

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## FRIEDMAN INDUSTRIES INC

**Form: 10-K**

**Date Filed: 2007-06-29**

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, 2007
- 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**  
(State or other jurisdiction of  
incorporation or organization)  
**4001 Homestead Road, Houston, Texas**  
(Address of principal executive offices)

**74-1504405**  
(I.R.S. Employer  
Identification No.)  
**77028**  
(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**  
Common Stock, \$1 Par Value

**Name of each exchange  
on which registered**  
American Stock Exchange

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

None

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

Yes \_\_\_ No X

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

Yes \_\_\_ No X

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 such 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ( ) Accelerated filer ( ) Non-accelerated filer (X)

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

Yes \_\_\_ No X

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of September 30, 2006 (computed by reference to the closing price on such date), was approximately \$49,660,000.

The number of shares of the registrant's Common Stock outstanding at June 14, 2007 was 6,712,108 shares.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders of Friedman Industries, Incorporated for the fiscal year ended March 31, 2007 — Part II.

Proxy Statement for the 2007 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 steel processing, pipe manufacturing and 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, 2007, 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 a coil processing plant located at Hickman, Arkansas. 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 the 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.

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.

In the quarter ended June 30, 2006, the Company phased out the Lone Star, Texas coil facility ("LSCF"). LSCF accounted for approximately 1% of total sales and generated a small loss in fiscal 2007. Certain LSCF assets will be redeployed to the Company's new coil operation to be located in Decatur, Alabama. This Decatur facility is expected to become operational in fiscal 2008.

#### *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<sup>3</sup>/<sub>8</sub> inches to 8<sup>5</sup>/<sub>8</sub> inches in outside diameter. Both pipe mill #1 and pipe mill #2 are API-licensed to manufacture line and oil country pipe and also manufacture pipe for structural and piling purposes that meet recognized industry standards. TTP also 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<sup>3</sup>/<sub>8</sub> inches in outside diameter.

The Company currently manufactures and sells substantially all of its line and oil country pipe to Lone Star Steel Company ("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:

<u>Product and Service Groups</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Coil Products	48%	52%	55%
Tubular Products	52%	48%	45%

*Coil Products.* The Company sells coil products to approximately 230 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, 2007, 2006 and 2005, nine, seven and seven customers of coil products, respectively, accounted for approximately 25% of the Company's sales. 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 10%, 11% and 11% of total sales in fiscal 2007, 2006 and 2005, respectively.

The Company sells substantially all of its coil products through its own sales force. At March 31, 2007, 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.

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 230 customers. The Company's principal customers for these products are steel and pipe distributors, piling contractors and LSS. Sales of pipe to LSS accounted for approximately 20% of the Company's total sales in fiscal 2007. On June 14, 2007, United States Steel Corporation ("USS") acquired LSS. While the Company does not anticipate any material change in sales of pipe to LSS, it can make no assurances as to the amount of future sales to LSS.

The Company sells its tubular products through its own sales force comprised of four 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, 2007, the Company had approximately 150 full-time employees.

*Executive Officers of the Company*

The following table sets forth as of March 31, 2007, 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
William E. Crow	59	Chief Executive Officer since 2006 and President since 1995; formerly Chief Operating Officer since 1995, Vice President since 1981 and President of Texas Tubular Products Division since August 1990
Benny Harper	61	Senior Vice President — Finance since 1995 (formerly Vice President since 1990), Treasurer since 1980 and Secretary since May 1992
Thomas Thompson	56	Senior Vice President — Sales and Marketing since 1995; formerly Vice President — Sales since 1990

**Item 1A. Risk Factors**

*Lead time and the cost of our products could increase if we were to lose one of our primary suppliers.*

We are dependent on LSS and NSC for our supply of inventory. While current levels are adequate to sustain our coil operations, a reduction in the supply of steel coils could have an adverse effect on our coil operations. LSS is our primary supplier of tubular products and coil material used in pipe manufacturing. While current supply levels are adequate to sustain our tubular operations, a reduction in the supply of tubular products and coil material used in our tubular operations from LSS could have an adverse effect on our tubular operations. While the Company does not anticipate any material change in supply as a result of the acquisition of LSS by USS, it can make no assurances that the supply of raw materials from LSS will not be negatively affected.

If, for any reason, our primary suppliers of raw materials should curtail or discontinue deliveries to us in quantities we need and at prices that are competitive, our business could suffer. If, in the future, we were unable to obtain sufficient amounts of the necessary metals at competitive prices and on a timely basis from our traditional suppliers, we may not be able to obtain such metals from alternative sources at competitive prices to meet our delivery schedules, which would have a material adverse effect on our business, financial condition or results of operations.

*Our future operating results may be affected by fluctuations in raw material prices. We may not be able to pass on increases in raw material costs to our customers.*

Our principal raw materials are tubular products and steel coils, which we purchase from a limited number of primary steel producers. The steel industry as a whole is very cyclical, and at times pricing can be volatile due to a number of factors beyond our control, including general economic conditions, labor costs, competition, import duties, tariffs and currency exchange rates. This volatility can significantly affect our steel costs. We are required to maintain substantial inventories to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase raw materials on a regular basis in an effort to maintain our inventory at levels that we believe are sufficient to satisfy the anticipated needs of our customers based upon historic buying practices and market conditions. In an environment of increasing raw material prices, competitive conditions will impact how much of the steel price increases we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to our customers, the profitability of our business could be adversely affected.

*Our business is highly competitive, and increased competition could reduce our gross profit and net income.*

The principal markets that we serve are highly competitive. Competition is based primarily on the precision and range of achievable tolerances, quality, price, raw materials and inventory availability and the ability to meet delivery schedules dictated by customers. Our competition in the markets in which we participate comes from companies of various sizes, some of which have greater financial and other

resources than we do and some of which have more established brand names in the markets we serve. Increased competition could force us to lower our prices or to offer additional services at a higher cost to us, which could reduce our gross profit, net income and cash flow.

*We are susceptible to the cyclical nature of the steel industry.*

The steel industry is highly cyclical and is affected significantly by general economic conditions and other factors such as worldwide production capacity, fluctuations in steel imports/exports and tariffs. Steel prices are sensitive to a number of supply and demand factors. The recurrence of a major downturn in the industry may have a material adverse effect on our business, financial condition or results of operations.

*We may not be able to manage and integrate future capital expansions successfully.*

As previously announced, we intend to establish a new steel processing and distribution operation in Decatur, Alabama. In addition, we have made improvements to pipe mill #2. Expansion presents risks. We will expend both capital and personnel resources on such expansions which may or may not be successful.

*Equipment downtime or shutdowns could adversely affect our business, financial condition or results of operations.*

Steel manufacturing processes are dependent on critical equipment. Such equipment may incur downtime as a result of unanticipated failures or other events, such as fires or breakdowns. Our facilities have experienced, and may in the future experience, shutdowns or periods of reduced production as a result of such equipment failures or other events. Such disruptions could have an adverse effect on our operations, customer service levels and financial results.

*Increases in energy prices will increase our operating costs, and we may be unable to pass all these increases on to our customers in the form of higher prices for our products.*

We use energy to manufacture and transport our products. Our operating costs increase if energy costs rise. We do not hedge our exposure to higher prices via energy futures contracts. Increases in energy prices will increase our operating costs and may reduce our profitability and cash flows if we are unable to pass all the increases on to our customers.

*Steel companies are susceptible to changes in governmental policies and international economic conditions.*

Governmental, political and economic developments relating to inflation, interest rates, taxation, currency fluctuations, social or political instability, diplomatic relations, international conflicts and other factors may adversely affect our business, financial condition or results of operations.

*Steel companies are subject to stringent environmental regulations, and we may be required to spend considerable amounts of money in order to comply with such regulations.*

We are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which we operate. These laws and regulations, as interpreted by relevant agencies and the courts, impose increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices and the remediation of environmental contamination.

The costs of complying with environmental requests could be significant and failure to comply could result in the assessment of civil and criminal penalties, the suspension of operations and lawsuits by private parties. In addition, these standards can create the risk of environmental liabilities, including liabilities associated with divested assets and past activities.

*Durable goods account for a significant portion of our sales, and reduced demand from this sector of the U.S. economy is likely to adversely affect our profitability and cash flow.*

Downturns in demand for durable goods, or a decrease in the prices that we can realize from sales of our products to customers associated with this sector of the economy, would adversely affect our profitability and cash flows.

*Competition from other materials may have a material adverse effect on our business, financial condition or results of operations.*

In many applications, steel competes with other materials, such as aluminum, cement, composites, glass, plastic and wood. Additional substitutes for steel products could adversely affect future market prices and demand for steel products.

*Product liability claims could adversely affect our operations.*

We sell products to manufacturers who are engaged to sell a wide range of end products. Furthermore, our products are also sold to, and used in, certain safety-critical applications. If we were to sell steel products that were inconsistent with the specifications of the order or the requirements of the application, significant disruptions to the customer's production lines could result. There could also be consequential damages resulting from the use of such products. We have a limited amount of product liability insurance coverage and a major claim for damages related to products sold could have a material adverse effect on our business, financial condition or results of operations.

*Our common stock is subject to price volatility unrelated to our operations.*

The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us.

In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

*Certain provisions of our articles of incorporation may discourage a third party from making a takeover proposal.*

Our articles of incorporation provide that the affirmative vote of 80% of all of our stock entitled to vote in elections of directors is required for a merger or consolidation of the Company with and into any other corporation or the sale, lease or other disposition of all or substantially all of our assets. This may have the effect of discouraging a takeover proposal or tender offer not approved by management and the board of directors and could result in shareholders who may wish to participate in such a proposal or tender offer receiving less for their shares than otherwise might be available in the event of a takeover attempt.

**Item 1B.        Unresolved Staff Comments**

None

**Item 2. Properties**

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

Location	Approximate Size	Ownership
Lone Star, Texas		
Plant — Texas Tubular Products	118,260 sq. feet	Owned(1)
Offices — Texas Tubular Products	9,200 sq. feet	Owned(1)
Land — Texas Tubular Products	81.70 acres	Owned(1)
Longview, Texas Offices	2,600 sq. feet	Leased(3)
Houston, Texas		
Offices	4,000 sq. feet	Leased(3)
Hickman, Arkansas		
Plant and Warehouse — Coil Products	42,600 sq. feet	Owned(1)
Offices — Coil Products	2,500 sq. feet	Owned(1)
Land — Coil Products	26.19 acres	Owned(1)
Decatur, Alabama	47.3 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 September 2006, the Company sold real property in Houston, Texas and signed a 12-month lease agreement to rent office space at this location. The office lease is with a nonaffiliated party, expires in September 2007, is renewable month to month thereafter and provides for a monthly rental of \$1,400.

