SECURITIES & EXCHANGE COMMISSION EDGAR FILING

FRIEDMAN INDUSTRIES INC

Form: 10-K

Date Filed: 2005-06-29

Corporate Issuer CIK: 39092

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2005

o 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	**74-1504405**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4001 Homestead Road, Houston, Texas	**77028**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(713) 672-9433**

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

Title of each class	Name of each exchange on which registered
Common Stock, $1 Par Value	American Stock Exchange

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for the past 90 days.

Yes X No ______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

X

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ______ No X

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of September 30, 2004 (computed by reference to the closing price on such date), was approximately $30,977,000.

The number of shares of the registrant's Common Stock outstanding at June 11, 2005 was 7,139,747 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders of Friedman Industries, Incorporated for the fiscal year ended March 31, 2005 — Part II.

Proxy Statement for the 2005 Annual Meeting of Shareholders — Part III.

PART I

Item 1. Business

Friedman Industries, Incorporated (the "Company"), a Texas corporation incorporated in 1965, is engaged in pipe manufacturing and processing, steel processing and steel and pipe distribution.

The Company has two product groups: coil and tubular products. Significant financial information relating to the Company's product groups for the last three years is contained in Note 7 of the Consolidated Financial Statements included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2005, which financial statements are incorporated herein by reference in Item 8 hereof.

Coil Products

The Company purchases hot-rolled steel coils, processes the coils into flat, finished sheet and plate and sells these products on a wholesale, rapid-delivery basis in competition with steel mills, importers and steel service centers. The Company also processes customer-owned coils on a fee basis. The Company has coil processing plants located at Lone Star, Texas and Hickman, Arkansas. At each plant, the steel coils are processed through a cut-to-length line which levels the steel and cuts it to prescribed lengths. The Company's processing machinery is heavy, mill-type equipment capable of processing steel coils weighing up to 25 tons. Coils are processed to the specifications required for a particular order. Shipments are made via unaffiliated truckers or by rail and, in times of normal supply and market conditions, can generally be made within 48 hours of receipt of the customer's order.

At its Lone Star facility, the Company purchases hot-rolled steel coils primarily from Lone Star Steel Company ("LSS"), which is located approximately four miles from the Company's Lone Star plant. The Lone Star plant purchases its supply of steel from LSS and other suppliers at competitive prices determined at the time of purchase. Loss of LSS as a source of coil supply could have an adverse effect on the Company's business.

At the Company's Hickman facility, the Company warehouses and processes hot-rolled steel coils which are purchased primarily from Nucor Steel Company ("NSC"), which is located approximately one-half mile from the Hickman facility. In addition, the Company's XSCP Division located in Hickman purchases and markets non-standard hot-rolled coils received from NSC. Loss of NSC as a source of coil supply could have a material adverse effect on the Company's business.

At the Lone Star facility, the Company maintains three cut-to-length lines and a coil-to-coil 2-Hi temper pass mill. This equipment is capable of processing steel up to 72 inches wide and up to one-half inch thick. The Hickman facility operates a cut-to-length line which has 72 inch wide and one-half inch thick capability. The Company also operates a 2-Hi temper pass mill at the Hickman facility that is capable of processing steel up to 72 inches wide and one-half inch thick in a coil-to-coil mode or directly from coil to cut-to-length processing.

Tubular Products

Through its Texas Tubular Products Division ("TTP") in Lone Star, Texas, the Company manufactures, purchases, processes and markets tubular products.

TTP operates two pipe mills that are capable of producing pipe from 2 $^3/_8$ inches to 8$^5/_8$ inches in outside diameter. One pipe mill is API-licensed to manufacture line and oil country pipe and also manufactures pipe for structural and piling purposes that meets recognized industry standards. The second pipe mill began operation in April 2004 and generally produces pipe ranging from 2$^3/_8$ inches to $2^7/_8$ inches in outside diameter. TTP employs various pipe processing equipment including threading and beveling machines, pipe handling equipment and other related machinery. This machinery can process pipe up to $13^3/_8$ inches in outside diameter.

The Company currently manufactures and sells substantially all of its line and oil country pipe to LSS pursuant to orders received from LSS. In addition, the Company purchases from LSS and markets to others pipe for structural applications for some sizes of pipe that exceed the capability of the TTP pipe mills.

The Company purchases a substantial portion of its annual supply of pipe and coil material used in pipe production from LSS. The Company can make no assurances as to the amounts of pipe and coil material that will be available from LSS in the future. Loss of LSS as a source of supply or as a customer 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 three fiscal years:

Product and Service Groups	2005	2004	2003
Coil Products	55%	54%	57%
Tubular Products	45%	46%	43%

Coil Products. The Company sells coil products to approximately 250 customers located primarily in the midwestern, southwestern and southeastern sections of the United States. The Company's principal customers for these products and services are steel distributors and customers fabricating steel products such as storage tanks, steel buildings, farm machinery and equipment, construction equipment, transportation equipment, conveyors and other similar products. During each of the fiscal years ended March 31, 2005, 2004 and 2003, seven, six and six customers, respectively, accounted for approximately 25% of the Company's sales of coil products. Except for Trinity Industries, Inc., no coil product customer accounted for as much as 10% of the Company's total sales during those years. Trinity Industries, Inc. accounted for approximately 11% of total sales in fiscal 2005.

The Company sells substantially all of its coil products through its own sales force. At March 31, 2005, the sales force was comprised of a vice president and three professional sales personnel under the direction of the Senior Vice President — Sales and Marketing. Salesmen are paid on a salary and commission basis.

Shipments of particular products are made from the facility offering the product desired. If the product is available at more than one facility, other factors such as location of the customer, productive capacity of the facility and activity of the facility enter into the decision regarding shipments. The Company regularly contracts on a quarterly basis with many of its larger customers to supply minimum quantities of steel.

Tubular Products. The Company sells its tubular products nationally to approximately 260 customers. The Company's principal customers of these products are steel and pipe distributors, piling contractors and LSS. Sales of pipe to LSS accounted for approximately 16% of the Company's total sales in fiscal 2005.

The Company sells its tubular products through its own sales force comprised of five professional sales personnel under the direction of the Senior Vice President — Sales and Marketing. Salesmen are paid on a salary and commission basis.

Competition

The Company is engaged in a non-seasonal, highly-competitive business. The Company competes with steel mills, importers and steel service centers. The steel industry, in general, is characterized by a small number of extremely large companies dominating the bulk of the market and a large number of relatively small companies, such as the Company, competing for a limited share of such market.

The Company believes that in times of normal supply and market conditions 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, 2005, the Company had approximately 140 full-time employees.

Executive Officers of the Company

The following table sets forth as of March 31, 2005, the name, age, officer positions and family relationships, if any, of each executive officer of the Company and period during which each officer has served in such capacity:

Name	Age	Position, Offices with the Company and Family Relationships, if any
Jack Friedman	83	Chairman of the Board of Directors and Chief Executive Officer since 1970, Director since 1965
William E. Crow	57	President and Chief Operating Officer since 1995, formerly Vice President since 1981 and formerly President of Texas Tubular Products Division since August 1990
Benny Harper	59	Senior Vice President — Finance since 1995 (formerly Vice President since 1990), Treasurer since 1980 and Secretary since May 1992
Thomas Thompson	54	Senior Vice President — Sales and Marketing since 1995, formerly Vice President — Sales since 1990

Item 2. Properties

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

Location	Approximate Size	Ownership	Type of Construction
Lone Star, Texas			
Plant — Coil Products	42,260 sq. feet	Owned(1)	Steel frame/siding
Plant — Texas Tubular Products	76,000 sq. feet	Owned(1)	Steel frame/siding
Offices — Coil Products	1,200 sq. feet	Owned(1)	Steel building
Offices — Texas Tubular Products	8,000 sq. feet	Owned(1)	Cinder block; steel building
Land — Coil Products	13.93 acres	Owned(1)	—
Land — Texas Tubular Products	67.77 acres	Owned(1)	—
Longview, Texas Offices	2,600 sq. feet	Leased(2)	Office Building
Houston, Texas			
Plant and Warehouse	70,000 sq. feet	Owned(1)(3)	Rigid steel frame and steel siding
Offices	4,000 sq. feet	Owned(1)(3)	Brick veneer; steel building
Land	12 acres	Owned(1)(3)	—
Hickman, Arkansas			
Plant and Warehouse — Coil Products	42,600 sq. feet	Owned(1)	Steelframe/siding
Offices — Coil Products	2,500 sq. feet	Owned(1)	Cinder block/wood frame
Land — Coil Products	26.19 acres	Owned(1)	—

(1) All of the Company's owned real estate, 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 nonaffiliated party, expires April 30, 2008, and provides for an annual rental of $27,264.

