

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

FRIEDMAN INDUSTRIES INC

Form: 8-K

Date Filed: 2018-12-18

Corporate Issuer CIK: 39092

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **December 12, 2018**

Friedman Industries, Incorporated

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction
of incorporation)

1-07521
(Commission File Number)

74-1504405
(IRS Employer Identification No.)

1121 Judson Rd. Suite 124
Longview, TX
(Address of principal executive offices)

75601
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 1.01 Entry into a Material Definitive Agreement

On December 12, 2018, Friedman Industries, Inc. (the "Company") entered into a Loan Agreement (the "Loan Agreement") providing for a \$5.0 million revolving line of credit facility (the "Credit Facility") with Citizens National Bank (the "Bank"). Pursuant to the Loan Agreement, the Company entered into a Promissory Note on December 12, 2018, evidencing the Credit Facility (the "Promissory Note"). The Credit Facility expires on December 12, 2019. The Credit Facility takes the place of a prior facility that was disclosed previously on the Company's Form 8-K dated December 15, 2017.

Borrowings under the Credit Facility bear interest at the Bank's prime rate minus 0.55%. Interest payments on amounts advanced are due monthly, and principal payments may be made at any time without penalty. All outstanding principal and accrued interest is due upon expiration of the Credit Facility. Pursuant to a Commercial Security Agreement (the "Security Agreement") executed by the Company on December 12, 2018, the Credit Facility is collateralized by certain accounts receivable and certain inventory of the Company, including the accounts receivable and inventory of the Company's tubular segment. The tubular segment consists of the Company's Texas Tubular Products ("TTP") division in Lone Star, Texas. TTP is engaged in the manufacture, processing and distribution of tubular goods.

Access to funds under the Credit Facility is subject to a borrowing base requirement. The borrowing base is calculated as 80% of eligible tubular segment accounts receivable plus 40% of eligible tubular segment inventory. The total amount contributed to the borrowing base by eligible inventory shall not exceed \$3.0 million.

The Credit Facility contains certain customary affirmative and negative covenants. Financial covenants contained in the Credit Facility include:

- The Company will not permit at any time its total shareholders' equity to be less than \$50.0 million.
- The Company will not permit at any time its total liabilities to exceed 50% of total shareholders' equity.
- The Company will not permit its debt service coverage ratio, measured as of the end of each calendar quarter, to be less than 2.00 to 1.00. The debt service coverage ratio is calculated on a trailing twelve month period as the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to the sum of interest expense for such period, scheduled principal payments for such period on all indebtedness for money borrowed and capital leases, and the aggregate amount payable during such period under any operating leases.

In the event of an uncured event of default, amounts borrowed under the Credit Facility and all unpaid interest will become due immediately.

As of the filing date of this Current Report on Form 8-K, the Company has not borrowed any amount under the Credit Facility.

The foregoing descriptions of the Loan Agreement, Credit Facility, Promissory Note and Security Agreement are not complete and are qualified in their respective entireties by the full text of the Loan Agreement, Promissory Note, and Security Agreement filed as exhibits to this Current Report on Form 8-K.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

The information provided in Item 1.01 of this Current Report on Form 8-K is incorporated by reference into this Item 2.03.

Item 3.03 Material Modification to Rights of Security Holders

The information provided in Item 1.01 of this Current Report on Form 8-K is incorporated by reference into this Item 3.03.

Item 9.01 Financial Statements and Exhibits**(d) Exhibits.**

Exhibit Number	Description of Exhibit
10.1	<u>Revolving Line of Credit Loan Agreement dated December 12, 2018.</u>
10.2	<u>Promissory Note dated December 12, 2018.</u>
10.3	<u>Commercial Security Agreement dated December 12, 2018.</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: December 18, 2018

FRIEDMAN INDUSTRIES, INCORPORATED

By: /s/ Alex LaRue
Alex LaRue
Chief Financial Officer - Secretary and Treasurer

REVOLVING LINE OF CREDIT LOAN AGREEMENT

Loan Number: XXXXXXX

Date: December 12, 2018

Borrower: Friedman Industries, Incorporated, a Texas corporation

Borrower's Address: 1121 Judson Road, Suite #124, Longview, Texas 75601

Lender: Citizens National Bank

Lender's Address: P.O. Box 1009, Henderson, Texas 75653

Principal Amount: Five Million and No/100 Dollars (\$5,000,000.00)

Maturity Date: December 12, 2019

This Revolving Line of Credit Loan Agreement is made between Lender and Borrower. In consideration of the mutual covenants and agreements in this Agreement, the parties agree as follows:

ARTICLE I. DEFINITIONS

1.01. Definitions and Construction. All terms used in this Agreement, whether or not defined in this section, and whether used in singular or plural form, shall be deemed to refer to the object of the term whether such is singular or plural, as the context may suggest or require. Borrower agrees that this Agreement was the result of a negotiated agreement with Lender and the rule of construction that states ambiguities in a document are construed against the party who drafted it does not apply in interpreting this Agreement. In addition to the other terms defined above, the following terms have these meanings when used in this Agreement:

"Account Debtor" means the obligor under any Account.

"Accounts" has the same meaning set forth in Section 9.102(a)(2) of the Texas Business and Commerce Code and shall include (without limitation) all present and future rights to payment for goods sold or leased or for services rendered, and whether or not earned by performance.

"Advance" means an advance to Borrower under the Line of Credit.

"Affiliate" means, as to any entity, (a) any other Person that, directly or indirectly, owns or controls, on an aggregate basis, including all beneficial ownership and ownership or control as trustee, guardian or other fiduciary, at least ten percent (10%) of the outstanding stock, membership interests, partnership interests or other equity interests of such entity, (b) any other Person whose business is operated under a lease or operating agreement with such entity, (c) any other Person for whom substantially all of such Person's property is operated under a lease or operating agreement with such entity, and (d) any other Person that operates the business or substantially all of the property of such entity under a lease or operating agreement.

"Agreement" means this Revolving Line of Credit Loan Agreement, either as originally executed or as it may be amended from time to time in writing.

"Authorized Person" means (a) any and all Persons with actual or apparent authority to act on behalf of Borrower in connection with Borrower's dealings with Lender, and (b) the following named Person(s), each of whom are authorized to request Advances and to direct the use, deposit or payment of all Advances until Lender actually receives from Borrower, at Lender's Address, written notice of revocation of such authority:

Alex LaRue; and
Robert Sparkman.

"Borrower" means the borrower(s) identified in the introductory section above, whether one or more.

"Borrower's Address" means the address for Borrower identified in the introductory section above, or such other address notice of which is given by Borrower in writing and delivered to Lender.

"Borrower's Coil Products Segment" means that certain reportable division or segment of Borrower's operations that generates revenue from temper passing and cutting to length hot-rolled steel coils at Borrower's facilities in Hickman, Arkansas and in Decatur, Alabama. No other operations, business, products, services or activities of Borrower are included in "Borrower's Coil Products Segment" for purposes of this description or definition.

"Borrowing Base" means the sum of (a) **80%** of Eligible Accounts, plus (b) **40%** of the average cost of Eligible Inventory (provided, however, that the total amount contributed to the Borrowing Base by Eligible Inventory shall not exceed **\$3,000,000.00**).

"Borrowing Base Certificate" is defined in **Section 4.01** of this Agreement.

"Business Day" means any day on which Lender is open for the transaction of business.

"Calendar Quarter" means the following periods of time during each calendar year: January 1st through March 31st, April 1st through June 30th, July 1st through September 30th and October 1st through December 31st.

"Collateral" means (a) all property described in the Loan Documents as security or collateral for the Obligations (including, but not limited to, Accounts, Payment Intangibles, Inventory, Goods, and books, records, Chattel Paper, Electronic Chattel Paper, Documents and Proceeds thereof), (b) all other property securing payment of any of the Obligations under any other agreement or document, or by means of any applicable law or cross-security provision, (c) all property subsequently taken as collateral or security for any part of the Obligations, and (d) all additions, substitutions, accessions to, replacements for and proceeds thereof. Any Account which is not an Eligible Account (with the following listed exclusion) shall nevertheless be part of the Collateral. Any Inventory which is not Eligible Inventory (with the following listed exclusion) shall nevertheless be part of the Collateral. **The following property is excluded from the Collateral: (a) Accounts generated solely from Borrower's sale of Goods in or performance of services related to within Borrower's Coil Products Segment, and (b) Inventory which is used solely in connection with or sold as a part of Borrower's Coil Products Segment. For the avoidance of doubt, Borrower agrees that if any Account, Inventory or other Goods are reported by Borrower to Lender as part of the Collateral in any Borrowing Base Certificate, inventory report, aged receivables report or other report provided under the terms of this Agreement or any other Loan Document, then such property shall be conclusively presumed to be (and is intended by Borrower to be) a part of the Collateral.**

"Constituent Documents" means the following, as amended or revised: (a) in the case of a corporation, its articles of incorporation or certificate of formation and its bylaws; (b) in the case of a general partnership, its partnership agreement; (c) in the case of a limited partnership, its certificate of limited partnership or certificate of formation and its partnership agreement; (d) in the case of a trust, its trust agreement; (e) in the case of a joint venture, its joint venture agreement; (f) in the case of a limited liability company, its articles of organization or certificate of formation and its operating or company agreement; and (g) in the case of any other entity, its organizational and governance documents and agreements.

"Default Interest Rate" means a rate per annum equal to the lesser of a) eighteen percent (18%), or b) the maximum rate of interest permitted under federal or other law applicable to the Note.

"Eligible Accounts" means Accounts owned by and/or payable to Borrower which are and continue to be acceptable to Lender in the exercise of Lender's sole discretion and judgment. As of the date hereof, "Eligible Accounts" shall **not** include:

- (a) Accounts that are not encumbered by a perfected and first Lien in priority security interest granted in favor of Lender, where first Lien priority and perfection are confirmed by evidence or opinions acceptable to Lender;
- (b) Accounts that are not free and clear of all Liens, encumbrances and claims of third parties;
- (c) Accounts that have not been paid in full within ninety (90) days after the date of the original invoice or other billing for the Account;
- (d) Accounts of any single Account Debtor (including all Subsidiaries and Affiliates of an Account Debtor) in excess of **twenty-five percent (25%)** of the total of all otherwise Eligible Accounts;
- (e) Accounts with respect to which the Account Debtor is a partner, shareholder, director, officer, employee or agent of Borrower;
- (f) Accounts with respect to which the Account Debtor is a Subsidiary or Affiliate of Borrower, or to which the Account Debtor is a partner, shareholder, director, employee, agent, member, manager, or officer of any Subsidiary or Affiliate of Borrower;
- (g) Accounts with respect to Goods which are placed on consignment, guaranteed sale, or other terms by reason of which the payment by the Account Debtors may be conditional;
- (h) Accounts with respect to which the Account Debtors are residents of, or incorporated in, a jurisdiction located outside of the United States, except to the extent such accounts are supported by insurance, bonds or other assurances satisfactory to Lender;
- (i) The portion of any Account which is subject to dispute, counterclaim, or setoff;
- (j) Accounts with respect to which Goods have not been shipped or delivered, or the services have not been rendered to the Account Debtor;
- (k) Accounts of any Account Debtor established by a deposit of cash or cash on delivery;
- (l) Accounts of any Account Debtor which has filed or which has had filed against it a petition in bankruptcy or an application for relief under any provision of any state or federal bankruptcy, insolvency, or debtor-in-relief acts; or which has had appointed a trustee, custodian, or receiver for the assets of such Account Debtor; or which has made an assignment for the benefit of creditors or has become insolvent or has failed generally to pay its debts (including its payroll) as such debts become due;
- (m) Accounts of any Account Debtor which is or may be the holder of an account or accounts payable by Borrower or any Subsidiary or Affiliate of Borrower, where a "no-offset agreement", in form and substance acceptable to Lender from time to time, has not been fully executed by Borrower and such Account Debtor and delivered to Lender prior to the date hereof;
- (n) Accounts for which the Account Debtor is the United States government or any department or agency of the United States;
- (o) Accounts for which the Account Debtor is a state, city, county, municipal or other governmental agency or body;

- (p) Accounts which Lender, using its reasonable discretion, deems to be ineligible for any reason;
- (q) The portion of any Account consisting of finance charges, unearned income, pass-thru billing and any other like fees;
- (r) The portion of any Account subject to retainage or holdback by the Account Debtor;
- (s) Progress billings, including any Accounts for which only a portion of the goods or services with respect thereto have not been fully delivered to or performed for the Account Debtor; and
- (t) **Accounts generated from Borrower's sale of Goods in or performance of services related to Borrower's Coil Products Segment.**

"Eligible Inventory" means the Inventory of Borrower which Lender deems to be eligible for Borrowing Base purposes in the exercise of Lender's sole discretion and judgment **(excluding, however, Inventory which is used in connection with or sold as a part of Borrower's Coil Products Segment, or which is otherwise located at Borrower's facilities in Hickman, Arkansas or Decatur, Alabama)**.