**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, 2007, entitled "Description of Business — Range of High and Low Sales Prices of Common Stock", "Description of Business — Cash Dividends Declared Per Share of Common Stock" and "Performance Graph", which sections are hereby incorporated herein by reference.

The approximate number of shareholders of record of Common Stock of the Company as of May 25, 2007 was 370.

### 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, 2007, 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, 2007, 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, 2007, are hereby incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2007 and 2006

Consolidated Statements of Earnings — Years ended March 31, 2007, 2006 and 2005

Consolidated Statements of Stockholders' Equity — Years ended March 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows — Years ended March 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firms

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, 2007.

The following supplementary schedule for the Company for the year ended March 31, 2007, 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 (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

*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, 2007 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 2007 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 2007 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 2007 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 2007 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, 2007:

Plan Category	Equity Compensation Plan Information		
	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	88,836	\$ 2.33	0
Equity compensation plans not approved by security holders	N/A	N/A	0

#### *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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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, 2007, which is incorporated herein by reference.

Consolidated Balance Sheets — March 31, 2007 and 2006

Consolidated Statements of Earnings — Years ended March 31, 2007, 2006 and 2005

Consolidated Statements of Stockholders' Equity — Years end March 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows — Years ended March 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firms

#### 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 and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1982).
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 and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1988).
3.3	— Amended and Restated By-laws of the Company (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 8, 2006).
4.1	— Reference is made to Exhibits 10.2, 10.5, 10.6, 10.8, 10.10, 10.11, 10.13, 10.14 and 10.15 described in this Item 15(a).
*10.1	— Friedman Industries, Incorporated 1989 Incentive Stock Option Plan (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1991).
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 and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1995).
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).
*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).

Exhibit No.	Description
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	— 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).
10.9	— 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).
10.10	— 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).
10.11	— Fifth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2003 between JPMorgan Chase Bank N.A. 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, 2003).
10.12	— 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).
10.13	— Sixth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2005 between JPMorgan Chase Bank N.A. 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, 2005).
**10.14	— Seventh Amendment to the Amended and Restated Letter Agreement dated effective as of May 18, 2007 between JPMorgan Chase Bank N.A. and the Company.
**10.15	— Revolving Promissory Note dated effective May 18, 2007 between the Company and J.P. Morgan Chase Bank.
10.16	— Resignation of Jack Friedman from the Company on February 8, 2006 (incorporated by reference from Exhibit 10.2 to the Company's current report on Form 8-K filed on February 8, 2006).
**13.1	— The Company's Annual Report to Shareholders for the fiscal year ended March 31, 2007.
**14.1	— Friedman Industries, Incorporated Code of Conduct and Ethics.
**21.1	— List of Subsidiaries.
**23.1	— Consent of Malone & Bailey, PC, Independent Registered Public Accounting Firm.
**23.2	— Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
**31.1	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow.

Exhibit No.	Description
**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 William E. Crow.
**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, 2007.

FRIEDMAN INDUSTRIES, INCORPORATED

By: /s/ William E. Crow

William E. Crow  
Chief Executive Officer and  
President

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
<u>/s/ WILLIAM E. CROW</u> William E. Crow	Chief Executive Officer and President and Director (Principal Executive Officer)	June 28, 2007
<u>/s/ BENNY B. HARPER</u> Benny B. Harper	Senior Vice President — Finance Secretary/Treasurer (Principal Financial and Accounting Officer)	June 28, 2007
<u>/s/ HAROLD FRIEDMAN</u> Harold Friedman	Director	June 28, 2007
<u>/s/ JACK FRIEDMAN</u> Jack Friedman	Director	June 28, 2007
<u>Durga D. Agrawal</u>	Director	June , 2007
<u>/s/ CHARLES W. HALL</u> Charles W. Hall	Director	June 28, 2007
<u>/s/ ALAN M. RAUCH</u> Alan M. Rauch	Director	June 28, 2007
<u>/s/ HERSEL M. RICH</u> Hershel M. Rich	Director	June 28, 2007
<u>/s/ JOEL SPIRA</u> Joel Spira	Director	June 28, 2007
<u>/s/ JOE L. WILLIAMS</u> Joe L. Williams	Director	June 28, 2007



**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**

**FRIEDMAN INDUSTRIES, INCORPORATED**

Column A  Description	Column B  Balance at Beginning of Period	Column C		Column D  Deductions — Describe(B)	Column E  Balance at End of Period
		Additions			
		Charged to Costs and Expenses	Charged to Other Accounts — Describe(A)		
Year ended March 31, 2007					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	\$ 37,276	\$ 10,252	\$ 977,735	\$ 987,987	\$ 37,276
Year ended March 31, 2006					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	\$ 37,276	\$ 611	\$ 928,683	\$ 929,294	\$ 37,276
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

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

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

# EXHIBIT INDEX

Exhibit No.	Description
3.1	— Articles of Incorporation of the Company, as amended (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, 1982).
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 and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1988).
3.3	— Amended and Restated By-laws of the Company (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 8, 2006).
4.1	— Reference is made to Exhibits 10.2, 10.5, 10.6, 10.8, 10.10, 10.11, 10.13, 10.14 and 10.15 described in this Item 15(a).
*10.1	— Friedman Industries, Incorporated 1989 Incentive Stock Option Plan (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1991).
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 and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1995).
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).
*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	— 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).
10.9	— 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).
10.10	— 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).
10.11	— Fifth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2003 between JPMorgan Chase Bank N.A. 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, 2003).
10.12	— 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).

Exhibit No.	Description
10.13	— Sixth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2005 between JPMorgan Chase Bank N.A. 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, 2005).
**10.14	— Seventh Amendment to the Amended and Restated Letter Agreement dated effective as of May 18, 2007 between JPMorgan Chase Bank N.A. and the Company.
**10.15	— Revolving Promissory Note dated effective May 18, 2007 between the Company and J.P. Morgan Chase Bank.
10.16	— Resignation of Jack Friedman from the Company on February 8, 2006 (incorporated by reference from Exhibit 10.2 to the Company's current report on Form 8-K filed on February 8, 2006).
**13.1	— The Company's Annual Report to Shareholders for the fiscal year ended March 31, 2007.
**14.1	— Friedman Industries, Incorporated Code of Conduct and Ethics.
**21.1	— List of Subsidiaries.
**23.1	— Consent of Malone & Bailey, PC, Independent Registered Public Accounting Firm.
**23.2	— Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
**31.1	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow.
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* 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.

## SEVENTH AMENDMENT TO AMENDED AND RESTATED LETTER AGREEMENT

THIS SEVENTH AMENDMENT TO AMENDED AND RESTATED LETTER AGREEMENT (this "Amendment") dated, effective as of May 18, 2007 (the "Effective Date") is by and between FRIEDMAN INDUSTRIES, INCORPORATED ("Borrower") and JPMORGAN CHASE BANK, N.A. ("Bank").

**PRELIMINARY STATEMENT.** The Bank and the Borrower are parties to an Amended And Restated Letter Agreement dated as of April 1, 1995, as amended by a First Amendment dated as of April 1, 1997, a Second Amendment dated as of July 21, 1997, a Third Amendment dated as of April 1, 1999, a Fourth Amendment dated as of June 1, 2001, a Fifth Amendment dated as of April 1, 2003 and a Sixth Amendment dated as of April 1, 2005 (collectively, "Letter Agreement"). All capitalized terms defined in the Letter Agreement and not otherwise defined in this Amendment shall have the same meanings in this Amendment as assigned to them in the Letter Agreement. The Bank and the Borrower have agreed to amend the Letter Agreement to the extent set forth herein, and in order to, among other things, renew and increase the Revolving Line of Credit.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the Bank and the Borrower hereby agree as follows:

1. Section 1 of the Letter Agreement is amended and restated in its entirety to read as follows:

"SECTION 1 — THE LINE

**Section 1.1 Revolving Line of Credit** Subject to the terms and conditions hereof, the Bank agrees to make upon the request of the Borrower, loans (the "Loan" or "Loans") to the Borrower from time to time before the Termination Date, not to exceed at any one time outstanding \$10,000,000.00 (the "Revolving Line of Credit" or the "Line"). The Borrower shall have the right to borrow, repay and reborrow. The Bank and the Borrower agree that Chapter 346 of the Texas Finance Code shall not apply to this Agreement, the Note or any Loan. The Loans shall be evidenced by, shall bear interest and shall be payable as provided in the promissory note of Borrower dated May 18, 2007 executed by the Borrower and payable to the order of the Bank in the principal amount of \$10,000,000.00 on or before April 1, 2010 (together with any renewals, modifications and replacements thereof, the "Note"), which is given in renewal, increase and modification of the revolving promissory note dated April 1, 2005 executed by the Borrower and payable to the order of the Bank in the principal amount of \$6,000,000.00. The purpose of the Loans made under the Revolving Line of Credit is to provide the Borrower with working capital support. "Termination Date" means the earlier of: (a) April 1, 2010; or (b) the date specified by Bank in accordance with Section 5 of the Credit Agreement.

**Section 1.2 Collateral** The Line is unsecured, but is subject to a negative pledge of real property and improvements of the warehouse/distribution facility as further described in Section 4.4 of this Letter Agreement. The term "Loan Documents" as used herein shall refer to the Note, this Letter Agreement and any other document, instrument, agreement and writing that may be required executed, or to be executed, and delivered, or previously delivered, by the Borrower to the Bank to properly complete the above described transactions and any renewal, extension, modification, supplement, replacement, rearrangement, increase, or substitution of any of the foregoing."

2. The minimum working capital requirement that the Borrower has been required to maintain is deleted in its entirety. The minimum tangible net worth as adjusted that the Borrower is required to maintain is increased from \$27,000,000.00 to \$33,000,000.00. To reflect these changes, Exhibit A of the Letter Agreement is amended by and replaced with the Exhibit A attached to this Amendment for all purposes.

3. The Borrower hereby represents and warrants to the Bank that after giving effect to the execution and delivery of this Amendment: (a) the representations and warranties set forth in the Letter Agreement are true and correct on the date hereof as though made on and as of such date; and (b) no Event of Default, or event which with passage of time, the giving of notice or both would become an Event of Default, has occurred and is continuing as of the date hereof.

4. This Amendment shall become effective as of the Effective Date upon its execution and delivery by each of the parties named in the signature lines below, and the term "Agreement" as used in the Letter Agreement shall also refer to the Letter Agreement as amended by this Amendment and all previous amendments.

5. The Borrower further acknowledges that each of the other Loan Documents is in all other respects ratified and confirmed, and all of the rights, powers and privileges created thereby or thereunder are ratified, extended, carried forward and remain in full force and effect except as the Credit Agreement is amended by this Amendment.

6. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed an original and all of which taken together shall constitute but one and the same agreement.

7. This Amendment shall be included within the definition of "Loan Documents" as used in the Agreement.

8. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND AS APPLICABLE, THE LAWS OF THE UNITED STATES OF AMERICA.

THIS WRITTEN AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed effective as of the Effective Date.

BORROWER: FRIEDMAN INDUSTRIES, INCORPORATED

By: /s/ BEN HARPER

Name: Ben Harper

Title: Senior Vice President — Finance

BANK: JPMORGAN CHASE BANK, N.A.

By: /s/ KEVIN K. RECH

Name: Kevin K. Rech

Title: Senior Vice President

**REPORTING REQUIREMENTS, FINANCIAL COVENANTS AND COMPLIANCE CERTIFICATE  
FOR CURRENT REPORTING PERIOD ENDING \_\_\_\_\_, 20\_\_ ("END DATE")**

A. REPORTING PERIOD. THIS EXHIBIT WILL BE IN PROPER FORM AND WILL BE SUBMITTED QUARTERLY.

B. <u>FINANCIAL REPORTING</u> . The Borrower will provide the following financial information within the times indicated:			Compliance Certificate
<u>WHO</u>	<u>WHEN DUE</u>	<u>WHAT</u>	Compliance (Circle) Yes No
BORROWER	(i) Quarterly at such time as this statement is submitted to the Securities and Exchange Commission ("SEC")	The Borrower's 10-Q together with this Certificate of Compliance duly executed by an officer of the Borrower	Yes No
	(ii) On an annual basis at such time as this statement is submitted to the Securities and Exchange Commission ("SEC")	The Borrower's 10-K together with this Certificate of Compliance duly executed by an officer of the Borrower	Yes No

C. <u>FINANCIAL COVENANTS</u> . The Borrower will comply with the following financial covenants, defined in accordance with GAAP, incorporating the calculation adjustments indicated on this Compliance Certificate:		<u>COMPLIANCE CERTIFICATE</u>	
<u>REQUIRED</u>		<u>ACTUAL REPORTED</u> For Current Reporting Period/as of the End Date	Compliance (Circle) Yes No
Except as specified otherwise, each covenant will be maintained at all times and reported for each Reporting Period or as of each Reporting Period End Date, as appropriate:			
1. Maintain a Tangible Net Worth ("TNW") as adjusted of at least \$33,000,000.00.		Stockholders' Equity \$ _____ Minus: Goodwill \$ _____ Other Intangible Assets \$ _____ Plus: Subordinated Debt \$ _____ Equals: TNW as adjusted. \$ _____	Yes No
2. Maintain a Current Ratio of at least 2.00 to 1.00.		\$ _____ / \$ _____ = _____ Current Assets Current Liabilities Current Ratio	Yes No
3. Maintain a ratio of Total Indebtedness to Tangible Net Worth as adjusted of no more than 1.10 to 1.00.		\$ _____ / \$ _____ = _____ Total Indebtedness TNW as adjusted Ratio	Yes No

THE ABOVE SUMMARY REPRESENTS SOME OF THE COVENANTS AND AGREEMENTS CONTAINED IN THE LETTER AGREEMENT AND DOES NOT IN ANY WAY RESTRICT OR MODIFY THE TERMS AND CONDITIONS OF THE LETTER AGREEMENT. IN CASE OF CONFLICT BETWEEN THIS EXHIBIT A AND THE LETTER AGREEMENT, THE LETTER AGREEMENT SHALL CONTROL.

The undersigned hereby certifies that the above information and computations are true and correct and not misleading as of the date hereof, and that since the date of the Borrower's most recent Compliance Certificate (if any):

- o No default or Event of Default has occurred under the Note during the current Reporting Period, or been discovered from a prior period, and not reported.
- o A default or Event of Default (as described below) has occurred during the current Reporting Period or has been discovered from a prior period and is being reported for the first time and:

- o was cured on \_\_\_\_\_, 20\_\_.
- o was waived by Bank in writing on \_\_\_\_\_, 20\_\_.
- o is continuing.

Description of Event of Default: \_\_\_\_\_

\_\_\_\_\_

Executed this \_\_\_\_ day of \_\_\_\_\_, 200\_\_.

BORROWER: FRIEDMAN INDUSTRIES, INCORPORATED

SIGNATURE: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

ADDRESS: \_\_\_\_\_

\_\_\_\_\_

## REVOLVING PROMISSORY NOTE

(this "Note")

U.S. \$10,000,000.00

May 18, 2007 ("Date")

FOR VALUE RECEIVED, FRIEDMAN INDUSTRIES, INC. ("Borrower"), a Texas corporation, promises to pay to the order of JPMORGAN CHASE BANK, N.A. ("Bank") on or before April 1, 2010 (the "Termination Date"), at its banking house at 712 Main Street, P. O. Box 2558, Houston, Texas, or at such other location as Bank may designate, in lawful money of the United States of America, the lesser of: (i) the principal sum of TEN MILLION AND NO/100THS UNITED STATES DOLLARS (U.S. \$10,000,000.00) or (ii) the aggregate unpaid principal amount of all loans made by Bank (each such loan being a "Loan"), which may be outstanding on the Termination Date. Each Loan shall be due and payable on the maturity date agreed to by Bank and Borrower with respect to such Loan (the "Maturity Date"). In no event shall any Maturity Date fall on a date after the Termination Date.

This Note is the Revolving Note referenced in Section 1.1 of the Letter Agreement (as defined below). Capitalized terms used but not otherwise defined in this Note shall have the same meanings here as assigned to them in the Letter Agreement. Subject to the terms and conditions of this Note and the Letter Agreement, Borrower may borrow, repay and reborrow all or any part of the credit provided for herein at any time before the Termination Date, there being no limitation on the number of Loans made so long as the total unpaid principal amount at any time outstanding does not exceed the Revolving Line of Credit.

"Adjusted LIBOR Rate" means a per annum interest rate determined by Bank by dividing: (i) the LIBOR Rate by (ii) Statutory Reserves provided that Statutory Reserves is greater than zero, otherwise Adjusted LIBOR Rate means a per annum interest rate equal to the LIBOR Rate. "LIBOR Rate" means with respect to any LIBOR Loan for any Interest Period the interest rate determined by Bank by reference to Page 3756 of the Dow Jones Market Service (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by Bank from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) to be the rate at approximately 11:00 a.m. London time, two Business Days prior to the commencement of such Interest Period for the offering by Bank's London office, of dollar deposits in an amount comparable to such LIBOR Loan with a maturity comparable to such Interest Period.

"Board" means the Board of Governors of the Federal Reserve System of the United States.

"Borrowing Date" means any Business Day on which Bank shall make or continue a Loan hereunder;

"Business Day" means a day: (i) on which Bank and commercial banks in New York City are generally open for business; and (ii) with respect to LIBOR Loans, on which dealings in United States Dollar deposits are carried out in the London interbank market.

"Highest Lawful Rate" means the maximum nonusurious rate of interest from time to time permitted by applicable law. To the extent that Texas law determines the Highest Lawful Rate, the Highest Lawful Rate is the weekly rate ceiling as defined in the Texas Finance Code Chapter 303. Bank may from time to time, as to current and future balances, elect and implement any other ceiling under such statutes and/or revise the index, formula or provisions of law used to compute the rate on this open-end account by notice to Borrower, if and to the extent permitted by, and in the manner provided in applicable law.

"Interest Period" means the period commencing on the Borrowing Date and ending on the Maturity Date, consistent with the following provisions. The duration of each Interest Period shall be: (a) in the case of a Prime Rate Loan, a period of up to the Termination Date unless any portion thereof is converted to a LIBOR Loan hereunder; and (b) in the case of a LIBOR Loan, a period of up to one, two or three months; in each case as selected by Borrower and agreed to by Bank. Borrower's choice of Interest Period is subject to the following limitations: (i) No Interest Period shall end on a date after the Termination Date; and (ii) If the last day of an Interest Period would be a day other than a Business



Day, the Interest Period shall end on the next succeeding Business Day (unless the Interest Period relates to a LIBOR Loan and the next succeeding Business Day is in a different calendar month than the day on which the Interest Period would otherwise end, in which case the Interest Period shall end on the next preceding Business Day).

**"Letter Agreement"** means the Amended and Restated Letter Agreement dated as of April 1, 1995 by and between Borrower and Bank, as amended by a First Amendment dated as of April 1, 1997, a Second Amendment dated as of July 21, 1997, a Third Amendment dated as of April 1, 1999, a Fourth Amendment dated as of June 1, 2001, a Fifth Amendment dated as of April 1, 2003, a Sixth Amendment dated as of April 1, 2005, a Seventh Amendment dated as of the Date of this Note, and as it may be further amended from time to time.

**"LIBOR Loan"** means a Loan which bears interest at a rate determined by reference to the Adjusted LIBOR Rate.

**"Loan Documents"** means this Note, the Letter Agreement and any other document or instrument evidencing, securing, guaranteeing or given in connection with this Note.

**"Obligations"** means all principal, interest and other amounts which are or become owing under this Note or any other Loan Document.

**"Obligor"** means Borrower and any guarantor, surety, co-signer, general partner or other person who may now or hereafter be obligated to pay all or any part of the Obligations.

**"Prime Rate"** means the rate determined from time to time by Bank as its prime rate. The Prime Rate shall change automatically from time to time without notice to Borrower or any other person. THE PRIME RATE IS A REFERENCE RATE AND MAY NOT BE BANK'S LOWEST RATE.

**"Prime Rate Loan"** means a Loan which bears interest at a rate determined by reference to the Prime Rate.

**"Statutory Reserves"** means the difference (expressed as a decimal) of the number one minus the aggregate of the maximum reserve percentages (including, without limitation, any marginal, special, emergency, or supplemental reserves) expressed as a decimal established by the Board and any other banking authority to which Bank is subject to, with respect to the LIBOR Rate, for Eurocurrency Liabilities (as defined in Regulation D of the Board). Such reserve percentages shall include, without limitation, those imposed under such Regulation D. LIBOR Loans shall be deemed to constitute Eurocurrency Liabilities and as such shall be deemed to be subject to such reserve requirements without benefit of or credit for proration, exceptions or offsets which may be available from time to time to any bank under such Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

Loans may be either Prime Rate Loans or LIBOR Loans.

Borrower shall pay interest on the unpaid principal amount of each Prime Rate Loan at a rate per annum equal to the lesser of: (i) the Prime Rate in effect from time to time (the **"Effective Prime Rate"**); or (ii) the Highest Lawful Rate. Accrued interest on each Prime Rate Loan is due and payable monthly during the term of this Note, commencing June 1, 2007, on the first day of each month thereafter and on the Termination Date.