(3) In November 2001, the Company closed its coil products facility in Houston, Texas. Subsequently, the Company has been seeking to sell these assets.

Item 3. Legal Proceedings

The Company is not a party to, nor is its property the subject of, any material pending legal proceedings.

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

None.

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 American Stock Exchange (Symbol: FRD).

Reference is hereby made to the sections of the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2005, 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 May 27, 2005 was 450.

Item 6. Selected Financial Data

Information with respect to Item 6 is hereby incorporated herein by reference from the section of the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2005, entitled "Selected Financial Data".

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, 2005, entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business the Company is exposed to market risk primarily from changes in the cost of steel in inventory and in interest rates. The Company closely monitors exposure to market risks and develops appropriate strategies to manage risk. With respect to steel purchases, there is no recognized market to purchase derivative financial instruments to reduce the inventory exposure risk on changing commodity prices. The exposure to market risk associated with interest rates relates primarily to debt. Recent debt balances are minimal and, as a result, direct exposure to interest rates changes is not significant.

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, 2005, are hereby incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2005 and 2004

Consolidated Statements of Earnings — Years ended March 31, 2005, 2004 and 2003

Consolidated Statements of Stockholders' Equity — Years ended March 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows — Years ended March 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements — March 31, 2005

Report of Independent Registered Public Accounting Firm

Information with respect to supplementary financial information relating to the Company appears in Note 8 — 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, 2005.

The following supplementary schedule for the Company for the year ended March 31, 2005, 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 Securities and Exchange Commission 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 (CFO), 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 CFO 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 recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2005 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 and Executive Officers of the Registrant

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 2005 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2005 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 report.

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 2005 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2005 fiscal year.

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

Equity Compensation Plan Information

The following table sets forth certain equity compensation plan information for the Company as of March 31, 2005:

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	224,718	$ 2.62	16,314
Equity compensation plans not approved by security holders(1)	N/A	N/A	1,200

(1) The 2000 Non-Employee Director Stock Plan (the "Director Plan") was approved by the Company's Board of Directors in September 2000. The Director Plan provides that, on October 15th of each year in which the Director Plan is in effect and shares are available for the grant of awards under the Director Plan, each member of the Company's Board of Directors who is not an employee of the Company ("Outside Directors") and who has served as a director of the Company for at least the twelve immediately preceding calendar months shall automatically be granted 400 shares of Common Stock. Such Outside Directors are not required to pay any cash consideration when they receive an award. If an employee director retires from employment with the Company, he shall become eligible to participate in the Director Plan upon his re-election as an Outside Director. Under the Director Plan, the total number of shares of Common Stock with respect to which awards may be granted shall not exceed 11,600 shares. The Board of Directors may terminate, amend or modify the Director Plan at any time. If the Company merges or consolidates with another entity and is not the

surviving corporation or if the Company is liquidated or sells or otherwise disposes of substantially all of its assets, the Director Plan will terminate automatically on the effective date of such merger, consolidation, liquidation, sale or other disposition.

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 2005 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2005 fiscal year.

Item 13. Certain Relationships and Related Transactions

Information with respect to Item 13 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2005 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2005 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 2005 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2005 fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(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, 2005, which is incorporated herein by reference.

Consolidated Balance Sheets — March 31, 2005 and 2004

Consolidated Statements of Earnings — Years ended March 31, 2005, 2004 and 2003

Consolidated Statements of Stockholders' Equity — Years end March 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows — Years ended March 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements — March 31, 2005

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 Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

3. Exhibits

Exhibit No.	Description
3.1	— Articles of Incorporation of the Company, as amended, filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1982, and incorporated herein by reference.
3.2	— Articles of Amendment to the Articles of Incorporation of the Company, as filed with the Texas Secretary of State on September 22, 1987, filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1988, and incorporated herein by reference.
3.3	— Bylaws of the Company, amended as of March 27, 1992, filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1992, and incorporated herein by reference.
4.1	— Reference is made to Exhibits 10.2, 10.5, 10.6, 10.9, 10.11 and 10.12 described in this Item 16(a).
*10.1	— Friedman Industries, Incorporated 1989 Incentive Stock Option Plan, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1991, and incorporated herein by reference.
10.2	— Amended and Restated Letter Agreement dated April 1, 1995, between the Company and Texas Commerce Bank National Association ("TCB") regarding an $8,000,000 revolving line of credit filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1995 and incorporated herein by reference.
10.3	— Lease Agreement between Judson Plaza, Inc. and the Company dated March 16, 1996, regarding the lease of office space (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1996).

Exhibit No.	Description
*10.4	— Friedman Industries, Incorporated 1996 Stock Option Plan (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1997).
10.5	— First Amendment to Amended and Restated Letter Agreement between the Company and TCB dated April 1, 1997 (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1997).
10.6	— Second Amendment to Amended and Restated Letter Agreement between the Company and TCB dated July 21, 1997 (filed as an exhibit to and incorporated by reference from the Company's Report on Form 10-Q for the three months ended June 30, 1997).
*10.7	— First Amendment to the Friedman Industries, Incorporated 1989 Incentive Stock Option Plan (filed as an exhibit to and incorporated by reference from the Company's Report on Form 10-Q for the three months ended September 30, 1997).
*10.8	— Friedman Industries, Incorporated 2000 Non-Employee Director Stock Plan (filed as an exhibit to and incorporated by reference from the Company's Registration Statement on Form S-8 (Registration No. 333-47262)).
10.9	— Third Amendment to the Amended and Restated Letter Agreement dated April 1, 1999 between the Company and Chase Bank of Texas (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 1999).
10.10	— Addendum to Lease Agreement between Judson Plaza, Inc. and the Company dated April 12, 2001 (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2001).
10.11	— Fourth Amendment to the Amended and Restated Letter Agreement dated June 1, 2001 between The Chase Manhattan Bank and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2001).
10.12	— Fifth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2003 (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2003).
10.13	— Revolving Promissory Note dated April 1, 2003 between the Company and J.P. Morgan Chase Bank (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2003).
10.14	— Stock Purchase Agreement dated December 13, 2004, by and between Harold Friedman and the Company (incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on December 13, 2004).
10.15	— Agreement dated December 13, 2004, by and between Harold Friedman and the Company (incorporated by reference from Exhibit 10.2 to the Company's current report on Form 8-K filed on December 13, 2004).
**13.1	— The Company's Annual Report to Shareholders for the fiscal year ended March 31, 2005.
**14.1	— Friedman Industries, Incorporated Code of Conduct and Ethics.
**21.1	— List of Subsidiaries.

Exhibit No.	Description
**23.1	— Consent of Independent Registered Public Accounting Firm.
**31.1	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Jack Friedman.
**31.2	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper.
**32.1	— Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Jack Friedman.
**32.2	— Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper.

* Management contract or compensation plan.

** Filed herewith.

Copies of exhibits filed as a part of this Annual Report on Form 10-K may be obtained by shareholders of record at a charge of $.10 per page. Direct inquiries to: Benny Harper, Senior Vice President — Finance, Friedman Industries, Incorporated, P. O. Box 21147, Houston, Texas 77226.

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, in the City of Houston, and State of Texas, this 28th day of June, 2005.

FRIEDMAN INDUSTRIES, INCORPORATED

By: /s/ JACK FRIEDMAN

Jack Friedman
Chairman of the Board
and Chief Executive Officer

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

Signature	Title	Date
/s/ JACK FRIEDMAN Jack Friedman	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	June 28, 2005
/s/ WILLIAM E. CROW William E. Crow	President, Chief Operating Officer and Director	June 28, 2005
/s/ BENNY B. HARPER Benny B. Harper	Senior Vice President — Finance Secretary/Treasurer (Principal Financial and Accounting Officer)	June 28, 2005
/s/ HAROLD FRIEDMAN Harold Friedman	Director	June 28, 2005
/s/ CHARLES W. HALL Charles W. Hall	Director	June 28, 2005
/s/ ALAN M. RAUCH Alan M. Rauch	Director	June 28, 2005
/s/ HERSHEL M. RICH Hershel M. Rich	Director	June 28, 2005
/s/ KIRK K. WEAVER Kirk K. Weaver	Director	June 28, 2005
/s/ JOE L. WILLIAMS Joe L. Williams	Director	June 28, 2005

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

FRIEDMAN INDUSTRIES, INCORPORATED

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts — Describe(A)	Deductions — Describe(B)	Balance at End of Period
Year ended March 31, 2005					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	$ 44,776	$ 166,201	$ 808,775	$ 982,476	$ 37,276
Year ended March 31, 2004					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	$ 7,276	$ 188,508	$ 537,205	$ 688,213	$ 44,776
Year ended March 31, 2003					
Allowance for doubtful accounts receivable (deducted from related asset account)	$ 7,276	$ 80,275	—	$ 80,275	$ 7,276

(A) Cash discounts allowed on sales and charged against revenue.

