

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## FRIEDMAN INDUSTRIES INC

**Form: 10-K**

**Date Filed: 2009-06-26**

Corporate Issuer CIK: 39092

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

- x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2009
- o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-7521

**FRIEDMAN INDUSTRIES, INCORPORATED**

(Exact name of registrant as specified in its charter)

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

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

**77028**  
(Zip Code)

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

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

**Title of each class**  
Common Stock, \$1 Par Value

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

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

None

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

Yes \_\_\_ No X

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

Yes \_\_\_ No X

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

Yes X No \_\_\_

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

X

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes \_\_\_ No \_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ( ) Accelerated filer ( ) Non-accelerated filer ( ) Smaller reporting company (X)

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

Yes \_\_\_ No X

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of September 30, 2008 (computed by reference to the closing price on such date), was approximately \$41,534,000.

The number of shares of the registrant's Common Stock outstanding at June 15, 2009 was 6,799,444 shares.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Annual Report to Shareholders of Friedman Industries, Incorporated for the fiscal year ended March 31, 2009 — Part II.

Proxy Statement for the 2009 Annual Meeting of Shareholders — Part III.

**PART I**

**Item 1. Business**

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

The Company has two product groups: coil and tubular products. Significant financial information relating to the Company's product groups for the last two years is contained in Note 7 of the Consolidated Financial Statements included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2009, which financial statements are incorporated herein by reference in Item 8 hereof.

*Coil Products*

The Company purchases hot-rolled steel coils, processes the coils into flat, finished sheet and plate and sells these products on a wholesale, rapid-delivery basis in competition with steel mills, importers and steel service centers. The Company also processes customer-owned coils on a fee basis. The steel coils are processed through cut-to-length lines which level the steel and cut it to prescribed lengths. In addition, the Company operates steel temper mills which improve the flatness and surface qualities of hot-rolled steel. The Company's processing machinery is heavy, mill-type equipment capable of processing steel coils weighing up to 25 tons. Coils are processed to the specifications required for a particular order. Shipments are made via unaffiliated truckers or by rail and can generally be made within 48 hours of receipt of the customer's order.

The Company owns and operates two coil processing facilities located in Hickman, Arkansas and Decatur, Alabama. At each facility, the Company warehouses and processes hot-rolled steel coils which are purchased primarily from steel mills operated by Nucor Steel Company ("NSC"), which are located near each facility. Each facility operates a steel cut-to-length line and steel temper mill. In addition, the Company's XSCP Division located in Hickman purchases and markets non-standard hot-rolled coils received from NSC. Loss of NSC as a source of coil supply could have a material adverse effect on the Company's business.

*Tubular Products*

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

TTP operates two pipe mills. Both pipe mill #1 and pipe mill #2 are American Petroleum Institute-licensed to manufacture line and oil country pipe and also manufacture pipe for structural and piling purposes that meet recognized industry standards. TTP also employs various pipe processing equipment including threading and beveling machines, pipe handling equipment and other related machinery.

In recent years, the Company has manufactured and sold substantially all of its line and oil country pipe to U.S. Steel Tubular Products, Inc. ("USS"), an affiliate of United States Steel Corporation, pursuant to orders received from USS. In addition, the Company manufactures and markets to others pipe for structural and other miscellaneous applications. In recent years, the Company has purchased from USS and marketed to others pipe for structural applications for some sizes of pipe that exceed the capability of the TTP pipe mills.

In February 2009, USS announced that it was temporarily idling its plant at Lone Star, Texas, due to weak market conditions. Since February 2009, the Company has received few orders from USS and a significantly reduced supply of pipe and coils from USS. The Company expects these circumstances will continue until market conditions improve. The Company can make no assurances as to amounts of tubular products that will be purchased by USS in the future and the amounts of pipe and coil material that will be

available from USS in the future. Loss of USS as a customer and as a source of supply for TTP could have a material adverse effect on the Company's business.

The recently-depressed market conditions during the downturn of the U.S. economy along with the significant decrease in orders from USS and the reduction in the supply of pipe and coil material from USS have had an adverse effect on the Company's tubular business. As a result, the Company downsized its TTP division to a level more commensurate with operations.

#### *Marketing*

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

<u>Product and Service Groups</u>	<u>2009</u>	<u>2008</u>
Coil Products	35%	46%
Tubular Products	65%	54%

*Coil Products.* The Company sells coil products and processing services to approximately 170 customers located primarily in the midwestern, southwestern and southeastern sections of the United States. The Company's principal customers for these products and services are steel distributors and customers fabricating steel products such as storage tanks, steel buildings, farm machinery and equipment, construction equipment, transportation equipment, conveyors and other similar products. During each of the fiscal years ended March 31, 2009 and 2008, seventeen and eight customers of coil products, respectively, accounted for approximately 25% of the Company's total sales. Except for Trinity Industries, Inc., which accounted for approximately 11% of total sales in fiscal 2008, no coil product customer accounted for as much as 10% of the Company's total sales during those years.

The Company sells substantially all of its coil products through its own sales force. At March 31, 2009, the sales force was comprised of a vice president and three professional sales personnel under the direction of the Senior Vice President — Sales and Marketing. Sales personnel are paid on a salary and commission basis.

The Company regularly contracts on a quarterly basis with many of its larger customers to supply minimum quantities of steel.

*Tubular Products.* The Company sells its tubular products nationally to approximately 180 customers. The Company's principal customers for these products are steel and pipe distributors, piling contractors and, historically, USS. Sales of pipe to USS accounted for approximately 30% of the Company's total sales in fiscal 2009. Since February 2009, the Company has received few orders from USS. The Company can make no assurances as to the amount of future sales to USS.

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

#### *Competition*

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

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

#### *Employees*

At March 31, 2009, the Company had approximately 80 full-time employees.

*Executive Officers of the Company*

The following table sets forth as of March 31, 2009, the name, age, officer positions and family relationships, if any, of each executive officer of the Company and the period during which each officer has served in such capacity:

Name	Age	Position, Offices with the Company and Family Relationships, if any
William E. Crow	61	Chief Executive Officer since 2006 and President since 1995; formerly Chief Operating Officer since 1995, Vice President since 1981 and President of Texas Tubular Products Division since August 1990
Benny Harper	63	Senior Vice President — Finance since 1995 (formerly Vice President since 1990), Treasurer since 1980 and Secretary since May 1992
Thomas Thompson	58	Senior Vice President — Sales and Marketing since 1995; formerly Vice President — Sales since 1990

**Item 1A. Risk Factors**

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

Historically, we have been dependent on NSC for our supply of coil inventory and on USS for our supply of coil material used in pipe manufacturing. While current levels are adequate to sustain our coil operations, a reduction in the supply of steel coils could have an adverse effect on our coil operations. Historically, USS has been our primary supplier of tubular products. Since February 2009, we have received a significantly reduced supply of material from USS. This reduction in the supply of tubular products and coil material used in our tubular operations from USS has had an adverse effect on our tubular operations. The Company can make no assurances as to the amounts of pipe and coil material that will be available from USS in the future.

If, for any reason, NSC should curtail or discontinue deliveries of coil inventory to us in quantities we need and at prices that are competitive, our business could be negatively impacted. Also, if the current reduction in the supply by USS of material used in the manufacture of tubular products should continue for a prolonged period or USS should discontinue completely such deliveries, the negative impact on our business could be significant. If, in the future, we are unable for a prolonged period to obtain sufficient amounts of the necessary metals at competitive prices and on a timely basis from our traditional suppliers, we may not be able to obtain such metals from alternative sources at competitive prices to meet our delivery schedules, which would have a material adverse effect on our business, financial condition or results of operations.

