but we are operating with modifications to our facility practices, employee travel, employee work locations and virtualization or cancellation of company and customer events, among other modifications. We may take further actions that alter our business operations as the situation evolves. Our coil segment experienced a significant drop in demand for April 2020 but a rapid improvement for May 2020 and June 2020. Our tubular segment experienced a significant drop in demand as well but has not seen as quick of a recovery due to COVID-19 having a significant impact on the energy industry and other underlying issues within the energy industry. There are no comparable events that provide guidance as to the effect the COVID-19 pandemic may have, and, as a result, the ultimate effect of the pandemic is highly uncertain and subject to change. We do not yet know the full extent of the effects on the economy, the markets we serve, our business or our operations.

**NEW ACCOUNTING PRONOUNCEMENTS:** In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 states that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The update supersedes prior revenue recognition guidance, including industry-specific guidance. Effective April 1, 2018, the Company adopted the new standard through the modified retrospective method applied to those contracts that were not completed as of April 1, 2018 and those contracts initiated on or after April 1, 2018. Results for reporting periods beginning on or after April 1, 2018 are presented under the new standard. The modified retrospective method requires that the cumulative effect of initially applying the new guidance be recorded as an adjustment to the opening balance of retained earnings in the consolidated balance sheet. The adoption of this new accounting guidance did not have an impact on prior period earnings and no adjustment was recorded to the opening retained earnings balance as of April 1, 2018. The adoption did not have a financial statement impact to the Company but did result in expanded disclosures which are provided in Note 10.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 establishes a new lease accounting standard that requires lessees to recognize a right of use asset and related lease liability for most leases having lease terms of more than 12 months. Leases with a term of 12 months or less will be accounted for similar to prior guidance for operating leases. In July 2018, the FASB issued Accounting Standards Update No. 2018-10, Codification Improvements to Topic 842, Leases, to clarify how to apply certain aspects of the new standard. In July 2018, the FASB also issued Accounting Standards Update No. 2018-11, Leases (Topic 842): Targeted Improvements, to give entities another option for transition and to provide practical expedients to reduce the cost and complexity of implementing the new standard. ASU 2016-02 and all subsequently issued amendments, collectively "ASC 842," is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Company adopted ASC 842 on April 1, 2019 using the optional transition method under which the new standard is applied only to the most current period presented and the cumulative effect of applying the new standard to existing lease agreements is recognized at the date of initial application. The adoption of ASC 842 resulted in the recording of right-of-use lease assets and lease liabilities of approximately \$63,000. The Company elected the package of transition practical expedients related to lease identification, lease classification, and initial direct costs. In addition, the Company made the following accounting policy elections: (1) the Company will not separate lease and non-lease components by class of underlying asset and (2) the Company will apply the short-term lease exemption by class of underlying asset. The adoption of this standard did not have a material impact on the Company's consolidated statement of operations or cash flows and did not result in a cumulative adjustment to retained earnings. See Note 4 – Leases for additional information.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments — Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 requires, among other things, the use of a new current expected credit loss ("CECL") model to determine the allowance for doubtful accounts with respect to accounts receivable. The CECL model requires estimation of lifetime expected credit loss with respect to receivables and recognition of allowances that, when deducted from the balance of the receivables, represent the net amounts expected to be collected. Subsequently, in November 2018, the FASB issued Accounting Standards Update 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses (ASC 326), which clarifies that impairment of receivables arising from operating leases should be accounted for in accordance with ASC 842, Leases. ASU 2016-13 called for an effective date for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. In November 2019, the FASB issued Accounting Standards Update 2019-10, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates ("ASU 2019-10"). ASU 2019-10 defers the effective date of ASU 2016-13 for SEC filers that are eligible to be smaller reporting companies, private companies, not-for-profit organizations and employee benefit plans to annual periods beginning after December 15, 2022, including interim periods within those annual periods. The Company qualifies as a smaller reporting company and does not expect to early adopt ASU 2016-13. The Company is currently evaluating the impact of the new guidance on the consolidated financial statements.

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. ASU 2019-12 is effective for annual reporting periods beginning after December 15, 2020 and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the consolidated financial statements.

## 2. EQUITY COMPENSATION PLANS AND CAPITAL STOCK

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, directors or consultants 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 two years ended March 31, 2020:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested at March 31, 2018	210,000	\$ 6.88
Cancelled or forfeited	(50,000)	6.88
Granted	20,000	8.23
Vested	—	—
Unvested at March 31, 2019	180,000	\$ 7.03
Cancelled or forfeited	—	—
Granted	90,000	5.05
Vested	—	—
Unvested at March 31, 2020	270,000	\$ 6.37

Of the 270,000 unvested shares at March 31, 2020, 160,000 shares have five year cliff vesting restrictions with vesting occurring on January 4, 2022, 20,000 shares have five year cliff vesting restrictions with vesting occurring on April 1, 2024, 20,000 shares have two year cliff vesting restrictions with vesting occurring on March 13, 2021 and 70,000 shares will vest in equal amounts each year for five years commencing on April 1, 2020. Compensation expense is recognized over the requisite service period applicable to each award. The Company recorded compensation expense of \$332,944 and \$137,598 in fiscal 2020 and 2019, respectively, relating to the stock awards issued under the Plan. Subsequent to March 31, 2020, restricted stock awards of 11,000 shares total were granted with a grant date fair value of \$4.53 per share and one year cliff vesting restrictions with vesting occurring on April 1, 2021. As of March 31, 2020, unrecognized compensation expense related to stock awards was approximately \$885,000, which is expected to be recognized over a weighted average period of approximately 3.1 years.