(B) Accounts receivable written off and cash discounts allowed on sales.

EXHIBIT INDEX

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3.1	— Articles of Incorporation of the Company, as amended, filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1982, and incorporated herein by reference.
3.2	— Articles of Amendment to the Articles of Incorporation of the Company, as filed with the Texas Secretary of State on September 22, 1987, filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1988, and incorporated herein by reference.
3.3	— Bylaws of the Company, amended as of March 27, 1992, filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1992, and incorporated herein by reference.
4.1	— Reference is made to Exhibits 10.2, 10.5, 10.6, 10.9, 10.11 and 10.12 described in this Item 16(a).
*10.1	— Friedman Industries, Incorporated 1989 Incentive Stock Option Plan, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1991, and incorporated herein by reference.
10.2	— Amended and Restated Letter Agreement dated April 1, 1995, between the Company and Texas Commerce Bank National Association ("TCB") regarding an $8,000,000 revolving line of credit filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended March 31, 1995 and incorporated herein by reference.
10.3	— Lease Agreement between Judson Plaza, Inc. and the Company dated March 16, 1996, regarding the lease of office space (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1996).
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10.11	— Fourth Amendment to the Amended and Restated Letter Agreement dated June 1, 2001 between The Chase Manhattan Bank and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2001).

Exhibit No.	Description
10.12	— Fifth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2003 (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2003).
10.13	— Revolving Promissory Note dated April 1, 2003 between the Company and J.P. Morgan Chase Bank (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2003).
10.14	— Stock Purchase Agreement dated December 13, 2004, by and between Harold Friedman and the Company (incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K filed on December 13, 2004).
10.15	— Agreement dated December 13, 2004, by and between Harold Friedman and the Company (incorporated by reference from Exhibit 10.2 to the Company's current report on Form 8-K filed on December 13, 2004).
**13.1	— The Company's Annual Report to Shareholders for the fiscal year ended March 31, 2005.
**14.1	— Friedman Industries, Incorporated Code of Conduct and Ethics.
**21.1	— List of Subsidiaries.
**23.1	— Consent of Independent Registered Public Accounting Firm.
**31.1	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Jack Friedman.
**31.2	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper.
**32.1	— Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Jack Friedman.
**32.2	— Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper.

* Management contract or compensation plan.

** Filed herewith.

Copies of exhibits filed as a part of this Annual Report on Form 10-K may be obtained by shareholders of record at a charge of $.10 per page. Direct inquiries to: Benny Harper, Senior Vice President — Finance, Friedman Industries, Incorporated, P. O. Box 21147, Houston, Texas 77226.

EXHIBIT 13.1

THE COMPANY'S ANNUAL
REPORT TO SHAREHOLDERS FOR
THE FISCAL YEAR ENDED MARCH 31, 2005

FRIEDMAN INDUSTRIES INCORPORATED 2005 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

	2005	2004
Net sales	**$188,022,253**	$116,158,567
Net earnings	**6,246,043**	$2,535,991
Net earnings per share (Basic)	**$0.84**	$0.33
Cash dividends per share	**$0.29**	$0.10
Stockholders' equity	**$35,354,550**	$33,031,604
Working capital	**$28,539,243**	$25,189,938

TO OUR SHAREHOLDERS:

As can be seen in the above financial highlights, the Company experienced an outstanding year in fiscal 2005. Strong demand for the Company's products and services throughout the year generated record sales and earnings.

Currently, management is sensing some weakness in the market for steel products. As volume has remained generally stable, selling prices and cost of material have decreased since March 31, 2005. It is difficult to determine if this weakness is temporary. However, management is focused on the markets and continues its efforts to maintain assets and liabilities at levels commensurate with operations.

You are cordially invited to attend the Annual Meeting of Shareholders to be held on September 8, 2005. The meeting will be held at 11:00 a.m. in the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Suite 5100, Houston, Texas.

Sincerely,

-s- JACK FRIEDMAN

Jack Friedman
Chairman of the Board
and Chief Executive Officer

OFFICERS

Jack Friedman
Chairman of the Board and
Chief Executive Officer

William E. Crow
President and Chief Operating Officer

Benny B. Harper
Senior Vice President — Finance
and Secretary/Treasurer

Thomas N. Thompson
Senior Vice President — Sales and Marketing

Ronald L. Burgerson
Vice President

Dale Ray
Vice President

Howard Henderson
Vice President of Operations — Texas Tubular Division

Robert Sparkman
Vice President of Sales — Coil Divisions

Charles W. Hall
Assistant Secretary

COMPANY OFFICES AND WEB SITE

CORPORATE OFFICE
4001 Homestead Road
Houston, Texas 77028
713-672-9433

SALES OFFICE — COIL PRODUCTS
1121 Judson Road
Longview, Texas 75606
903-758-3431

SALES OFFICE — TUBULAR PRODUCTS
P.O. Box 0388
Lone Star, Texas 75668
903-639-2511

WEB SITE
www.friedmanindustries.com

COUNSEL
Fulbright & Jaworski L.L.P.
Fulbright Tower
1301 McKinney, Suite 5100
Houston, Texas 77010

AUDITORS
Ernst & Young LLP
1401 McKinney, Suite 1200
Houston, Texas 77010

TRANSFER AGENT AND REGISTRAR
American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10007

DIRECTORS

Jack Friedman
Chairman of the Board and
Chief Executive Officer

William E. Crow
President and Chief Operating Officer

Harold Friedman
Former Vice Chairman of the Board
Houston, Texas

Charles W. Hall
Fulbright & Jaworski L.L.P. (law firm)
Houston, Texas

Alan M. Rauch
President, Ener-Tex

International, Inc.
(oilfield equipment sales)
Houston, Texas

Hershel M. Rich
Private investor and
business consultant
Houston, Texas

Kirk K. Weaver
President, FXI Corporation
(technology support services)
Houston, Texas

Joe L. Williams
Managing Director,
Acordia of Texas, Inc.
(insurance and risk management)
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, 2005 as filed with the Securities and Exchange Commission. Written requests should be addressed to: Benny B. Harper, Senior Vice President, Friedman Industries, Incorporated, P.O. Box 21147, Houston, Texas 77226.

DESCRIPTION OF BUSINESS

Friedman Industries, Incorporated is engaged in pipe manufacturing and processing, steel processing and steel and pipe distribution.

At its facilities in Lone Star, Texas, and Hickman, Arkansas, the Company processes hot-rolled steel coils into flat, finished sheet and plate and sells these products on a wholesale, rapid-delivery basis in competition with steel mills, importers and steel service centers. The Company also processes customer-owned coils on a fee basis. In addition, through its XSCP Division located in Hickman, Arkansas, the Company purchases and markets non-standard hot-rolled coils received from Nucor Steel Company ("NSC"). The Company purchases a substantial amount of its annual coil tonnage from Lone Star Steel Company ("LSS") and NSC. Loss of LSS or NSC as a source of coil supply could have a material adverse effect on the Company's business.

The Company sells its coil products and processing services directly through the Company's own sales force to approximately 250 customers located primarily in the midwestern, southwestern and southeastern sections of the United States. These products and services are sold principally to steel distributors and to customers fabricating steel products such as storage tanks, steel buildings, farm machinery and equipment, construction equipment, transportation equipment, conveyors and other similar products.

The Company, through its Texas Tubular Products Division located in Lone Star, Texas, manufactures, purchases, processes and markets tubular products ("pipe"). The Company sells pipe nationally to approximately 260 customers and sells a substantial amount of manufactured pipe to LSS. The Company purchases a substantial portion of its annual supply of pipe and coil material used in pipe production from LSS. Loss of LSS as a source of such pipe and coil material supply or as a customer of manufactured pipe 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 7 of Notes to the Company's Consolidated Financial Statements appearing herein.