Borrower shall pay interest on the unpaid principal amount of each LIBOR Loan for the Interest Period with respect thereto at a rate per annum equal to the lesser of: (i) the Adjusted LIBOR Rate plus one and one-half percent (1.50%) (the **"Effective LIBOR Rate"**); or (ii) the Highest Lawful Rate. Accrued interest on each LIBOR Loan is due on the last day of each Interest Period applicable thereto on any prepayment (on the amount prepaid), and on the Termination Date.

If at any time the effective rate of interest which would otherwise be payable on any Loan evidenced by this Note exceeds the Highest Lawful Rate, the rate of interest to accrue on the unpaid principal balance of such Loan during all such times shall be limited to the Highest Lawful Rate, but any subsequent reductions in such interest rate shall not become effective to reduce such interest rate below the Highest Lawful Rate until the total amount of interest accrued on the unpaid principal balance of such Loan equals the total amount of interest which would have accrued if the Effective Prime Rate, or Effective LIBOR Rate, whichever is applicable, had at all times been in effect.

Each LIBOR Loan shall be in an amount not less than \$10,000.00 and an integral multiple of \$10,000.00. Each Prime Rate Loan shall be in an amount not less than \$10,000.00 and an integral multiple of \$10,000.00. Interest on each Prime Rate Loan shall be computed on the basis of the actual number of days elapsed and a year comprised of 365 or 366 days, as the case may be. Interest on each LIBOR Loan shall be computed on the basis of the actual number of days elapsed and a year comprised of 360 days, unless such calculation would result in a usurious interest rate, in which case such interest shall be calculated on the basis of a 365 or 366 day year, as the case may be.

This Note is given in renewal, increase, modification and replacement of the revolving promissory note dated April 1, 2005 executed by Borrower and payable to the order of Bank in the principal amount of \$6,000,000.00. The unpaid principal balance of this Note at any time will be the total amount advanced by Bank less the amount of all payments or prepayments of principal. Absent manifest error, the records of Bank will be conclusive as to amounts owed.

Loans shall be made on Borrower's irrevocable notice to Bank, given not later than 10:00 A.M. (Houston time) on, in the case of LIBOR Loans, the third Business Day prior to the proposed Borrowing Date or, in the case of Prime Rate Loans, the first Business Day prior to the proposed Borrowing Date. Each notice of a requested borrowing (a "**Notice of Requested Borrowing**") under this paragraph may be oral or written, and shall specify: (i) the requested amount; (ii) proposed Borrowing Date; (iii) whether the requested Loan is to be a Prime Rate Loan or LIBOR Loan; and (iv) Interest Period for the LIBOR Loan. If any Notice of Requested Borrowing shall be oral, Borrower shall deliver to Bank prior to the Borrowing Date a confirmatory written Notice of Requested Borrowing.

Borrower may on any Business Day prepay the outstanding principal amount of any Prime Rate Loan, in whole or in part. Partial prepayments shall be in an aggregate principal amount of \$10,000.00 or a greater integral multiple of \$10,000.00. Borrower shall have no right to prepay any LIBOR Loan.

Provided that no Event of Default has occurred and is continuing, Borrower may elect to continue all or any part of any LIBOR Loan beyond the expiration of the then current Interest Period relating thereto by providing Bank at least three Business Days written or telecopy notice of such election, specifying the Loan or portion thereof to be continued and the Interest Period therefor and whether it is to be a Prime Rate Loan or LIBOR Loan provided that any continuation as a LIBOR Loan shall not be less than \$10,000.00 and shall be in an integral multiple of \$10,000.00. If an Event of Default shall have occurred and be continuing, the Borrower shall not have the option to elect to continue any such LIBOR Loan.

Provided that no Event of Default has occurred and is continuing, Borrower may elect to convert any Prime Rate Loan at any time or from time to time to a LIBOR Loan by providing Bank at least three Business Days written or telecopy notice of such election, specifying each Interest Period therefor. Any conversion of Prime Rate Loans shall not result in a borrowing of LIBOR Loans in an amount less than \$10,000.00 and in integral multiples of \$10,000.00. If an Event of Default shall have occurred and be continuing, the Borrower shall not have the option to elect to convert Prime Rate Loans into LIBOR Loans.

If at any time Bank determines in good faith (which determination shall be conclusive) that any change in any applicable law, rule or regulation or in the interpretation, application or administration thereof makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for Bank or its foreign branch or branches to maintain any LIBOR Loan by means of dollar deposits obtained in the London interbank market (any of the above being described as a "**LIBOR Event**"), then, at the option of Bank, the aggregate principal amount of all LIBOR Loans outstanding shall be prepaid; however the prepayment may be made at the sole option of the Bank with a Prime Rate Loan. Upon the occurrence of any LIBOR Event, and at any time thereafter so long as such LIBOR Event shall continue, the Bank may exercise its aforesaid option by giving written notice thereof to Borrower.

If Bank determines after the date of this Note that any change in applicable laws, rules or regulations regarding capital adequacy, or any change in the interpretation or administration thereof by any appropriate governmental agency, or compliance with any request or directive to Bank regarding capital adequacy (whether or not having the force of law) of any such agency, increases the capital required to be maintained with respect to any Loan and therefore reduces the rate of return on Bank's capital below the level Bank could have achieved but for such change or compliance (taking into consideration Bank's policies with respect to capital adequacy), then Borrower will pay to Bank from time to time, within 15 days of Bank's request, any additional amount required to compensate Bank for such reduction. Bank will request any additional amount by delivering to Borrower a certificate of Bank setting forth the amount

necessary to compensate Bank. The certificate will be conclusive and binding, absent manifest error. Bank may make any assumptions, and may use any allocations of costs and expenses and any averaging and attribution methods, which Bank in good faith finds reasonable.

If any domestic or foreign law, treaty, rule or regulation (whether now in effect or hereinafter enacted or promulgated, including Regulation D of the Board) or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law): (a) changes, imposes, modifies, applies or deems applicable any reserve, special deposit or similar requirements in respect of any Loan or against assets of, deposits with or for the account of, or credit extended or committed by, Bank; or (b) imposes on Bank or the interbank eurocurrency deposit and transfer market or the market for domestic bank certificates or deposit any other condition affecting any such Loan; and the result of any of the foregoing is to impose a cost to Bank of agreeing to make, funding or maintaining any such Loan or to reduce the amount of any sum receivable by Bank in respect of any such Loan, then Bank may notify Borrower in writing of the happening of such event and Borrower shall upon demand pay to Bank such additional amounts as will compensate Bank for such costs as determined by Bank. Without prejudice to the survival of any other agreement of Borrower under this Note, the obligations of Borrower under this paragraph shall survive the termination of this Note.

Borrower will indemnify Bank against, and reimburse Bank on demand for, any loss, cost or expense incurred or sustained by Bank (including without limitation any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by Bank to fund or maintain LIBOR Loans) as a result of: (a) any payment or prepayment (whether permitted by Bank or required hereunder or otherwise) of all or a portion of any LIBOR Loan on a day other than the Maturity Date of such Loan; (b) any payment or prepayment, whether required hereunder or otherwise, of any LIBOR Loan made after the delivery of a Notice of Requested Borrowing but before the applicable Borrowing Date if such payment or prepayment prevents the proposed Loan from becoming fully effective; or (c) the failure of any LIBOR Loan to be made by Bank due to any action or inaction of Borrower. Such funding losses and other costs and expenses shall be calculated and billed by Bank and such bill shall, as to the costs incurred, be conclusive absent manifest error.

All past-due principal and interest on this Note, will, at Bank's option, bear interest at the Highest Lawful Rate, or if applicable law does not provide for a maximum nonusurious rate of interest, at a rate per annum equal to the Prime Rate plus five percent (5%).

In addition to all principal and accrued interest on this Note, Borrower agrees to pay: (a) all reasonable costs and expenses incurred by Bank and all owners and holders of this Note in collecting this Note through probate, reorganization, bankruptcy or any other proceeding; and (b) reasonable attorney's fees if and when this Note is placed in the hands of an attorney for collection.

Borrower and Bank intend to conform strictly to applicable usury laws. Therefore, the total amount of interest (as defined under applicable law) contracted for, charged or collected under this Note will never exceed the Highest Lawful Rate. If Bank contracts for, charges or receives any excess interest, it will be deemed a mistake. Bank will automatically reform the contract or charge to conform to applicable law, and if excess interest has been received, Bank will either refund the excess to Borrower or credit the excess on the unpaid principal amount of this Note. All amounts constituting interest will be spread throughout the full term of this Note in determining whether interest exceeds lawful amounts.

If any Event of Default occurs under the Letter Agreement, then Bank may do any or all of the following: (i) cease making Loans hereunder; (ii) declare the Obligations to be immediately due and payable, without notice of acceleration or of intention to accelerate, presentment and demand or protest or notice of any kind, all of which are hereby expressly waived; and (iv) exercise any and all other rights under the Loan Documents, at law, in equity or otherwise.

No waiver of any default is a waiver of any other default. Bank's delay in exercising any right or power under any Loan Document is not a waiver of such right or power.

Each Obligor severally waives notice, demand, presentment for payment, notice of nonpayment, notice of intent to ' accelerate, notice of acceleration, protest, notice of protest, and the filing of suit and diligence in collecting this Note and all other demands and notices, and consents and agrees that its liabilities and obligations will not be released or discharged by any or all of the following, .whether with or without notice to it or any other Obligor, and whether before or after the stated maturity hereof: (i) extensions of the time of

payment; (ii) renewals; (iii) acceptances of partial payments; (iv) releases or substitutions of any collateral or any Obligor; and (v) failure, if any, to perfect or maintain perfection of any security interest in any collateral. Each Obligor agrees that acceptance of any partial payment will not constitute a waiver and that waiver of any default will not constitute waiver of any prior or subsequent default. Nothing in this Agreement is intended to waive or vary the duties of Bank or the rights of any Obligor in violation of Section 9.602 of the Texas Business and Commerce Code.

Where appropriate the neuter gender includes the feminine and the masculine and the singular number includes the plural number.

Borrower represents and agrees that: all Loans evidenced by this Note are and will be for business, commercial, investment, agricultural or other similar purpose and not primarily for personal, family, or household use. Borrower represents and agrees that the following statement is true unless the box preceding that statement is checked and initialed by Borrower and Bank: ☐ No advances will be used for the purpose of purchasing or carrying any margin stock as that term is defined in Regulation U of the Board.