The Company has 1,000,000 authorized shares of Cumulative Preferred Stock with a par value of \$1 per share. The stock may be issued in one or more series, and the Board of Directors is authorized to fix the designations, preferences, rights, qualifications, limitations and restrictions of each series, except that any series must provide for cumulative dividends and must be convertible into Common Stock. There were no shares of Cumulative Preferred Stock issued as of March 31, 2020 or March 31, 2019.

### 3. DEBT

On December 12, 2019, the Company's \$5,000,000 revolving line of credit facility expired and was not renewed. The Company did not have any borrowings outstanding under the Credit Facility at expiration and did not advance any funds under the Credit Facility during the fiscal year ended March 31, 2020.

### 4. LEASES

The Company adopted ASU 2016-02, Leases ("ASC 842") on April 1, 2019 using the optional transition method under which the new standard is applied only to the most current period presented and the cumulative effect of applying the new standard to existing lease agreements is recognized at the date of initial application. Under this adoption method, reporting periods beginning after April 1, 2019 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The adoption of ASC 842 resulted in the recording of initial ROU asset and lease liabilities of approximately \$63,000 at April 1, 2019.

The Company's lease of its office space in Longview, Texas is the only operating lease included in the ROU asset and lease liability. The lease calls for monthly rent payments of \$4,128 and expires on April 30, 2021. 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 were as follows for the twelve months ended March 31, 2020:

	<b>Twelve Months Ended March 31, 2020</b>
Finance lease – amortization of ROU asset	\$ 49,640
Finance lease – interest on lease liability	4,806
Operating lease expense	36,936
	<u>\$ 91,382</u>

Rental expense for operating leases classified under the previous accounting standard, Accounting Standards Codification Topic 840, for the twelve months ended March 31, 2019 was \$32,736.

The following table illustrates the balance sheet classification for ROU assets and lease liabilities as of March 31, 2020:

	<b>March 31, 2020</b>	<b>Balance Sheet Classification</b>
<b>Assets</b>		
Operating lease right-of-use asset	\$ 51,535	Other assets
Finance lease right-of-use asset	\$ 507,812	Property, plant & equipment
Total right-of-use assets	<u>\$ 559,347</u>	
<b>Liabilities</b>		
Operating lease liability, current	\$ 47,431	Accrued expenses
Finance lease liability, current	100,728	Current portion of finance lease
Operating lease liability, non-current	4,104	Other non-current liabilities
Finance lease liability, non-current	368,248	Other non-current liabilities
Total lease liabilities	<u>\$ 520,511</u>	

As of March 31, 2020, the weighted-average remaining lease term was 1 year for operating leases and 4.5 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 March 31, 2020 were as follows:

	<b>Operating Leases</b>	<b>Finance Leases</b>
Fiscal 2021	49,536	108,888
Fiscal 2022	4,128	108,888
Fiscal 2023	—	108,888
Fiscal 2024	—	108,888
Fiscal 2025	—	54,444
Total undiscounted lease payments	\$ 53,664	\$ 489,996
Less: imputed interest	(2,129)	(21,020)
Present value of lease liability	<u>\$ 51,535</u>	<u>\$ 468,976</u>

## 5. PROPERTY, PLANT AND EQUIPMENT

The Company commenced two capital expenditure projects during the third quarter of fiscal 2020.

The first project is a building expansion at the Company's coil processing facility in Hickman, Arkansas. The project will add an additional 22,000 square feet of storage space to the facility. This project was completed subsequent to year-end at an actual cost of approximately \$1,050,000 compared to an original estimated cost of \$1,100,000.

The second project involves the purchase and installation of a stretcher leveler coil processing line at the Company's coil processing facility in Decatur, Alabama. This newly acquired equipment will replace the existing processing equipment at the Decatur plant and will expand both the size range and grade of material that Decatur is able to process. The equipment was purchased from and is being constructed, fabricated and installed by Delta Steel Technologies. In June 2020, the existing equipment at the Decatur facility was removed to allow the foundation to be prepared for the installation of the new equipment. At March 31, 2020, the book value of the equipment removed was immaterial. The Company currently expects the installation of the new equipment to begin in October 2020 and expects commercial use of the equipment to begin in February 2021. The Company currently estimates the cost of this project to be \$5,800,000.

As of March 31, 2020, expenditures related to both of these projects totaled \$3,797,364 with this amount reported as Construction in Process on the Company's Consolidated Balance Sheet.

At March 31, 2020, the Company determined that indicators of impairment were present for the tubular segment's pipe finishing facility due to inconsistent operating results and uncertainty related to future operations due to the following circumstances. The price of oil plummeted during the fourth quarter of fiscal 2020 due to OPEC negotiating challenges and COVID-19 circumstances. This drop in oil price resulted in the drilling rig count reaching all time lows. Additionally, during the fourth quarter, U.S. Steel announced the idling of its Lone Star Tubular Operations, the pipe finishing facility's largest historical customer, due to the downturn in the energy industry. The Company performed an impairment review of the facility's assets and determined the carrying amount of the assets were not recoverable based on estimated undiscounted cash flows. To establish a fair market value of the assets, certain equipment was valued using the market approach, which involves measuring the value of the assets in an open market exchange. The real property and buildings were valued based on a weighted combination of the market approach and the cost approach. Remaining assets were valued based on their net salvage value. As a result of the review, an impairment loss of \$4,338,419 was recognized due to the carrying amount of the assets exceeding their fair value. An impairment review of the same assets was performed at March 31, 2019 resulting in an impairment of \$1,723,539. Significant adverse market conditions, lack of operations and the conclusion that certain assets should be valued according to their net salvage value were the primary factors contributing to the additional impairment loss for fiscal 2020. After the impairment loss, the threading facility had a book value of \$1,771,450 at March 31, 2020.