"Event of Default" means the occurrence or happening of any of the events set forth in Article V or otherwise herein.

"Expiration Date" is defined in Article II of this Agreement.

"Fiscal Year" shall mean the twelve (12) month accounting period of Borrower, covering the period of time of and from April 1st of a calendar year to and including March 31st of the following calendar year. In the event Borrower changes its "Fiscal Year" to a different accounting period, then notice thereof shall be immediately given to Lender and all reporting obligations under this Agreement shall also apply, in addition to the previous Fiscal Year, to the newly designated "Fiscal Year." In no event shall Borrower's election to change its Fiscal Year delay, stall or change the date on which any report required by this Agreement is due, or change the effect of any loan covenant determined in connection with the previous Fiscal Year.

"GAAP" means generally accepted accounting principles, applied on a consistent basis, as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and/or in statements of the Financial Accounting Standards Board and/or their respective successors and which are applicable in the circumstances as of the date in question. Accounting principles are applied on a "consistent basis" when the accounting principles applied in a current period are comparable in all material respects to those accounting principles applied in a preceding period.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Hazardous Substances" means materials that, because of their quality, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The phrase "Hazardous Substances" is used in its very broadest sense and includes without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the terms of any environmental laws, and the phrase also includes petroleum and petroleum by-products and any fraction thereof and asbestos.

"Inventory" means Goods that are (a) leased by a Person as lessor, (b) held by a Person for sale or lease or to be furnished under a contract for service, (c) are furnished by a Person under a contract for service, and/or (d) consist of raw materials, work in process, or materials used or consumed in a business.

"Lender" means the lender identified in the introductory section above, and its successors, assigns and participants.

"Lender's Address" means the address for Lender identified in the introductory section above, or such other address notice of which is given by Lender in writing and delivered to Borrower.

"Lien" means any mortgage, deed of trust, pledge, encumbrance, assignment for security, security interest, lien or charge of any kind, whether voluntarily incurred or arising by operation of law, by statute, by contract, or otherwise.

"Line of Credit" means the line of credit established under this Agreement and evidenced, in part, by the Note.

"Loan Documents" means this Agreement, the Note and any and all deeds of trust, security agreements, guaranty agreements, assignments, assignments of rents, indemnity agreements, certifications, pledge agreements, and other agreements or documents related to or securing the Note, the other Obligations, or any Related Indebtedness, together with any and all renewals, modifications, amendments, restatements, extensions and supplements thereof.

"Market Value" means with respect to an asset, a) the appraised value of such asset if the appraisal was prepared by an independent and qualified third party, is reliable, and was completed as of a date that was in reasonable proximity to the date in question, all of which conditions may be determined by Lender in the exercise of its reasonable discretion and judgment, or b) if no such appraisal exists or qualifies under (a), then the most probable price which, in the good faith exercise of Lender's sole discretion and judgment, such property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

"Material Adverse Effect" means any event or condition which, alone or when taken with other events or conditions occurring or existing concurrently therewith (a) has or is reasonably expected to have a material adverse effect on the business, operations, condition (financial or otherwise), assets, liabilities, properties or prospects of Borrower or of the industry in which Borrower operates; (b) has or is reasonably expected to have any material adverse effect whatsoever on the validity or enforceability of this Agreement, or any other Loan Document; (c) materially impairs or is reasonably expected to materially impair the ability of Lender to enforce its rights and remedies under this Agreement and the other Loan Documents; or (e) has or is reasonably expected to have any material adverse effect on the Collateral, the Liens of Lender in the Collateral or the priority of such Liens.

"Maturity Date" means the earlier to occur of a) the date stated in the Note as the Maturity Date, or b) the date on which the maturity of the Note is accelerated by Lender under the terms hereof or under any of the other Loan Documents.

"Maximum Loan Amount" means the lesser of (a) \$5,000,000.00, or (b) the maximum amount available to be advanced under the Borrowing Base. The Maximum Loan Amount is the maximum principal amount required to be advanced by Lender, but any such obligation to make Advances by Lender is subject to the terms of this Agreement and all other Loan Documents.

"Note" means the promissory note executed by Borrower, dated December 12, 2018, in the original principal amount of \$5,000,000.00 and payable to the order of Lender as the note may hereafter be amended, modified, renewed or extended from time-to-time.

"Obligations" means (a) any and all indebtedness (including any Related Indebtedness) owed to Lender under the terms of the Note, this Agreement or any other Loan Document, (b) all renewals, extensions, amendments and/or modifications of any of the foregoing or following, (c) any and all other or additional debts, obligations and liabilities of every kind and character of Borrower, whether due or to become due, now or hereafter existing in favor of Lender, regardless of whether such debts, obligations and liabilities be direct or indirect, primary, secondary, joint, several, joint and several, fixed or contingent, and regardless of whether such debts, obligations and liabilities were originally owing to Lender or acquired by Lender or its assignees from any third party, and (d) all interest, charges, fees, attorneys' fees, expenses, costs and any other sum chargeable by Lender to Borrower under this or any other agreement. Lender's records shall be prima facie evidence of the Obligations due and owing under this Agreement.

"Person" means and includes any individual, sole proprietorship, partnership, joint venture, trust, estate, unincorporated organization, association, corporation, or Governmental Authority.

"Principal Amount" means the principal amount of the Note.

"Related Indebtedness" means any and all Obligations paid or payable by Borrower to Lender pursuant to any of the Loan Documents or any other communication or writing by and between Borrower and Lender, except such indebtedness which has been paid or is payable by Borrower to Lender under the Note.

"Subsidiary" means as to any entity, any Person in which the entity owns or controls at least ten percent (10%) of the outstanding stock, membership interests, partnership interests or other equity interests on an aggregate basis, including all beneficial ownership and ownership or control as trustee, guardian or other fiduciary.

"Total Liabilities" means all obligations, indebtedness or other liabilities of any kind or nature, fixed or contingent, due or not due, which, in accordance with GAAP would be classified as a liability on the balance sheet of any Person.

"Total Stockholders' Equity" means the excess of the total assets of Borrower over the Total Liabilities of Borrower, excluding, however, from the definition of assets, the amount of (a) any write-up in the book value of any assets resulting from a revaluation thereof subsequent to the later to occur of (i) the date of this Agreement and (ii) the date Borrower acquired such asset; (b) treasury stock; (c) receivables from Affiliates or Subsidiaries of Borrower; and (d) unamortized original issue debt discount, all of which is to be determined in accordance with GAAP.

"Texas Tubular Products Segment" means that certain reportable division or segment of Borrower's operations known as the Texas Tubular Products division or segment located in Lone Star, Texas, the activities of which include (but are not limited to) the manufacture, processing and distribution of tubular goods.

1.02. Accounting Terms: Calculations. All accounting terms not specifically defined herein shall have the meanings generally attributed to such terms under GAAP. Calculations hereunder shall be made and financial data required thereby shall be prepared, both as to classification of items and as to amounts, in accordance with GAAP, consistently applied (except as otherwise specifically required herein).

1.03. UCC Definitions. Words or phrases used herein and which are defined in the Code and which are not defined in this Agreement, shall have the meanings given to them by the Code, as the Code may be from time to time amended. In the event of a conflict between definitions in this Agreement and the Code, this Agreement controls.

ARTICLE II. PURPOSE OF LOAN, PROCEDURES, CONDITIONS

2.01. Purpose. The purpose of the Note is to provide financing by Lender to Borrower to provide working capital to fund routine business operations. Borrower agrees no amount advanced under this Agreement will be used for any other purpose.

2.02. Optional Advances. If Lender advances funds in excess of the Principal Amount (each, an "Optional Advance"), Borrower agrees such Optional Advance shall be subject to the terms and conditions of this Agreement and included as a part of the Obligations. Borrower also agrees that Lender does not hereby agree to make any Optional Advance and shall do so only in the exercise of Lender's sole discretion.

2.03. Revolving Commitment. The Note is a revolving line of credit. Prior to the Expiration Date, repayments applied to the Principal Amount reinstate Borrower's ability to request further Advances subject to the terms of this Agreement and the other Loan Documents.

2.04. Advances; Procedures. Subject to the terms and conditions of this Agreement and the other Loan Documents, Lender agrees to make Advances of principal under the Line of Credit. Borrower shall give Lender written notice of Borrower's request for an Advance at least one (1) Business Day prior to the requested date of the Advance. Lender may make available to Borrower the amount of the Advance in the manner deemed appropriate by Lender or in whatever form the parties agree. Each request for an Advance shall specify (a) the amount of the Advance; (b) the date the Advance is requested, which shall be on a Business Day; (c) the then current unpaid Principal Amount of the Note; (d) the then current unused portion of the Line of Credit; (e) a certification that the requested Advance is allowed under this Agreement; and (f) a certification that no Event of Default exists. Lender may waive any of the above requirements in the exercise of Lender's sole discretion and judgment and the waiver of one or more requirements concerning one Advance does not waive any requirement for a different Advance. Any and all Advances made at the request of an Authorized Person, regardless of the manner in which an Advance was made, where it was deposited or how the proceeds of the Advance were used, shall be deemed for all purposes to have been an authorized Advance and a part of the Obligations.

2.05. Term; Expiration Date.

(a) The Line of Credit shall continue in effect until the Expiration Date, which date shall be the earlier to occur of (i) **December 12, 2019**, (ii) the acceleration of the maturity of the Note, (iii) the occurrence of any Event of Default, or (iv) the date on which Lender's conditional obligation to fund Advances otherwise terminates. On the Expiration Date, any un-disbursed amounts available under the Line of Credit shall expire and Lender shall not be obligated to make other Advances. Lender may waive, in the exercise of its sole discretion and judgment, the occurrence of any event that causes an Expiration Date and the waiver of any one or more such events does not waive, change or alter any future Expiration Date.

(b) Lender is not obligated to renew or extend the time for payment of the Note or any other Obligation past its stated maturity.

(c) At the Expiration Date, the Obligations shall be due and payable in full to Lender. The occurrence of an Event of Default or other termination of the Line of Credit shall not in any way release or relieve Borrower from Borrower's liabilities and obligations under this Agreement, the Note, or any other Loan Document, which liabilities and obligations shall remain in full force and effect until the Obligations have been paid in full.

2.06. Specific Conditions to Each Advance. The right of Borrower to request any Advance shall be subject to the following conditions precedent:

(a) *No Event of Default.* As of the date of the making of the Advance, there shall exist no Event of Default and there shall exist no circumstance which, with the giving of notice, the passage of time, or both would constitute an Event of Default. Lender is not obligated to make an Advance if the funding of the Advance would result in an Event of Default;

(b) *Compliance with Agreement.* Borrower shall have performed and complied in all material respects with all agreements, covenants and conditions contained herein and in each of the other Loan Documents;

(c) *Request for Advance.* Lender shall have received from Borrower a request for Advance in accordance with the provisions of this Agreement; and

(d) *No Default on Other Indebtedness.* Borrower is not in default, and will not be in default following the making of an Advance, under the terms of any other loan, loan agreement, indenture, or other agreement relating to indebtedness for borrowed money with any other Person.

2.07. Maximum Loan Amount. Lender is not obligated to make any Advance that will cause the unpaid principal amount of the Note to exceed the Maximum Loan Amount. In the event the unpaid principal amount of the Note is, for any reason whatsoever, in excess of the Maximum Loan Amount, then such excess amount shall be payable on Lender's demand (unless otherwise stated in this Agreement or any other Loan Document) and if no such demand is made, then no later than the time otherwise specified by Lender. Lender has no obligation to permit any extension of all or any part of the Note in excess of any of the limits set forth in this Agreement, the Note or any other Loan Document.

2.08. Conditions Precedent. Lender shall receive prior to, or at the time of closing (or, if agreed to in writing by Lender, within a reasonable time after closing), all of the following which shall be in form and substance satisfactory to Lender in the exercise of its sole discretion and judgment:

- (a) *Resolution of Borrower*. Copies of the resolutions of Borrower's governing authorities (if applicable) under their respective Constituent Documents authorizing the execution, delivery and performance of this Agreement, the Note, and all other Loan Documents;
- (b) *Note*. The Note, duly executed and delivered by Borrower;
- (c) *Good Standing*. Evidence satisfactory to Lender showing Borrower's good standing and qualification to do business in all states in which Collateral is located and in which they are engaged in business;
- (e) *Insurance Policies*. Evidence satisfactory to Lender that Borrower have obtained the insurance policies required by this Agreement and the other Loan Documents;
- (f) *Fees*. Evidence that all fees due and owing to Lender or any third party, if any, in connection with this Agreement have been paid in full;
- (g) *Loan Documents*. Each Loan Document is duly executed by those Persons authorized to execute and deliver same;
- (h) *Filing of Loan Documents*. Each Loan Document required under law or requested by Lender to be filed, registered or recorded in order to create, attach or perfect any Lien in favor of Lender or for the benefit of Lender, shall have been filed, registered or recorded;
- (i) *Other Information*. Such other information and documents as may reasonably be required by Lender and Lender's counsel, including: None.