*Our future operating results may be affected if we were to lose one of our significant customers.*

In fiscal 2009, sales of pipe to USS accounted for approximately 30% of the Company's total sales. In February 2009, USS announced that it was temporarily idling its plant at Lone Star, Texas, due to weak market conditions. Since February 2009, the Company has received few orders from USS. These circumstances have had an adverse effect on the Company's business. A prolonged reduction in sales to USS or the permanent loss of USS as a customer could have a material adverse effect on the Company's business.

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

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

environment of increasing raw material prices, competitive conditions will impact how much of the steel price increases we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to our customers, the profitability of our business could be adversely affected.

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

The principal markets that we serve are highly competitive. Competition is based primarily on the precision and range of achievable tolerances, quality, price, raw materials and inventory availability and the ability to meet delivery schedules dictated by customers. Our competition in the markets in which we participate comes from companies of various sizes, some of which have greater financial and other resources than we do and some of which have more established brand names in the markets we serve. Increased competition could force us to lower our prices or to offer additional services at a higher cost to us, which could reduce our gross profit, net income and cash flows.

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

The steel industry is very cyclical and is affected significantly by general economic conditions and other factors such as worldwide production capacity, fluctuations in steel imports/exports and tariffs. Steel prices are sensitive to a number of supply and demand factors. The current conditions in the U.S. economy have had an adverse effect on the U.S. steel industry and on our business. The prolonged duration of these conditions and any future downturns in the industry could have a material adverse effect on our business, financial condition or results of operations.

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

We own a new steel processing and distribution operation in Decatur, Alabama. In addition, we have made improvements to pipe mill #2 at our TTP operations in Lone Star, Texas. Expansion presents risks. We have expended and will continue to expend both capital and personnel resources on such expansions, which may or may not be successful.

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

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

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

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

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

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

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

We are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which we operate. These laws and regulations, as interpreted by relevant agencies and the courts, impose

increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices and the remediation of environmental contamination.

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

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

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

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

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

*Product liability claims could adversely affect our operations.*

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments**

Not required

**Item 2. Properties**

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

Location	Approximate Size	Ownership
<b>Lone Star, Texas</b>		
Plant — Texas Tubular Products	118,260 sq. feet	Owned(1)
Offices — Texas Tubular Products	9,200 sq. feet	Owned(1)
Land — Texas Tubular Products	81.70 acres	Owned(1)
<b>Longview, Texas</b>		
Offices	2,600 sq. feet	Leased(2)
<b>Houston, Texas</b>		
Offices	4,000 sq. feet	Leased(3)
<b>Hickman, Arkansas</b>		
Plant and Warehouse — Coil Products	42,600 sq. feet	Owned(1)
Offices — Coil Products	2,500 sq. feet	Owned(1)
Land — Coil Products	26.19 acres	Owned(1)
<b>Decatur, Alabama</b>		
Plant and Warehouse — Coil Products	48,000 sq. feet	Owned(1)
Offices — Coil Products	2,000 sq. feet	Owned(1)
Land — Coil Products	47.3 acres	Owned(1)

- (1) All of the Company's owned real estate, plants and offices are held in fee and are not subject to any mortgage or deed of trust.
- (2) The office lease is with a nonaffiliated party, expires April 30, 2013, and provides for an annual rental of \$30,084.
- (3) In September 2006, the Company sold real property in Houston, Texas and signed a 12-month lease agreement to rent office space at this location. The office lease is with Steelvest Property, LLC, a company affiliated with Max Reichenthal, a director of the Company. The lease is renewable on a quarterly basis and provides for a monthly rental of \$1,400.

**Item 3. Legal Proceedings**

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

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

None.

**PART II**

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

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

Reference is hereby made to the sections of the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2009, entitled "Description of Business — Range of High and Low Sales Prices of Common Stock" and "Description of Business — Cash Dividends Declared Per Share of Common Stock", which sections are hereby incorporated herein by reference.

The approximate number of shareholders of record of Common Stock of the Company as of May 22, 2009 was 310.

**Item 6. Selected Financial Data**

Not required.

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

Information with respect to Item 7 is hereby incorporated herein by reference from the section of the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2009, entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

Not required.

**Item 8. Financial Statements and Supplementary Data**

The following financial statements and notes thereto of the Company included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2009, are hereby incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2009 and 2008

Consolidated Statements of Earnings — Years ended March 31, 2009 and 2008

Consolidated Statements of Stockholders' Equity — Years ended March 31, 2009 and 2008

Consolidated Statements of Cash Flows — Years ended March 31, 2009 and 2008

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Information with respect to supplementary financial information relating to the Company appears in Note 8 — Summary of Quarterly Results of Operations (Unaudited) of the Notes to Consolidated Financial Statements incorporated herein by reference above in this Item 8 from the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2009.

The following supplementary schedule for the Company for the year ended March 31, 2009, is included elsewhere in this report:

Schedule II — Valuation and Qualifying Accounts

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

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

None

**Item 9A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

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

*Internal Control Over Financial Reporting*

Management's report on internal control over financial reporting appears on page 16 of the Company's Annual Report to Shareholders for the year ended March 31, 2009, which is incorporated herein by reference. This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

Except as otherwise set forth below, information with respect to Item 10 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2009 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2009 fiscal year.

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

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

**Item 11. Executive Compensation**

Information with respect to Item 11 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2009 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2009 fiscal year.

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

*Equity Compensation Plan Information*

The Company had no equity compensation plan as of March 31, 2009.

*Security Ownership Information*

The additional information with respect to Item 12 regarding the security ownership of certain beneficial owners and management, and related matters, is hereby incorporated herein by reference from the Company's proxy statement in respect to the 2009 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2009 fiscal year.

**Item 13. Certain Relationships and Related Transactions**

Information with respect to Item 13 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2009 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2009 fiscal year.

**Item 14. Principal Accountant Fees and Services**

Information with respect to Item 14 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2009 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the Securities and Exchange Commission on or before 120 days after the end of the Company's 2009 fiscal year.

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

(a) Documents included in this report

## 1. Financial Statements

The following financial statements and notes thereto of the Company are included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2009, which is incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2009 and 2008  
 Consolidated Statements of Earnings — Years ended March 31, 2009 and 2008  
 Consolidated Statements of Stockholders' Equity — Years end March 31, 2009 and 2008  
 Consolidated Statements of Cash Flows — Years ended March 31, 2009 and 2008  
 Notes to Consolidated Financial Statements  
 Report of Independent Registered Public Accounting Firm

## 2. Financial Statement Schedules

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

Schedule II — Valuation and Qualifying Accounts

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

## 3. Exhibits

Exhibit No.	Description
3.1	— Articles of Incorporation of the Company, as amended (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1982).
3.2	— Articles of Amendment to the Articles of Incorporation of the Company, as filed with the Texas Secretary of State on September 22, 1987 (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1988).
3.3	— Amended and Restated Bylaws of the Company (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 9, 2006).
4.1	— Reference is made to Exhibits 10.1, 10.3, 10.4, 10.5, 10.6, 10.7, 10.9, 10.10 and 10.11 described in this Item 15(a).
10.1	— Amended and Restated Letter Agreement dated April 1, 1995, between the Company and Texas Commerce Bank National Association ("TCB") regarding an \$8,000,000 revolving line of credit (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1995).
*10.2	— Friedman Industries, Incorporated 1996 Stock Option Plan (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1997).
10.3	— First Amendment to Amended and Restated Letter Agreement between the Company and TCB dated April 1, 1997 (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1997).
10.4	— Second Amendment to Amended and Restated Letter Agreement between the Company and TCB dated July 21, 1997 (filed as an exhibit to and incorporated by reference from the Company's Report on Form 10-Q for the three months ended June 30, 1997).