The fair value of the threading facility was determined using Level 3 fair value inputs. Accounting Standards Codification 820 – Fair Value Measurement outlines a three-tiered fair value hierarchy related to the inputs used when measuring fair value. Level 1 inputs are quoted prices in an active market for identical assets or liabilities, Level 2 inputs are observable inputs other than quoted prices and Level 3 inputs are unobservable inputs.

## 6. EARNINGS PER SHARE

Basic and dilutive net earnings (loss) per share is computed based on the following information:

	Year Ended March 31	
	2020	2019
<b>Basic</b>		
Net earnings (loss)	\$ (5,249,210)	\$ 5,099,924
Weighted average common shares	7,000,403	7,010,266
<b>Dilutive</b>		
Net earnings (loss)	\$ (5,249,210)	\$ 5,099,924
Weighted average common shares and common share equivalents	7,000,403	7,010,266

## 7. INCOME TAXES

Components of tax expense (benefit) are as follows:

	Year Ended March 31	
	2020	2019
<b>Federal</b>		
Current	\$ (408,360)	\$ 1,738,512
Deferred	(971,540)	(312,658)
	(1,379,900)	1,425,854
<b>State</b>		
Current	3,468	312,429
Deferred	(212,560)	(14,262)
	(209,092)	298,167
<b>Total</b>	<b>\$ (1,588,992)</b>	<b>\$ 1,724,021</b>

The U.S. federal statutory income tax rate is reconciled to the effective rate as follows:

	Year Ended March 31	
	2020	2019
Income tax expense (benefit) at U.S. federal statutory rate	(21.0%)	21.0%
Current year state and local income taxes net of federal income tax benefit	(2.4)	3.5
Other	0.2	0.8
Provision for (benefit from) income taxes	(23.2%)	25.3%

The Company's tax returns may be subject to examination by the Internal Revenue Service for the fiscal years ended March 31, 2017 through March 31, 2019. State and local returns may be subject to examination for fiscal years ended March 31, 2016 through March 31, 2019.

Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's consolidated deferred tax assets (liabilities) are as follows:

	March 31	
	2020	2019
<b>Deferred tax liabilities:</b>		
Depreciation	\$ (128,868)	\$ (954,569)
LIFO to average cost Section 481(a) adjustment	(602,220)	(903,330)
Total deferred tax liabilities	(731,088)	(1,857,899)
<b>Deferred tax assets:</b>		
Inventory capitalization	85,137	106,856
Postretirement benefits other than pensions	24,127	50,798
Net operating loss carryforward - State	15,012	—
Restricted stock award compensation	200,949	120,510
Other	44,717	34,489
Total deferred tax assets	369,942	312,653
Net deferred tax asset (liability)	<b>\$ (361,146)</b>	<b>\$ (1,545,246)</b>

## 8. RETIREMENT PLAN

The Company maintains the Friedman Industries, Inc. Employees' Retirement and 401(k) Plan (the "Plan"). Employees fully vest in the Plan upon six years of service.

The retirement portion of the Plan covers substantially all employees, including officers. The Company's contribution expenses, which are determined at the discretion of the Board of Directors in an amount not to exceed 15% of the total compensation paid during the year to all eligible employees, were \$200,000 for the year ended March 31, 2020, and \$200,000 for the year ended March 31, 2019. Contributions, plan earnings and forfeitures of non-vested accounts of terminated participants are allocated to the remaining individual accounts determined by a point schedule based on years of employment with the Company.

Employees may participate in the 401(k) portion of the Plan. Employees are eligible to participate in the Plan when the employee has completed six months of service. Under the Plan, participating employees may defer a portion of their pretax earnings up to certain limits prescribed by the Internal Revenue Service. The Company provides matching contributions under the provisions of the Plan. Contribution expense related to the 401(k) portion of the Plan was approximately \$50,000 and \$58,500 for the years ended March 31, 2020 and 2019, respectively.

## 9. INDUSTRY SEGMENT DATA

The Company is engaged in the steel processing, pipe manufacturing and processing and steel and pipe distribution business. Within the Company, there are two product groups: coil and tubular. The Company's coil operations involve converting steel coils into flat sheet and plate steel cut to customer specifications and reselling steel coils. Through its tubular operations, the Company purchases, processes, manufactures and markets tubular products. The following is a summary of significant financial information relating to the product groups:

	Year Ended March 31	
	2020	2019
<b>NET SALES:</b>		
Coil	\$ 99,762,892	\$ 124,555,478
Tubular	42,339,432	62,599,015
TOTAL NET SALES	<u>\$ 142,102,324</u>	<u>\$ 187,154,493</u>
<b>OPERATING PROFIT (LOSS):</b>		
Coil	\$ 1,252,669	\$ 6,414,396
Tubular	(5,564,882)	2,328,871
TOTAL OPERATING PROFIT (LOSS)	<u>(4,312,213)</u>	<u>8,743,267</u>
General corporate expenses	(2,540,443)	(2,342,279)
Interest expense	(4,806)	(17,546)
Interest and other income	19,260	440,503
TOTAL EARNINGS (LOSS) BEFORE INCOME TAXES	<u>\$ (6,838,202)</u>	<u>\$ 6,823,945</u>
<b>IDENTIFIABLE ASSETS:</b>		
Coil	\$ 35,894,510	\$ 43,104,205
Tubular	23,659,457	31,519,755
General corporate assets	59,553,967	74,623,960
TOTAL ASSETS	<u>\$ 77,344,088</u>	<u>\$ 86,601,982</u>
<b>DEPRECIATION:</b>		
Coil	\$ 836,730	\$ 551,241
Tubular	675,048	782,327
Corporate and other	13,183	6,924
	<u>\$ 1,524,961</u>	<u>\$ 1,340,492</u>
<b>CAPITAL EXPENDITURES:</b>		
Coil	\$ 4,060,911	\$ 396,299
Tubular	841,817	377,400
Corporate and other	32,633	34,290
	<u>\$ 4,935,361</u>	<u>\$ 807,989</u>

Operating profit (loss) is total net sales less operating expenses, excluding general corporate expenses, interest expense and interest and other income. 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. At March 31, 2020 and March 31, 2019, corporate assets consisted primarily of 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.