This Note is governed by Texas law. If any provision of this Note is illegal or unenforceable, that illegality or unenforceability will not affect the remaining provisions of this Note. BORROWER AND BANK AGREE THAT THE COUNTY IN WHICH BANK'S PRINCIPAL OFFICE IN TEXAS IS LOCATED IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT BY BORROWER OR BANK, WHETHER IN CONTRACT, TORT, OR OTHERWISE. ANY ACTION OR PROCEEDING AGAINST BORROWER MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT IN SUCH COUNTY TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW. TO THE EXTENT PERMITTED BY APPLICABLE LAW BORROWER HEREBY IRREVOCABLY (A) SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURTS, AND (B) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT OR THAT ANY SUCH COURT IS AN INCONVENIENT FORUM. BORROWER AGREES THAT SERVICE OF PROCESS UPON IT MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT ITS ADDRESS SPECIFIED BELOW. BANK MAY SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW AND MAY BRING ANY ACTION OR PROCEEDING AGAINST BORROWER OR WITH RESPECT TO ANY OF ITS PROPERTY IN COURTS IN OTHER PROPER JURISDICTIONS OR VENUES.

JURY TRIAL WAIVER. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, BORROWER AND BANK HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE ANY RIGHT TO TRIAL BY JURY THAT BORROWER OR BANK MAY HAVE IN ANY ACTION OR PROCEEDING, IN LAW OR IN EQUITY, IN CONNECTION WITH THIS NOTE OR THE OBLIGATIONS. BORROWER REPRESENTS, AND WARRANTS THAT NO REPRESENTATIVE OR AGENT OF BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT BANK WILL NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THIS RIGHT TO JURY TRIAL WAIVER. BORROWER ACKNOWLEDGES THAT BANK HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE PROVISIONS OF THIS WAIVER.

For purposes of this Note, any assignee or subsequent holder of this Note will be considered the "Bank," and each successor to Borrower will be considered the "Borrower."

**NO COURSE OF DEALING BETWEEN BORROWER AND BANK, NO COURSE OF PERFORMANCE, NO TRADE PRACTICES, AND NO EXTRINSIC EVIDENCE OF ANY NATURE MAY BE USED TO CONTRADICT OR MODIFY ANY TERM OF THIS NOTE OR ANY OTHER LOAN DOCUMENT.**

**THIS NOTE AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES**

**THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

IN WITNESS WHEREOF, Borrower has executed this Note effective the day, month and year first aforesaid.

FRIEDMAN INDUSTRIES, INCORPORATED

By: /s/ BEN HARPER

Name: Ben Harper

Title: Senior Vice President — Finance

(Bank's signature is provided as its acknowledgment of the above as the final written agreement between the parties and its agreement with the Jury Trial Waiver.)

JPMORGAN CHASE BANK, N.A.

By: /s/ KEVIN K. RECH

Name: Kevin Rech

Title: Senior Vice President

THE COMPANY'S ANNUAL  
REPORT TO SHAREHOLDERS FOR  
THE FISCAL YEAR ENDED MARCH 31, 2007

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**FRIEDMAN  
INDUSTRIES,  
INCORPORATED  
2007  
ANNUAL REPORT**

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## FINANCIAL HIGHLIGHTS

	2007	2006
Net sales	\$199,726,619	\$181,900,351
Net earnings	\$7,018,318	\$6,453,888
Net earnings per share (Basic)	\$1.05	\$0.91
Cash dividends per share	\$0.34	\$0.32
Stockholders' equity	\$42,109,998	\$37,097,335
Working capital	\$28,464,786	\$29,167,810

### TO OUR SHAREHOLDERS:

As can be seen in the financial highlights above, the Company had a very successful year in fiscal 2007. The Company achieved record revenues and profits in 2007 although the profits were partially attributable to the non-recurring gain from the sale of the Company's Houston offices and plant. The proceeds from the sale of Houston property were used to help pay for the new plant being built in Decatur, Alabama. Meanwhile, the corporate offices of the Company remain in Houston, Texas with no changes in lines of communication. Currently, costs for inventory remain high even as demand weakens. The Company continues to monitor its inventory position in light of current market conditions.

The Company's pipe mill #2 in Lone Star, Texas, which has a range of production sizes from 2<sup>3/8</sup>" to 5<sup>9/16</sup>", was upgraded in fiscal 2007 to improve production and lower operating costs.

The coil facility to be located in Decatur, Alabama is expected to be completed and in operation in fiscal 2008.

You are invited to attend the Annual Meeting of Shareholders scheduled to start at 11 a.m. CST, on Thursday, September 6, 2007, in the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas.

Sincerely,



Harold Friedman  
Chairman of the Board of Directors



William E. Crow  
Chief Executive Officer and President



## OFFICERS

William E. Crow

*Chief Executive Officer and  
President*

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 McCain

*Vice President — Decatur 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](http://www.friedmanindustries.com)

### COUNSEL

Fulbright & Jaworski L.L.P.

Fulbright Tower

1301 McKinney, Suite 5100

Houston, Texas 77010

### AUDITORS

Malone & Bailey, PC

2925 Briarpark Drive, Suite 930

Houston, TX 77042

### TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company

59 Maiden Lane

New York, New York 10007

## DIRECTORS

Jack Friedman

*Chairman Emeritus; former  
Chairman of the Board and  
Chief Executive Officer  
Longview, Texas*

Harold Friedman

*Chairman of the Board;  
former Vice Chairman of the Board  
Houston, Texas*

William E. Crow

*Chief Executive Officer and  
President  
Longview, Texas*

Durga D. Agrawal

*President, Piping Technology & Products, Inc.  
(pipe fabrication)  
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*

Joel Spira

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

Joe L. Williams

*Business Development Manager  
Wells Fargo Insurance Services of Texas, Inc.  
(insurance and risk management)  
Houston, Texas*



## DESCRIPTION OF BUSINESS

Friedman Industries, Incorporated (the "Company") is engaged in steel processing, pipe manufacturing and processing and steel and pipe distribution.

At its facility in 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. The Company purchases a substantial amount of its annual coil tonnage from Nucor Steel Company ("NSC"). Loss of 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 230 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 230 customers and sells a substantial amount of manufactured pipe to Lone Star Steel Company ("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 2007		Fiscal 2006	
	High	Low	High	Low
First Quarter	\$ 11.52	\$7.17	\$ 8.10	\$ 5.80
Second Quarter	9.83	7.82	7.94	6.00
Third Quarter	12.89	7.81	6.80	5.52
Fourth Quarter	12.40	8.00	9.94	5.80

### CASH DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

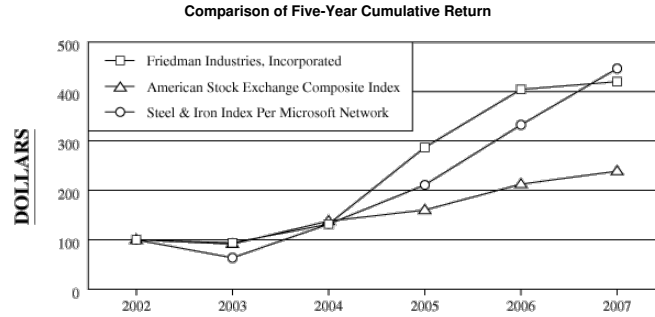
	Fiscal 2007	Fiscal 2006
First Quarter	\$ .08	\$ .08
Second Quarter	.08	.08
Third Quarter	.10	.08
Fourth Quarter	.08	.08

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, 2007 was 370.

## PERFORMANCE GRAPH

The following graph compares the percentage change in the Company's cumulative total shareholder return on the Common Stock with the total cumulative return on the American Stock Exchange Composite Index ("ACI") and the Steel & Iron Index per Microsoft Network ("SII") for each fiscal year indicated. The graph is based on the assumption that \$100 is invested in the Common Stock of the Company, the ACI and the SII in March 2002 and that all dividends are reinvested.



The foregoing graph is based on historical data and is not necessarily indicative of future performance. This graph shall not be deemed to be "soliciting material" or to be "filed" with the Commission or subject to Regulations 14A or 14C under the Exchange Act or to the liabilities of Section 18 under such Act.

## CONSOLIDATED BALANCE SHEETS

### ASSETS

	March 31	
	2007	2006
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,039,030	\$ 1,982,526
Accounts receivable, net of allowances for bad debts and cash discounts of \$37,276 in 2007 and 2006	17,261,553	17,494,313
Inventories	33,272,823	27,956,921
Other	157,963	117,243
<b>TOTAL CURRENT ASSETS</b>	<b>51,731,369</b>	<b>47,551,003</b>
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>		
Land	1,082,331	486,653
Construction in progress	5,004,550	—
Buildings and yard improvements	3,494,294	4,088,149
Machinery and equipment	21,236,184	20,852,126
Less accumulated depreciation	(17,344,822)	(17,653,265)
	13,472,537	7,773,663
<b>OTHER ASSETS:</b>		
Cash value of officers' life insurance and other assets	667,800	606,223
<b>TOTAL ASSETS</b>	<b>\$ 65,871,706</b>	<b>\$ 55,930,889</b>

### LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31	
	2007	2006
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 21,875,516	\$ 16,713,944
Dividends payable	536,969	533,330
Income taxes payable	46,742	143,196
Contribution to profit sharing plan	256,000	256,000
Employee compensation and related expenses	551,356	736,723
<b>TOTAL CURRENT LIABILITIES</b>	<b>23,266,583</b>	<b>18,383,193</b>
<b>DEFERRED INCOME TAXES</b>	<b>1,934</b>	<b>4,618</b>
<b>POSTRETIREMENT BENEFITS OTHER THAN PENSIONS</b>	<b>493,191</b>	<b>445,743</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, par value \$1:		
Authorized shares — 10,000,000		
Issued shares — 7,887,824 in 2007 and 7,842,342 in 2006	7,887,824	7,842,342
Additional paid-in capital	28,887,517	28,663,814
Treasury stock at cost (1,175,716 shares at March 31, 2007 and March 31, 2006, respectively)	(5,475,964)	(5,475,964)
Retained earnings	10,810,621	6,067,143
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>42,109,998</b>	<b>37,097,335</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 65,871,706</b>	<b>\$ 55,930,889</b>

See accompanying notes.