2.08. Cross-Security. Lender and Borrower intend for the Collateral to secure all of the Obligations unless the creation of a Lien on any of the Collateral to secure any debt other than the Note is prohibited by applicable law.

2.09. Liens. Borrower agrees to grant or cause to be granted to Lender, as security for the Obligations, a first, prior, perfected and enforceable Lien on all Collateral now owned or hereafter acquired.

2.10. Additional Documentation. Borrower shall, upon request, execute and deliver to Lender such additional documentation in form and content acceptable to Lender as and when Lender requests for the purposes of creating, documenting, transferring, assigning, delivering, or perfecting any interest in any Collateral. Until such time as Lender shall have perfected its security interest or lien, Borrower shall hold in trust for Lender all property or Collateral acquired by Borrower. Until the payment and satisfaction in full of the Obligations, Lender's Liens on the Collateral and all products and proceeds thereof shall continue in full force and effect. Lender may file one or more financing statements disclosing Lender's Liens under this Agreement without Borrower's signature appearing thereon.

2.11. Conditions Precedent for the Benefit of Lender. All conditions precedent to the making of any Advance or the closing on this loan are imposed in this Agreement solely for the benefit of Lender, and no other party (including Borrower) may require satisfaction of any such condition(s) precedent or be entitled to assume that Lender will refuse to make an Advance or to close on the making of the loan in the absence of strict compliance with such condition(s) precedent.

ARTICLE III. REPRESENTATIONS, WARRANTIES AND COVENANTS

Borrower covenants, represents and warrants to Lender (with all representations and warranties surviving the creation of the Obligations), the following:

3.01. Financial Statements. All information provided to Lender by Borrower, whether in writing or verbal and including all information contained in any Loan Document is true and correct.

3.02. Performance of Other Obligations. Borrower is not a party to any agreement or instrument which could have a material adverse effect on the operations of Borrower, or Borrower's ability to perform any of the Obligations. Borrower is not in default nor has any event or circumstance occurred which, but for the passage of time or the giving of notice, or both, could constitute an Event of Default hereunder or under any agreement to which Borrower is a party.

3.03. Compliance with Laws. Borrower is and shall continue to be in compliance with all federal and state regulations, rules, directives, and orders, and all other agreements, permits, licenses, certificates, laws, rules, regulations, orders and writs concerning or relating to the right of Borrower to conduct its business and to own the assets which it presently owns, and Borrower is not aware of being under investigation by any federal agency or any state or local agency for any reason.

3.04. Taxes. Borrower has filed, and will file, all tax returns required to be filed and Borrower has paid and will pay all taxes shown thereon to be due, including interest and penalties, except for any such tax, assessment, charge, levy or claim, the payment of which is being contested in good faith and by proper proceedings.

3.05. Lender's Influence. Lender has not exercised or attempted to exercise, directly or indirectly, any degree of control or influence of any kind whatsoever over the internal business operations or financial affairs of Borrower. Borrower shall immediately notify Lender, in writing, of any actions that it considers to constitute an exercise or attempt to exercise such control or influence in the future. Lender has not acted as a business, investment or financial consultant or advisor to Borrower.

3.06. Existence. If Borrower is an organization, Borrower is and will continue to be (a) duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization; (b) the holder of all requisite power and authority to own its property and assets and carry on its business; and (c) qualified to do business in all jurisdictions in which the nature of its business makes such qualification necessary.

3.07. Binding Obligations. The execution, delivery, and performance of the Loan Documents by each Person have been duly authorized by all necessary action by such Person, and constitute legal, valid and binding obligations of such Person, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency or similar laws of general application relating to the enforcement of creditors' rights and except to the extent specific remedies may generally be limited by equitable principles.

3.08. Other Extraordinary Events. Borrower will not take any of the following actions without Lender's prior written consent: (a) purchase or otherwise acquire or become obligated for the purchase of all or a substantial part of the assets of any Person, where the purchase, acquisition, or obligation would have a Material Adverse Effect on Borrower's financial condition; (b) materially change Borrower's general business purpose or take any action with a view towards the same including entering into new lines of business in connection with or in any way related to the Collateral; (c) change Borrower's name; or (d) convert to any other form of entity; (i) make any material change to Borrower's Constituent Documents; (ii) dissolve or otherwise terminate its entity status; or (iii) enter into any merger, reorganization or consolidation.

3.09. No Financing of Corporate Takeovers. No proceeds of the Note or any other advance under any Loan Document will be used to acquire any security in any transaction which is subject to §§13 or 14 of the Securities Exchange Act of 1934, including particularly (without limitation) §§13(d) and 14(d) thereof.

3.10. Transactions With Affiliates. Borrower will not enter into any transaction with any Affiliate of Borrower, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable to Borrower than would be obtained in a comparable arm's-length transaction with a Person or entity not an Affiliate. Borrower represents to Lender that as of the date of this Agreement, Borrower does not have any Affiliates or Subsidiary (other than Friedman Decatur, LLC, which is a Subsidiary of Borrower with no assets or liabilities).

3.11. Notifications to Lender. Borrower will notify Lender by telephone within **two (2) Business Days** (with each such notice to be confirmed in writing within two (2) Business Days following such telephone notice): (a) upon Borrower's learning thereof, of any litigation affecting Borrower claiming damages of \$100,000.00 or more, individually, or when aggregated with other litigation pending against Borrower, if not covered by insurance, and of the threat or institution of any suit or administrative proceeding against Borrower which may have a Material Adverse Effect, or which may affect any of Lender's Liens, and establish such reasonable reserves with respect thereto as Lender may request; (b) upon learning thereof, of any event which, but for the giving of notice or the passage of time or both, would be an Event of Default hereunder; (c) upon occurrence thereof, of any change to the operations, financial condition or business of Borrower which would have a Material Adverse Effect; (d) upon the occurrence thereof, of Borrower's default in any material respect under (i) any note, indenture, loan agreement, mortgage, lease, deed or other similar agreement relating to any indebtedness for borrowed money of Borrower or (ii) any other instrument, document or agreement material to the operations or condition, financial or otherwise, of Borrower to which Borrower is a party or by which Borrower or any of their respective properties are bound; and (e) upon Borrower's learning thereof, any notice, demand, or the threat or institution of any proceeding against Borrower made by any Governmental Authority which may have a Material Adverse Effect, or which may affect any of Lender's Liens.

3.12. Hazardous Substances. The Collateral is free, and will continue to remain free, from "Hazardous Substances" and no portion of any of Borrower's real estate is subject to federal, state or local regulation or liability because of the presence of stored, leaked or spilled petroleum products, waste materials or debris, "PCB's" or PCB items (as defined in 40 C.F.R. §761.3), underground storage tanks, "asbestos" (as defined in 40 C.F.R. §763.63) or the past or present accumulation, spillage, release or leakage of any such substance.

3.13. Absence of Litigation. There is no action, suit, investigation or proceedings pending or, to the knowledge of Borrower, threatened against or affecting Borrower by or before any court, arbitrator or administrative or governmental body.

3.14. Collateral: Inventory Location. Borrower shall, upon Lender's reasonable written demand, and within ten (10) days of such demand, deliver to Lender, any and all evidence of ownership of any of the Collateral. Borrower shall not keep or locate any Inventory that is a part of the collateral at any of Borrower's facilities in Hickman, Arkansas or Decatur, Alabama.

3.15. Trade or Fictitious Names. Until all Obligations are paid in full, Borrower will not use or adopt any trade, assumed or fictitious name other than "Texas Tubular Products" and "XSCP."

3.16. Solvency. Borrower benefits, directly and indirectly, from the loan(s) to be made by Lender to Borrower and that are included as a part of the Obligations. The fair value of all of Borrower's assets as of this date is greater than the sum of all of Borrower's debts and other obligations. Borrower is currently paying all of their respective debts and obligations as they come due and no debts or obligations of Borrower are currently past due or owing. Undertaking the Obligations and the granting of Liens to secure the payment of the Obligations will not cause or otherwise result in the insolvency of Borrower, and will not leave Borrower with resources that are insufficient or inadequate for the purpose of each of them to carry on its business or to meet its other obligations. Borrower (by reason of the direct and indirect benefits flowing from the Obligations) will each receive and have received reasonably equivalent value in exchange for the Liens conveyed against Collateral. Borrower agrees that if all or a part of the Liens transferred to Lender are unenforceable or avoidable under applicable law (whether such law is federal or state law) for any reason (including, but not limited to, reasons relating to insolvency or the value of consideration received by the grantor of the lien or the value of the direct and indirect benefits received by such grantor in connection with the Obligations), then the Liens against Collateral shall be enforceable and unavoidable to the maximum extent allowed by law.

3.17. Trade Relations. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship of Borrower with any supplier or with any company whose contract(s) with Borrower, individually or in the aggregate is/are material to the operations of Borrower.

3.18. Sale, License or Lease of Collateral. Borrower will not sell, license for use, transfer, lease, or encumber any of the Collateral unless such action a) is with the prior written consent of Lender, or b) is the sale of Inventory, and i) the sale occurs in the ordinary course of Borrower's business, ii) notice of revocation of this consent has not been given by Lender to Borrower, and iii) no Event of Default has occurred and is ongoing after the expiration of any notice and cure period required under the terms of this Agreement ((a) and (b) together are referred to herein as the "Permitted Sales"). In any event, unless Proceeds arise from a Permitted Sale, Borrower will immediately deliver to Secured Party all Proceeds from the sale, license for use, transfer, lease, or encumbrance of any Collateral and Borrower agrees to keep all such Proceeds segregated and separate from Borrower's other funds or property. All Proceeds of any Collateral (except for Proceeds arising from a Permitted Sale) are held in trust by Borrower for the benefit of Lender.

3.19 Survival of Representations and Warranties. All representations and warranties by Borrower herein shall survive delivery of the Note and any investigation at any time made by or on behalf of Lender shall not diminish Lender's right to rely on such representations and warranties.

ARTICLE IV. SPECIAL COVENANTS

4.01. Borrowing Base Certificates. Borrower agrees to provide to Lender, on or before the **tenth (10th)** Business Day following the end of each calendar month, beginning in the month immediately following this Agreement, a completed and accurate borrowing base certificate (the "Borrowing Base Certificate"). The Borrowing Base Certificate shall be in a form identical to that which is attached as **Exhibit "A"** or in such other form as Lender may from time to time reasonably require, and shall contain the information about Collateral described by column and category in the Borrowing Base Certificate as of the last day of the preceding calendar month. Each Borrowing Base Certificate submitted to Lender whether in written form or electronically and regardless of who transmits the report to Lender, shall be a certification, representation and authentication by Borrower, each Authorized Person and each Person submitting the report that the information contained therein is true and accurate.

4.02. Reporting Requirements. Borrower will furnish or cause to be furnished to Lender:

(a) As soon as practicable, and in any event within ninety (90) days after the end of each Fiscal Year, audited financial statements of Borrower, including a balance sheet, income statement and statement of cash flow for the preceding Fiscal Year, prepared in accordance with GAAP and certified as to truth and accuracy by Borrower;

(b) As soon as practicable, and in any event within sixty (60) days after the end of each Calendar Quarter, unaudited Borrower prepared financial statements of Borrower, including a balance sheet, income statement and statement of cash flow, for the preceding Calendar Quarter (and including year-to-date summaries), prepared in accordance with GAAP, and certified as to truth and accuracy by Borrower;

(c) As soon as available, and in any event within thirty (30) days after the filing of same, true and correct copies of all United States income tax returns filed by Borrower;

(d) Within ten (10) days after the end of each calendar month, a true and correct Borrowing Base Certificate as of the last day of the preceding calendar month, with a true and correct copy of an aged receivables report for all Accounts, certified as to truth and accuracy by Borrower;

(e) Within ten (10) days after the end of each Calendar Quarter, a certificate of Borrower certifying that no Event of Default has occurred and is continuing or, if an Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which is proposed to be taken with respect thereto. The certificate of compliance shall be in a form deemed acceptable to Lender in the exercise of its sole discretion and judgment and shall include Borrower's certification regarding the status of any financial reporting covenant required in this Agreement for the report period;

(f) Within thirty (30) days of Lender's request, true and correct copies of all notices and/or documents requested by Lender and filed by Borrower with the Securities & Exchange Commission; and

(g) Within thirty (30) days of Lender's request, such other information respecting the condition or operations, financial or otherwise, of Borrower as Lender may from time-to-time request in the exercise of Lender's reasonable discretion and judgment.

4.02. Debt-to-Equity. Borrower will at no time permit or allow its Total Liabilities to be greater than fifty percent (50%) of its Total Stockholders' Equity. Borrower's compliance with this covenant shall be determined at the conclusion of each Calendar Quarter.

4.03. Minimum Total Stockholder's Equity. Borrower will at all times maintain a minimum Total Stockholders' Equity of at least Fifty Million and no/100 Dollars (\$50,000,000.00).