## 10. REVENUE

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

The Company has two reportable segments: Coil and Tubular. Coil primarily generates revenue from temper passing and cutting to length hot-rolled steel coils. Coil segment revenue consists of three main product types: Prime Coil, Non-Standard Coil and Customer Owned Coil. Tubular primarily generates revenue from the manufacture, distribution and processing of steel pipe. Tubular segment revenue consists of three main product or service types: Manufactured Pipe, Mill Reject Pipe and Pipe Finishing Services. The following table disaggregates our revenue by product for each of our reportable business segments for the fiscal years ended March 31, 2020 and 2019, respectively:

	Fiscal Year Ended March 31,	
	2020	2019
<b>Coil Segment:</b>		
Prime Coil	87,222,853	106,436,452
Non-standard Coil	11,792,212	16,867,632
Customer Owned Coil	747,827	1,251,394
	<u>99,762,892</u>	<u>124,555,478</u>
<b>Tubular Segment:</b>		
Manufactured Pipe	34,974,506	45,689,886
Mill Reject Pipe	7,364,926	16,072,129
Pipe Finishing Services	-	837,000
	<u>42,339,432</u>	<u>62,599,015</u>



## 11. SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended March 31, 2020 and 2019:

	Quarter Ended			
	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020
Net sales	\$ 40,975,320	\$ 39,995,580	\$ 28,150,817	\$ 32,980,607
Gross profit (loss)	1,471,324	(782,650)	52,933	1,868,728
Net earnings (loss)	194,772	(1,544,137)	(881,003)	(3,018,842)
Basic	.03	(.22)	(.13)	(.43)
Diluted	.03	(.22)	(.13)	(.43)

	Quarter Ended			
	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019
Net sales	\$ 48,193,318	\$ 53,432,029	\$ 43,326,080	\$ 42,203,066
Gross profit	6,192,478	3,944,541	1,930,484	839,534
Net earnings (loss)	3,599,893	2,000,916	664,773	(1,165,658)
Basic (1)	.51	.29	.09	(.17)
Diluted (1)	.51	.29	.09	(.17)

(1) The sum of the quarterly earnings per share may not equal the annual amount reported due to per share amounts being calculated independently for each quarter.

## 12. SUBSEQUENT EVENTS

On April 9, 2020, the Company entered into a Paycheck Protection Program Promissory Note (the "PPP Note"), evidencing an unsecured loan to the Company from JPMorgan Chase Bank under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Pursuant to the PPP Note, the Company received total proceeds of \$1,690,385 on April 10, 2020. The PPP note calls for a 24-month term and an interest rate of 1%. Under the original requirements of the CARES Act, the loan may be fully forgiven if (i) proceeds are used to pay eligible payroll costs, rent, mortgage interest and utilities and (ii) full-time employee headcount and salaries are either maintained during the applicable 8 week forgiveness period or restored by June 30, 2020. The original provisions also called for at least 75% of the proceeds to be used for eligible payroll costs. Any forgiveness of the loan will be subject to approval by the U.S. Small Business Administration (the "SBA") and JPMorgan Chase Bank and will require the Company to apply for such treatment in the future. On June 5, 2020, the Paycheck Protection Program Flexibility Act (the "PPP Flexibility Act") was signed into law, extending the loan forgiveness period from 8 weeks to 24 weeks after loan origination while also still allowing an election for the original 8-week period. Additional changes to the CARES Act that were enacted by the PPP Flexibility Act include reducing the required amount of eligible payroll expenditures from 75% to 60%, moving the deadline for restoration of employment and pay from June 30, 2020 to December 31, 2020, additional exclusions to the full-time employee forgiveness reduction provisions, removing the prior ban on borrowers taking advantage of payroll tax deferral after loan forgiveness and allowing for the amendment of the maturity date on existing loans from two years to five years. The Company is evaluating the impact of these changes on its PPP Note. While the Company plans to apply for forgiveness of the PPP Note in accordance with the requirements and limitations under the CARES Act, the PPP Flexibility Act and the SBA regulations and requirements, no assurance can be given that all or any portion of the PPP Note will be forgiven.

During June 2020, the manufacturing equipment at the Decatur, Alabama facility was removed to allow the foundation to be prepared for new equipment to be installed. The equipment removed consisted of a temper mill and a cut-to-length line. At March 31, 2020, the book value of the equipment removed was immaterial.

In June 2020, the Company implemented its first commodity price-risk management activities by transacting hot-rolled coil futures. The Company sold 4,000 tons of hot-rolled coil futures for August 2020 settlement at an average price of \$514.50 per ton and sold 2,000 tons of hot-rolled coil futures for September 2020 settlement at an average price of \$522 per ton.

On June 25, 2020, the Board of Directors of the Company authorized a share repurchase program under which the Company may repurchase up to 1,062,067 shares of the Company's outstanding common stock through June 30, 2023, which equates to 15% of the Company's outstanding shares of common stock as of June 29, 2020.

Repurchases under the program may be made from time to time at the Company's discretion and may be made in open market transactions, through block trades, in privately negotiated transactions and pursuant to any trading plan that may be adopted by the Company's management in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, or otherwise. The timing and actual number of shares repurchased pursuant to the program will depend on a variety of factors including price, corporate and regulatory requirements, market conditions and other corporate liquidity requirements and priorities. The repurchase program does not obligate the Company to acquire a specific dollar amount or number of shares and may be modified, suspended or discontinued at any time.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of  
Friedman Industries, Incorporated

## ***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Friedman Industries, Incorporated and subsidiary (the "Company") as of March 31, 2020 and 2019, the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## ***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MOSS ADAMS LLP

Houston, Texas  
June 29, 2020

We have served as the Company's auditor since 2017.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). Based on such assessment, management concluded that, as of March 31, 2020, our internal control over financial reporting is effective based on that criteria.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the U.S. Securities and Exchange Commission that permit us to provide only management's report in this annual report.