Exhibit No.	Description
10.5	— Third Amendment to the Amended and Restated Letter Agreement dated April 1, 1999 between the Company and Chase Bank of Texas N.A. (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 1999).
10.6	— Fourth Amendment to the Amended and Restated Letter Agreement dated June 1, 2001 between The Chase Manhattan Bank and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2001).
10.7	— Fifth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2003 between JPMorgan Chase Bank N.A. and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2003).
10.8	— Agreement dated December 13, 2004, by and between Harold Friedman and the Company (incorporated by reference from Exhibit 10.2 to the Company's current report on Form 8-K filed on December 14, 2004).
10.9	— Sixth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2005 between JPMorgan Chase Bank N.A. and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2005).
10.10	— Seventh Amendment to the Amended and Restated Letter Agreement dated effective as of May 18, 2007 between JPMorgan Chase Bank N.A. and the Company (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 2007).
10.11	— Revolving Promissory Note dated effective May 18, 2007 between the Company and J.P. Morgan Chase Bank N.A. (filed as an exhibit 6 and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 2007).
10.12	— Lease Agreement between Steelvest Property, LLC and the Company dated September 8, 2006, regarding office space (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 2008).
10.13	— Consultant Agreement dated October 31, 2008, by and between Jack Friedman and the Company (incorporated by reference from Exhibit 10.1 to Company's current report on Form 8-K filed on November 6, 2008).
**13.1	— The Company's Annual Report to Shareholders for the fiscal year ended March 31, 2009.
**14.1	— Friedman Industries, Incorporated Code of Conduct and Ethics.
**21.1	— List of Subsidiaries.
**23.1	— Consent of Hein & Associates LLP, Independent Registered Public Accounting Firm.
**31.1	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow.
**31.2	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper.
**32.1	— Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by William E. Crow.
**32.2	— Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Ben Harper.

\* Management contract or compensation plan.

\*\* Filed herewith.

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

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Friedman Industries, Incorporated has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, and State of Texas, this 26th day of June, 2009.

FRIEDMAN INDUSTRIES, INCORPORATED

By: /s/ William E. Crow

William E. Crow  
Chief Executive Officer and  
President

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

Signature	Title	Date
<u>/s/ WILLIAM E. CROW</u> William E. Crow	Chief Executive Officer and President and Director (Principal Executive Officer)	June 26, 2009
<u>/s/ BENNY B. HARPER</u> Benny B. Harper	Senior Vice President — Finance Secretary/Treasurer (Principal Financial and Accounting Officer)	June 26, 2009
<u>/s/ HAROLD FRIEDMAN</u> Harold Friedman	Director	June 26, 2009
<u>/s/ JACK FRIEDMAN</u> Jack Friedman	Director	June 26, 2009
<u>/s/ DURGA D. AGRAWAL</u> Durga D. Agrawal	Director	June 26, 2009
<u>/s/ CHARLES W. HALL</u> Charles W. Hall	Director	June 26, 2009
<u>/s/ ALAN M. RAUCH</u> Alan M. Rauch	Director	June 26, 2009
<u>/s/ HERSHEL M. RICH</u> Hershel M. Rich	Director	June 26, 2009
<u>/s/ JOEL SPIRA</u> Joel Spira	Director	June 26, 2009
<u>/s/ JOE L. WILLIAMS</u> Joe L. Williams	Director	June 26, 2009
<u>/s/ MAX REICHENTHAL</u> Max Reichenthal	Director	June 26, 2009

## SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

## FRIEDMAN INDUSTRIES, INCORPORATED

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions		Deductions — Describe(B)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts — Describe(A)		
Year ended March 31, 2009					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	\$ 37,276	\$ 22,294	\$ 1,182,776	\$ 1,215,070	\$ 27,276
Year ended March 31, 2008					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	\$ 37,276	\$ 0	\$ 921,692	\$ 921,692	\$ 37,276

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

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

**EXHIBIT INDEX**

Exhibit No.	Description
3.1	— Articles of Incorporation of the Company, as amended (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1982).
3.2	— Articles of Amendment to the Articles of Incorporation of the Company, as filed with the Texas Secretary of State on September 22, 1987 (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1988).
3.3	— Amended and Restated Bylaws of the Company (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 9, 2006).
4.1	— Reference is made to Exhibits 10.1, 10.3, 10.4, 10.5, 10.6, 10.7, 10.9, 10.10 and 10.11 described in this Item 15(a).
10.1	— Amended and Restated Letter Agreement dated April 1, 1995, between the Company and Texas Commerce Bank National Association ("TCB") regarding an \$8,000,000 revolving line of credit (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1995).
*10.2	— Friedman Industries, Incorporated 1996 Stock Option Plan (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1997).
10.3	— First Amendment to Amended and Restated Letter Agreement between the Company and TCB dated April 1, 1997 (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 1997).
10.4	— Second Amendment to Amended and Restated Letter Agreement between the Company and TCB dated July 21, 1997 (filed as an exhibit to and incorporated by reference from the Company's Report on Form 10-Q for the three months ended June 30, 1997).
10.5	— Third Amendment to the Amended and Restated Letter Agreement dated April 1, 1999 between the Company and Chase Bank of Texas N.A. (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 1999).
10.6	— Fourth Amendment to the Amended and Restated Letter Agreement dated June 1, 2001 between The Chase Manhattan Bank and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2001).
10.7	— Fifth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2003 between JPMorgan Chase Bank N.A. and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2003).
10.8	— Agreement dated December 13, 2004, by and between Harold Friedman and the Company (incorporated by reference from Exhibit 10.2 to the Company's current report on Form 8-K filed on December 14, 2004).
10.9	— Sixth Amendment to the Amended and Restated Letter Agreement dated effective as of April 1, 2005 between JPMorgan Chase Bank N.A. and the Company (filed as an exhibit to and incorporated by reference from the Company's report on Form 10-Q for the three months ended June 30, 2005).
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Exhibit No.	Description
10.12	— Lease Agreement between Steelvest Property, LLC and the Company dated September 8, 2006, regarding office space (filed as an exhibit to and incorporated by reference from the Company's Annual Report on Form 10-K for the year ended March 31, 2008).
10.13	— Consultant Agreement dated October 31, 2008, by and between Jack Friedman and the Company (incorporated by reference from Exhibit 10.1 to Company's current report on Form 8-K filed on November 6, 2008).
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\* Management contract or compensation plan.

\*\* Filed herewith.

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

THE COMPANY'S ANNUAL  
REPORT TO SHAREHOLDERS FOR  
THE FISCAL YEAR ENDED MARCH 31, 2009

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**FRIEDMAN  
INDUSTRIES,  
INCORPORATED  
2009  
ANNUAL REPORT**

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## FINANCIAL HIGHLIGHTS

	2009	2008
Net sales	\$208,779,750	\$178,785,110
Net earnings	\$13,673,406	\$4,465,127
Net earnings per share (Basic)	\$2.01	\$0.66
Cash dividends per share	\$0.37	\$0.27
Stockholders' equity	\$56,114,352	\$44,956,741
Working capital	\$39,320,364	\$34,638,228

### TO OUR SHAREHOLDERS:

The Company experienced record sales and earnings for the year. In management's opinion, the Company reaped the benefits of a strong oil and gas market during the year.

Currently, the Company is experiencing the full brunt of the severe economic downturn in the U.S. economy. The Company's top management, with over 100 years of cumulative experience, continues to focus on the markets in its efforts to maintain assets and liabilities at levels commensurate with current operations.

You are invited to attend the Annual Meeting of Shareholders scheduled to start at 11 a.m. (central time) on Thursday, September 3, 2009, in the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas.