4.04. Debt Service Coverage Ratio. Borrower will not permit its Debt Service Coverage Ratio, measured as of the end of each Calendar Quarter, to be less than 2.00 to 1.00. For this purpose, the following definitions apply:

(a) "Debt Service Coverage Ratio" means the ratio for any trailing twelve (12) month period of (1) EBITDA to (2) the sum of (A) interest expense for such period, plus (B) scheduled principal payments for such period on all indebtedness for borrowed money and capital leases, plus (C) the aggregate amount payable during such period under any operating leases, in each case calculated for Borrower in accordance with GAAP and determined on a trailing twelve (12) month basis.

(b) "EBITDA" means "Earnings Before Interest, Taxes, Depreciation, and Amortization" and is calculated as the sum of (1) the Net Income of Borrower before provision for income taxes for the relevant period, plus (2) interest expense and depreciation and amortization expenses which are deducted in arriving at Net Income.

(c) "Net Income" means the net income or loss of Borrower for a period, determined in accordance with GAAP, applied on a consistent basis.

4.05. Prohibition on other Liens. Other than the Liens of Lender, Borrower shall not grant or permit to be granted any other Liens on any of the Collateral. Lender shall have the right, but not the obligation, to require executed lien waivers signed by all landlords and by any person in possession of Collateral.

4.06. Authorization to Request Information. Borrower hereby irrevocably authorizes Lender, and gives Lender Borrower's limited power of attorney (coupled with an interest) for the purpose of requesting and receiving all information, reports, records, summaries and other data (including electronic data) from each Person obligated to pay or deliver any Collateral to Borrower or Lender.

4.07. Insurance. Borrower will:

(a) Keep all tangible Collateral insured by insurance companies reasonably acceptable to Lender and in amounts reasonably satisfactory to Lender and naming Lender as loss payee thereon pursuant to a lender's loss payee clause satisfactory to Lender;

(b) Maintain at all times liability insurance coverage against such risks and in such amounts as are customarily maintained by others in similar businesses, such insurance to be carried by insurance companies (i) reasonably acceptable to Lender or having an A or better rating according to Best's Insurance Reports; Property-Casualty and (ii) licensed to do business in the state of Texas and in all jurisdictions in which such Borrower does business. Such liability insurance and any umbrella policies shall provide coverage of a minimum of \$1,000,000.00 per occurrence (under the commercial general liability policy), and \$5,000,000.00 per occurrence (under the umbrella liability policy).

(c) Deliver certificates of insurance for such policy or policies to Lender containing endorsements, in form satisfactory to Lender, providing that the insurance shall not be cancelable, except upon thirty (30) days' prior written notice to Lender.

4.08. Appraisals; Third-Party Inspector; Inspection Rights. Lender shall have the right to make, order or cause to be made the following appraisals, inspections, field audits and/or examinations. In each instance, Borrower understands and agrees that any appraisal, inspection, audit or examination is for the sole and exclusive benefit of Lender and Borrower cannot and should not rely on the services or reports. In each instance Borrower agrees to (i) fully cooperate in the making of any such appraisal, inspection, field audit or examination, (ii) to provide true, accurate and reliable information for such purpose, and (iii) to make the information reasonably requested by Lender or such third-party available for such purpose.

(a) *Appraisals.* Lender shall have the right and option to order, make or have made, new or updated appraisals on all or any part of the Collateral. Any new or updated appraisal shall be at Borrower's sole expense if (i) an Event of Default occurs and is continuing at the time the new or updated appraisal is ordered by Lender, or (ii) if there is no Event of Default, Lender orders the new appraisal for any part of the Collateral no more often than once in each calendar year. Any amount which Borrower is obligated to pay for an appraisal shall be paid by Borrower or, if payment is made by Lender, Lender shall be reimbursed by Borrower upon Lender's demand.

(b) *Inspections.* Lender shall also have the right and option to contract with, and to order from, any third-party inspector deemed acceptable to Lender in the exercise of Lender's sole discretion and judgment for purposes including (but not limited to) (i) an inspection of Inventory, (ii) a review of the Accounts, and/or (iii) certifying the accuracy of any request for an Advance. Any amount payable to the third-party inspector shall be at Borrower's sole expense and shall be paid by Borrower or, if payment is made by Lender, Lender shall be reimbursed by Borrower upon Lender's demand. Lender (or any person or person designated by it), in its sole discretion, shall have the right to call at any place of business of Borrower or at any location where Collateral may be found at any reasonable time, and, without hindrance or delay to inspect the Collateral and to inspect, review, check and make extracts of Borrower's books, records, journals, orders, receipts and any other correspondence and other data relating to the Collateral, to Borrower's business or to any other transactions between the parties hereto.

(c) *Field Audit or Exam of Accounts.* Lender shall also have the right and option to contract with, and to order from, any third-party auditor or accounting firm deemed acceptable to Lender in the exercise of Lender's sole discretion and judgment for purposes including (but not limited to) (i) a field audit and/or examination of the Accounts, and/or (ii) certifying the accuracy of any request for an Advance or Borrowing Base Certificate. Any amount payable to the third-party auditor or accounting firm shall be at Borrower's sole expense and shall be paid by Borrower or, if payment is made by Lender, Lender shall be reimbursed by Borrower upon Lender's demand. Lender (or any person or person designated by it), in its sole discretion, shall have the right to call at any place of business of Borrower or at any location where Collateral may be found at any reasonable time, and, without hindrance or delay to audit, examine and/or review the Accounts and to inspect, review, check and make extracts of Borrower's books, records, journals, orders, receipts and any other correspondence and other data relating to the Accounts, to Borrower's business or to any other transactions between the parties hereto.

4.09. ERISA. Borrower shall remain in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereunder ("ERISA"). No reportable event and no prohibited transaction shall occur or continue with respect to any plan. No notice of intent to terminate a plan shall be filed, nor shall any plan be terminated. No circumstances shall exist which constitute grounds entitling the Pension Benefit Guaranty Corporation or any entity succeeding to all or any of its functions under ERISA (the "PBGC") to institute proceedings to terminate, or appoint a trustee to administer, a plan. Neither Borrower nor any ERISA Affiliate (as defined below) shall completely or partially withdraw from a multiemployer plan. Borrower and each ERISA Affiliate shall meet their minimum funding requirements under ERISA with respect to all of their plans, and the present value of all vested benefits under each plan shall not exceed the fair market value of all plan assets allocable to such benefits, as determined on the most recent valuation date of the plan and in accordance with ERISA. Neither Borrower nor any ERISA Affiliate shall incur any liability to the PBGC under ERISA. "ERISA Affiliate" means each trade or business (whether or not incorporated) which together with Borrower would be deemed to be a "single employer" within the meaning of ERISA or the Internal Revenue Code of 1986.

4.10. Non-Compliance Charge. If an Event of Default occurs or if Borrower is not in compliance with any of the covenants contained in this Agreement or any other Loan Document (whether or not such non-compliance is an Event of Default) Lender may elect, in the exercise of its sole discretion and judgment, to charge to Borrower an increase in the interest rate on the Note which shall be in addition to the pre-default interest rate and all other amounts payable to Lender under the terms of the Note and this Agreement. This additional amount (referred to herein as the "Non-Compliance Charge") is an agreed increase in the interest rate charged under the terms of the Note. Borrower agrees the Non-Compliance Charge is not a penalty or fee. Instead, the Non-Compliance Charge is an agreed upon increase in the interest rate that applies under the circumstances described in this Section as an agreed upon means to compensate Lender for increased risk in the underlying credit. The Non-Compliance Charge shall be calculated as follows:

- (a) The Non-Compliance Charge shall accrue and be payable for each day during the following period of time (the " Non-Compliance Period"): (i) beginning on the date an Event of Default occurs, or (if Lender determines no Event of Default exists or Lender waives any Event of Default) the date on which Lender notifies Borrower that Borrower or any other obligated Person is not in compliance with one or more of the covenants contained in this Agreement or any other Loan Document, and (ii) continuing until the first Business Day following the date on which the Event of Default or other non-compliance is remedied or cured by Borrower or the other obligated Person.
- (b) The Non-Compliance Charge is a daily charge and shall be owed for each day during the Non-Compliance Period and is equal to (i) **two percent (2.0%)** of the unpaid principal balance of the Note, divided by (ii) three hundred sixty (360).
- (c) The Non-Compliance Charge is not applicable during any period of time in which the Default Interest Rate is actually charged by Lender. However, Lender may elect (in the exercise of its sole discretion and judgment) to charge the Non-Compliance Charge instead of the Default Interest Rate for any period of time during the Non-Compliance Period.
- (d) No portion of the Non-Compliance Charge is refundable or returnable to Borrower notwithstanding the payment of the Note or the cure of the underlying Event of Default or breach of covenant.
- (e) Lender may, in the exercise of its sole discretion and judgment, waive the applicability of the Non-Compliance Charge for any relevant period or for any day or days within the relevant period. Any election by Lender to waive the Non-Compliance Charge shall not affect, impair, prejudice or waive Lender's right to charge the Non-Compliance Charge for any other applicable Non-Compliance Period.

ARTICLE V. EVENTS OF DEFAULT

The occurrence of any one or more of the following events will constitute an Event of Default under this Agreement:

5.01. Failure to Pay. Borrower fails to pay the Obligations or any portion thereof as and when due or declared due pursuant to the terms of this Agreement, the Note, any other Loan Document or any other applicable agreement.

5.02. Failure of Borrower to Perform Other Obligations. Borrower defaults in the performance of any of the covenants or agreements of Borrower contained in this Agreement or in any of the other Loan Documents, or Borrower defaults in the performance of any obligation or responsibility under the terms of any Related Indebtedness or any other agreement between Borrower and Lender.

5.03. Misrepresentations. Borrower makes any representation or warranty in any of the Loan Documents or in any certificate or statement furnished to Lender at any time hereunder or in connection with any of the Loan Documents which proves to have been untrue or misleading in any material respect when made or furnished.

5.04. Tax Lien. A notice of Lien, levy or assessment is filed of record with respect to all or any of Borrower's assets by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency.

5.05. Voluntary Bankruptcy. Borrower: (a) files a voluntary petition or assignment in bankruptcy or a voluntary petition or assignment or answer seeking liquidation, reorganization, arrangement, readjustment of its debts, or any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief, whether State, Federal, or foreign, now or hereafter existing; (b) enters into any agreement indicating consent to, approval of, or acquiescence in, any such petition or proceeding; (c) applies for or permits the appointment, by consent or acquiescence, of a receiver, custodian or trustee of Borrower or for all or a substantial part of either Person's property; (d) makes a general assignment for the benefit of creditors; or (e) is unable or fails to pay Borrower's debts generally as such debts become due, or otherwise becomes insolvent.

5.06. Involuntary Bankruptcy. There shall have been filed against Borrower an involuntary petition in bankruptcy.

5.07. Judgments. Any judgment, decree or order for the payment of money against Borrower shall be rendered against Borrower, or any writ of garnishment, writ of attachment, writ of execution, levy, charging order or turnover order be entered or issued against any Borrower.

ARTICLE VI. RIGHTS AND REMEDIES UPON DEFAULT

Upon the occurrence of any Event of Default, Lender may at its option, exercise any one or more of the following remedies or rights, in addition to all other rights and remedies provided by law or otherwise provided by this Agreement or any other Loan Document, all of which rights and remedies shall be cumulative and not exclusive:

6.01. Notice and Request for Cure. Lender may provide Borrower with written notice of the existence of the Event of Default with a request for Borrower to cure, or take action sufficient to cure the Event of Default within a specified time period. Notice and opportunity to cure shall not be required to establish the existence of an Event of Default in connection with any failure by Borrower to pay any amount to Lender. Borrower specifically waives any notice of presentment, notice of intent to accelerate, notice of default, demand, notice of acceleration, and notice of protest in connection with any default relating to Borrower's failure to pay any amount. **In connection with any Event of Default that is not a payment default, a breach of warranty, or a misrepresentation, Lender must give Borrower ten (10) days' notice of the default before Lender exercises any of Lender's other rights and remedies under this Article VI. If the default is cured within said ten (10) days, the default will no longer be an Event of Default.**

6.02. Default Interest Rate. Lender may charge Borrower the Default Interest Rate until any portion of the Obligations which are past due are paid or otherwise brought current, which interest may be applied to the entire balance of the Obligations. Borrower waives any prior notice of the applicability of the Default Interest Rate.

6.03. Reports/Reviews/Examinations. Lender may require Borrower to submit such additional reports or other information as Lender reasonably determines necessary and/or increase the frequency or broaden the scope of any Lender review or examination otherwise agreed to in this Agreement or in any other Loan Document.

6.04. Take Possession of Collateral. Lender may (a) enter upon any place or places where the Collateral is located and kept, through self-help and without judicial process, without first obtaining a final judgment or giving Borrower notice and opportunity for a hearing on the validity of Lender's claim and without any obligation to pay rent to Borrower, and remove the Collateral therefrom to the premises of Lender or any agent of Lender for such time as Lender may desire, in order to effectively collect or liquidate the Collateral and/or (b) require Borrower to assemble the Collateral and make it available to Lender at a place to be designated by Lender which is reasonably convenient to both Borrower and Lender.