RANGE OF HIGH AND LOW SALES PRICES OF COMMON STOCK

	Fiscal 2005		Fiscal 2004	
	High	Low	High	Low
First Quarter	4.65	3.05	2.75	2.30
Second Quarter	6.55	4.50	3.64	2.53
Third Quarter	12.00	5.50	3.50	2.88
Fourth Quarter	16.56	6.41	4.45	3.15

CASH DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

	Fiscal 2005	Fiscal 2004
First Quarter	$.05	$.03
Second Quarter	$.08	$.03
Third Quarter	$.08	$.02
Fourth Quarter	$.08	$.02

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

The approximate number of shareholders of record of the Company as of May 27, 2005 was 450.

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2005	March 31 2004
CURRENT ASSETS:		
Cash and cash equivalents	**$ 205,375**	$ 1,984,763
Accounts receivable, net of allowances for bad debts and cash discounts of $37,276 and $44,776 in 2005 and 2004, respectively	**16,403,036**	14,688,702
Inventories	**25,857,240**	21,043,992
Prepaid federal income taxes	**892,104**	—
Other	**141,004**	112,244
TOTAL CURRENT ASSETS	**43,498,759**	37,829,701
PROPERTY, PLANT, AND EQUIPMENT:		
Land	**478,618**	437,793
Buildings and yard improvements	**4,088,149**	4,088,149
Machinery and equipment	**18,896,907**	18,013,461
Less accumulated depreciation	**(16,725,869)**	(15,846,288)
	6,737,805	6,693,115
OTHER ASSET:		
Cash value of officers' life insurance	**559,778**	1,302,613
Deferred income taxes	**—**	202,694
TOTAL ASSETS	**$ 50,796,342**	$ 46,028,123

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31 2005	March 31 2004
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	**$ 13,474,128**	$ 10,204,653
Current portion of long-term debt	**2,897**	63,037
Dividends payable	**571,180**	151,500
Income taxes payable	**—**	1,134,433
Contribution to profit sharing plan	**274,000**	280,000
Employee compensation and related expenses	**637,311**	806,140
TOTAL CURRENT LIABILITIES	**14,959,516**	12,639,763
DEFERRED INCOME TAXES	**86,856**	—
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	**395,420**	356,756
STOCKHOLDERS' EQUITY:		
Common stock, par value $1:		
Authorized shares — 10,000,000		
Issued shares — 7,764,215 in 2005 and 7,575,239 in 2004	**7,764,215**	7,575,239
Additional paid-in capital	**28,492,619**	27,714,669
Treasury stock at cost (624,468 shares at March 31, 2005 and 0 shares at March 31, 2004)	**(2,768,785)**	—
Retained earnings (deficit)	**1,866,501**	(2,258,304)
TOTAL STOCKHOLDERS' EQUITY	**35,354,550**	33,031,604
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 50,796,342**	$ 46,028,123

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended March 31		
	2005	2004	2003
Sales	**$ 188,022,253**	$ 116,158,567	$ 106,082,738
Costs and expenses:			
Cost of products sold	**172,260,349**	107,316,507	99,667,017
Selling, general, and administrative	**5,663,317**	4,827,728	4,056,744
Interest expense	**15,638**	35,253	71,700
	177,939,304	112,179,488	103,795,461
	10,082,949	3,979,079	2,287,277
Interest and other income	**146,354**	56,595	109,674
EARNINGS BEFORE INCOME TAXES	**10,229,303**	4,035,674	2,396,951
Income taxes:			
Current	**3,693,710**	1,985,835	1,163,036
Deferred	**289,550**	(486,152)	(198,102)
	3,983,260	1,499,683	964,934
NET EARNINGS	**$ 6,246,043**	$ 2,535,991	$ 1,432,017
Average number of common shares outstanding:			
Basic	**7,418,410**	7,574,070	7,572,239
Diluted	**7,552,131**	7,640,546	7,589,900
Net earnings per share:			
Basic	**$ .84**	$ .33	$ .19
Diluted	**$ .83**	$ .33	$ .19

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Deficit)
BALANCE AT MARCH 31, 2002	$ 7,571,239	$ 27,707,309	—	$ (4,787,197)
Net earnings	—	—	—	1,432,017
Issuance of Directors' shares	2,000	3,060	—	—
Cash dividends ($0.09 per share)	—	—	—	(681,677)
BALANCE AT MARCH 31, 2003	7,573,239	27,710,369	—	(4,036,857)
Net earnings	—	—	—	2,535,991
Issuance of Directors' shares	2,000	4,300	—	—
Cash dividends ($0.10 per share)	—	—	—	(757,438)
BALANCE AT MARCH 31, 2004	7,575,239	27,714,669	—	(2,258,304)
Net earnings	—	—	—	6,246,043
Issuance of Directors' shares	2,000	9,800	—	—
Exercise of stock options	186,976	286,527	—	—
Tax benefit of stock options exercised	—	481,623	—	—
Cash dividends($0.29 per share)	—	—		(2,121,238)
Treasury stock (624,468 shares)	—	—	$ (2,768,785)	—
BALANCE AT MARCH 31, 2005	**$ 7,764,215**	**$ 28,492,619**	**$ (2,768,785)**	**$ 1,866,501**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31		
	2005	2004	2003
OPERATING ACTIVITIES			
Net earnings	**$ 6,246,043**	$ 2,535,991	$ 1,432,017
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation	**908,382**	916,260	967,003
Deferred taxes	**289,550**	(486,152)	(198,102)
Change in post retirement benefits	**38,664**	200,756	(7,000)
Tax benefit of stock options exercised	**481,623**	—	—
Changes in operating assets and liabilities:			
Accounts receivable	**(1,714,334)**	(4,722,641)	(2,480,844)
Inventories	**(4,813,248)**	2,988,276	(530,067)
Prepaid federal income taxes	**(892,104)**	—	—
Other assets	**(28,760)**	(14,200)	37,632
Accounts payable and accrued expenses	**3,269,475**	333,765	517,502
Contribution to profit sharing plan	**(6,000)**	20,000	—
Employee compensation and related expenses	**(168,829)**	528,216	91,136
Federal income taxes payable	**(1,134,433)**	727,813	319,148
Net cash provided by operating activities	**2,476,029**	3,028,084	148,425
INVESTING ACTIVITIES			
Purchase of property, plant, and equipment	**(953,613)**	(821,209)	(604,735)
Proceeds from sale of asset	**542**	—	—
(Increase) decrease in cash value of officers' life insurance	**742,835**	(81,354)	(81,184)
Net cash used in investing activities	**(210,236)**	(902,563)	(685,919)
FINANCING ACTIVITIES			
Cash dividends paid	**(1,702,610)**	(757,398)	(605,782)
Proceeds from borrowings of long-term debt	**5,000,000**	2,000,000	104,239
Principal payments on long-term debt	**(5,060,140)**	(2,062,787)	(2,865,747)
Payments on loans against life insurance	**—**	—	(111,043)
Purchase of treasury stock	**(2,767,734)**	—	—
Stock awards and options exercised	**485,303**	6,300	5,060
Net cash used in financing activities	**(4,045,181)**	(813,885)	(3,473,273)
Increase (decrease) in cash and cash equivalents	**(1,779,388)**	1,311,636	(4,010,767)
Cash and cash equivalents at beginning of year	**1,984,763**	673,127	4,683,894
Cash and cash equivalents at end of year	**$ 205,375**	$ 1,984,763	$ 673,127

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

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: Revenues are recognized upon shipment of products. The terms of shipments made by the Company are free on board shipping point.

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, 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. Past-due receivable balances are written-off when the Company’s internal collection efforts have been unsuccessful in collecting the amount due.

CASH AND CASH EQUIVALENTS: The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

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 finished goods and tubular inventory consists of both raw materials and finished goods. Inventories are valued at the lower of cost or replacement market. Cost for prime coil inventory is determined under the last-in, first-out (“LIFO”) method. During the year ended March 31, 2004 earnings before income taxes include a benefit of approximately $950,000 from the liquidation of LIFO inventory quantities carried at lower costs prevailing in prior year as compared to respective current costs of purchases. At March 31, 2005, March 31, 2004 and March 31, 2003, replacement cost exceeded LIFO cost by approximately $8,200,000, $4,320,000 and $990,000, respectively. Cost for non-standard coil inventory is determined using the specific identification method. Cost for tubular inventory is determined using the weighted average method.