**CONSOLIDATED STATEMENTS OF EARNINGS**

	Year Ended March 31		
	2007	2006	2005
Sales	\$ 199,726,619	\$ 181,900,351	\$ 188,022,253
Costs and expenses:			
Cost of products sold	185,110,805	166,785,924	172,260,349
Selling, general and administrative	5,152,697	5,321,517	5,663,317
Gain on sale of assets	(1,312,839)	—	—
Interest expense	29,460	—	15,638
	188,980,123	172,107,441	177,939,304
	10,746,496	9,792,910	10,082,949
Interest and other income	132,037	284,416	146,354
EARNINGS BEFORE INCOME TAXES	10,878,533	10,077,326	10,229,303
Income taxes:			
Current	3,862,899	3,705,676	3,693,710
Deferred	(2,684)	(82,238)	289,550
	3,860,215	3,623,438	3,983,260
NET EARNINGS	\$ 7,018,318	\$ 6,453,888	\$ 6,246,043
Average number of common shares outstanding:			
Basic	6,685,577	7,072,637	7,418,410
Diluted	6,752,275	7,163,912	7,552,131
Net earnings per share:			
Basic	\$ 1.05	\$ .91	\$ .84
Diluted	\$ 1.04	\$ .90	\$ .83

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Deficit)
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
Net earnings	—	—	—	6,453,888
Issuance of Directors' shares	1,600	8,192	—	—
Exercise of stock options	76,527	163,003	—	—
Cash dividends (\$0.32 per share)	—	—	—	(2,253,246)
Treasury stock (551,248 shares)	—	—	(2,707,179)	—
BALANCE AT MARCH 31, 2006	7,842,342	28,663,814	(5,475,964)	6,067,143
Net earnings	—	—	—	7,018,318
Exercise of stock options	45,482	60,491	—	—
Tax benefit of options exercised	—	163,212	—	—
Cash dividends (\$0.34 per share)	—	—	—	(2,274,840)
BALANCE AT MARCH 31, 2007	\$ 7,887,824	\$ 28,887,517	\$ (5,475,964)	\$ 10,810,621

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31		
	2007	2006	2005
<b>OPERATING ACTIVITIES</b>			
Net earnings	\$ 7,018,318	\$ 6,453,888	\$ 6,246,043
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation	1,040,011	927,397	908,382
Deferred taxes	(2,684)	(82,238)	289,550
Change in post-retirement benefits	47,448	50,323	38,664
Gain on sale of assets	(1,312,839)	—	—
Disposal of fixed assets	95,374	—	—
Tax benefit of stock options exercised	163,212	—	481,623
Changes in operating assets and liabilities:			
Accounts receivable	232,760	(1,091,277)	(1,714,334)
Inventories	(5,315,902)	(2,099,681)	(4,813,248)
Prepaid federal income taxes	—	892,104	(892,104)
Other assets	(40,720)	23,762	(28,760)
Accounts payable and accrued expenses	5,161,572	3,239,816	3,269,475
Contribution to profit sharing plan	—	(18,000)	(6,000)
Employee compensation and related expenses	(185,367)	99,412	(168,829)
Federal income taxes payable	(96,454)	143,196	(1,134,433)
Net cash provided by operating activities	6,804,729	8,538,702	2,476,029
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant, and equipment	(6,909,738)	(1,963,255)	(953,613)
Proceeds from sale of assets	1,388,318	—	542
(Increase) decrease in cash value of officers' life insurance	(61,577)	(46,445)	742,835
Net cash used in investing activities	(5,582,997)	(2,009,700)	(210,236)
<b>FINANCING ACTIVITIES</b>			
Cash dividends paid	(2,271,201)	(2,291,096)	(1,702,610)
Proceeds from borrowings of long-term debt	—	—	5,000,000
Principal payments on long-term debt	—	(2,897)	(5,060,140)
Purchase of treasury stock	—	(2,707,179)	(2,767,734)
Stock awards and options exercised	105,973	249,321	485,303
Net cash used in financing activities	(2,165,228)	(4,751,851)	(4,045,181)
Increase (decrease) in cash and cash equivalents	(943,496)	1,777,151	(1,779,388)
Cash and cash equivalents at beginning of year	1,982,526	205,375	1,984,763
Cash and cash equivalents at end of year	\$ 1,039,030	\$ 1,982,526	\$ 205,375

See accompanying notes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF CONSOLIDATION:** The consolidated financial statements include the accounts of Friedman Industries, Incorporated and its subsidiaries (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 and cash discounts allowed, represents their estimated net realizable value. The Company estimates its allowance for doubtful accounts based on historical collection trends, the age of outstanding receivables and existing economic conditions. 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. At March 31, 2007, March 31, 2006 and March 31, 2005, replacement cost exceeded LIFO cost by approximately \$7,500,000, \$6,400,000 and \$8,200,000, 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	
	2007	2006
Prime coil inventory	\$ 11,034,422	\$ 10,525,848
Non-standard coil inventory	665,234	788,266
Tubular raw material	5,854,255	3,889,206
Tubular finished goods	15,718,912	12,753,601
	<u>\$ 33,272,823</u>	<u>\$ 27,956,921</u>

**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. No assets met the definition of held-for-sale at March 31, 2007 and 2006. Property, plant, and equipment are stated at cost. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the various classes of assets as follows:

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



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In the year ended March 31, 2007, the Company recorded construction in progress associated with the new coil facility to be located in Decatur, Alabama. This facility will initially operate a steel temper mill and a cut-to-length line including steel leveling line. In fiscal 2007, the Company sold real property located in Houston, Texas and realized a before tax gain of \$1,312,839. Proceeds from this sale were invested in this new facility which is expected to commence operation in fiscal 2008. At March 31, 2007, the estimated cost to complete this facility is approximately \$3,000,000.

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, 2007 or 2006.

Maintenance and repairs are expensed as incurred.

SHIPPING COSTS: Shipping costs are recorded as a part of cost of products sold.

SUPPLEMENTAL CASH FLOW INFORMATION: The Company paid interest of approximately \$29,500 in 2007, \$0 in 2006 and \$15,700 in 2005. The Company paid income taxes, net of refunds, of \$3,946,144 in 2007, \$2,570,442 in 2006 and \$4,891,061 in 2005.

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.

STOCK-BASED COMPENSATION:

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"). SFAS 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 Company adopted the Prospective Method of SFAS 123(R) effective April 1, 2006. 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. With the adoption of the Prospective Method on April 1, 2006, there was no impact on the financial statements as all of the options were vested as of April 1, 2006.

There were no options granted in fiscal 2007, 2006 and 2005.

The Company granted stock awards to outside directors in each of fiscal 2006 and 2005. These grants were recorded as expense based on the closing price of the stock on the date of grant. There were no stock awards to outside directors in fiscal 2007.

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 20%, 15% and 16% of total company sales in 2007, 2006 and 2005, 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, 2007, except Trinity Industries, Inc., a coil product customer, which accounted for approximately 10%, 11% and 11% of total sales in fiscal 2007, 2006 and 2005, respectively.

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 PRONOUNCEMENTS:**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, except for the measurement of share-based payments. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective, for the Company, beginning the first quarter of fiscal year 2009. For certain types of financial instruments, SFAS No. 157 requires a limited form of retrospective transition, whereby the cumulative impact of the change in principle is recognized in the opening balance of retained earnings in the fiscal year of adoption. All other provisions of SFAS No. 157 will be applied prospectively beginning in the first quarter of fiscal year 2009. The Company is currently evaluating the impact that the adoption of SFAS No. 157 will have on the consolidated financial statements.

**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, no further options may be granted. All options have ten-year terms and become 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:

	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	137,212	\$ 2.35	224,718	\$ 2.62	411,694	\$ 2.58
Granted	—	—	—	—	—	—
Exercised	(45,482)	\$ 2.33	(76,527)	3.13	(186,976)	\$ 2.53
Canceled	(2,894)	\$ 3.13	(10,979)	2.40	—	—
Outstanding at end of year	88,836	\$ 2.33	137,212	2.35	224,718	\$ 2.62
Exercisable at end of year	88,836	\$ 2.33	137,212	2.35	224,718	\$ 2.62
Weighted average fair value of options granted during the year	—	—	—	—	—	—

Outstanding and exercisable stock options at March 31, 2007, were as follows:

Range of Exercise Price	Weighted Average Remaining Years	Outstanding		Exercisable	
		Shares	Weight Average Exercise Price	Shares	Weight Average Exercise Price
\$2.33	5	88,836	\$ 2.33	88,836	\$ 2.33
	5	88,836		88,836	

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**

Effective May 18, 2007, the Company renewed 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, 2010, the Company may borrow up to \$10 million at the bank's prime rate or at 1.5% over LIBOR. At March 31, 2007 and 2006, the Company did not have borrowings outstanding under the revolving facility. The Company does not pay a commitment fee relative to this facility.

The Company is obligated under operating leases for its Longview, Texas and Houston, Texas office buildings, which expire April 30, 2008 and September 1, 2007, respectively. The following is a schedule of future minimum annual rental payments required under this operating lease as of March 31, 2007:

2008	\$ 35,664
2009	2,272
2010	—
2011	—
2012	—
Thereafter	—
Total	\$ 37,936

Rental expenses for leased properties were \$37,064, \$27,264 and \$27,264 during fiscal 2007, 2006, and 2005, respectively.

**4. EARNINGS PER SHARE**

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

	Year Ended March 31		
	2007	2006	2005
<b>Basic</b>			
Net income	\$ 7,018,318	\$ 6,453,888	\$ 6,246,043
Average common shares	6,685,577	7,072,637	7,418,410
<b>Dilutive</b>			
Net income	\$ 7,018,318	\$ 6,453,888	\$ 6,246,043
Average common shares	6,685,577	7,072,637	7,418,410
Common share equivalents:			
Options	66,698	91,275	133,721
Total common share equivalents	66,698	91,275	133,721
Average common shares and common equivalents	6,752,275	7,163,912	7,552,131

**5. INCOME TAXES**

Components of tax expense are as follows:

	Year Ended March 31		
	2007	2006	2005
<b>Federal</b>			
Current	\$ 3,486,758	\$ 3,260,300	\$ 2,934,088
Deferred	(2,684)	(82,238)	289,550
	<u>3,484,074</u>	<u>3,178,062</u>	<u>3,223,638</u>
<b>State</b>			
Current	376,141	445,376	759,622
	<u>376,141</u>	<u>445,376</u>	<u>759,622</u>
<b>Total</b>	<u>\$ 3,860,215</u>	<u>\$ 3,623,438</u>	<u>\$ 3,983,260</u>

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

	Year Ended March 31		
	2007	2006	2005
Income Tax Expense at U.S. federal statutory rate	34.0%	34.0%	34.0%
Benefit of tax deduction allowed to manufacturing companies	(1.0)	(1.0)	—
State and local income tax rates net of federal income tax benefit	2.5	3.0	4.9
Provision for income taxes	<u>35.5%</u>	<u>36.0%</u>	<u>38.9%</u>

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	
	2007	2006
<b>Deferred tax liabilities:</b>		
Depreciation	\$ (1,181,316)	\$ (792,909)
<b>Total deferred tax liabilities</b>	<u>(1,181,316)</u>	<u>(792,909)</u>
<b>Deferred tax assets:</b>		
Inventory capitalization	67,844	67,970
LIFO Inventory	874,421	501,125
Postretirement benefits other than pensions	167,685	151,553
Other	69,432	67,643
<b>Total deferred tax assets</b>	<u>1,179,382</u>	<u>788,291</u>
<b>Net deferred tax asset (liability)</b>	<u>\$ (1,934)</u>	<u>\$ (4,618)</u>

**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 \$256,000 for the year ended March 31, 2007, \$256,000 for the year ended March 31, 2006, and \$274,000 for the year ended March 31, 2005. 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 \$48,000, \$38,000 and \$40,000 for the years ended March 31, 2007, 2006 and 2005, respectively.