6.05. Proceed Against Borrower. Lender may, without the necessity of prior recourse to any Collateral, proceed directly against Borrower to collect the Obligations and enforce this Agreement.

6.06. Remedies Under Loan Documents. Lender may exercise any or all rights and remedies available to Lender under the terms of any Loan Document.

6.07. Borrower's Receipt of Proceeds. Upon the occurrence and during the continuation of an Event of Default, all amounts and proceeds (including instruments and writings) received by Borrower in respect of any Collateral shall be received in trust by Borrower for the benefit of Lender and shall be segregated from all other property of Borrower and shall be forthwith delivered to Lender in the same form as so received (with any necessary endorsements) and applied to the Obligations in accordance with the Loan Documents.

6.08. Notification to Account Debtors. Lender may at its discretion from time to time during the continuation of an Event of Default notify any or all obligors under any accounts or general intangibles (i) of Lender's security interest in such accounts or general intangibles and direct such obligors to make payment of all amounts due or to become due to Borrower thereunder directly to Lender, and (ii) to verify the accounts or general intangibles with such obligors. Lender shall have the right, at the expense of Borrower, to enforce collection of any such accounts or general intangibles and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Borrower.

6.09. Non-Judicial Remedies. In granting to Lender the power to enforce its rights hereunder without prior judicial process or judicial hearing, Borrower expressly waives, renounces and knowingly relinquishes any legal right which might otherwise require Lender to enforce its rights by judicial process. Borrower recognizes and concedes that non-judicial remedies are consistent with the usage of trade, are responsive to commercial necessity and are the result of a bargain at arm's length. Nothing herein is intended to prevent Lender or Borrower from resorting to judicial process at either party's option.

6.10. Equitable Relief. Borrower recognizes that in the event Borrower fails to pay, perform, observe, or discharge any or all of the Obligations, any remedy at law may prove to be inadequate relief to Lender. Borrower therefore agrees that Lender, if Lender so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

6.11. Common Law and Statutory Right of Offset. Nothing herein shall limit or impair Lender's rights of offset, if any, that may arise by operation of law or under the terms of any other agreement.

6.12. Other Remedies. Lender may exercise any and all other remedies and rights allowed by or arising under applicable law, legal and equitable. In addition, Lender may elect to waive the Event of Default. Nothing herein obligates or requires Lender to exercise any particular remedy or to enforce any Event of Default.

ARTICLE VII. MISCELLANEOUS

7.01. Waivers. The failure of Lender at any time to require strict compliance with any provision of this Agreement or any other Loan Document shall not affect Lender's continuing right thereafter to require compliance. Any suspension or waiver by Lender of an Event of Default shall not affect any other Event of Default and Lender's remedies with respect thereto, regardless of when said Event of Default occurs and the nature of said Event of Default. Any waiver, suspension, or consent by Lender with respect to Borrower's compliance with this Agreement must be in writing signed by Lender and shall be limited to the extent set forth therein.

7.02. Amendments. Neither this Agreement nor any of the Loan Documents may be amended except in writing, signed by all parties to this Agreement.

7.03. Assignment. This Agreement shall bind and inure to the benefit of Borrower and Lender, and their respective successors, permitted assigns, heirs, legal representatives and, in the case of Lender, its participants. Borrower shall not assign, in whole or in part, this Agreement or any of the rights, duties, or obligations of Borrower under this Agreement and any such assignment or attempted assignment shall be void and of no effect with respect to Lender.

7.04. Severability. If any part of this Agreement shall be adjudged invalid or unenforceable, whether in general or in any particular circumstance, then such partial invalidity or unenforceability shall not cause the remainder of this Agreement to be or to become invalid or unenforceable, and if a provision hereof is held invalid or unenforceable in one or more of its applications said provision shall remain in effect in all valid applications that are severable from the invalid or unenforceable application(s). This Agreement shall be interpreted so as to give effect and validity to all of the provisions of this Agreement to the fullest extent permitted by law.

7.05. Governing Law; Venue. Except to the extent that federal law is applicable, this Agreement and the rights and obligations of the parties hereunder shall, in all respects, be governed by and construed in accordance with the laws of the State of Texas. Venue for all proceedings arising from or related to the Note, this Agreement, any of the Collateral, any of the other Loan Documents or the interpretation or enforcement of any of the above shall be in Rusk County, Texas.

7.06. Limitation of Liability and Releases. Lender and Lender's officers, directors, employees, attorneys and agents of Lender shall have no liability with respect to, and Borrower hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, or consequential damages suffered or incurred by Borrower in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents.

7.07. Lender Not Fiduciary. The relationship between Borrower and Lender is solely that of debtor and creditor, and Lender has no fiduciary or other special relationship with Borrower, and no term or condition of any of the Loan Documents shall be construed so as to deem the relationship between Borrower and Lender, to be other than that of debtor and creditor.

7.08. Waiver of Right to Trial by Jury. **THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING, OR COUNTERCLAIM THAT RELATES TO OR ARISES OUT OF ANY OF THE LOAN DOCUMENTS OR THE ACTS OR FAILURE TO ACT OF OR BY LENDER IN THE ENFORCEMENT OF ANY OF THE TERMS OR PROVISIONS OF THE LOAN DOCUMENTS.**

7.09. Patriot Act Notice. Lender notifies Borrower that pursuant to the requirements of Section 326 of the USA Patriot Act of 2001, 31 U.S.C. § 5318, Lender is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow Lender to identify the Borrower in accordance with the Act.

7.10. Disclosure Relating to Collateral Protection Insurance. As of the date of this disclosure, Borrower and Lender have or shall have consummated a transaction pursuant to which Lender has agreed to make a loan to Borrower. Borrower is pledging Collateral to secure the Obligations in accordance with the Loan Documents. This notice relates to Borrower's obligations with respect to insuring the Collateral against damage. To this end, Borrower must do the following: (a) keep the Collateral insured against damage in the amount equal to the Obligations or as otherwise required by the Loan Documents; (b) purchase the insurance from an insurer that is authorized to do business in the applicable state or an eligible surplus lines insurer; and (c) name Lender the person to be paid under the policy in the event of loss. Lender may obtain collateral protection insurance on behalf of Borrower at Borrower's expense if Borrower fails to meet any of the foregoing requirements.

7.11. Waiver of Consumer Rights. **BORROWER WAIVE ALL RIGHTS UNDER THE DECEPTIVE TRADE PRACTICES - CONSUMER PROTECTION ACT, §17.41 ET SEQ., BUSINESS AND COMMERCE CODE, A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS. BORROWER WAIVE SUCH RIGHTS AFTER CONSULTATION WITH AN ATTORNEY OF THEIR OWN SELECTION, AND THEY DO VOLUNTARILY CONSENT TO THIS WAIVER.**

7.12. Notice of Final Agreement. It is the intention of Borrower and Lender that the following NOTICE OF FINAL AGREEMENT be incorporated by reference into each of the Loan Documents (as the same may be amended, modified or restated from time to time). Borrower and Lender warrant and represent that the entire agreement made and existing by or among them with respect to the Loans is and shall be contained within the Loan Documents.

NOTICE OF FINAL AGREEMENT

THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES, AND THE SAME MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

LENDER:

Citizens National Bank

By: /s/ Brad Tidwell

Name: Brad Tidwell

Title: Chief Executive Officer

[This space left blank intentionally]

BORROWER:

Friedman Industries, Incorporated, a Texas corporation

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

[This space left blank intentionally]

Exhibit "A" – Borrowing Base Certificate Form

**Friedman Industries, Incorporated
Loan # XXXXXXX
BORROWING BASE CERTIFICATION**

1. Total Accounts Receivable of Texas Tubular Products Segment (List Dated: _____)		_____
2. Less Ineligible Accounts		
A. Accounts > 90 Days	\$	-
B. Inter-company / Affiliate Accounts	\$	-
C. Retainage	\$	-
D. A/R over 25% of Eligible	\$	-
D. Other	\$	-
3. Eligible Accounts Receivable		\$ -
4. Advance Rate		80.00%
5. Borrowing Base on A/R (3X4)		\$ -
6. Inventory of Texas Tubular Products Segment (at average of cost) (List Dated: _____)		_____
7. Advance Rate		40.00%
8. Borrowing Base (6X7) (capped at \$3,000,000)		\$ -
9. Maximum Borrowing Capacity	\$	-
A. Total Eligible (5+8-9)	\$	-
B. Total Line of Credit	\$	<u>5,000,000.00</u>
10. Amount of this advance request:		\$ -
11. Current Outstanding Balance of LOC (excluding this request)		\$ -
12. Total Outstanding including new advance request		\$ -
13. In Compliance? (9-12)		\$ -
LINE IS OUT OF COMPLIANCE IF THIS TOTAL IS NEGATIVE		\$ -

This Borrowing Base Report is provided to Citizens National Bank ("Lender") under the terms of a Revolving Line of Credit Loan Agreement dated __, 20__ (the "Loan Agreement"). The undersigned represents to Lender that the above information is true and correct and the Lender is asked to rely on the truthfulness of this information in Lender's actions under the terms of the Loan Agreement. The undersigned represents that as of this date there is no Event of Default or Possible Default under the Loan Agreement, except for the following: None . The undersigned makes these representations on behalf of the undersigned and the Borrower and the Guarantor, on whose behalf the undersigned is authorized to act.

FRIEDMAN INDUSTRIES, INCORPORATED

By: _____
Name: _____
Title: _____
Date: _____

PROMISSORY NOTE
(REVOLVING LINE OF CREDIT)

NOTICE TO BORROWER: THIS NOTE CONTAINS A PROVISION ALLOWING FOR CHANGES IN THE INTEREST RATE. INCREASES IN THE INTEREST RATE MAY RESULT IN HIGHER PAYMENTS. DECREASES IN THE INTEREST RATE MAY RESULT IN LOWER PAYMENTS.

Loan Number: XXXXXXX

Date: December 12, 2018

Borrower: Friedman Industries, Incorporated, a Texas corporation

Borrower's Address: 1121 Judson Road, Suite #124, Longview, Texas 75601

Lender: Citizens National Bank

Lender's Address: P.O. Box 1009, Henderson, Texas 75653

Principal Amount: Five Million and No/100 Dollars (\$5,000,000.00)

Maturity Date: December 12, 2019

1. Promise to Pay. FOR VALUE RECEIVED by Borrower, the sufficiency of which is admitted, Borrower promises to pay to the order of Lender, or order, at Lender's Address, the Principal Amount plus interest at the Note Rate according to the payment terms stated in this promissory note.

2. Payment Terms. (a) Installments and Maturity Date. All accrued and unpaid interest is due and payable monthly, beginning on January 12, 2019, and continuing on the 11th day of each succeeding calendar month thereafter until the Maturity Date, at which time all unpaid principal, accrued and unpaid interest and all other amounts payable to Lender under this note shall then be due and payable in full.

(b) Prepayment. Borrower has the right to prepay, prior to maturity, all or any part of the Principal Amount without penalty, and interest shall immediately cease on any amount so prepaid. Prepayments shall be applied toward the payment of the installments of principal last maturing under this note. A prepayment will not reduce the amount or the due dates of the installments to be paid under this note, and any prepayment is applied to end of the term of this note.

(c) Application and Form of Payments. Except as otherwise expressly provided herein to the contrary, all payments on this note shall be applied in the following order of priority: (i) the payment or reimbursement of any expenses, costs or obligations (other than the unpaid principal balance and interest) for which Borrower is obligated or to which Lender is entitled pursuant to the terms of this note or any other Loan Document, (ii) the payment of accrued but unpaid interest, and (iii) the payment of all or any portion of the principal balance hereof. All payments by Borrower shall be made in immediately available funds, without offset, in lawful money of the United States of America. Borrower is absolutely and unconditionally obligated to pay all principal, interest and other amounts payable under this note and all Related Indebtedness, without any abatement, postponement, diminution, or deduction and without any reduction for counterclaim or offset whatsoever. If at any time any payment received by Lender is determined by a court of appropriate jurisdiction or by Lender to have been a voidable transfer under any form of debtor relief law, then the obligation to make the payment shall survive any cancellation or satisfaction of this note or its return to Borrower, and shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof, and the payment shall be immediately due and payable upon demand. Partial payment of any amount due under this note shall not, regardless of any receipt or credit issued by Lender, satisfy Borrower's obligation to pay the entire amount then due, neither shall it extend, alter, waive or restart any time period within which Borrower was required to remedy any default.

(d) Late Charge; Returned Payment Charge. If any installment becomes overdue for more than ten (10) days, at Lender's option a late charge of five percent (5%) of the overdue amount may be charged in order to defray the expense of handling the delinquent payment. If any check given by Borrower as a payment on this note is dishonored, then Borrower will pay a processing fee equal to the greater of 1) \$29.00, or 2) the fee ordinarily charged at that time by Lender for returned checks.