The following is a summary of inventory by product group:

	March 31	
	2005	2004
Prime coil inventory	**$ 7,497,674**	$ 4,976,300
Non-standard coil inventory	**530,084**	4,181,815
Tubular raw material	**4,341,204**	3,515,060
Tubular finished goods	**13,488,278**	8,370,817
	$ 25,857,240	$ 21,043,992

PROPERTY, PLANT, AND EQUIPMENT: On April 1, 2002, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (“SFAS No. 144”). That statement requires that assets held-for-sale be recorded at the lower of their carrying amount or their fair value less cost to sell. Held-for-sale assets are not depreciated. Assets are classified as held-for-sale only if (i) management commits to a plan to sell the asset, (ii) the asset is available for immediate sale, (iii) the asset is actively being marketed for sale at a price that is reasonable in relation to its current fair value and (iv) management believes the sale of the asset is probable and expects transfer within one year. No assets met the definition of held-for-sale at March 31, 2005 and 2004. Property, plant, and equipment are stated at cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the various classes of assets as follows:

Buildings	20 years
Machinery and equipment	10 years
Improvements	5 to 10 years
Loaders and other rolling stock	5 years

Interest costs incurred during construction projects are capitalized as part of the cost of such assets. No interest was capitalized for the years presented. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. No impairments were necessary at March 31, 2005 or 2004.

Maintenance and repairs are expensed as incurred.

SUPPLEMENTAL CASH FLOW INFORMATION: The Company paid interest of approximately $15,700 in 2005, $35,300 in 2004, and $87,307 in 2003. The Company paid income taxes, net of refunds, of $4,891,061 in 2005, $1,065,000 in 2004, and $617,000 in 2003.

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

FINANCIAL INSTRUMENTS: Since the Company's financial instruments are short term in nature, the carrying value approximates fair value.

RECLASSIFICATIONS: Certain reclassifications have been made to prior period amounts to conform with the current year presentation.

STOCK BASED COMPENSATION: The Company follows Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The following schedule reflects the impact on net income and earnings per common share if the Company had applied the fair value recognition provisions of Statements of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* to stock based employee compensation for the years ended March 31:

	2005	2004	2003
Reported net income	$ 6,246,043	$ 2,535,991	$ 1,432,017
Less: compensation expenses per SFAS No. 123, net of tax	-0-	31,582	113,685
Pro forma net income	$ 6,246,043	$ 2,504,409	$ 1,318,332
BASIC EARNINGS PER COMMON SHARE:			
Reported net income	.84	.33	.19
Less: compensation expense per SFAS No. 123, net of tax	.00	.00	.02
Pro forma net income	.84	.33	.17
DILUTED EARNINGS PER COMMON SHARE:			
Reported net income	.83	.33	.19
Less: compensation expense per SFAS No. 123, net of tax	.00	.00	.02
Pro forma net income	.83	.33	.17

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of options granted in fiscal 2003 was estimated using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.0%, a dividend yield of 3.4%, volatility factor of the expected market price of the Company's common stock of 0.42, and a weighted average expected life of the option of four years. There were no options granted in fiscal 2005 and 2004.

The Company also grants stock awards to outside directors and records these grants as expense.

ECONOMIC RELATIONSHIP: Lone Star Steel Company ("LSS") and Nucor Steel Company supply a significant amount of steel products to the Company. Loss of either of these mills as a source of supply could have a material adverse effect on the Company. Additionally, the Company derives revenue by selling a substantial amount of its manufactured pipe to LSS. Total sales to LSS were approximately 16%, 15% and 11% of total company sales in 2005, 2004, and 2003, respectively. Loss of LSS as a customer could have a material adverse effect on the Company's business. Other than LSS, no customer accounted for 10% of total sales in the three years ended March 31, 2005, except Trinity Industries, Inc. which accounted for approximately 11% of total sales in fiscal 2005.

The Company's sales are concentrated primarily in the midwestern, southwestern, and southeastern sections 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.

NEW ACCOUNTING PRONOUNCEMENT: In December 2004, the Financial Accounting Standards Board (FASB) issued Statement Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The SEC has deferred the implementation date and the Company is now required to adopt SFAS 123(R) no later than April 1, 2006. SFAS 123(R) permits adoption using one of two methods, a modified prospective method ("Prospective Method") or a modified retrospective method ("Retrospective Method"). With the Prospective Method, costs are recognized beginning with the effective date based on the requirements of SFAS 123(R) for (i) all share-based payments granted after the effective date of SFAS 123(R), and (ii) all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. The Retrospective Method applies the requirements of the Prospective Method but further permits entities to restate all prior periods presented based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures. The Company has currently not determined which method it will use and therefore, the impact of the adoption of SFAS 123(R) cannot be reasonably estimated at this time. The effect of expensing stock options using the Black-Scholes model is presented in the pro forma disclosure above.

2. STOCK OPTIONS AND CAPITAL STOCK

Under the Company's 1989 and 1996 Stock Option Plans, options were granted to certain officers and key employees to purchase common stock of the Company. Pursuant to the terms of the plans, 16,314 additional options may be granted. All options have ten-year terms and become

2. CAPITAL STOCK AND STOCK OPTIONS (Continued)

fully exercisable at the end of six months of continued employment. The following is a summary of activity relative to options outstanding during the years ended March 31:

	2005		2004		2003	
	Shares	**Weighted Average Exercise Price**	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of year	**411,694**	**$ 2.58**	411,694	$ 2.58	154,293	$ 3.01
Granted	**—**	**—**	—	—	265,000	$ 2.33
Exercised	**(186,976)**	**$ 2.53**	—	—	—	—
Canceled	**—**	**—**	—	—	(7,599)	$ 2.78
Outstanding at end of year	**224,718**	**$ 2.62**	411,694	$ 2.58	411,694	$ 2.58
Exercisable at end of year	**224,718**	**$ 2.62**	411,694	$ 2.58	146,694	$ 3.03
Weighted average fair value of options granted during the year		**—**		—		$ 2.33

Outstanding and exercisable stock options at March 31, 2005, were as follows:

		Outstanding		Exercisable	
Range of Exercise Price	**Weighted Average Remaining Years**	**Shares**	**Weight Average Exercise Price**	**Shares**	**Weight Average Exercise Price**
$2.33 - $2.45	7.5	145,297	$ 2.33	145,297	$ 2.33
$3.13	1.0	79,421	$ 3.13	79,421	$ 3.13
	5.2	224,718		224,718	

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.

3. LONG-TERM DEBT AND COMMITMENTS AND CONTINGENCIES

The Company has a credit arrangement with a bank which provides for a revolving line of credit facility (the “revolving facility”). Pursuant to the revolving facility which expires April 1, 2006, the Company may borrow up to $6 million at the bank’s prime rate or at 1.5% over LIBOR. At March 31, 2005 and 2004, the Company did not have borrowings outstanding under the revolving facility. The Company entered into certain notes payable related to the purchase of certain pipe loading equipment. The annual principal payments required on these notes payable including the current portion thereon during the next five years are as follows:

2006	$ 2,897
2007	—
2008	—
2009	—
2010	—
Total	$ 2,897

The Company is obligated under an operating lease for its Longview, Texas office building that expires on April 30, 2008. The following is a schedule of future minimum annual rental payments required under this operating lease as of March 31, 2005:

3. LONG-TERM DEBT AND COMMITMENTS AND CONTINGENCIES (Continued)

2006	$ 27,264
2007	27,264
2008	27,264
2009	2,272
2010	—
Thereafter	—
Total	$ 84,064

Rental expense for leased properties was $27,264, $27,264 and $131,629 during fiscal 2005, 2004 and 2003, respectively.