Sincerely,

  
Harold Friedman  
Chairman of the Board of Directors

  
William E. Crow  
Chief Executive Officer and President

## OFFICERS

William E. Crow  
*Chief Executive Officer and  
President*

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

Thomas N. Thompson  
*Senior Vice President — Sales and Marketing*

Ronald L. Burgerson  
*Vice President*

Dale Ray  
*Vice President*

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

Robert McCain  
*Vice President — Decatur Division*

Robert Sparkman  
*Vice President of Sales — Coil Divisions*

Charles W. Hall  
*Assistant Secretary*

### COMPANY OFFICES AND WEB SITE

CORPORATE OFFICE  
P.O. Box 21147  
Houston, Texas 77226  
713-672-9433

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

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

WEB SITE  
[www.friedmanindustries.com](http://www.friedmanindustries.com)

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

AUDITORS  
Hein & Associates LLP  
500 Dallas Street, Suite 2900  
Houston, TX 77002

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

## DIRECTORS

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

Jack Friedman  
*Chairman Emeritus; former  
Chairman of the Board and  
Chief Executive Officer  
Houston, Texas*

William E. Crow  
*Chief Executive Officer and  
President  
Longview, Texas*

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

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

Alan M. Rauch  
*President, Ener-Tex  
International, Inc.  
(oilfield equipment sales)  
Houston, Texas*

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

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

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

Joe L. Williams

**ANNUAL REPORT ON FORM 10-K**

Shareholders may obtain without charge a copy of the Company's Annual Report on Form 10-K for the year ended March 31, 2009 as filed with the Securities and Exchange Commission. Written requests should be addressed to: Benny B. Harper, Senior Vice President, Friedman Industries, Incorporated, P.O. Box 21147, Houston, Texas 77226.

## DESCRIPTION OF BUSINESS

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

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

The Company sells its coil products and processing services directly through the Company's own sales force to approximately 170 customers located primarily in the midwestern, southwestern and southeastern sections of the United States. These products and services are sold principally to steel distributors and to customers fabricating steel products such as storage tanks, steel buildings, farm machinery and equipment, construction equipment, transportation equipment, conveyors and other similar products.

The Company, through its Texas Tubular Products Division located in Lone Star, Texas, manufactures, purchases, processes and markets tubular products ("pipe"). The Company sells pipe nationally to approximately 180 customers including, in recent years, a substantial amount of manufactured pipe to U.S. Steel Tubular Products, Inc. ("USS"), an affiliate of United States Steel Corporation. In recent years, the Company has also purchased a substantial portion of its annual supply of pipe and coil material used in pipe production from USS.

In February 2009, USS announced that it was temporarily idling its plant at Lone Star, Texas, due to weak market conditions. Since February 2009, the Company has received few orders from USS and a significantly reduced supply of pipe and coils from USS. The Company expects these circumstances will continue until market conditions improve. The Company can make no assurances as to the amounts of tubular products that will be purchased by USS in the future and the amounts of pipe and coil material that will be available from USS in the future. Loss of USS as a customer and as a source of supply for TTP could have a material adverse effect on the Company's business.

The recently-depressed market conditions during the downturn of the U.S. economy along with the significant decrease in orders from USS and the reduction in the supply of pipe and coil material from USS have had an adverse effect on the Company's tubular business. As a result, the Company downsized its TTP division to a level more commensurate with operations.

Significant financial information relating to the Company's two product groups, coil and tubular products, is contained in Note 7 of Notes to the Company's Consolidated Financial Statements appearing herein.

### RANGE OF HIGH AND LOW SALES PRICES OF COMMON STOCK

	Fiscal 2009		Fiscal 2008	
	High	Low	High	Low
First Quarter	\$ 8.10	\$4.86	\$ 10.30	\$ 8.68
Second Quarter	10.32	6.45	9.76	7.06
Third Quarter	7.29	4.25	9.50	5.87
Fourth Quarter	9.90	3.82	6.43	4.90

### CASH DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

	Fiscal 2009		Fiscal 2008	
First Quarter	\$ .08		\$ .08	
Second Quarter	.12		.08	
Third Quarter	.12		.06	
Fourth Quarter	.05		.05	

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

The approximate number of shareholders of record of the Company as of May 22, 2009 was 310.

**CONSOLIDATED BALANCE SHEETS****ASSETS**

	March 31	
	2009	2008
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 16,880,110	\$ 2,643,922
Accounts receivable, net of allowances for bad debts and cash discounts of \$27,276 and \$37,276 at March 31, 2009 and 2008, respectively	4,991,239	16,742,000
Inventories	19,402,701	29,900,327
Prepaid income taxes	1,299,796	—
Other	99,531	136,345
<b>TOTAL CURRENT ASSETS</b>	<b>42,673,377</b>	<b>49,422,594</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	1,082,331	1,082,331
Construction in progress	—	8,706,172
Buildings and yard improvements	7,000,839	3,494,294
Machinery and equipment	29,080,476	21,879,259
Less accumulated depreciation	(20,152,959)	(18,389,983)
	17,010,687	16,772,073
<b>OTHER ASSETS:</b>		
Cash value of officers' life insurance and other assets	776,000	720,001
Deferred income taxes	—	43,724
<b>TOTAL ASSETS</b>	<b>\$ 60,460,064</b>	<b>\$ 66,958,392</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	March 31	
	2009	2008
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 2,662,209	\$ 13,499,314
Dividends payable	339,972	339,972
Current portion of long-term debt	54,028	54,028
Income taxes payable	—	70,069
Contribution to profit sharing plan	40,000	259,500
Employee compensation and related expenses	256,804	561,483
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,353,013</b>	<b>14,784,366</b>
LONG-TERM DEBT, less current portion	13,507	6,667,536
DEFERRED INCOME TAXES	363,864	—
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	615,328	549,749
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, par value \$1:		
Authorized shares — 10,000,000		
Issued shares — 7,975,160 at March 31, 2009 and 2008, respectively	7,975,160	7,975,160
Additional paid-in capital	29,003,674	29,003,674
Treasury stock at cost (1,175,716 shares at March 31, 2009 and 2008, respectively)	(5,475,964)	(5,475,964)
Retained earnings	24,611,482	13,453,871
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>56,114,352</b>	<b>44,956,741</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 60,460,064</b>	<b>\$ 66,958,392</b>

See accompanying notes.

**CONSOLIDATED STATEMENTS OF EARNINGS**

	Year Ended March 31	
	2009	2008
Net sales	\$ 208,779,750	\$ 178,785,110
Costs and expenses:		
Cost of products sold	182,050,042	167,279,743
Selling, general and administrative	6,028,370	4,830,921
Interest expense	23,310	89,964
	<u>188,101,722</u>	<u>172,200,628</u>
	20,678,028	6,584,482
Interest and other income	144,777	201,365
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>20,822,805</b>	<b>6,785,847</b>
Income taxes:		
Current	6,741,811	2,366,378
Deferred	407,588	(45,658)
	<u>7,149,399</u>	<u>2,320,720</u>
<b>NET EARNINGS</b>	<b>\$ 13,673,406</b>	<b>\$ 4,465,127</b>
Weighted average number of common shares outstanding:		
Basic	6,799,444	6,733,942
Diluted	6,799,444	6,782,023
Net earnings per share:		
Basic	\$ 2.01	\$ .66
Diluted	\$ 2.01	\$ .66