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

## OVERVIEW

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

The coil product segment includes the operation of two hot-roll coil processing facilities; one in Hickman, Arkansas and the other in Decatur, Alabama. At March 31, 2020, each facility operated 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. At that time, the facilities combined were capable of cutting sheet and plate with thicknesses ranging from 14 gauge to ½" thick in widths ranging from 36" wide to 72" wide. In June 2020, the temper mill and cut-to-length line at the Decatur facility were removed to allow the foundation to be prepared for a new stretcher leveler line that will be installed. Installation is expected to begin in October 2020 and commercial use is expected to start in February 2021. The estimated total cost of this project is \$5,800,000 with approximately \$2,900,000 having been spent as of March 31, 2020. The new equipment will expand 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.

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. 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 that TTP has manufactured and new mill reject pipe that TTP purchases from U.S. Steel Tubular Products, Inc.

## RESULTS OF OPERATIONS

### Year ended March 31, 2020 compared to year ended March 31, 2019

During the year ended March 31, 2020 ("fiscal 2020"), sales, costs of goods sold and gross profit decreased \$45,052,169, \$34,755,467 and \$10,296,702, respectively, from the comparable amounts recorded during the year ended March 31, 2019 ("fiscal 2019"). The decrease in sales was related primarily to a decline in steel prices that resulted in our average selling price per ton decreasing. Additional discussion of the average selling price per ton is provided by segment in the following paragraphs. Tons sold decreased from approximately 227,500 tons in fiscal 2019 to approximately 210,500 tons in fiscal 2020. The decrease was related primarily to a decline in the tubular segment's mill reject sales volume with most of the Company's other products either maintaining or improving on volume sold for fiscal 2020 in comparison to fiscal 2019 volumes. Discussion of the changes in sales volumes is expanded upon at the segment level in the following paragraphs. Gross profit as a percentage of sales decreased from approximately 6.9% in fiscal 2019 to approximately 1.8% in fiscal 2020.

Our operating results are significantly impacted by the market price of hot-rolled steel coil. The Company experienced significant volatility in steel price during both fiscal 2020 and fiscal 2019. In March 2018, the Administration of the U.S. government announced trade actions under Section 232 of the Trade Expansion Act related to imports of steel and aluminum products. In November 2017, steel prices began to rise on speculation of potential trade actions. The rising prices gained momentum in January 2018 when the Commerce Department's recommendations were provided to the Administration. From January 2018, steel prices continued to rise approximately 40% until reaching a peak in July 2018. Prices held near a 10 year high until September 2018 when prices started to decline and continued that downward trend through October 2019, dropping approximately 50% to a 3 ½ year low. From November 2019 through February 2020 domestic steel producers issued a series of price increases but the upward momentum was halted in March 2020 when the COVID 19 virus started to impact the U.S. economy. The steel price volatility translated into volatility in the Company's operating results for fiscal years 2020 and 2019. Results for fiscal 2020 were negatively impacted by sustained margin compression associated with declines in steel price while fiscal 2019 was positively impacted by stronger margins associated with increases in steel price. Excluding the fixed asset impairment losses recognized in both fiscal 2020 and fiscal 2019, operating profit declined from approximately \$10,467,000 for fiscal 2019 to \$26,000 for fiscal 2020.

## Coil Segment

Coil product segment sales for fiscal 2020 totaled \$99,762,892 compared to \$124,555,478 for fiscal 2019, representing a decrease during fiscal 2020 of \$24,792,586 or approximately 20%. For average selling price disclosure, it is helpful to isolate sales generated from processing of customer owned material and sales generated from coil segment inventory. Sales generated from processing of customer owned material totaled \$747,827 for fiscal 2020 compared to \$1,251,394 for fiscal 2019. Sales generated from coil segment inventory totaled \$99,015,065 for fiscal 2020 compared to \$123,304,084 for fiscal 2019. The decrease in coil segment sales was driven by a decrease in the average selling price per ton for these shipments, partially offset by an increase in tons shipped from inventory. The average per ton selling price related to these shipments decreased from approximately \$873 per ton in fiscal 2019 to approximately \$651 per ton in fiscal 2020. Inventory tons sold increased from approximately 141,000 tons in fiscal 2019 to approximately 152,000 tons in fiscal 2020. Coil segment operations recorded operating profits of approximately \$1,253,000 and \$6,414,000 in fiscal 2020 and fiscal 2019, respectively.

Margins for fiscal 2020 were negatively impacted by declines in hot-rolled steel prices and the resulting effect of inventory with higher average costs flowing through cost of goods sold. Margins for fiscal 2019 were positively impacted by increasing hot-rolled steel prices and the resulting effect of inventory with lower average costs flowing through cost of goods sold. The improved shipping volume for fiscal 2020 is attributable to an increase in the number of customers sold from approximately 170 customers in fiscal 2019 to approximately 185 customers in fiscal 2020.