4. EARNINGS PER SHARE

Basic and dilutive net income per share is computed based on the following information:

	Year Ended March 31		
	2005	2004	2003
Basic			
Net income	**$ 6,246,043**	$ 2,535,991	$ 1,432,017
Average common shares	**7,418,410**	7,574,070	7,572,239
Dilutive			
Net income	**$ 6,246,043**	$ 2,535,991	$ 1,432,017
Average common shares	**7,418,410**	7,574,070	7,572,239
Common share equivalents:			
Options	**133,721**	66,476	17,661
Total common share equivalents	**133,721**	66,476	17,661
Average common shares and common equivalents	**7,552,131**	7,640,546	7,589,900

5. INCOME TAXES

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

	March 31	
	2005	2004
Deferred tax liabilities:		
Depreciation	**$ (814,504)**	$ (650,000)
Total deferred tax liabilities	**(814,504)**	(650,000)
Deferred tax assets:		
Inventory capitalization	**71,423**	90,047
Inventory reserve	**460,771**	570,000
Postretirement benefits other than pensions	**134,443**	124,100
Other	**61,011**	68,547
Total deferred tax assets	**727,648**	852,694
Net deferred tax asset (liability)	**$ (86,856)**	$ 202,694

5. INCOME TAXES (Continued)

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

	Year Ended March 31		
	2005	2004	**2003**
Income Tax Expense at U.S. federal statutory rate	**34.0%**	34.0%	34.0%
State and local income tax rates net of federal income tax benefit	**4.9**	3.2	6.3
Provision for income taxes	**38.9%**	37.2%	40.3%

Components of tax expense follows:

	Year Ended March 31		
	2005	2004	**2003**
Federal			
Current	**$ 2,934,088**	$ 1,792,570	$ 935,807
Deferred	**289,550**	(486,152)	(198,102)
	3,223,638	1,306,418	737,705
State			
Current	**759,622**	193,265	227,229
	759,622	193,265	227,229
Total	**$ 3,983,260**	$ 1,499,683	$ 964,934

6. PROFIT SHARING PLAN AND OTHER POSTRETIREMENT BENEFITS

The Company has a defined contribution plan (the “Plan”) covering substantially all employees, including officers. Company contributions, which are made 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 $276,000 for the year ended March 31, 2005, $280,000 for the year ended March 31, 2004, and $260,000 for the year ended March 31, 2003. The employees fully vest in the Plan upon completion of 7 years of service. Contributions, Plan earnings, and forfeitures of terminated participants’ nonvested accounts are allocated to the individual accounts of participating employees based on compensation received during the plan year and years of active service with the Company.

Employees of the Company may participate in a 401(k) retirement plan (the “401(k) plan”). Employees are eligible to participate in the 401(k) plan when the employee has completed one year of service. Under the 401(k) 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 401(k) plan. Employees fully vest in the Company’s matching contributions upon the completion of 7 years of service. Contribution expense related to the 401(k) plan was approximately $40,000, $28,000 and $27,000 for the years ended March 31, 2005, 2004 and 2003, respectively.

7. INDUSTRY SEGMENT DATA

The Company is engaged in pipe manufacturing and processing and steel and pipe distribution business. Within the Company, there are two product groups: coil and tubular. Coil product involves converting steel coils into flat sheet and plate steel cut to customer specifications and reselling steel coils. Through its tubular operation, 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		
	2005	2004	**2003**
NET SALES:			
Coil	**$ 104,312,715**	$ 62,372,496	$ 60,416,662
Tubular	**83,709,538**	53,786,071	45,666,076
TOTAL NET SALES	**$ 188,022,253**	$ 116,158,567	$ 106,082,738
OPERATING PROFIT:			
Coil	**$ 4,283,911**	$ 3,026,372	$ 1,786,570
Tubular	**9,021,863**	3,704,082	2,545,695
TOTAL OPERATING PROFIT	**13,305,774**	6,730,454	4,332,265
General corporate expenses	**(3,207,187)**	(2,716,122)	(1,973,288)
Interest expense	**(15,638)**	(35,253)	(71,700)
Interest and other income	**146,354**	56,595	109,674
TOTAL EARNINGS BEFORE TAXES	**$ 10,229,303**	$ 4,035,674	$ 2,396,951
IDENTIFIABLE ASSETS:			
Coil	**$ 20,724,554**	$ 21,770,013	$ 18,967,495
Tubular	**28,300,933**	20,623,515	21,848,558
	49,025,487	42,393,528	40,816,053
General corporate assets	**1,770,855**	3,634,595	1,962,873
TOTAL ASSETS	**$ 50,796,342**	$ 46,028,123	$ 42,778,926
DEPRECIATION:			
Coil	**$ 624,654**	$ 744,759	$ 804,463
Tubular	**248,542**	151,250	141,384
Corporate and other	**35,186**	20,251	21,156
	$ 908,382	$ 916,260	$ 967,003
CAPITAL EXPENDITURES:			
Coil	**$ 113,243**	$ 30,457	$ 56,494
Tubular	**815,145**	715,426	514,623
Corporate and other	**25,225**	75,326	33,618
	$ 953,613	$ 821,209	$ 604,735

Operating profit is total revenue 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, accrued profit sharing expense, accrued quarterly incentive bonuses, corporate insurance expenses and office supplies. Corporate assets consist primarily of cash and cash equivalents, prepaid federal income taxes, deferred income taxes and the cash value of officers' life insurance. Although inventory is transferred at cost between product groups, there are no sales between product groups.

8. SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended March 31, 2005 and 2004:

	Quarter Ended			
	June 30 2004	**September 30 2004**	**December 31 2004**	**March 31 2005**
Net sales	$ 44,915,704	$ 49,020,241	$ 43,434,081	$ 50,652,227
Gross profit	4,200,547	5,025,949	3,156,238	3,379,170
Net earnings	1,618,829	2,261,133	1,220,609	1,145,472
Basic(1)	.21	.30	.16	.16
Diluted(1)	.21	.29	.16	.16

	Quarter Ended			
	June 30 2003	**September 30 2003**	**December 31 2003**	**March 31 2004**
Net sales	$ 25,204,170	$ 25,410,689	$ 24,977,857	$ 40,565,851
Gross profit	1,948,657	1,499,757	949,065	4,444,581
Net earnings	467,265	291,262	10,117	1,767,347(2)
Basic	.06	.04	.00	.23
Diluted	.06	.04	.00	.23

(1) The sum of the quarterly earnings per share does not equal the annual amount reported as per share amounts are computed independently for each quarter.

(2) Includes the benefit of approximately $594,000 ($0.08 per share diluted) in net earnings from the liquidation of LIFO inventories.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Friedman Industries, Incorporated

We have audited the accompanying consolidated balance sheets of Friedman Industries, Incorporated and subsidiary as of March 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Friedman Industries, Incorporated and subsidiary at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Houston, Texas
June 27, 2005

SELECTED FINANCIAL DATA

	Year Ended March 31				
	2005	2004	**2003**	**2002**	**2001**
Net sales	**$ 188,022,253**	$ 116,158,567	$ 106,082,738	$ 97,817,956	$ 120,395,583
Net earnings	**6,246,043**	2,535,991	1,432,017	940,039	2,927,582
Total assets	**50,796,342**	46,028,123	42,778,926	43,986,455	48,010,512
Long-term debt	**—**	—	57,329	2,053,438	4,800,000
Stockholders' equity	**35,354,550**	33,031,604	31,246,751	30,491,351	30,378,150
Net earnings per share:					
Basic	**0.84**	0.33	0.19	0.12	0.39
Diluted	**0.83**	0.33	0.19	0.12	0.39
Cash dividends declared per share	**0.29**	0.10	0.09	0.11	0.16

See also Note 1 of Notes to the Company's Consolidated Financial Statements herein which describes the Company's relationship with its primary suppliers of steel products.

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

RESULTS OF OPERATIONS

Year ended March 31, 2005 compared to year ended March 31, 2004

During the year ended March 31, 2005, sales, costs of goods sold and gross profit increased $71,863,686, $64,943,842 and $6,919,844, from the respective amounts recorded during the year ended March 31, 2004. The increases in sales and costs of goods were related primarily to increases in the average per ton selling price and average per ton cost of goods sold of approximately 77% and 76%, respectively. Total tons shipped decreased from approximately 322,000 tons in fiscal 2004 to 294,000 tons in fiscal 2005. Gross profit benefited from improved margins. In fiscal 2005, gross profit and costs of goods as percentage of sales were approximately 8.4% and 91.6%, respectively, compared to 7.6% and 92.4%, respectively, in fiscal 2004. During fiscal 2005, the Company experienced a significant improvement in market conditions for its products as compared to market conditions during fiscal 2004.