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings
BALANCE AT MARCH 31, 2007	\$ 7,887,824	\$ 28,887,517	\$ (5,475,964)	\$ 10,810,621
Net earnings	—	—	—	4,465,127
Exercise of stock options	87,336	116,157	—	—
Cash dividends (\$0.27)	—	—	—	(1,821,877)
BALANCE AT MARCH 31, 2008	<u>7,975,160</u>	<u>29,003,674</u>	<u>(5,475,964)</u>	<u>13,453,871</u>
Net earnings	—	—	—	13,673,406
Cash dividends (\$0.37)	—	—	—	(2,515,795)
<b>BALANCE AT MARCH 31, 2009</b>	<b>\$ 7,975,160</b>	<b>\$ 29,003,674</b>	<b>\$ (5,475,964)</b>	<b>\$ 24,611,482</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31	
	2009	2008
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 13,673,406	\$ 4,465,127
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,762,976	1,138,418
Deferred taxes	407,588	(45,658)
Change in post-retirement benefits other than pensions	65,579	56,558
Disposal of fixed assets	—	1,096
Changes in operating assets and liabilities:		
Accounts receivable	11,750,761	519,553
Inventories	10,497,626	3,372,496
Prepaid federal income taxes	(1,299,796)	—
Other assets	36,814	21,618
Accounts payable and accrued expenses	(10,837,105)	(8,376,202)
Contribution to profit sharing plan	(219,500)	3,500
Employee compensation and related expenses	(304,679)	10,127
Income taxes payable	(70,069)	23,327
Net cash provided by operating activities	25,463,601	1,189,960
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(2,001,591)	(4,439,051)
Increase in cash value of officers' life insurance	(55,999)	(52,201)
Net cash used in investing activities	(2,057,590)	(4,491,252)
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(2,515,794)	(2,018,872)
Proceeds from borrowings of long-term debt	—	10,762,084
Principal payments on long-term debt	(6,654,029)	(4,040,521)
Stock awards and options exercised	—	203,493
Net cash (used in) provided by financing activities	(9,169,823)	\$ 4,906,184
Increase in cash and cash equivalents	14,236,188	1,604,892
Cash and cash equivalents at beginning of year	2,643,922	1,039,030
Cash and cash equivalents at end of year	\$ 16,880,110	\$ 2,643,922

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

**CASH AND CASH EQUIVALENTS:** Cash and cash equivalents is composed of cash and money fund investments pursuant to a bank sweep arrangement.

**INVENTORIES:** Inventories consist of prime coil, non-standard coil and tubular materials. Prime coil inventory consists primarily of raw materials, non-standard coil inventory consists primarily of finished goods and tubular inventory consists of both raw materials and finished goods. Inventories are valued at the lower of cost or replacement market. Cost for prime coil inventory is determined under the last-in, first-out ("LIFO") method. At March 31, 2009 and March 31, 2008, replacement cost exceeded LIFO cost by approximately \$5,300,000 and \$7,000,000, respectively. In fiscal 2009, LIFO inventories were partially liquidated. Since the replacement cost and liquidation cost of material were approximately equal, no significant gain or loss from this liquidation was recorded in fiscal 2009. Cost for non-standard coil inventory is determined using the specific identification method. Cost for tubular inventory is determined using the weighted average method. During the four months ended March 31, 2009, average selling prices for finished tubular products declined significantly. As a result, the Company recorded an adjustment of approximately \$4,160,000 to reduce the inventory value of finished tubular goods to reflect the lower of cost or market valuation at March 31, 2009. This adjustment had the effect of increasing costs of products sold and reducing earnings before taxes by approximately \$4,160,000. Obsolete or slow-moving inventories are not significant based on the Company's review of inventories. Accordingly, no allowance has been provided for such items.

The following is a summary of inventory by product group:

	March 31	
	2009	2008
Prime coil inventory	\$ 6,504,540	\$ 8,121,728
Non-standard coil inventory	141,097	918,334
Tubular raw material	1,783,130	7,444,805
Tubular finished goods	10,973,934	13,415,460
	<u>\$ 19,402,701</u>	<u>29,900,327</u>

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

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

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

In August 2008, the Company began operations at the new coil facility in Decatur, Alabama. Construction-in-progress at March 31, 2008, was reclassified to buildings, yard improvements and machinery and equipment during fiscal 2009.

Interest costs related to construction projects were not capitalized as part of the cost of fixed assets for the years presented. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No impairments were necessary at March 31, 2009 or 2008.

Maintenance and repairs are expensed as incurred.

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

**SUPPLEMENTAL CASH FLOW INFORMATION:** The Company paid interest of approximately \$34,000 in 2009 and \$79,000 in 2008. The Company paid income taxes, net of refunds, of \$7,997,724 in 2009 and \$2,584,731 in 2008.

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

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

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

**EARNINGS PER SHARE:** Net income per basic common share is computed using the weighted average number of common shares outstanding during the period. Net income per diluted common share is computed using the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect using the treasury stock method.

**STOCK-BASED COMPENSATION:**

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company adopted the Prospective Method of SFAS 123(R) effective April 1, 2006. With the Prospective Method costs are recognized beginning with the effective date based on the requirements of SFAS 123(R) for (i) all share-based payments granted after the effective date of SFAS 123(R), and (ii) all awards granted to employees prior to

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

the effective date of SFAS 123(R) that remain unvested on the effective date. With the adoption of the Prospective Method on April 1, 2006, there was no impact on the financial statements as all of the options were vested as of April 1, 2006.

There were no options granted in fiscal 2009 and 2008.

**ECONOMIC RELATIONSHIP:** U.S. Steel Tubular Products, Inc. ("USS") and Nucor Steel Company supply a significant amount of steel products to the Company. Loss of either of these mills as a source of supply could have a material adverse effect on the Company. Additionally, the Company derives revenue by selling a substantial amount of its manufactured pipe to USS. Total sales to USS were approximately 30% and 17% of total Company sales in fiscal 2009 and 2008, respectively. Loss of USS as a customer could have a material adverse effect on the Company's business. Other than USS, no customer accounted for 10% of total sales in the two years ended March 31, 2009, except Trinity Industries, Inc., a coil product customer, which accounted for approximately 11% of total sales in fiscal 2008.

In February 2009, USS idled its plant in Lone Star, Texas, due to weak market conditions. USS indicated that this idling is temporary. Since February 2009, the Company has received few orders from USS and a significantly reduced supply of pipe and coils from USS. The Company expects these conditions will continue until market conditions improve.

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

### NEW ACCOUNTING PRONOUNCEMENTS:

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

In June 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*". This Interpretation provides guidance on recognition, classification and disclosure concerning uncertain tax liabilities. The evaluation of a tax position requires recognition of a tax benefit if it is more likely than not it will be sustained upon examination. We adopted this Interpretation effective April 1, 2007. The adoption did not have a material impact on our consolidated financial statements.

## 2. STOCK OPTIONS AND CAPITAL STOCK

Under the Company's 1989 and 1996 Stock Option Plans, options were granted to certain officers and key employees to purchase common stock of the Company. Pursuant to the terms of the plans, no further options may be granted. All options have ten-year terms and become fully exercisable at the end of six

**2. STOCK OPTIONS AND CAPITAL STOCK (Continued)**

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

	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	—	—	88,836	\$ 2.33
Granted	—	—	—	—
Exercised	—	—	(87,336)	\$ 2.33
Canceled	—	—	(1,500)	\$ 2.33
Outstanding at end of year	—	—	—	—
Exercisable at end of year	—	—	—	—
Weighted average fair value of options granted during the year	—	—	—	—

The Company has 1,000,000 authorized shares of Cumulative Preferred Stock with a par value of \$1 per share. The stock may be issued in one or more series, and the Board of Directors is authorized to fix the designations, preferences, rights, qualifications, limitations, and restrictions of each series, except that any series must provide for cumulative dividends and must be convertible into common stock. There were no shares of Cumulative Preferred Stock issued as of March 31, 2009 and March 31, 2008.