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 fiscal 2020 totaled \$42,339,432 compared to \$62,599,015 for fiscal 2019, representing a decrease during fiscal 2020 of \$20,259,583 or approximately 32%. For a more complete understanding of the average selling prices of goods sold, it is helpful to isolate sales generated from the finishing of customer owned pipe and sales generated from tubular segment inventory. The Company did not generate any sales from the finishing of customer owned pipe during the fiscal 2020 but generated sales of \$837,000 for fiscal 2019. Sales generated from tubular segment inventory totaled \$42,339,432 for fiscal 2020 compared to \$61,762,015 for fiscal 2019. The decrease in tubular segment sales was primarily driven by a decrease in mill reject pipe sales volume and a decrease in the average selling price of the segment's manufactured pipe. In total, inventory tons sold decreased from approximately 86,500 tons in fiscal 2019 to approximately 58,000 tons in fiscal 2020. Mill reject sales volume accounts for approximately 27,000 tons of the decline in volume. In fiscal 2019, shipments of mill reject were higher due to a concentrated effort to reduce the level of inventory while mill reject inventory was at desired levels during fiscal 2020. Mill reject has the lowest average sales price of all the Company's products but also has the most stable sales price. The average sales price per ton for mill reject was approximately \$394 per ton for fiscal 2020 compared to approximately \$353 per ton for fiscal 2019. Manufactured pipe sales volumes were comparable between periods with approximately 39,500 tons in fiscal 2020 and 41,000 tons in fiscal 2019. The average selling price per ton for manufactured pipe decreased significantly from approximately \$1,116 per ton for fiscal 2019 to approximately \$886 per ton for fiscal 2020. Before fixed asset impairment losses related to the segment's pipe finishing facility, the tubular segment operations recorded an operating loss of approximately \$1,226,000 for fiscal 2020 and an operating profit of approximately \$4,052,000 for fiscal 2019. Management believes the decline in tubular results was primarily related to compressed margins associated with declining hot-rolled steel prices and softness in the U.S. energy industry.

At March 31, 2020, the Company determined that indicators of impairment were present for the tubular segment's pipe finishing facility due to inconsistent operating results and uncertainty related to future operations due to the following circumstances. The price of oil plummeted during the fourth quarter of fiscal 2020 due to OPEC negotiating challenges and COVID-19 circumstances. This drop in oil price resulted in the drilling rig count reaching all time lows. Additionally, during the fourth quarter, U.S. Steel announced the idling of its Lone Star Tubular Operations, the pipe finishing facility's largest historical customer, due to the downturn in the energy industry. The Company performed an impairment review of the finishing facility's assets which resulted in an impairment loss of \$4,338,419 being recognized for fiscal 2020. The Company performed an impairment review of the same assets at March 31, 2019 resulting in an impairment loss of \$1,723,539. Significant adverse market conditions, lack of operations and the conclusion that certain assets should be valued according to their net salvage value were the primary factors contributing to the additional impairment loss for fiscal 2020. After the impairment loss, the threading facility had a book value of \$1,771,450 at March 31, 2020.

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 is our sole supplier of mill reject pipe. At March 31, 2020, we had approximately 26,500 tons of mill reject inventory which we believe to be one to two years of inventory. Mill reject pipe sales contributed gross profit of approximately \$1,471,000 in fiscal 2020 and \$1,617,000 in fiscal 2019. We expect the idling to have a negative impact on our operations as we eventually sell out of inventory.

## General, Selling and Administrative Costs

During fiscal 2020, general, selling and administrative costs increased \$342,062 compared to fiscal 2019. This increase was related primarily to an increase in restricted stock plan compensation expense and an increase in professional fees.

## Other Income

Other income for fiscal 2020 decreased \$421,243 from the amount recorded in fiscal 2019. This decrease was related primarily to a fiscal 2019 settlement received of \$56,500 by the Company as a member of the settlement class related to steel antitrust litigation and a fiscal 2019 receipt of insurance proceeds in the amount of \$366,085 related to a forklift that was destroyed by fire. For fiscal 2020, other income only consisted of approximately \$19,000 for the increase in cash surrender value of life insurance policies the Company holds on its officers.

## Income Taxes

Income taxes for fiscal 2020 decreased \$3,313,013 from the amount recorded in fiscal 2019 due primarily to the reduction in earnings before income taxes.

## FINANCIAL CONDITION, LIQUIDITY AND SOURCES OF CAPITAL

The Company's current ratio was 6.8 and 6.0 at March 31, 2020 and March 31, 2019, respectively. Working capital was \$55,566,158 at March 31, 2020 and \$62,091,305 at March 31, 2019.

During the year ended March 31, 2020, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Changes in balance sheet amounts occurred in the ordinary course of business. Cash increased primarily as a result of decreases in accounts receivable and inventory partially offset by purchases of property, plant and equipment and the payment of cash dividends. The Company expects to continue to monitor, evaluate and manage balance sheet components depending on changes in market conditions and the Company's operations.

In December 2019, the Company's \$5,000,000 revolving line of credit facility expired and was not renewed.

On April 9, 2020, the Company entered into a Paycheck Protection Program Promissory Note (the "PPP Note"), evidencing an unsecured loan to the Company from JPMorgan Chase Bank under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Pursuant to the PPP Note, the Company received total proceeds of \$1,690,385 on April 10, 2020. The PPP note calls for a 24-month term and an interest rate of 1%. Under the original requirements of the CARES Act, the loan may be fully forgiven if (i) proceeds are used to pay eligible payroll costs, rent, mortgage interest and utilities and (ii) full-time employee headcount and salaries are either maintained during the applicable 8 week forgiveness period or restored by June 30, 2020. The original provisions also called for at least 75% of the proceeds to be used for eligible payroll costs. Any forgiveness of the loan will be subject to approval by the U.S. Small Business Administration (the "SBA") and JPMorgan Chase Bank and will require the Company to apply for such treatment in the future. On June 5, 2020, the Paycheck Protection Program Flexibility Act (the "PPP Flexibility Act") was signed into law, extending the loan forgiveness period from 8 weeks to 24 weeks after loan origination while also still allowing an election for the original 8 week period. Additional changes to the CARES Act that were enacted by the PPP Flexibility Act include reducing the required amount of eligible payroll expenditures from 75% to 60%, moving the deadline for restoration of employment and pay from June 30, 2020 to December 31, 2020, additional exclusions to the full-time employee forgiveness reduction provisions, removing the prior ban on borrowers taking advantage of payroll tax deferral after loan forgiveness and allowing for the amendment of the maturity date on existing loans from two years to five years. The Company is evaluating the impact of these changes on its PPP Note. While the Company plans to apply for forgiveness of the PPP Note in accordance with the requirements and limitations under the CARES Act, the PPP Flexibility Act and the SBA regulations and requirements, no assurance can be given that all or any portion of the PPP Note will be forgiven.