Coil product segment sales increased approximately $41,940,000 during fiscal 2005. This increase was related primarily to an increase in the average per ton selling price. Tons shipped declined from approximately 173,000 tons in fiscal 2004 to 144,000 tons in fiscal 2005. Each of the Company's coil operations reflected a decrease in tons sold. However, approximately 59% of this overall decrease in tons sold was related to a reduction in tons sold by the Company's XSCP Division ("XSCP"). During fiscal 2005, XSCP, which markets non-standard coils received from Nucor Steel Company ("NSC"), agreed with NSC to suspend the purchase of non-standard coils. XSCP accounted for approximately 3% of the Company's total sales during fiscal 2005. The Company expects to continue XSCP operations. Currently, the Company is receiving limited shipments of non-standard coils from NSC. In the near term, management expects these limited shipments to continue. When not used by XSCP, XSCP operating assets can be used at the Company's Hickman, Arkansas coil facility ("Hickman"). Total coil operating profit as a percentage of coil segment sales decreased from 4.9% in fiscal 2004 to 4.1% in fiscal 2005. In fiscal 2004, coil operations experienced a liquidation of LIFO inventory which generated a one-time benefit of approximately $950,000 in operating income.

In fiscal 2005, the Company's Lone Star coil facility ("LSCF") continued to experience a lack of supply of coil products from its primary coil supplier, Lone Star Steel Company ("LSS"). LSCF, which accounted for approximately 7% of the Company's total sales in fiscal 2005, has from time to time purchased coils from other suppliers. However, freight costs associated with these purchases diminishes the Company's competitiveness in a very competitive industry. LSCF produced a profit from operations in fiscal 2005. A further reduction in supply could have an adverse effect on coil segment operations. Management confers regularly with LSS and continues to monitor this situation closely.

The Company is dependent on LSS and NSC for its supply of inventory. NSC continues to supply Hickman with steel coils in amounts that are adequate for the Company's purposes. While current levels are adequate to sustain the Company's operations, a reduction in the supply of steel coils could have an adverse effect on the Company's coil operations.

Tubular product segment sales increased approximately $29,923,000 during fiscal 2005. This increase resulted primarily from an approximate 54% increase in the average per ton selling price. Tons shipped in each fiscal year remained constant at approximately 150,000 tons. Tubular product segment operating profits as a percentage of segment sales were approximately 10.8% and 6.9% in fiscal 2005 and 2004, respectively. This segment benefited from significantly improved market conditions for tubular products during fiscal 2005 as compared to market conditions in fiscal 2004.

During fiscal 2005, LSS, the Company's primary supplier of tubular products and coil material used in pipe manufacturing, continued to supply such products in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from LSS.

During fiscal 2005, general, selling and administrative costs increased $835,589 from the amount recorded during fiscal 2004. This increase was related primarily to bonuses associated with increased earnings and an increase in legal and professional expenses.

Interest and other income increased $89,759 from the amount recorded during fiscal 2005. This increase was associated primarily with interest earned on improved invested cash positions during fiscal 2005.

Income taxes increased $2,483,577 from the comparable amount recorded during fiscal 2004. This increase was primarily related to the increase in earnings before taxes. The effective tax rates were 39% and 37% in fiscal 2005 and 2004, respectively. In fiscal 2005, the Company recorded taxes related to the surrender of life insurance policies and an increase in the net effect of state income taxes.

Year ended March 31, 2004 compared to year ended March 31, 2003

During the year ended March 31, 2004, sales, costs of goods sold and gross profit increased $10,075,829, $7,649,490 and $2,426,339, from the respective amounts recorded during the year ended March 31, 2003. The increases in sales and costs of goods sold were related primarily to increases in the average per ton selling price and the per ton cost of products of approximately 13% and 11%, respectively. The increase in gross profit was related primarily to the increase in sales and improved margins. Gross profits and costs of goods sold as a percentage of sales were approximately 7.6% and 92.4%, respectively, in fiscal 2004 compared to 6.0% and 94.0%, respectively, in fiscal 2003. The increase in gross margin was related primarily to the last quarter of fiscal 2004 in which the Company's operations benefited from stronger demand for its products and services and from the liquidation of LIFO inventories which generated a one-time benefit of approximately $950,000 in gross profit.

Coil product segment sales increased approximately $1,956,000 during fiscal 2004. The average per ton selling price increased approximately 14% as tonnage shipped declined from approximately 191,000 tons in fiscal 2003 to 173,000 tons in fiscal 2004. Coil segment operating profits as a percentage of segment sales were approximately 4.9% in fiscal 2004 and 3.0% in fiscal 2003. This segment benefited from stronger demand for its products and services and from the liquidation of LIFO inventories which contributed a one-time benefit to segment operations of approximately $950,000. In fiscal 2004, the Company's LSCF experienced a lack of supply of coil products from its primary coil supplier, LSS, which resulted in decreased sales. This facility's sales represented approximately 7% of the Company's total sales in fiscal 2004. This facility has from time to time purchased steel coils from other suppliers. However, the freight cost on such purchases diminishes the Company's competitiveness in an extremely competitive industry. While the supply of inventory in 2004 allowed this facility to operate at approximately a break-even point, a further reduction in supply could have an adverse effect on coil segment operations. Management confers with LSS regularly and continues to monitor this situation closely. Subsequent to March 31, 2004, XSCP, which markets non-standard coils received from NSC, agreed with NSC to suspend the purchase of non-standard coils. XSCP represented approximately 6% of the Company's total sales in fiscal 2004.

Tubular product segment sales increased approximately $8,120,000 during fiscal 2004. This increase resulted primarily from both an increase in the average per ton selling price of approximately 11% and an increase in tons sold from approximately 140,000 tons in fiscal 2003 to 149,000 tons in fiscal 2004. Tubular segment operating profits as a percentage of segment sales were approximately 6.9% and 5.6% in fiscal 2004 and 2003, respectively. This improvement was associated primarily with stronger demand for this segment's products during the last quarter of fiscal 2004.

General, selling and administrative costs increased $770,984 from the amount recorded in fiscal 2003. This increase resulted primarily from increases in incentive bonuses and other variable expenses related to increased earnings, in bad debt expense, in legal and professional expenses and in insurance expenses. During fiscal 2004, the Company experienced a bad debt related to one of its larger customers, which resulted in the Company incurring a bad debt expense of approximately $173,000. The Company monitors closely its customer accounts receivable and believes that this expense was an isolated event that does not represent a trend in this area.

Interest expense decreased $36,447 from the amount recorded in fiscal 2003. This decrease was related primarily to reductions in short and long-term debt during fiscal 2004.

Interest and other income declined $53,079 from the amount recorded during fiscal 2003. This decline was related primarily to a decrease in average invested cash positions and to lower interest rates paid on such positions.

Income taxes increased $534,749 from the comparable amount recorded during fiscal 2003. This increase was primarily related to the increase in earnings before taxes. Effective rates were approximately 37% and 40% in fiscal 2004 and 2003, respectively. The net effect of state income taxes was greater in fiscal 2003 as compared to fiscal 2004.

FINANCIAL CONDITION, LIQUIDITY AND SOURCES OF CAPITAL

The Company remained in a strong, liquid position at March 31, 2005. Current ratios were 2.91 and 2.99 at March 31, 2005 and March 31, 2004, respectively. Working capital was $28,539,243 at March 31, 2005 and $25,189,938 at March 31, 2004.

During the year ended March 31, 2005, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Cash declined as accounts receivable, inventories and accounts payable increased. An increase in sales in March 2005 generated the increase in accounts receivable. The increases in inventory and accounts payable were related primarily to increased costs of material. 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 2004, the Company purchased 624,207 shares of the common stock of the Company from Mr. Harold Friedman for approximately $4.434 per share or a total of $2,767,734. Effective as of December 31, 2004, Mr. Friedman resigned as Vice Chairman of the Board and retired as a full-time employee of the Company.

During the year ended March 31, 2005, the Company purchased approximately $953,613 in fixed assets. This purchase was related primarily to a small diameter pipe mill which began operation in April 2004.

In June 2004 and July 2004, the Company surrendered, for cash, certain split-dollar life insurance policies on the lives of Jack and Harold Friedman, respectively. The Company received the total cash surrender value of $812,432.

The Company has a credit arrangement with a bank which provides for a revolving line of credit facility (the "revolving facility"). Pursuant to the revolving facility, which expires April 1, 2006, the Company may borrow up to $6 million at an interest rate of the bank's prime rate or 1.5% over LIBOR. The Company uses the revolving facility to support cash flow and borrows and repays funds as working capital is required. At March 31, 2005 and 2004, the Company had no borrowings outstanding under the revolving facility. The Company has in the past and may in the future borrow funds on a term basis to build or improve facilities. The Company currently has no plans to borrow funds on a term basis.