3. Interest. (a) Note Rate. The unpaid principal amount of this note shall accrue interest at a per annum rate equal to the sum of (i) the Prime Rate (as it changes), minus (ii) fifty five hundredths of a percent (0.55%) (together, the "Note Rate"). The initial Note Rate determined as of the date of this note is 4.70% per annum. "Prime Rate" means the prime interest rate quoted and published in the "Money Rates" section of the *Wall Street Journal*. In the event the *Wall Street Journal* ceases to publish a Prime Rate then Lender may refer to another similar source (selected at Lender's sole discretion) to identify the prime rate on commercial loans at large United States money center commercial banks and apply that rate (also referred to herein as the "Replacement Rate"). The Replacement Rate shall then become the "Prime Rate." Fluctuations in the Prime Rate shall become effective immediately and shall increase or reduce the Note Rate, as the case may be, without any notice to Borrower.

(b) Default Interest Rate. For so long as any Event of Default exists under this note or under any of the other Loan Documents, regardless of whether or not there has been an acceleration of the maturity of this note, and at all times after the Maturity Date (whether such date occurs by acceleration or otherwise), and in addition to all other rights and remedies of Lender under this note and any other Loan Document, interest shall accrue on the unpaid principal balance at the Default Interest Rate, and shall be immediately due and payable. Borrower acknowledges that it would be extremely difficult or impracticable to determine Lender's actual damages resulting from any late payment or Event of Default, and the late charges and Default Interest Rate payable under this note is a reasonable estimate of those damages and do not constitute a penalty.

(c) Computation Period. Interest shall be computed on the basis of a 365/360 basis; that is, by applying the Note Rate over a year of three hundred sixty (360) days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding, unless such calculation would result in a usurious rate, in which case interest shall be calculated on a per diem basis of a year of 365 or 366 days, as the case may be.

(d) Savings Clause. NOTICE: Under no circumstances will the interest rate on this note be more than the highest rate allowed by applicable law. For purposes of this note, the "highest rate allowed by applicable law" means the lesser of (i) the maximum rate of interest permitted under federal or other law applicable to the indebtedness evidenced by this note, or (ii) eighteen percent (18%) per annum. Borrower and Lender intend to conform strictly to the applicable federal or state usury laws now or hereafter in force with respect to this note. To such end: (1) the aggregate of all interest and other charges constituting interest under applicable usury laws and contracted for, chargeable or receivable under all other Loan Documents and this note shall never exceed the highest rate allowed by applicable law, nor produce a rate in excess of the maximum contract rate of interest that Lender is authorized to charge Borrower under applicable usury laws; (2) if any excess interest is provided for, it shall be deemed a mistake, and the excess shall, at the option of Lender, either be refunded to Borrower or credited on the unpaid principal balance of this note, and the Loan Documents shall be automatically reformed to permit only the collection of the highest rate allowed by applicable law; (3) in determining the highest rate allowed by applicable law Lender may charge to Borrower, all interest shall be amortized, prorated, allocated, and spread over the entire term of this note (as extended, if applicable to the full extent permitted by applicable federal or state law); and (4) in the event that this note is prepaid or the maturity is accelerated, unearned interest shall be canceled and, if theretofore paid, shall, at the option of Lender, either be refunded to Borrower or credited on the unpaid balance of this note or any Related Indebtedness.

4 . WAIVERS. EXCEPT AS SPECIFICALLY PROVIDED IN THE LOAN DOCUMENTS TO THE CONTRARY, BORROWER WAIVES AND RELIQUISHES PRESENTMENT FOR PAYMENT, DEMAND, NOTICE OF NONPAYMENT OR NONPERFORMANCE, PROTEST, NOTICE OF PROTEST, NOTICE OF INTENT TO ACCELERATE MATURITY, NOTICE OF ACCELERATION AND ANY OTHER NOTICES OF ANY OTHER ACTION. BORROWER WAIVES AND RELIQUISHES, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHTS OF MORATORIUM, REINSTATEMENT, MARSHALING, FORBEARANCE, VALUATION, STAY, EXTENSION, REDEMPTION, APPRAISEMENT, RENEWAL, AND EXEMPTION.

5. Attorneys' Fees and Costs of Collection. If this note or any other Loan Document is given to an attorney for collection or enforcement, or if suit is brought for collection or enforcement, or if it is the subject of any effort by Lender to enforce payment or collection through the enforcement of any lien or security interest, or any foreclosure, probate, bankruptcy, or any other type of judicial proceeding, then Borrower shall pay Lender all of Lender's reasonable attorney's fees and costs in addition to other amounts owed. In the event Borrower or any guarantor asserts any type of claim, cause of action or counterclaim against Lender, and Lender is the prevailing party on any such claim, cause of action or counterclaim, Borrower shall pay Lender all of Lender's reasonable attorney's fees and costs.

6. Advances; Revolving Line of Credit. The principal balance of this note may be funded in multiple advances and interest shall be calculated only on the unpaid principal balance. Subject to the terms of this note and the Loan Agreement, and until the Maturity Date, Lender may make disbursements of principal from time-to-time at the request of Borrower up to the Principal Amount. Lender shall have the right to refuse and withhold the making of any disbursement of principal if at any time: (i) an Event of Default under the terms of this note has occurred, or an event of default under the terms of any other Loan Document has occurred; (ii) proceeds previously disbursed under this note are used for a purpose other than that for which the disbursement was authorized to be used; (iii) Borrower is in default under any loan agreement, note or security instrument relating to an indebtedness of Borrower to any other person; or (iv) Borrower is in default in the payment or performance of any Related Indebtedness. TO THE EXTENT REPAYMENTS ARE APPLIED TO THE PRINCIPAL AMOUNT FROM TIME-TO-TIME UNDER THIS NOTE, SUCH REPAYMENTS SHALL REINSTATE BORROWER'S RIGHT TO FURTHER DISBURSEMENTS OF THE AMOUNTS REPAYED, SUBJECT TO PROVISIONS OF THIS NOTE AND THE OTHER LOAN DOCUMENTS. The books and records of the Lender shall be prima facie evidence of all sums advanced and due under this note. The maximum outstanding balance permitted under the terms of any other Loan Document may restrict the total of all advances to an amount which is less than the above stated Principal Amount. Borrower agrees it is liable for the payment, with interest, of all sums advanced by Lender at the instruction or request of any person with actual or apparent authority to request an advance, and also for all sums (whether or not authorized) which are credited to any of Borrower's accounts with Lender or paid directly to any of Borrower's creditors, vendors or suppliers.

7. Events of Default. Each of the following shall constitute an event of default ("Event of Default") under this note: (a) Borrower fails to make any payment when due under this note; (b) Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this note or in any of the other Loan Documents, or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower; (c) any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this note or in any of the other Loan Documents is false or misleading in any material respect, either now or at the time made or furnished, or becomes false or misleading at any time thereafter; (d) the dissolution or termination of Borrower's existence as a going business the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower; (e) the commencement of collection, foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing this note (including a garnishment of any of Borrower's accounts, including deposit accounts, with Lender); (f) a material adverse change occurs in Borrower's financial condition, or Lender in good faith believes the prospect of payment or performance of this note is impaired; or (g) Lender in good faith believes itself insecure.

8. Right of Setoff. Lender reserves a right of setoff in all of Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust account for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owed under this note or on any Related Indebtedness against any and all such accounts.

9. Joint and Several Liability; Statement of Unpaid Balance. Each Borrower is jointly and severally liable and responsible for all amounts owed to Lender under this note and any other Loan Document. At any time requested by Lender, Borrower shall promptly deliver to Lender a written statement or affidavit, in form satisfactory to Lender, stating the unpaid balance of this note and any or all of the Related Indebtedness, and that there are no offsets or defenses against full payment of the obligations under this note and the Related Indebtedness, or if there are any offsets or defenses, specifying them.

10. WAIVER OF JURY TRIAL. BORROWER, TO THE FULLEST EXTENT PERMITTED BY LAW, KNOWINGLY, INTENTIONALLY, IRREVOCABLY, UNCONDITIONALLY AND VOLUNTARILY, WITH AND UPON THE ADVICE OF COMPETENT COUNSEL, WAIVES, RELIQUISHES AND FOREVER FORGOES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO THIS NOTE, ANY OTHER LOAN DOCUMENT, ANY RELATED INDEBTEDNESS OR ANY CONDUCT, ACT OR OMISSION OF LENDER OR BORROWER.

11. Governing Law; Jurisdiction; Venue. This Note is executed and delivered as an incident to a lending transaction negotiated in substantial part in Rusk County, Texas, and shall be governed by and construed in accordance with the laws of the State of Texas. Venue for any action arising under or related to this note or any other Loan Document, or for the enforcement of any Related Indebtedness, shall be in such county.

12. Notice of Inaccurate Information. Borrower may notify Lender if Lender reports any inaccurate information about Borrower's account(s) to a consumer reporting agency. Borrower's written notice describing the specific inaccuracy(ies) should be sent to Lender at Lender's address.

13. Definitions and Construction. All terms used in this note, whether or not defined in this section, and whether used in singular or plural form, shall be deemed to refer to the object of the term whether such is singular or plural, as the context may suggest or require. Borrower agrees that this note was the result of a negotiated agreement with Lender and the rule of construction that states ambiguities in a document are construed against the party who drafted it does not apply in interpreting this note. In addition to the other terms defined above, the following terms have these meanings when used in this note:

"Borrower" means the borrower(s) identified in the introductory section above, whether one or more.

"Borrower's Address" means the address for Borrower identified in the introductory section above, or such other address notice of which is given by Borrower in writing and delivered to Lender.

"Default Interest Rate" means a rate per annum equal to the lesser of a) eighteen percent (18%), or b) the maximum rate of interest permitted under federal or other law applicable to this note.

"Lender" means the lender identified in the introductory section above, its successors and assigns and including any holder of this note.

"Lender's Address" means the address for Lender identified in the introductory section above, or such other address notice of which is given by Lender in writing and delivered to Borrower.

"Loan Agreement" means the Revolving Line of Credit Loan Agreement between Borrower and Lender relating to this note.

"Loan Documents" means this note, the Loan Agreement and any and all other loan agreements, deeds of trust, security agreements, guaranty agreements, assignments, assignments of rents, indemnity agreements, certifications, pledge agreements, and other agreements or documents related to or securing this note or any Related Indebtedness, together with any and all renewals, modifications, amendments, restatements, extensions and supplements thereof.

"Maturity Date" means the earlier to occur of a) the date stated in the introductory section above, or b) the date on which the maturity of this note is accelerated by Lender under the terms hereof or under any of the other Loan Documents.

"Principal Amount" means the amount stated in the introductory section above.

"Related Indebtedness" means any and all indebtedness paid or payable by Borrower to Lender pursuant to any of the Loan Documents or any other communication or writing by and between Borrower and Lender, except such indebtedness which has been paid or is payable by Borrower to Lender under this note.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

NOTICE OF FINAL AGREEMENT. THIS NOTE AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES REGARDING THE TERMS HEREOF (INCLUDING THE MATURITY DATE OF THIS LOAN) 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, intending to be legally bound by this note, has duly executed this note as of the day first written above and Borrower acknowledges receipt of a fully completed copy of this note.

Friedman Industries, Incorporated, a Texas corporation

By: /s/ Alex LaRue

Name: Alex LaRue

Title: Chief Financial Officer, Secretary and Treasurer

Promissory Note – RLOC - \$5,000,000.00

COMMERCIAL SECURITY AGREEMENT

Date: December 12, 2018

Debtor: Friedman Industries, Incorporated, a Texas corporation

Debtor's Mailing Address: 1121 Judson Road, Suite #124, Longview, Texas 75601

Secured Party: Citizens National Bank

Secured Party's Mailing Address: P.O. Box 1009, Henderson, Texas 75653

Collateral (including all accessions):

The Collateral includes all of the following described property, whether now owned or existing or hereafter acquired or arising, and wherever located, and including any and all rights, titles and interests of Debtor. All capitalized words and phrases, if not otherwise defined herein, shall have the meanings attributed to them by Article 9 of the Texas Business & Commerce Code, as such Code may from time-to-time be amended. The Collateral includes any and all accessions, additions to, parts and substitutions of any of the following, and all replacements thereof.

Accounts and Other Rights to Payment: All Accounts, Payment Intangibles, and other rights to payment, whether or not earned by performance, including, but not limited to, payment for property or services sold, leased, rented, licensed, or assigned (*excluding, however*, Accounts generated solely from Debtor's sale of Goods in or performance of services within Debtor's Coil Products Segment (defined below)). The Collateral includes any rights and interests (including all liens and security interests) which arise by law or agreement against any account debtor or obligor and all Supporting Obligations.

Inventory and Goods: All Inventory, including all Goods held for sale or lease, or which have been or will be supplied under contracts of service or sale, and all Goods which are raw materials, work in process, or materials used or consumed in business or otherwise (*excluding, however*, Inventory which is used solely in connection with or sold as a part of Debtor's Coil Products Segment (defined below)).

Books and Records: All books, records, files, customer lists, and payment and expense records, in tangible and electronic forms, regarding any and all other Collateral (including, but not limited to, the above described Accounts, Payment Intangibles, Inventory and other Goods and all Proceeds thereof).