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.

## COVID-19

In March 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic. In addition to the devastating effects on human life, this contagious virus has adversely affected economies globally. It has also disrupted the normal operations of many businesses, including ours and many of our customers. Our facilities have continued to operate during this crisis but we are operating with modifications to our facility practices, employee travel, employee work locations and virtualization or cancellation of company and customer events, among other modifications. We may take further actions that alter our business operations as the situation evolves. Our coil segment experienced a significant drop in demand for April 2020 but a rapid improvement for May 2020 and June 2020. Our tubular segment experienced a significant drop in demand as well but has not seen as quick of a recovery due to COVID-19 having a significant impact on the energy industry and other underlying issues within the energy industry. There are no comparable events that provide guidance as to the effect the COVID-19 pandemic may have, and, as a result, the ultimate effect of the pandemic is highly uncertain and subject to change. We do not yet know the full extent of the effects on the economy, the markets we serve, our business or our operations. We do expect to report a net loss for the quarter ended June 30, 2020 due primarily to the demand deterioration associated with COVID-19.

## DERIVATIVE CONTRACTS

In June 2020, the Company implemented its first commodity price-risk management activities by transacting hot-rolled coil futures. The Company sold 4,000 tons of hot-rolled coil futures for August 2020 settlement at an average price of \$514.50 per ton and sold 2,000 tons of hot-rolled coil futures for September 2020 settlement at an average price of \$522 per ton. We believe price-risk management is a critical tool for improving the consistency of our financial results in a volatile commodity-based business.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## INFLATION

During fiscal 2020 and 2019, the Company believes that the general level of inflation did not have a material effect on the Company's operations.

## CRITICAL ACCOUNTING POLICIES

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. Significant estimates that are subject to the Company's assumptions include the fair value of the pipe-finishing facility, determination of useful lives for fixed assets, determination of the allowance for doubtful accounts and the determination of net realizable value relative to inventory. 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. The determination of useful lives for depreciation of fixed assets requires the Company to make assumptions regarding the future productivity of the Company's fixed assets. The allowance for doubtful accounts requires the Company to draw conclusions on the future collectability of the Company's accounts receivable. The determination of net realizable value when reviewing inventory value requires the Company to make assumptions concerning sales trends, customer demand and steel industry market conditions. 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. 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.

# TEN YEAR FINANCIAL SUMMARY (Unaudited)

Year Ended March 31

	Year Ended March 31									
	2020	2019	2018 As Adjusted	2017*	2016*	2015*	2014*	2013*	2012*	2011*
Net sales	\$ 142,102,324	\$ 187,154,493	\$ 121,157,278	\$ 77,756,055	\$ 81,631,382	\$ 108,322,780	\$ 116,149,022	\$ 136,448,786	\$ 161,521,993	\$ 131,709,492
Net earnings (loss)	\$ (5,249,210)	\$ 5,099,924	\$ 3,934,101	\$ (2,678,684)	\$ 294,000	\$ 382,330	\$ 1,712,926	\$ 6,135,812	\$ 8,150,464	\$ 8,155,637
Current assets	\$ 65,211,517	\$ 74,456,207	\$ 67,269,406	\$ 45,432,836	\$ 49,701,656	\$ 50,117,355	\$ 59,846,668	\$ 64,283,557	\$ 65,007,891	\$ 54,562,344
Current liabilities	\$ 9,645,359	\$ 12,364,902	\$ 11,030,635	\$ 2,356,590	\$ 2,865,750	\$ 2,651,111	\$ 7,770,689	\$ 12,312,082	\$ 13,853,388	\$ 9,467,375
Working capital	\$ 55,566,158	\$ 62,091,305	\$ 56,238,771	\$ 43,076,246	\$ 46,835,906	\$ 47,466,244	\$ 52,075,979	\$ 51,971,475	\$ 51,154,503	\$ 45,094,969
Total assets	\$ 77,344,088	\$ 86,601,982	\$ 81,653,307	\$ 63,263,297	\$ 66,890,397	\$ 66,958,024	\$ 72,284,399	\$ 76,575,129	\$ 78,570,393	\$ 69,584,131
Stockholders' equity	\$ 66,865,367	\$ 72,481,577	\$ 68,575,450	\$ 60,356,425	\$ 63,239,047	\$ 63,217,025	\$ 63,310,656	\$ 62,957,619	\$ 63,417,268	\$ 58,802,514
Net earnings (loss) as a percentage of Net sales	(3.7)	2.7	3.2	(3.4)	0.4	0.4	1.5	4.5	5.0	6.2
Stockholders' equity	(7.9)	7.0	5.7	(4.4)	0.5	0.6	2.7	9.7	12.9	13.9
Weighted average number of common shares outstanding:										
Basic	7,000,403	7,010,266	7,009,444	6,851,944	6,799,444	6,799,444	6,799,444	6,799,444	6,799,444	6,799,444
Per share										
Net earnings (loss) per share:										
Basic	\$ (0.75)	\$ 0.73	\$ 0.56	\$ (0.39)	\$ 0.04	\$ 0.06	\$ 0.25	\$ 0.90	\$ 1.20	\$ 1.20
Stockholders' equity	\$ 9.55	\$ 10.34	\$ 9.78	\$ 8.81	\$ 9.30	\$ 9.30	\$ 9.31	\$ 9.26	\$ 9.33	\$ 8.65
Cash dividends per common share	\$ 0.10	\$ 0.19	\$ 0.05	\$ 0.04	\$ 0.04	\$ 0.07	\$ 0.20	\$ 0.97	\$ 0.52	\$ 0.84