FINANCIAL CONDITION, LIQUIDITY AND SOURCES OF CAPITAL (continued)

Notwithstanding the current market conditions, the Company believes that its cash flow from operations and borrowing capability under its revolving line of credit facility are adequate to fund its expected cash requirements for the next 24 months.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

	Payment Due by Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt obligations	$ 2,897	$ 2,897	—	—	—
Capital lease obligations	—	—	—	—	—
Operating lease obligations	84,064	27,264	$ 54,528	$ 2,272	—
Total	$ 86,961	$ 30,161	$ 54,528	$ 2,272	—

INFLATION

During fiscal 2005, the Company believes that the general level of inflation had little effect on its operations.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. One such accounting policy which requires significant estimates and judgments is the valuation of LIFO inventories in the Company's quarterly reporting. The Company's quarterly valuation of inventory requires estimates of the year end quantities which is inherently difficult. Historically, these estimates have been materially correct. In addition, the Company maintains an allowance for doubtful accounts receivable by providing for specifically identified accounts where collectibility is doubtful. On an on-going basis, the Company evaluates estimates and judgments. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances.

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) and that involve risk and uncertainty. These forward-looking statements may include, but are not limited to, future results of operations, future production capacity and product quality. 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 Securities and Exchange Commission under the Securities Act of 1933 and the Securities Exchange Act of 1934. 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 and prices for the Company's products, changes in the demand for steel and steel products in general, and the Company's success in executing its internal operating plans.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business the Company is exposed to market risks primarily from changes in the cost of steel in inventory and in interest rates. The Company closely monitors exposure to market risks and develops appropriate strategies to manage risk. With respect to steel purchases, there is no recognized market to purchase derivative financial instruments to reduce the inventory exposure risk on changing commodity prices. The exposure to market risk associated with interest rates relates primarily to debt. Recent debt balances are minimal and, as a result, direct exposure to interest rates changes is not significant.

TEN YEAR FINANCIAL SUMMARY

	Year Ended March 31									
	2005	2004	2003	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Net sales	**$ 188,022,253**	$ 116,158,567	$ 106,082,738	$ 97,817,956	$ 120,395,583	$ 120,267,809	$ 124,719,640	$ 148,840,724	$ 119,920,966	$ 106,849,181
Earnings	**$ 6,246,043**	$ 2,535,991	$ 1,432,017	$ 940,039	$ 2,927,582	$ 2,506,801	$ 3,540,811	$ 4,809,992	$ 3,630,071	$ 2,836,768
Current assets	**$ 43,498,759**	$ 37,829,701	$ 34,769,500	$ 35,806,988	$ 40,231,329	$ 36,945,378	$ 32,534,040	$ 39,347,548	$ 33,357,160	$ 27,524,670
Current liabilities	**$ 14,959,516**	$ 12,639,763	$ 11,035,388	$ 10,797,106	$ 12,271,802	$ 8,377,279	$ 6,758,038	$ 13,437,178	$ 10,172,672	$ 6,410,527
Net working capital	**$ 28,539,243**	$ 25,189,938	$ 23,734,112	$ 25,009,882	$ 27,959,527	$ 28,568,099	$ 25,776,002	$ 25,910,370	$ 23,184,488	$ 21,114,143
Total assets	**$ 50,796,342**	$ 46,028,123	$ 42,778,926	$ 43,986,455	$ 48,010,512	$ 45,106,790	$ 41,023,377	$ 46,039,361	$ 38,117,191	$ 32,812,986
Stockholders' equity	**$ 35,354,550**	$ 33,031,604	$ 31,246,751	$ 30,491,351	$ 30,378,150	$ 28,622,951	$ 27,422,779	$ 25,732,957	$ 22,781,959	$ 20,428,936
Earnings as a percent of										
Net sales	**3.3**	2.2	1.3	1.0	2.4	2.1	2.8	3.2	3.0	2.7
Stockholders' equity	**17.7**	7.7	4.6	3.1	9.6	8.8	12.9	18.7	15.9	13.9
Average number of common shares outstanding: Basic(1)	**7,418,410**	7,574,070	7,572,239	7,571,239	7,568,839	7,547,624	7,528,702	7,512,901	7,489,943	7,446,076
Per share										
Net earnings per share:										
Basic	**$ 0.84**	$ 0.33	$ 0.19	$ 0.12	$ 0.39	$ 0.33	$ 0.47	$ 0.64	$ 0.48	$ 0.38
Stockholders' equity(1)	**$ 4.77**	$ 4.36	$ 4.13	$ 4.03	$ 4.01	$ 3.79	$ 3.64	$ 3.43	$ 3.04	$ 2.74
Cash dividends per common share	**$ 0.29**	$ 0.10	$ 0.09	$ 0.11	$ 0.16	$ 0.18	$ 0.25	$ 0.25	$ 0.18	$ 0.15
Stock dividend declared	**—**	—	—	—	—	5%	5%	5%	5%	5%

(1) Adjusted for stock dividends.

[Friedman Industries Incorporated Logo]

EXHIBIT 14.1

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 Securities and Exchange Commission (“SEC”) or the American Stock Exchange (“AMEX”) 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 Senior Vice President-Finance. 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 Senior Vice President-Finance 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 Senior Vice President-Finance, at P.O. Box 21147, Houston, Texas 77226. In addition, reports may be made to the Chairman of the Audit Committee by calling (713)957-4945 or sent to 16538 Air Center Blvd., Houston, Texas 77032.

Failure to notify the Chief Executive Officer, the President, the Senior Vice President — Finance 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 Senior Vice President — Finance. 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 AMEX.

EXHIBIT 21.1

SUBSIDIARIES

ROYAL FASTENERS CORPORATION	Texas Corporation	100% owned

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Friedman Industries, Incorporated of our report dated June 27, 2005, with respect to the consolidated financial statements of Friedman Industries, Incorporated included in the 2005 Annual Report to Shareholders of Friedman Industries, Incorporated.

Our audits also included the financial statement schedule of Friedman Industries, Incorporated listed in Item 15(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion as to which the date is June 27, 2005, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-37887) pertaining to the 1996 Stock Option Plan, the 1995 Non-Employee Director Plan, as amended, the 1989 Incentive Stock Option Plan, as amended, and in the Registration Statement (Form S-8 No. 333-47262) pertaining to the 2000 Non-Employee Director Stock Plan of our report dated June 27, 2005, with respect to the consolidated financial statements of Friedman Industries, Incorporated incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule of Friedman Industries, Incorporated included in this Annual Report (Form 10-K) of Friedman Industries, Incorporated.

/s/ Ernst & Young LLP

Houston, Texas
June 27, 2005

EXHIBIT 31.1

I, Jack Friedman, Chairman of the Board and Chief Executive Officer of Friedman Industries, Incorporated, a Texas corporation, certify that:

1. I have reviewed this Annual 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, result 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)) 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) [intentionally omitted per SEC release 33-8238]

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 28, 2005

/s/ JACK FRIEDMAN

Chairman of the Board and
Chief Executive Officer

EXHIBIT 31.2

I, Ben Harper, Senior Vice President — Finance and Secretary/Treasurer of Friedman Industries, Incorporated, a Texas corporation, certify that:

1. I have reviewed this Annual 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, result 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)) 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) [intentionally omitted per SEC release 33-8238]

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 28, 2005

/s/ Ben Harper

Senior Vice President — Finance and Secretary/Treasurer

EXHIBIT 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906
of The Sarbanes-Oxley Act of 2002

Not Filed Pursuant to the Securities Exchange Act of 1934

In connection with the Annual Report of Friedman Industries, Incorporated (the “Company”) on Form 10-K for the fiscal year ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jack Friedman, Chairman of the Board 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, that:

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

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

By: /s/ JACK FRIEDMAN

Chairman of the Board and
Chief Executive Officer

Dated: June 28, 2005

EXHIBIT 32.2

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906
of The Sarbanes-Oxley Act of 2002

Not Filed Pursuant to the Securities Exchange Act of 1934

In connection with the Annual Report of Friedman Industries, Incorporated (the “Company”) on Form 10-K for the fiscal year ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ben Harper, Senior Vice President-Finance and Secretary/Treasurer for the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By: /s/ BEN HARPER

Senior Vice President — Finance
and Secretary/Treasurer

Dated: June 28, 2005