**3. LONG-TERM DEBT AND COMMITMENTS AND CONTINGENCIES**

Effective May 18, 2007, the Company renewed a credit arrangement with a bank which provides for a revolving line of credit facility (the "revolving facility"). Pursuant to the revolving facility which expires April 1, 2010, the Company may borrow up to \$10 million at the bank's prime rate or at 1.5% over LIBOR. The revolving facility requires that the Company maintain a tangible net worth as adjusted of \$36,628,000, maintain a working capital ratio of 2 to 1 and maintain a debt to equity ratio of 1.1 to 1. At March 31, 2009, the Company maintained a tangible net worth of \$56,114,000, a working capital ratio of 13 to 1 and a debt to equity ratio of .07 to 1. No collateral is required pursuant to the revolving facility. At March 31, 2008, the Company owed \$6,600,000 pursuant to the revolving facility at an average interest rate of approximately 4.4%. Proceeds of these loans were used to support cash flows related primarily to accounts payable. The loans were paid in full in April 2008 and May 2008. There were no amounts outstanding under the revolving facility at March 31, 2009. The Company does not pay a commitment fee relative to this facility.

The Company is obligated under noncancelable operating leases for its Longview, Texas and Houston, Texas office buildings, which expire April 30, 2013 and August 31, 2009, respectively. The following is a schedule of future minimum annual rental payments required under these operating leases as of March 31, 2009:

2010	\$ 37,084
2011	30,084
2012	30,084
2013	30,084
2014	2,507
Total	\$ 129,843

Rental expenses for leased properties were \$46,649 and \$44,064 during fiscal 2009 and 2008, respectively.

**4. EARNINGS PER SHARE**

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

	Year Ended March 31	
	2009	2008
<b>Basic</b>		
Net earnings	\$ 13,673,406	\$ 4,465,127
Weighted average common shares	6,799,444	6,733,942
<b>Dilutive</b>		
Net earnings	\$ 13,673,406	4,465,127
Weighted average common shares	6,799,444	6,733,942
Common share equivalents:		
Options	—	48,081
Total common share equivalents	—	48,081
Weighted average common shares and common share equivalents	6,799,444	6,782,023

**5. INCOME TAXES**

Components of tax expense (benefit) are as follows:

	Year Ended March 31	
	2009	2008
<b>Federal</b>		
Current	\$ 6,015,135	\$ 2,140,327
Deferred	407,588	(45,658)
	6,422,723	2,094,669
<b>State</b>		
Current	726,676	226,051
	726,676	226,051
<b>Total</b>	\$ 7,149,399	\$ 2,320,720

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

	Year Ended March 31	
	2009	2008
Income Tax Expense at		
U.S. federal statutory rate	34.0%	34.0%
Benefit of tax deduction allowed to manufacturing companies	(2.0)	(2.0)
State and local income tax rates net of federal income tax benefit	2.3	2.2
Provision for income taxes	34.3%	34.2%

The Company's tax returns may be subject to examination by the Internal Revenue Service for the fiscal years ending March 31, 2006 through March 31, 2008. State and local returns may be subject to examination for fiscal years ended March 31, 2006 through March 31, 2008.

**5. INCOME TAXES (Continued)**

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

	March 31	
	2009	2008
<b>Deferred tax liabilities:</b>		
Depreciation	\$ (1,623,343)	\$ (1,125,365)
<b>Total deferred tax liabilities</b>	<b>(1,623,343)</b>	<b>(1,125,365)</b>
<b>Deferred tax assets:</b>		
Inventory capitalization	98,679	85,715
LIFO Inventory	885,296	834,314
Postretirement benefits other than pensions	209,212	186,915
Other	66,292	62,145
<b>Total deferred tax assets</b>	<b>1,259,479</b>	<b>1,169,089</b>
Net deferred tax (liability) asset	\$ (363,864)	\$ 43,724

**6. PROFIT SHARING PLAN**

Effective May 1, 2007, the Company merged its defined contribution retirement plan and its 401(k) plan into the Friedman Industries, Inc. Employees' Retirement and 401(k) Plan (the "Plan"). In addition, the Plan year end was changed to December 31. Employees fully vest in the Plan upon 6 years of service.

The retirement portion of the Plan covers substantially all employees, including officers. Company contribution expenses, which are determined at the discretion of the Board of Directors in an amount not to exceed 15% of the total compensation paid during the year to all eligible employees, were \$223,000 for the year ended March 31, 2009, and \$255,000 for the year ended March 31, 2008. Contributions, Plan earnings and forfeitures of nonvested accounts of terminated participants are allocated to the remaining individual accounts determined by a point schedule based on years of employment with the Company.

Employees may participate in the 401(k) portion of the Plan. Employees are eligible to participate in the Plan when the employee has completed one year of service. Under the Plan, participating employees may defer a portion of their pretax earnings up to certain limits prescribed by the Internal Revenue Service. The Company provides matching contributions under the provisions of the Plan. Contribution expense related to the 401(k) portion of the Plan was approximately \$56,000 and \$44,000 for the years ended March 31, 2009 and 2008, respectively.

**7. INDUSTRY SEGMENT DATA**

The Company is engaged in the steel processing, pipe manufacturing and processing and steel and pipe distribution business. Within the Company, there are two product groups: coil and tubular. Coil product involves converting steel coils into flat sheet and plate steel cut to customer specifications and reselling steel

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

coils. Through its tubular operation, the Company purchases, processes, manufactures and markets tubular products. The following is a summary of significant financial information relating to the product groups:

	<b>Year Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>NET SALES:</b>		
Coil	\$ 73,243,704	\$ 83,088,686
Tubular	135,536,046	95,696,424
TOTAL NET SALES	<u>\$ 208,779,750</u>	<u>\$ 178,785,110</u>
<b>OPERATING PROFIT:</b>		
Coil	\$ 482,938	\$ 2,782,079
Tubular	23,118,512	6,284,240
TOTAL OPERATING PROFIT	23,601,450	9,066,319
General corporate expenses	(2,900,112)	(2,391,873)
Interest expense	(23,310)	(89,964)
Interest and other income	144,777	201,365
TOTAL EARNINGS BEFORE INCOME TAXES	<u>\$ 20,822,805</u>	<u>\$ 6,785,847</u>
<b>IDENTIFIABLE ASSETS:</b>		
Coil	\$ 22,791,442	\$ 29,469,277
Tubular	18,702,930	34,040,679
General corporate assets	41,494,372	63,509,956
TOTAL ASSETS	<u>\$ 60,460,664</u>	<u>\$ 66,958,392</u>
<b>DEPRECIATION:</b>		
Coil	\$ 1,103,046	\$ 573,629
Tubular	628,966	533,825
Corporate and other	30,964	30,964
	<u>\$ 1,762,976</u>	<u>\$ 1,138,418</u>
<b>CAPITAL EXPENDITURES:</b>		
Coil	\$ 1,639,585	\$ 3,862,434
Tubular	362,006	576,617
	<u>\$ 2,001,591</u>	<u>\$ 4,439,051</u>

Operating profit is total net sales less operating expenses, excluding general corporate expenses, interest expense and interest and other income. General corporate expenses reflect general and administrative expenses not directly associated with segment operations and consist primarily of corporate and accounting salaries, professional fees and services, bad debts, accrued profit sharing expense, accrued quarterly incentive bonuses, corporate insurance expenses and office supplies. Corporate assets consist primarily of cash and cash equivalents, prepaid federal income taxes and the cash value of officers' life insurance. Although inventory is transferred at cost between product groups, there are no sales between product groups.

**8. SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (Unaudited)**

The following is a summary of unaudited quarterly results of operations for the years ended March 31, 2009 and 2008:

	Quarter Ended			
	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009
Net sales	\$ 59,598,697	\$ 71,074,139	\$ 56,182,665	\$ 21,924,249
Gross profit	8,064,743	10,146,346	8,407,343	111,276
Net earnings (loss)	3,975,660	5,444,435	4,554,165	(300,854)
Basic	.58	.80	.67	(.04)
Diluted	.58	.80	.67	(.04)

	Quarter Ended			
	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008
Net sales	\$ 50,530,510	\$ 41,154,571	\$ 38,062,240	\$ 49,037,789
Gross profit	3,769,618	2,432,362	1,969,812	3,333,575
Net earnings	1,552,451	920,886	660,207	1,331,583
Basic	.23	.14	.10	.20
Diluted	.23	.14	.10	.20

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the consolidated balance sheets of Friedman Industries, Incorporated (the "Company") as of March 31, 2009 and 2008, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the two years in the period ended March 31, 2009. Our audits also included the financial statement schedule of Friedman Industries, Incorporated listed in Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Friedman Industries, Incorporated as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of March 31, 2009 included in the accompanying management's report on internal control over financial reporting and, accordingly, we do not express an opinion thereon.