Chattel Paper: All Chattel Paper and Electronic Chattel Paper arising from or related to any of the above described Accounts, Payment Intangibles, Inventory and other Goods.

Documents: All Documents arising from or related to any of the above described Accounts, Payment Intangibles, Inventory and other Goods including, but not limited to, bills of lading, dock warrants and receipts, and warehouse receipts.

Proceeds: All of the following property, whether now owned or hereafter acquired: (a) whatever is acquired upon the sale, lease, license, exchange, or other disposition of any of the above Collateral; (b) whatever is collected on, or distributed on account of, any of the above Collateral; (c) all rights arising out of any of the above Collateral; (d) all claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to any of the above Collateral; (e) all insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to any of the above Collateral; (f) all government program payments arising out of or related to any of the above Collateral; and (g) all other rights, interests, claims and property defined as "Proceeds" in Article 9 of the Texas Business and Commerce Code, as such Code may from time-to-time be amended.

For Collateral description purposes, "Debtor's Coil Products Segment" means that certain reportable segment of Debtor's operations that generates revenue from temper passing and cutting to length hot-rolled steel coils at Debtor's facilities in Hickman, Arkansas and in Decatur, Alabama. No other operations, business, products, services or activities of Debtor are included in "Debtor's Coil Products Segment" for purposes of this description. For the avoidance of doubt, Debtor agrees that if any Account, Inventory or other Goods are reported by Debtor to Secured Party as part of the Collateral in any Borrowing Base Certificate, inventory report, aged receivables report or other report provided under the terms of the Loan Agreement, then such property shall be conclusively presumed to be (and is intended by Debtor to be) a part of the Collateral.

Obligations:

The Obligations include 1) the following described promissory note(s), 2) all obligations, responsibilities and duties of Debtor under the terms of this security agreement or any other Loan Document, 3) all amounts spent by Secured Party for the maintenance, preservation or collection of the Collateral, 4) the Other Obligations described below, 5) all Related Indebtedness, 6) any interest accruing on any of these Obligations, and 7) all renewals, extensions, amendments and/or modifications of any of the foregoing or following:

a) Note

Date:	Of even date herewith.
Amount:	\$5,000,000.00
Borrower:	Friedman Industries, Inc., a Texas corporation
Payee:	Citizens National Bank
Maturity Date:	December 12, 2019

b) Other Obligations:

The Collateral shall further secure the payment to Secured Party of any and all other or additional debts, obligations and liabilities of every kind and character of any Debtor, Borrower or Guarantor, whether due or to become due, now or hereafter existing in favor of Secured Party, regardless of whether such debts, obligations and liabilities be direct or indirect, primary, secondary, joint, several, joint and several, fixed or contingent, and regardless of whether such debts, obligations and liabilities were originally owing to Secured Party or acquired by Secured Party or its assignees of any third party.

Debtor's Representations Concerning Location of Collateral :

The tangible forms of the Collateral are primarily located at Debtor's manufacturing facility at 3681 FM 250, Lone Star, Texas, and Debtor's corporate headquarters at 1121 Judson Road, Suite 124, Longview, Texas.

Debtor grants to Secured Party a security interest in the Collateral (including all Proceeds) to secure the prompt payment and performance of the Obligations and all renewals and extensions of any portion of the Obligations.

Debtor's Warranties

Debtor makes the following warranties to Secured Party:

1. Financing Statement. Except for that in favor of Secured Party, no financing statement or security agreement, verbal or written, covers the Collateral or is filed in any public office.
2. Ownership. Debtor owns the Collateral and has the authority to grant this security interest. Debtor's ownership of the Collateral is free from any set-off, claim, restriction, lien, security interest, or encumbrance except this security interest and liens for taxes not yet due.
3. Fixtures and Accessions. None of the Collateral is affixed to real estate, is an accession to any good, is commingled with other Goods, or will become a Fixture, accession, or part of a product or mass with other Goods except as expressly provided in this agreement.
4. Financial Statements. All information about Debtor's financial condition provided to Secured Party was accurate when submitted, as will be any information subsequently provided to Secured Party.

5. Debtor's Name. Debtor's exact legal name is set forth at the beginning of this security agreement.

6. Location. Debtor's chief executive office is located at the address identified above as "Debtor's Address" and Debtor's state of organization, registration or incorporation is the State of **Texas**.

Debtor's Covenants

1. Protection of Collateral. Debtor will defend the Collateral against all claims and demands adverse to Secured Party's interest in it. The Collateral will remain in Debtor's possession or control at all times, except as otherwise provided in this security agreement. Debtor will maintain the Collateral in good condition and protect it against misuse, abuse, waste, and deterioration except for ordinary wear and tear resulting from its intended use.

2. Future Encumbrances. Debtor shall not, without the prior written consent of Secured Party, grant any lien or security interest that may affect the Collateral, or any part thereof, nor shall Debtor permit or consent to any lien or security interest attaching to or being filed against any of the Collateral in favor of anyone other than Secured Party. Debtor shall further promptly pay when due all statements and charges of mechanics, materialmen, laborers and others incurred in connection with the alteration, improvement, repair and maintenance of the Collateral, or otherwise furnish appropriate security or bond, so that no future lien or security interest may ever attach to or be filed against any Collateral. In the event that the Collateral or any part thereof is and/or may be located in and/or on leased premises, Debtor shall promptly pay the full amount of such rental or lease payments whenever the same shall be due so that no lessor's lien or privilege may ever attach to or affect any of the Collateral with possible preference and priority over the lien of this Security Agreement. In the event that any of the Collateral is purchased or otherwise acquired by Debtor on a credit or deferred payment sales basis, Debtor shall promptly pay the full amount of the purchase or acquisition price of such Collateral so that no vendor's lien or privilege, or purchase money security interest, may ever attach to or be asserted against any of the Collateral with possible preference and priority over the lien of this Security Agreement. Debtor additionally agrees to obtain, upon request by Secured Party, and in form and substance as may then be satisfactory to Secured Party, appropriate waivers and/or subordinations of any lessor's liens or privileges, vendor's liens or privileges, purchase money security interest, and any other liens that may affect the Collateral at any time. As long as any part of the Obligations remain unpaid, Debtor will not permit any levy, attachment or restraint to be made affecting any of the Collateral, or permit any notice of lien to be filed with respect to the Collateral or any part thereof, or permit any receiver, trustee, custodian or assignee for the benefit of creditors to be appointed to take possession of any of the Collateral. Notwithstanding the foregoing, Debtor may, at its sole expense, contest in good faith by appropriate proceedings the validity or amount of any levy, attachment, restraint or lien filed against or affecting the Collateral, or any part thereof, provided that (1) Debtor notifies Secured Party in advance of Debtor's intent to contest such a levy, attachment, restraint or lien, and (2) Debtor provides additional security to Secured Party, in form and amount satisfactory to Secured Party.

3. Insurance. Debtor will insure the Collateral in accordance with Secured Party's reasonable requirements regarding choice of carrier, casualties insured against, and amount of coverage. Policies will be written in favor of Debtor and Secured Party according to their respective interests or according to Secured Party's other requirements. All policies will provide that Secured Party will receive at least ten days' notice before cancellation, and the policies or certificates evidencing them will be provided to Secured Party when issued. Debtor assumes all risk of loss and damage to the Collateral to the extent of any deficiency in insurance coverage. Debtor irrevocably appoints Secured Party as attorney-in-fact to collect any return, unearned premiums, and proceeds of any insurance on the Collateral and to endorse any draft or check deriving from the policies and made payable to Debtor.

4. Secured Party's Costs. Debtor will pay all expenses incurred by Secured Party in obtaining, preserving, perfecting, defending, and enforcing this security interest in the Collateral and in collecting or enforcing the Obligations. Expenses for which Debtor is liable include, but are not limited to, taxes, assessments, reasonable attorney's fees, and other legal expenses. These expenses will bear interest from the dates of payments at the highest rate stated in the Note, and Debtor will pay Secured Party this interest on demand at a time and place reasonably specified by Secured Party. These expenses and interest will be part of the Obligations secured by the Collateral and will be recoverable as such in all respects.

5. Additional Documents. Debtor will sign any papers that Secured Party considers necessary to obtain, maintain, and perfect this security interest or to comply with any relevant law. Debtor further agrees to execute and deliver all further documents or instruments that Secured Party may reasonably request in order to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any of the Collateral. Debtor will cooperate with Secured Party in obtaining a control agreement in form and substance satisfactory to Secured Party with respect to any Collateral consisting of Electronic Chattel Paper. Debtor will not create any Chattel Paper without placing a legend on the Chattel Paper acceptable to Secured Party indicating that Secured Party has a security interest in the Chattel Paper.

6. Notice of Changes. Debtor will immediately notify Secured Party of any material change in the Collateral; any change in the location of all or any portion of the Collateral; any change in Debtor's name, address, or location; any change in any matter warranted or represented in this agreement; any change that may affect this security interest; any change in the state in which Debtor (if other than an individual) is organized or incorporated; and any Event of Default that may occur hereunder, under any of the Obligations or under any of the other Loan Documents.

7. Use and Removal of Collateral. Debtor will not permit the Collateral to be affixed to any real estate, to become an accession to any Goods, to be commingled with other Goods, or to become a Fixture, accession, or part of a product or mass with other goods except as expressly provided in this agreement.

8. Sale, License or Lease of Collateral. Debtor will not sell, license for use, transfer, lease, or encumber any of the Collateral unless such action a) is with the prior written consent of Secured Party, or b) is the sale of Inventory, and i) the sale occurs in the ordinary course of Debtor's business, ii) notice of revocation of this consent has not been given by Secured Party to Debtor, and iii) no Event of Default has occurred and is ongoing after the expiration of any notice and cure period required under the terms of this security agreement or the Loan Agreement ((a) and (b) together are referred to herein as the "**Permitted Sales**"). In any event, unless Proceeds arise from a Permitted Sale, Debtor will immediately deliver to Secured Party all Proceeds from the sale, license for use, transfer, lease, or encumbrance of any Collateral and Debtor agrees to keep all such Proceeds segregated and separate from Debtor's other funds or property. All Proceeds of any Collateral (except for Proceeds arising from a Permitted Sale) are held in trust by Debtor for the benefit of Secured Party.

9. Reports and Inspections. Debtor will furnish Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may reasonably request, all in reasonable detail. Secured Party may inspect, or cause its agents, representatives or appraisers to inspect, all or any portion of the Collateral at any time during Debtor's regular business hours and as often as Secured Party in the exercise of its sole judgment shall deem necessary. Any such inspection may be with or without notice to Debtor.

10. Authorization to File Financing Statements. Debtor authorizes Secured Party to file a financing statement and any addendums or amendments thereto (the "**Financing Statement**") describing the Collateral. This authorization is not revocable and shall continue for so long as any of the Obligations remain unpaid, or for so long as Secured Party is committed to advance funds to Obligor or Debtor, whichever is later. Secured Party may file a copy of this security agreement as a Financing Statement.

11. No Conversion, Merger, Name Change, or Suspension. If Debtor is not an individual, Debtor agrees that it will not, without Secured Party's prior written consent (which consent may be withheld in the exercise of Secured Party's commercially reasonable discretion), a) merge with another entity, b) convert to another organizational entity, c) change its name, d) sell all or substantially all of its assets, or e) permit its legal existence to be terminated or forfeited, or permit its right to do business in the state of its formation to be suspended or revoked. Debtor agrees to give notice to Secured Party of Debtor's request for consent to any of the above at least thirty (30) days in advance of the proposed event.

Rights and Remedies of Secured Party

1. Generally. Secured Party may exercise one or more of the following rights and remedies after an Event of Default:

- a. take control of any proceeds of the Collateral;
- b. release any Collateral in Secured Party's possession, temporarily or otherwise and any such release shall not impair or release any of Secured Party's other rights in other Collateral, or against any Debtor, Borrower or Guarantor; and/or

- c. take control of any funds generated by the Collateral, such as refunds from and Proceeds of insurance, and reduce any part of the Obligations accordingly or permit Debtor to use such funds to repair or replace damaged or destroyed Collateral covered by insurance.

2 . Insurance. If Debtor fails to maintain insurance as required by this agreement or any other Loan Document, then Secured Party may purchase single-interest insurance coverage that will protect only Secured Party. If Secured Party purchases this insurance, its premiums will become part of the Obligations secured by the Collateral.

3 . Payment of Taxes. Secured Party may pay any taxes or other assessments against the Collateral in order to protect and preserve the security interest conveyed herein, without regard to whether or not such tax or assessment would have a priority greater than or less than that of Secured Party's security interest.

4 . Continuing Security Interest. This agreement creates a continuing security interest in the Collateral and shall a) remain in full force and effect until payment in full of the Obligations, b) be binding upon Debtor and its successors and assigns, and c) inure to the benefit of and be enforceable by Secured Party and its successors, transferees and assigns. Debtor waives any right which it may have under the Texas Business and Commerce Code to demand the filing of termination statements with respect to the Collateral, and agrees that Secured Party shall not be required to send such termination statements to Debtor, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations paid in full in immediately available funds.