\* The figures for fiscal years 2011 to 2017 have not been adjusted for a change in accounting principle where the Company changed its valuation method for prime coil inventory from the LIFO method to the average cost method. The change in accounting principle was effective for fiscal 2019 and fiscal 2018 figures were adjusted to meet comparative financial statement reporting requirements. The impact of the change in accounting principle on fiscal years 2011 to 2017 has not been quantified by the Company and could be material, therefore, the figures may not be comparable to fiscal years 2018 to 2020.



**FRIEDMAN INDUSTRIES, INCORPORATED**  
**CODE OF CONDUCT AND ETHICS**

It is the policy of Friedman Industries, Incorporated (the "Company") to endeavor to conduct business with the highest standards of honesty and integrity and in compliance with all applicable laws. In view thereof, the Company's Board of Directors has adopted this Code of Conduct and Ethics (the "Code").

In addition to other Company policies, all Company employees, directors and officers are expected to:

- Carry out their duties honestly and with the highest degree of integrity.
- Avoid actual or apparent conflicts of interest between personal and professional relationships.
- Report promptly any transaction or relationship that could compromise one's ability to (i) adhere fully to the Code, other Company policies or applicable laws or (ii) make business decisions without regard to personal gain or benefit.
- Seek, at all times, to provide information to Company officials and its outside professionals (e.g. accountants, counsel, insurance providers, etc.) that is accurate, relevant, complete, objective, timely and understandable, and encourage others within the Company to do the same.
- Use reasonable efforts to assure full, fair, accurate, timely and understandable disclosure of information related to the Company's business and financial operations in Company reports and documents filed with the U.S. Securities and Exchange Commission (the "SEC") or the NYSE – American or in other public communications made by the Company.
- Use reasonable efforts to cause the Company to comply fully with the letter and spirit of all laws, rules and regulations applicable to the Company or its business.
- Promptly report to the Audit Committee of the Board of Directors (the "Audit Committee") (i) any weakness or deficiency in the design or operation of the Company's internal controls or (ii) any fraud involving Company management or other employees having significant roles in the Company's operations, financial reporting, disclosures or internal controls.

The Board of Directors is responsible for applying and interpreting the Code. Any questions relating to how the Code should be interpreted or applied should be addressed to a supervisor, the Chief Executive Officer, the President or the Chief Financial Officer. Any employee, officer or director who becomes aware of any existing or potential violation of laws, rules, regulations or the Code should promptly notify the Chief Executive Officer, the President, the Chief Financial Officer or the Chairman of the Audit Committee. Reports may be made orally or in writing and may be made anonymously and will be kept confidential to the extent permitted. Written reports should be sent to the attention of the Chief Executive Officer, the President or the Chief Financial Officer, at P.O. Box 2192, Longview, Texas 75606. In addition, reports may be made to the Chairman of the Audit Committee by calling (713) 622-7000 or sent to Three Greenway Plaza, Suite 1700, Houston, Texas 77046.

Failure to notify the Chief Executive Officer, the President, the Chief Financial Officer or the Chairman of the Audit Committee of any violation or potential violation is in itself a violation of the Code. To encourage employees to report any violations, the Company will not allow retaliation for reports made hereunder in good faith. In addition, the Company may not retaliate against any employee for providing information or assisting in the investigation of any law enforcement agency, regulatory agency or other governmental body relating to the Company.

Observance of the provisions of the Code is of extreme importance to the Company. A violation of the Code will be regarded as a serious offense and may constitute grounds for disciplinary action, including, but not limited to, demotion, suspension (with or without pay), discharge, or, in the case of directors, removal from the Board of Directors and legal proceedings.

From time to time, the Company may waive some provisions of the Code. Any employee, officer or director who believes that a waiver may be called for should contact the Chief Financial Officer. Any waiver of the Code for directors and executive officers of the Company must be approved by the Company's Board of Directors and will be promptly reported in such manner as may be required by the SEC or NYSE - American.

**SUBSIDIARIES**

FRIEDMAN/DECATUR, L.L.C.

Alabama Limited Liability Company

100% owned

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-215223) of our report dated June 29, 2020, relating to the consolidated financial statements and schedule of Friedman Industries, Incorporated appearing in this Annual Report (Form 10-K) for the year ended March 31, 2020.

/s/ MOSS ADAMS LLP

Houston, Texas  
June 29, 2020

I, Michael J. Taylor, certify that:

1. I have reviewed this report on Form 10-K 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: June 29, 2020

/S/ MICHAEL J. TAYLOR  
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*President and Chief Executive Officer*

I, Alex LaRue, certify that:

1. I have reviewed this report on Form 10-K 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: June 29, 2020

/S/ ALEX LARUE

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*Chief Financial Officer — Secretary and Treasurer*

**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 Annual Report of Friedman Industries, Incorporated (the "Company") on Form 10-K for the fiscal year ended March 31, 2020, 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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:           /S/ MICHAEL J. TAYLOR            
*President and Chief Executive Officer*

Dated: June 29, 2020

**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 Annual Report of Friedman Industries, Incorporated (the "Company") on Form 10-K for the fiscal year ended March 31, 2020, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Alex LaRue, Chief Financial Officer — Secretary & 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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:                   /S/ ALEX LARUE                    
*Chief Financial Officer — Secretary and Treasurer*

Dated: June 29, 2020