/s/ HEIN & ASSOCIATES LLP

Houston, Texas  
June 26, 2009

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. Based on such assessment, management concluded that, as of March 31, 2009, our internal control over financial reporting is effective based on that criteria.

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

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

## RESULTS OF OPERATIONS

Year ended March 31, 2009 compared to March 31, 2008

During the year ended March 31, 2009, sales, costs of goods sold and gross profit increased \$29,994,640, \$14,770,299 and \$15,224,341, respectively, from the comparable amounts recorded during the year ended March 31, 2008. The increase in sales was related primarily to an increase in average selling prices. The average per ton selling price increased from approximately \$629 per ton in fiscal 2008 to approximately \$924 per ton in fiscal 2009. Total tons shipped declined from approximately 284,000 tons in fiscal 2008 to 226,000 tons in fiscal 2009. The increase in costs of goods sold was primarily related to an increase in the average per ton cost of goods which increased from approximately \$588 per ton in fiscal 2008 to \$806 per ton in fiscal 2009. The increase in gross profit in the 2009 period was related to substantially improved margins earned on pipe sales. Gross profit as a percentage of sales increased from approximately 6.4% in fiscal 2008 to 12.8% in fiscal 2009. During most of fiscal 2009, the Company experienced strong demand for its pipe products and margins improved significantly. In addition, the Company benefited from lower cost tubular inventories sold at substantially improved selling prices.

Coil product segment sales decreased \$9,844,982 during fiscal 2009. An increase in the average per ton selling price was more than offset by a reduction in tons sold. The average per ton selling price increased from approximately \$654 per ton in fiscal 2008 to \$915 per ton in fiscal 2009. However, tons sold declined from approximately 127,000 tons in fiscal 2008 to approximately 80,000 tons in fiscal 2009. In fiscal 2009, the coil segment of the Company recorded an operating profit of approximately \$483,000 compared to an operating profit of approximately \$2,782,000 in fiscal 2008. Coil products are used primarily in durable goods and demand for such products was depressed in fiscal 2009. In addition, the Company incurred a significant increase in cost of coil products during fiscal 2009. Average per ton cost increased from approximately \$621 per ton in fiscal 2008 to \$886 per ton in fiscal 2009. The Company was unable to pass all of this increased cost to its customers in fiscal 2009. The Company believes that market conditions for coil products will remain soft until the U.S. economy improves and generates improved demand for durable goods.

In August 2008, the Company began operating its new coil facility located in Decatur, Alabama. This operation produced an operating loss of approximately \$1,020,000 during fiscal 2009. The Company expects that this facility will continue to produce a loss until demand for coil products improves.

The Company is primarily dependent on Nucor Steel Company ("NSC") for its supply of coil inventory. NSC continues to supply the Company with steel coils in amounts that are adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from NSC. Loss of NSC as a supplier could have a material adverse effect on the Company's business.

Tubular product segment sales increased \$39,839,622 during fiscal 2009. This increase primarily resulted from an increase in average selling prices. The average selling price per ton increased from approximately \$609 per ton in fiscal 2008 to \$930 per ton in fiscal 2009. The Company sold approximately 157,000 tons of pipe in fiscal 2008 compared to approximately 146,000 tons in fiscal 2009. Tubular product segment operating profits as a percentage of segment sales improved from 6.6% in fiscal 2008 to 17.1% in fiscal 2009. The Company experienced strong market conditions for its pipe products during most of fiscal 2009 and margins improved significantly. In addition, the Company benefited from lower cost tubular inventories sold at substantially improved selling prices during fiscal 2009.

In the four months ended March 31, 2009, the Company experienced a significant decline in average selling prices for finished tubular products. As a result, the Company experienced a "lower of cost or market" issue regarding the value of finished tubular products inventories. Accordingly, the Company recorded an adjustment of approximately \$4,160,000 to reduce the inventory value of finished tubular

products in fiscal 2009. This adjustment had the effect of increasing the cost of tubular products sold and reducing earnings before income taxes by \$4,160,000 in fiscal 2009. The Company believes that the decline in average selling prices is related to a lack of demand for tubular products due to a weak U.S. economy.

In recent years, U.S. Steel Tubular Products, Inc. ("USS"), an affiliate of United States Steel Corporation, has been the Company's primary supplier of tubular products and coil material used in pipe manufacturing and is a major customer of finished tubular products. Certain finished tubular products are used in the energy business and are manufactured by the Company and sold to USS. Beginning in December 2008, USS reduced orders for these finished tubular products. Also, in February 2009, USS announced that it was temporarily idling its plant in Lone Star, Texas, due to weak market conditions. Since February 2009, the Company has received few orders from USS and a significantly reduced supply of pipe and coil material from USS. The Company believes that reduced orders for finished tubular products will continue until the U.S. economy recovers and generates improved demand for these products. Loss of USS as a supplier or customer could have an adverse effect on the Company's business. The Company can make no assurances as to orders from USS or the amounts of pipe and coil material that will be available from USS in the future.

The recently-depressed market conditions during the downturn of the U.S. economy along with the significant decrease in orders from USS and the reduction in the supply of pipe and coil material from USS have had an adverse effect on the Company's tubular business. As a result, the Company downsized its TTP division to a level more commensurate with operations.

During fiscal 2009, general, selling and administrative costs increased \$1,197,449 from the amount recorded during fiscal 2008. This increase was related primarily to increases in commissions and bonuses associated with the increase in earnings.

Income taxes increased \$4,828,679 from the comparable amount recorded during fiscal 2008. This increase was primarily related to the increase in earnings before taxes. Effective tax rates were 34.3% and 34.2% in fiscal 2009 and 2008, respectively.

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

The Company remained in a strong, liquid position at March 31, 2009. Current ratios were 12.7 and 3.3 at March 31, 2009 and March 31, 2008, respectively. Working capital was \$39,320,364 at March 31, 2009 and \$34,638,228 at March 31, 2008.

During the year ended March 31, 2009, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Changes in balance sheet amounts primarily occurred in the ordinary course of business. Cash increased primarily as a result of an increase in net earnings and decreases in accounts receivable and inventories. Accounts receivable declined due to a substantial decrease in sales in March 2009. Management reduced inventories to a level more commensurate with sales which had the effect of reducing accounts payable. The Company expects to continue to monitor, evaluate and manage balance sheet components depending on changes in market conditions and the Company's operations.

During the year ended March 31, 2009, the Company purchased approximately \$2,000,000 in fixed assets. These assets were related primarily to buildings and equipment associated with the new coil operation located in Decatur, Alabama, which began operations in August 2008. The Decatur processing facility operates a steel temper mill and a cut-to-length line, including a leveling line. The Company invested approximately \$11,500,000 in fixed assets at the Decatur facility.

The Company has a credit arrangement with a bank which provides for a revolving line of credit facility (the "revolving facility"). Pursuant to the revolving facility, which expires April 1, 2010, the Company may borrow up to \$10 million at an interest rate of the bank's prime rate or 1.5% over LIBOR. The revolving facility requires that the Company maintain a tangible net worth as adjusted of \$36,628,000, maintain a working capital ratio of 2 to 1 and maintain a debt to equity ratio of 1.1 to 1. At March 31, 2009, the Company maintained a tangible net worth of \$56,114,000, a working capital ratio of 13 to 1 and a debt to equity ratio of .07 to 1. No collateral is required pursuant to the revolving facility. The Company uses the

revolving facility to support cash flows and borrows and repays funds as working capital is required. At March 31, 2008, the Company owed \$6,600,000 pursuant to the revolving facility. Proceeds of these loans were used to support cash flows related primarily to accounts payable. The loans were subsequently paid in full in April 2008 and May 2008. There were no amounts outstanding under the revolving facility at March 31, 2009.