5 . Limitations on Obligations Concerning Maintenance of Collateral. Debtor has the risk of loss on all the Collateral. Secured Party has no duty to collect any income accruing on the Collateral or to preserve any rights relating to the Collateral.

Events of Default

1. Each of the following conditions or events is an "**Event of Default**":

- a. if Debtor, Borrower or Guarantor defaults in the timely payment or performance of any of the Obligations, or any other covenant or liability arising under the Note, any Related Indebtedness, any other Loan Document or under any other agreement any such person may have with Secured Party;
- b. if any warranty, covenant, or representation made to Secured Party by or on behalf of Debtor proves to have been false in any material respect when made;
- c. if a receiver is appointed for Debtor or any of the Collateral, or if any garnishment, sequestration, attachment, possession or other writ is issued in any judicial or administrative proceeding against any of the Collateral;
- d. if all or any portion of the Collateral is assigned for the benefit of creditors or, to the extent permitted by law, if bankruptcy or insolvency proceedings commence against or by any of these parties: i) Debtor, ii) any Borrower, iii) any partnership of which Debtor is a general partner, iv) any Guarantor, or v) any maker, drawer, acceptor, endorser, Guarantor, surety, accommodation party, or other person liable on or for any part of the Obligations;
- e. if any financing statement is filed that includes, describes or indicates all or any portion of the Collateral but is not related to this security interest and not favoring Secured Party;
- f. if any lien other than the security interest of Secured Party attaches to any of the Collateral; and/or
- g. if any "event of default" occurs under the terms of any of the other Loan Documents.

Remedies of Secured Party on Default

1. Remedies. During the existence of any Event of Default, Secured Party may declare the unpaid principal and earned interest of the Obligations immediately due in whole or part, enforce the Obligations, and exercise any rights and remedies granted by the Texas Business and Commerce Code or by this agreement, including the following:

- a. require Debtor to deliver to Secured Party all books and records relating to the Collateral;
- b. require Debtor to assemble the Collateral and make it available to Secured Party at a place reasonably convenient to both parties;
- c. take possession of any of the Collateral and for this purpose enter any premises where it is located if this can be done without breach of the peace;
- d. sell, lease, or otherwise dispose of any of the Collateral in accord with the rights, remedies, and duties of a secured party under the Texas Business and Commerce Code after giving notice as required by such Code; unless the Collateral threatens to decline speedily in value, is perishable, or would typically be sold on a recognized market, Secured Party will give Debtor reasonable notice of any public sale of the Collateral or of a time after which it may be otherwise disposed of without further notice to Debtor; in this event, notice will be deemed reasonable if it is mailed, postage prepaid, to Debtor at the address specified in this agreement at least ten (10) days before any public sale or ten (10) days before the time when the Collateral may be otherwise disposed of without further notice to Debtor;
- e. surrender any insurance policies covering the Collateral and receive the unearned premium;
- f. apply any proceeds from disposition of the Collateral after default in the manner specified in the Texas Business and Commerce Code, including payment of Secured Party's reasonable attorney's fees and court expenses;
- g. collect the unpaid balance of any Obligation from any Borrower, Guarantor or other person obligated for any part of the Obligations; and/or
- h. take any other action or exercise any other remedy permitted under the terms of this security agreement or any other Loan Document.

2. Cumulative Rights. The rights and remedies expressly conferred by this security agreement are cumulative of all other rights and remedies conferred by any other Loan Document, by law or in equity. They shall not be deemed to deprive Secured Party of any other legal or equitable rights or remedies, by judicial proceedings or otherwise, appropriate to enforce the conditions, covenants, and terms of this agreement, the Note or any other Loan Document. The employment of any remedy hereunder, or otherwise, shall not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies.

3. Sales on Credit. If Secured Party sells any of the Collateral upon credit, Debtor will be credited only with payments actually made by the purchaser, received by Secured Party and applied to the indebtedness of the Purchaser. In the event the purchaser fails to pay for the Collateral, Secured Party may resell the Collateral and Debtor shall be credited with the proceeds of the sale.

4. Condition of Collateral. Secured Party has no obligation to repair, clean-up or otherwise prepare any Collateral for sale.

5. No Obligation to Pursue Others. Secured Party has no obligation to attempt to satisfy the Obligations by collecting them from any other person liable for them and Secured Party may release, modify or waive any collateral provided by any other person to secure any of the Obligations, all without affecting Secured Party's rights against Debtor. Debtor waives any right it may have to require Secured Party to pursue any third person for any of the Obligations.

6. Compliance With Other Laws. Secured Party may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

7. Warranties. Secured Party may sell the Collateral without giving any warranties as to the Collateral. Secured Party may specifically disclaim any warranties of title or the like. This procedure will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

8. Purchases by Secured Party. In the event Secured Party purchases any of the Collateral being sold, Secured Party may pay for the Collateral by crediting the purchase price against the Obligations.

General Provisions

1. Parties Bound. Secured Party's rights under this security agreement shall inure to the benefit of its successors and assigns. Assignment of any part of the Obligations and delivery by Secured Party of any part of the Collateral will fully discharge Secured Party from responsibility for that part of the Collateral. If Debtor is more than one, all their representations, warranties, and agreements are joint and several. Debtor's Obligations under this security agreement shall bind Debtor's personal representatives, successors, and assigns. Secured Party's signature on this security agreement is not required in order for this agreement to be binding, enforceable and completely effective according to its terms.

2. Waiver. Neither delay in exercise nor partial exercise of any of Secured Party's remedies or rights shall waive further exercise of those remedies or rights. Secured Party's failure to exercise remedies or rights does not waive subsequent exercise of those remedies or rights. Secured Party's waiver of any default or Event of Default does not waive any further or other default or Event of Default. Secured Party's waiver of any right arising under this security agreement or of any Event of Default is binding only if it is in writing and signed by Secured Party. Secured Party may remedy any default or Event of Default without waiving it.

3. Reimbursement. If Debtor fails to perform any of Debtor's Obligations, Secured Party may perform those Obligations and be reimbursed by Debtor on demand at the place where the Note is payable for any sums so paid, including attorney's fees and other legal expenses, plus interest on those sums from the dates of payment at the rate stated in the Note for matured, unpaid amounts. The sum to be reimbursed shall be secured by this security agreement and is part of the Obligations.

4. Interest Rate. Interest included in the Obligations shall not exceed the maximum amount of nonusurious interest that may be contracted for, taken, reserved, charged, or received under law; any interest in excess of that maximum amount shall be credited to the principal of the Obligations or, if that has been paid, refunded. On any acceleration or required or permitted prepayment of the Obligations, any such excess interest shall be canceled automatically as of the acceleration or prepayment or, if already paid, credited on the principal amount of the Obligations or, if the principal amount has been paid, refunded.

5. Modifications. No provision of this agreement shall be modified or limited except by written agreement signed by Secured Party.

6. Severability. The unenforceability of any provision of this agreement will not affect the enforceability or validity of any other provision.

7. After-Acquired Property. This security interest shall attach to after-acquired Collateral to the maximum extent such is permitted by law.

8. Applicable Law. This agreement will be construed according to Texas law.

9. Place of Performance. This agreement is to be performed in the county of Secured Party's mailing address.

10. Presumption of Truth and Validity. If the Collateral is sold by Secured Party after an Event of Default, recitals in the bill of sale or transfer will be prima facie evidence of their truth, and all prerequisites to the sale specified by this agreement and by the Texas Business and Commerce Code will be presumed satisfied.

11. Legal Construction; Singular and Plural. When the context requires, singular nouns and pronouns include the plural. All references to "Debtor" include each Debtor and any combination of Debtors (if more than one). Debtor agrees this security agreement was the result of a negotiated agreement with Secured Party and the rule of construction that states ambiguities in a document are construed against the party who drafted it does not apply in interpreting this instrument.

12. Priority of Security Interest. This security interest shall neither affect nor be affected by any other security for any of the Obligations. Neither extensions of any of the Obligations nor releases of any of the Collateral will affect the priority or validity of this security interest with reference to Debtor, Borrower, Guarantor or any third person.

13. Cumulative Remedies. Foreclosure of this security interest by suit does not limit Secured Party's remedies, including the right to sell the Collateral under the terms of this agreement. All remedies of Secured Party may be exercised at the same or different times, and no remedy shall be a defense to any other. Secured Party's rights and remedies include all those granted by law or otherwise, in addition to those specified in this agreement.

14. Agency. Debtor's appointment of Secured Party as Debtor's agent for the purposes stated in this security agreement is coupled with an interest and will survive any disability of Debtor.

15. Addresses for Notices. All notices and other communications provided for hereunder or required by law shall be in writing and shall be delivered by registered, certified or first class mail, postage prepaid, addressed to the party to be notified and at the address stated above. Notices delivered by mail to Debtor shall be effective upon deposit in the U.S. Mail.

16. Waiver of Marshaling. Debtor waives any and all rights that would otherwise require Secured Party to marshal or prioritize for sale all or any portion of the Collateral. Secured Party may sell all or any portion of the Collateral without regard to other property securing the Obligations, and without regard to equitable or common law principles of marshaling.

17. Purchase Money Security Interests. To the extent the Collateral secures any Obligation that was not incurred for the purchase of the Collateral, payments applied to the indebtedness shall be applied, first, to the discharge of the non-purchase money obligation.

18. Additional Warranties Regarding Debtor. Debtor warrants and represents the following additional facts to Secured Party and Debtor understands and acknowledges that but for these warranties and representations (on all of which Secured Party reasonably relies), Secured Party would not advance the sums made a part of the Obligations to Borrower: a) Debtor benefits, directly and indirectly, from the loan(s) to be made by Secured Party to Borrower and that are a part of the Obligations; b) Debtor has the authority to perform and/or pay all of Debtor's Obligations and to grant security interests in the Collateral; c) the fair value of all of Debtor's assets as of this date is greater than the sum of all of Debtor's debts and other obligations; d) Debtor is currently paying all of its debts and obligations as they come due and no debts or obligations of Debtor are currently past due or owing; e) the payment or performance of Debtor's Obligations and the grant of a security interest in the Collateral to secure the payment of the Obligations under the terms of this security agreement will not cause or otherwise result in the insolvency of Debtor; f) the payment or performance of Debtor's Obligations and the grant of a security interest hereunder to secured the payment of the Obligations under the terms of this agreement will not leave Debtor with resources that are insufficient or inadequate for the purpose of Debtor carrying on Debtor's other business or meeting Debtor's other obligations; and g) Debtor (by reason of the direct and indirect benefits flowing from the Obligations) will receive and has received reasonably equivalent value in exchange for the security interests conveyed herein. Debtor agrees that if all or a part of the security interests transferred to Secured Party under this security agreement is unenforceable or avoidable under applicable law (whether such law is federal or state law) for any reason (including, but not limited to, reasons relating to Debtor's insolvency or the value of consideration received by Debtor or the value of the direct and indirect benefits received by Debtor in connection with the Obligations), then the security interests conveyed herein shall be enforceable and unavoidable to the maximum extent allowed by law.

19. **Definitions.** The terms defined at the beginning of this security agreement shall have the meanings and/or definitions so stated. Any other term used herein and defined in the Texas Business and Commerce Code (as such Code is from time to time amended) shall have the same definition contained in said Code, unless expressly provided otherwise herein. All terms used in this security agreement, whether or not defined in this section, and whether used in singular or plural form, shall be deemed to refer to the object of the term whether such is singular or plural, as the context may suggest or require. In addition to the other terms defined above, the following terms have these meanings when used in this security agreement:

"Borrower" means each, any, all and all possible combinations of the borrowers named in the Note.

"Debtor" means each, any, and all possible combinations of the debtors identified in the introductory section above, whether one or more, and the successors, assigns, heirs and legal representatives thereof.

"Debtor's Coil Products Segment" is defined above.

"Event of Default" is defined above.

"Guarantor" means each, all and all possible combinations of persons who guaranty all or any part of the Note.

"Loan Agreement" means the Revolving Line of Credit Loan Agreement by and between Borrower and Secured Party (and any other persons signing such agreement) dated of even date herewith, as such agreement may be modified, amended, supplemented or revised.

"Loan Documents" means this security agreement, the Note and any and all other loan agreements, deeds of trust, security agreements, guaranty agreements, assignments, assignments of rents, indemnity agreements, certifications, pledge agreements, and other agreements or documents related to or securing the Note or any Related Indebtedness, together with any and all renewals, modifications, amendments, restatements, extensions and supplements thereof.

"Maturity Date" means the earlier to occur of a) the date stated in the introductory section above as the maturity date of the Note, or b) the date on which the maturity of the Note is accelerated by Lender under the terms thereof or under any of the other Loan Documents.

"Related Indebtedness" means any and all indebtedness paid or payable by Borrower to Secured Party pursuant to any of the Loan Documents or any other communication or writing by and between Borrower and Secured Party.

DEBTOR:

Friedman Industries, Incorporated

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