**7. INDUSTRY SEGMENT DATA**

The Company is engaged in the steel processing, pipe manufacturing and processing and steel and pipe distribution business. Within the Company, there are two product groups: coil and tubular. 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		
	2007	2006	2005
<b>NET SALES:</b>			
Coil	\$ 96,794,728	\$ 93,870,412	\$ 104,312,715
Tubular	102,931,891	88,029,939	83,709,538
<b>TOTAL NET SALES</b>	<b>\$ 199,726,619</b>	<b>\$ 181,900,351</b>	<b>\$ 188,022,253</b>
<b>OPERATING PROFIT:</b>			
Coil	\$ 4,202,251	\$ 3,949,444	\$ 4,283,911
Tubular	7,864,313	8,747,667	9,021,863
<b>TOTAL OPERATING PROFIT</b>	<b>12,066,564</b>	<b>12,697,111</b>	<b>13,305,774</b>
General corporate expenses	(2,603,447)	(2,904,201)	(3,207,187)
Gain on sale of assets	1,312,839	—	—
Interest expense	(29,460)	—	(15,638)
Interest and other income	132,037	284,416	146,354
<b>TOTAL EARNINGS BEFORE TAXES</b>	<b>\$ 10,878,533</b>	<b>\$ 10,077,326</b>	<b>\$ 10,229,303</b>
<b>IDENTIFIABLE ASSETS:</b>			
Coil	\$ 27,600,911	\$ 24,528,359	\$ 20,724,554
Tubular	36,491,155	28,683,780	28,300,933
<b>TOTAL IDENTIFIABLE ASSETS</b>	<b>64,092,066</b>	<b>53,212,139</b>	<b>49,025,487</b>
General corporate assets	1,779,640	2,718,750	1,770,855
<b>TOTAL ASSETS</b>	<b>\$ 65,871,706</b>	<b>\$ 55,930,889</b>	<b>\$ 50,796,342</b>

**7. INDUSTRY SEGMENT DATA (Continued)**

	Year Ended March 31		
	2007	2006	2005
<b>DEPRECIATION:</b>			
Coil	594,080	\$ 610,202	\$ 624,654
Tubular	413,368	286,646	248,542
Corporate and other	32,563	30,549	35,186
	<u>\$ 1,040,011</u>	<u>\$ 927,397</u>	<u>\$ 908,382</u>
<b>CAPITAL EXPENDITURES:</b>			
Coil	\$ 5,646,911	\$ 826,642	\$ 113,243
Tubular	1,259,152	1,119,633	815,145
Corporate and other	3,675	16,980	25,225
	<u>\$ 6,909,738</u>	<u>\$ 1,963,255</u>	<u>\$ 953,613</u>

Operating profit is total revenue less operating expenses, excluding general corporate expenses, gain on sale of assets, 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, 2007 and 2006:

	Quarter Ended			
	June 30 2006	September 30 2006	December 31 2006	March 31 2007
Net sales	\$ 52,623,730	\$ 51,629,944	\$ 47,472,953	\$ 47,999,992
Gross profit	4,876,676	3,406,241	3,263,609	3,069,288
Net earnings	2,145,141	2,267,863(1)	1,379,149	1,226,165
Basic	.32	.34	.21	.18
Diluted	.32	.34	.20	.18

	Quarter Ended			
	June 30 2005	September 30 2005	December 31 2005	March 31 2006
Net sales	\$ 46,057,585	\$ 42,730,045	\$ 44,527,263	\$ 48,585,458
Gross profit	3,113,413	3,739,051	3,834,454	4,427,509
Net earnings	1,130,767	1,569,107	1,668,687	2,085,327
Basic	.16	.22	.23	.30
Diluted(2)	.16	.22	.23	.30

(1) Includes an after tax gain of \$866,474 (\$.13 per share basic and diluted, respectively) related to a gain on the sale of assets.

(2) 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.

## REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

Board of Directors and Shareholders  
Friedman Industries, Incorporated  
Houston, Texas

We have audited the accompanying consolidated balance sheet of Friedman Industries, Incorporated as of March 31, 2007, and the related consolidated statements of earnings, stockholders' equity, and cash flows for year ended March 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides 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 at March 31, 2007, and the consolidated results of its operations and its cash flows for the year ended March 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ MALONE & BAILEY, PC

Houston, Texas  
www.malone-bailey.com  
June 25, 2007

Board of Directors and Shareholders  
Friedman Industries, Incorporated

We have audited the accompanying consolidated balance sheet of Friedman Industries, Incorporated as of March 31, 2006, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the two years in the period ended March 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 at March 31, 2006, and the consolidated results of its operations and its cash flows for each of the two years in the period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Houston, Texas  
June 27, 2006

## SELECTED FINANCIAL DATA

	Year Ended March 31				
	2007	2006	2005	2004	2003
Net sales	\$ 199,726,619	\$ 181,900,351	\$ 188,022,253	\$ 116,158,567	\$ 106,082,738
Net earnings	7,018,318(1)	6,453,888	6,246,043	2,535,991	1,432,017
Total assets	65,871,706	55,930,889	50,796,342	46,028,123	42,778,926
Long-term debt	—	—	—	—	57,329
Stockholders' equity	42,109,998	37,097,335	35,354,550	33,031,604	31,246,751
Net earnings per share:					
Basic	1.05(1)	0.91	0.84	0.33	0.19
Diluted	1.04(1)	0.90	0.83	0.33	0.19
Cash dividends declared per share	0.34	0.32	0.29	0.10	0.09

(1) Includes an after tax gain of \$866,474 (\$.13 per share basic and diluted, respectively) related to a gain on the sale of assets.

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, 2007 compared to year end March 31, 2006

During the year ended March 31, 2007, sales and cost of products sold increased \$17,826,268, \$18,324,881 and gross profit decreased \$498,613 from the respective amounts recorded during the year ended March 31, 2006. The increase in sales was related primarily to an increase in the average per ton selling price which increased from approximately \$616 per ton in fiscal 2006 to \$654 per ton in fiscal 2007. In addition, the Company experienced an increase in tons sold from 295,000 tons in fiscal 2006 to approximately 306,000 tons in fiscal 2007. The increase in costs of products sold was related primarily to an increase in the average per ton cost which increased from approximately \$565 per ton in fiscal 2006 to \$606 per ton in fiscal 2007. Gross profit was adversely affected by a reduction in margins. Gross profit as a percentage of sales declined from approximately 8.3% in fiscal 2006 to approximately 7.3% in fiscal 2007. The Company could not pass along all of the increased material costs to its customers in fiscal 2007.

Coil product segment sales increased approximately \$2,924,000 during fiscal 2007. This increase was related primarily to an increase in the average selling price which increased from approximately \$630 per ton in fiscal 2006 to approximately \$682 per ton in fiscal 2007. This increase was partially offset by a decrease in tons shipped which declined from approximately 149,000 tons in fiscal 2006 to 142,000 tons in fiscal 2007. Coil operating profit increased approximately \$253,000 due to the sales increase. Coil operating profit as a percentage of coil segment sales increased from approximately 4.2% in fiscal 2006 to 4.3% in fiscal 2007.

In fiscal 2007, the Company phased out the Lone Star, Texas coil facility ("LSCF"). LSCF accounted for approximately 1% of total sales and generated a small loss in fiscal 2007. Certain LSCF assets will be redeployed to the Company's new coil operation located in Decatur, Alabama. The Decatur facility is expected to become operational in fiscal 2008.

The Company is dependent on Nucor Steel Company ("NSC") for its supply of coil inventory. In fiscal 2007, NSC continued to supply steel coils in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from NSC.

Tubular product segment sales increased approximately \$14,902,000 during fiscal 2007. This increase resulted primarily from an increase in tons shipped which increased from approximately 146,000 tons in fiscal 2006 to 164,000 tons in fiscal 2007. Average per ton selling prices increased from \$602 per ton in fiscal 2006 to \$629 per ton in fiscal 2007. Tubular product segment operating profit as a percentage of segment sales declined from approximately 9.9% in fiscal 2006 to 7.6% in fiscal 2007. Even though tubular sales increased in fiscal 2007, average margins earned on sales were reduced due to somewhat softer market conditions for pipe products in fiscal 2007 as compared to conditions in fiscal 2006.

During fiscal 2007, Lone Star Steel Company ("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. On June 14, 2007, United States Steel Corporation consummated its purchase of LSS. However, the Company does not currently anticipate any significant change in such supply from LSS.

In September 2006, the Company sold the real property owned by the Company in Houston, Texas and signed a 12 month rental agreement to rent office space at this location for \$1,400 per month. The sale resulted in a before tax gain of \$1,312,839. Proceeds received from the sales were used to purchase and improve real property associated with the Company's new coil facility to be located in Decatur, Alabama.

In fiscal 2007, selling, general and administrative expenses declined \$168,820 from the amount recorded in fiscal 2006. This decrease resulted primarily from a reduction in remuneration associated with a retired executive.

Interest and other income decreased \$152,379 from the comparable amount recorded in fiscal 2006. This decrease was associated primarily with a decrease in the average invested cash positions in fiscal 2007.

Income taxes increased \$236,777 from the comparable amount recorded during fiscal 2006. This increase was primarily related to the increase in earnings before taxes. Effective tax rates were 36.0% and 35.5% in fiscal 2006 and 2007, respectively.

Year ended March 31, 2006 compared to year ended March 31, 2005

During the year ended March 31, 2006, sales, costs of goods sold and gross profit decreased \$6,121,902, \$5,474,425 and \$647,477, respectively, from the comparable amounts recorded during the year ended March 31, 2005. The decrease in sales was related primarily to a decrease in the average per ton selling price which decreased from approximately \$639 per ton in fiscal 2005 to \$616 per ton in fiscal 2006. Tons shipped remained constant at approximately 295,000 tons during each fiscal year. Costs of goods sold decreased due primarily to a decrease in the average per ton costs of goods sold which decreased from approximately \$585 per ton in fiscal 2005 to \$565 per ton in fiscal 2006. Gross profit was adversely affected by decreased sales. Gross profit as a percentage of sales declined from approximately 8.4% in fiscal 2005 to approximately 8.3% in fiscal 2006.

Coil product segment sales decreased \$10,442,303 during fiscal 2006. This decrease was related primarily to a decline in the average selling price which decreased from approximately \$725 per ton in fiscal 2005 to approximately \$630 per ton in fiscal 2006. This decrease in sales relative to a decline in average selling prices was partially offset by an increase in tons shipped which increased from approximately 144,000 tons in fiscal 2005 to 149,000 tons in fiscal 2006. Coil operating profit declined \$334,467 due primarily to the reduction in sales. Coil operating profit as a percentage of coil segment sales increased from approximately 4.1% in fiscal 2005 to 4.2% in fiscal 2006.

In fiscal 2006, the LSCF continued to experience a lack of supply of coil products from its primary coil supplier, LSS. In fiscal 2006, the Company decided to phase out the LSCF in fiscal 2007 and redeploy certain LSCF assets to a new coil operation to be located in close proximity to the Nucor Steel Company steel mill in Decatur, Alabama. The LSCF, which produced a marginal profit in fiscal 2006, accounted for approximately 5% of total sales in fiscal 2006.

Tubular product segment sales increased \$4,320,401 during fiscal 2006. This increase resulted from an increase in the average per ton selling price from approximately \$557 per ton in fiscal 2005 to approximately \$602 per ton in fiscal 2006. This increase was partially offset by a decline in tons shipped from approximately 150,000 tons in fiscal 2005 to 146,000 tons in fiscal 2006. Tubular product operating profit declined \$274,196 and was primarily affected by a decrease in average margins. In fiscal 2006, the Company incurred an increase in pipe manufacturing costs but was unable to pass the total amount of these costs to customers. Tubular product segment operating profit as a percentage of segment sales declined from approximately 10.8% in fiscal 2005 to 9.9% in fiscal 2006. The Company experienced somewhat softer market conditions for its pipe products in fiscal 2006 as compared to conditions in fiscal 2005.

During fiscal 2006, 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 2006, general, selling and administrative costs decreased \$341,800 from the amount recorded during fiscal 2005. This decrease was related primarily to a decrease in bad debt expense and a reduction in remuneration associated with a retired executive.

Interest and other income increased \$138,062 from the comparable amount recorded in fiscal 2005. This increase was associated primarily with an increase in the average invested cash positions and an increase in average interest rates paid on invested cash during fiscal 2006.

Income taxes decreased \$359,822 from the comparable amount recorded during fiscal 2005. This decrease was primarily related to the decrease in earnings before taxes and to a tax deduction allowed to manufacturing companies in fiscal 2006. Effective tax rates were 36.0% and 38.9% in fiscal 2006 and 2005, respectively.

#### FINANCIAL CONDITION, LIQUIDITY AND SOURCES OF CAPITAL

The Company remained in a strong, liquid position at March 31, 2007. Current ratios were 2.22 and 2.59 at March 31, 2007 and March 31, 2006, respectively. Working capital was \$28,464,786 at March 31, 2007 and \$29,167,810 at March 31, 2006.

During the year ended March 31, 2007, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Inventories and accounts payable increased from the respective amounts in fiscal 2006. These increases were related primarily to the ordinary course of business of the Company. 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 February 2006, the Company purchased 551,248 shares of the common stock of the Company from Mr. Jack Friedman for approximately \$4.911 per share or a total of \$2,707,179. Effective as of February 8, 2006, Mr. Friedman retired as Chairman of the Board and Chief Executive Officer and as an employee of the Company.

During the year ended March 31, 2007, the Company purchased approximately \$6,900,000 in fixed assets. These assets were related primarily to improvements to pipe mill #2 at Lone Star, Texas and land and equipment associated with the new coil operation to be located in Decatur, Alabama. In connection with this planned new operation, in fiscal 2007 the Company phased out its coil processing operations at Lone Star, Texas. At the Decatur site, the Company is constructing a coil processing facility using certain assets previously used at the LSCF. The Company expects that the Decatur processing facility will initially operate a steel temper mill and a steel cut-to-length including a leveling line. The Company expects that the Decatur facility will commence operations in fiscal 2008. In addition to the funds used to purchase the real property in Alabama, the Company's Board of Directors has authorized up to an additional \$16 million to be used for capital expenditures and operational cash requirements related to the Decatur facility. At March 31, 2007, the Company had invested approximately \$6,500,000 at the Decatur facility. The estimated cost to complete this facility is approximately \$3,000,000.

In September 2006, the Company sold the real property owned by the Company in Houston, Texas and signed a 12-month rental agreement to rent corporate office space at this location for \$1,400 per month. This sale resulted in a before tax gain of \$1,312,839. Proceeds received from the sale were used to purchase and improve real property associated with the Company's new coil operation to be located in Decatur, Alabama.

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, 2010, the Company may borrow up to \$10 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, 2007 and 2006, 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.

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**

Contractual Obligations	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt obligations	\$ —	\$ —	—	—	—
Capital lease obligations	—	—	—	—	—
Operating lease obligations	37,936	35,664	\$ 2,272	—	—
Total	\$ 37,936	\$ 35,664	\$ 2,272	—	—

**INFLATION**

During fiscal 2007, 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 ongoing 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, product quality and proposed expansion plans. Forward-looking statements may be made by management orally or in writing including, but not limited to, this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Company's filings with the 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, including any proposed expansion 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									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Net sales	\$ 199,726,619	\$ 181,900,351	\$ 188,022,253	\$ 116,158,567	\$ 106,082,738	\$ 97,617,956	\$ 120,395,583	\$ 120,267,809	\$ 124,719,640	\$ 148,840,724
Earnings	\$ 7,018,318(1)	\$ 6,453,888	\$ 6,246,043	\$ 2,535,991	\$ 1,432,017	\$ 940,039	\$ 2,927,582	\$ 2,506,801	\$ 3,540,811	\$ 4,809,992
Current assets	\$ 51,731,369	\$ 47,551,003	\$ 43,498,759	\$ 37,829,701	\$ 34,769,500	\$ 35,806,988	\$ 40,231,329	\$ 36,945,378	\$ 32,534,040	\$ 39,347,548
Current liabilities	\$ 23,266,583	\$ 18,383,193	\$ 14,959,516	\$ 12,639,763	\$ 11,035,388	\$ 10,797,106	\$ 12,271,802	\$ 8,377,279	\$ 6,758,038	\$ 13,437,178
Net working capital	\$ 28,464,786	\$ 29,167,810	\$ 28,539,243	\$ 25,189,938	\$ 23,734,112	\$ 25,009,882	\$ 27,959,527	\$ 28,568,099	\$ 25,776,002	\$ 25,910,370
Total assets	\$ 65,871,706	\$ 55,930,889	\$ 50,796,342	\$ 46,028,123	\$ 42,778,926	\$ 43,986,455	\$ 48,010,512	\$ 45,106,790	\$ 41,023,377	\$ 46,039,361
Stockholders' equity	\$ 42,109,998	\$ 37,097,335	\$ 35,354,550	\$ 33,031,604	\$ 31,246,751	\$ 30,491,351	\$ 30,378,150	\$ 28,622,951	\$ 27,422,779	\$ 25,732,957
Earnings as a percent of										
Net sales	3.5	3.5	3.3	2.2	1.3	1.0	2.4	2.1	2.8	3.2
Stockholders' equity	16.7	17.4	17.7	7.7	4.6	3.1	9.6	8.8	12.9	18.7
Average number of common shares outstanding: Basic(2)	6,685,577	7,072,637	7,418,410	7,574,070	7,572,239	7,571,239	7,568,839	7,547,624	7,528,702	7,512,901
Per share										
Net earnings per share:										
Basic	\$ 1.05(1)	\$ 0.91	\$ 0.84	\$ 0.33	\$ 0.19	\$ 0.12	\$ 0.39	\$ 0.33	\$ 0.47	\$ 0.64
Stockholders' equity(2)	\$ 6.30	\$ 5.25	\$ 4.77	\$ 4.36	\$ 4.13	\$ 4.03	\$ 4.01	\$ 3.79	\$ 3.64	\$ 3.43
Cash dividends per common share	\$ 0.34	\$ 0.32	\$ 0.29	\$ 0.10	\$ 0.09	\$ 0.11	\$ 0.16	\$ 0.18	\$ 0.25	\$ 0.25
Stock dividend declared	—	—	—	—	—	—	—	5%	5%	5%

(1) Includes an after tax gain of \$866,474 (\$.13 per share basic) related to a gain on the sale of assets.

(2) Adjusted for stock dividends.

## 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) 622-7000 or sent to Three Greenway Plaza, Suite 1750, Houston, TX 77046.

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.

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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.

SUBSIDIARIES

ROYAL FASTENERS CORPORATION

Texas Corporation

100% owned

FRIEDMAN/DECATUR, L.L.C.

Alabama Limited Liability Company

100% owned



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Friedman Industries, Incorporated of our report dated June 25, 2007, with respect to the consolidated financial statements of Friedman Industries, Incorporated as of March 31, 2007 and the year then ended included in the 2007 Annual Report to Shareholders of Friedman Industries, Incorporated.

Our audit also included the financial statement schedule of Friedman Industries, Incorporated listed in Item 15(a). This schedule is the responsibility of Friedman Industries, Incorporated's management. Our responsibility is to express an opinion based on our audit. In our opinion, as to which the date is June 25, 2007, 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, and 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 25, 2007, 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/ MALONE & BAILEY, PC

Houston, Texas  
www.malone-bailey.com  
June 25, 2007

**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, 2006, with respect to the consolidated financial statements of Friedman Industries, Incorporated, included in the 2007 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 Friedman Industries, Incorporated's management. Our responsibility is to express an opinion based on our audits. In our opinion, as to which the date is June 27, 2006, 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, and 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, 2006, 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 26, 2007

I, William E. Crow, certify that:

1. I have reviewed this report on Form 10-K of Friedman Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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, 2007

/s/ WILLIAM E. CROW

Chief Executive Officer and President

I, Ben Harper certify that:

1. I have reviewed this report on Form 10-K of Friedman Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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, 2007

/s/ BEN HARPER

Senior Vice President — Finance and  
Secretary/Treasurer

In connection with the Annual Report of Friedman Industries, Incorporated (the "Company") on Form 10-K for the fiscal year ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William E. Crow, Chief Executive Officer and President 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.

Dated: June 28, 2007

**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, 2007, 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, 2007