Historically, the Company has renewed the revolving facility approximately one year before its expiration date. As a result of the current lending environment, the Company may not be able to amend or extend the revolving facility or enter into a new credit arrangement on terms as favorable to the Company as the current revolving facility. As a result, the Company has chosen not to renew its revolving facility at the present time.

The Company has in the past and may in the future borrow funds on a term basis to build or improve facilities. The Company currently has no plans to borrow funds on a term basis.

Notwithstanding the current market conditions, the Company believes that its current cash position along with cash flows from operations and borrowing capability due to its strong balance sheet are adequate to fund its expected cash requirements for the next 24 months.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

#### **INFLATION**

During fiscal 2009, the Company believes that the general level of inflation had little effect on its operations.

#### **CRITICAL ACCOUNTING POLICIES**

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. One such accounting policy which requires significant estimates and judgments is the valuation of LIFO inventories in the Company's quarterly reporting. The Company's quarterly valuation of inventory requires estimates of the year end quantities, which is inherently difficult. Historically, these estimates have been materially correct.

During the four months ended March 31, 2009, average selling prices for finished tubular products declined significantly. Management believes that March 2009 average selling prices for finished tubular goods were indicative of current market conditions and served as a basis for reducing the inventory value of finished tubular products at March 31, 2009. Accordingly, the Company recorded an adjustment of approximately \$4,160,000 to reduce the inventory value of finished tubular products to reflect the lower of cost or market valuation at March 31, 2009. This adjustment had the effect of increasing cost of products sold and reducing earnings before taxes by approximately \$4,160,000.

#### **FORWARD-LOOKING STATEMENTS**

From time to time, the Company may make certain statements that contain "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1996) and that involve risk and uncertainty. These forward-looking statements may include, but are not limited to, future results of operations, future production capacity, product quality and proposed expansion plans. Forward-looking statements may be made by management orally or in writing, including, but not limited to, this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Company's filings with the Securities and Exchange Commission under the Securities Act of 1933 and the Securities Exchange Act of 1934. Actual results and trends in the future may differ materially depending on a variety of factors, including but not limited to, changes in the demand and prices for the Company's products, changes in the demand for steel and steel products in general, and the Company's success in executing its internal operating plans, including any proposed expansion plans.

## TEN YEAR FINANCIAL SUMMARY

	Year Ended March 31									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Net sales	\$ 208,779,750	\$ 178,785,110	\$ 199,726,619	\$ 181,900,351	\$ 188,022,253	\$ 116,158,567	\$ 106,082,738	\$ 97,817,956	\$ 120,395,583	\$ 120,267,809
Net earnings	\$ 13,673,406	\$ 4,465,127	\$ 7,018,318(1)	\$ 6,453,888	\$ 6,246,043	\$ 2,535,991	\$ 1,432,017	\$ 940,039	\$ 2,927,582	\$ 2,506,801
Current assets	\$ 42,673,377	\$ 49,422,594	\$ 51,731,369	\$ 47,551,003	\$ 43,498,759	\$ 37,829,701	\$ 34,769,500	\$ 35,806,988	\$ 40,231,329	\$ 36,945,378
Current liabilities	\$ 3,353,013	\$ 14,764,366	\$ 23,266,583	\$ 18,383,193	\$ 14,959,516	\$ 12,639,763	\$ 11,035,388	\$ 10,797,106	\$ 12,271,802	\$ 8,377,279
Working capital	\$ 39,320,364	\$ 34,658,228	\$ 28,464,786	\$ 29,167,810	\$ 28,539,243	\$ 25,189,938	\$ 23,734,112	\$ 25,009,882	\$ 27,959,527	\$ 28,568,099
Total assets	\$ 60,460,064	\$ 66,958,392	\$ 65,871,706	\$ 55,930,889	\$ 50,796,342	\$ 46,028,123	\$ 42,778,926	\$ 43,986,455	\$ 48,010,512	\$ 45,106,790
Stockholders' equity	\$ 56,114,352	\$ 44,956,741	\$ 42,109,998	\$ 37,097,335	\$ 35,354,550	\$ 33,031,604	\$ 31,246,751	\$ 30,491,351	\$ 30,378,150	\$ 28,622,951
Net earnings as a percent of										
Net sales	6.5	2.5	3.5	3.5	3.3	2.2	1.3	1.0	2.4	2.1
Stockholders' equity	24.4	9.9	16.7	17.4	17.7	7.7	4.6	3.1	9.6	8.8
Weighted average number of common shares outstanding: Basic(2)	6,799,444	6,733,942	6,685,577	7,072,637	7,418,410	7,574,070	7,572,239	7,571,239	7,568,839	7,547,624
Per share										
Net earnings per share:										
Basic	\$ 2.01	\$ 0.66	\$ 1.05(1)	\$ 0.91	\$ 0.84	\$ 0.33	\$ 0.19	\$ 0.12	\$ 0.39	\$ 0.33
Stockholders' equity(2)	\$ 8.25	\$ 6.68	\$ 6.30	\$ 5.25	\$ 4.77	\$ 4.36	\$ 4.13	\$ 4.03	\$ 4.01	\$ 3.79
Cash dividends per common share	\$ 0.37	\$ 0.27	\$ 0.34	\$ 0.32	\$ 0.29	\$ 0.10	\$ 0.09	\$ 0.11	\$ 0.16	\$ 0.18
Stock dividend declared	—	—	—	—	—	—	—	—	—	5%

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

(2) Adjusted for stock dividends.

## FRIEDMAN INDUSTRIES, INCORPORATED

## CODE OF CONDUCT AND ETHICS

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

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

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

The Board of Directors is responsible for applying and interpreting the Code. Any questions relating to how the Code should be interpreted or applied should be addressed to a supervisor, the Chief Executive Officer, the President or the Senior Vice President-Finance. Any employee, officer or director who becomes aware of any existing or potential violation of laws, rules, regulations or the Code should promptly notify the Chief Executive Officer, the President, the Senior Vice President-Finance or the Chairman of the Audit Committee. Reports may be made orally or in writing and may be made anonymously and will be kept confidential to the extent permitted. Written reports should be sent to the attention of the Chief Executive Officer, the President or the Senior Vice President-Finance, at P.O. Box 21147, Houston, Texas 77226. In addition, reports may be made to the Chairman of the Audit Committee by calling (713) 622-7000 or sent to Three Greenway Plaza, Suite 1750, Houston, TX 77046.

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

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

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

**SUBSIDIARIES**

FRIEDMAN/DECATUR, L.L.C.

Alabama Limited Liability Company

100% owned

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-37887) pertaining to the 1996 Stock Option Plan, the 1995 Non-Employee Director Plan, as amended, and the 1989 Incentive Stock Option Plan, as amended, and in the Registration Statement (Form S-8 No. 333-47262) pertaining to the 2000 Non-Employee Director Stock Plan of Friedman Industries, Incorporated of our report dated June 26, 2009, relating to our audits of the consolidated financial statements and the financial statement schedule, which appear in the Annual Report on Form 10-K of Friedman Industries, Incorporated for the fiscal year ended March 31, 2009.

/s/ HEIN & ASSOCIATES LLP

Houston, Texas  
June 26, 2009

I, William E. Crow, certify that:

1. I have reviewed this report on Form 10-K of Friedman Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 26, 2009

/s/ WILLIAM E. CROW  
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*Chief Executive Officer and President*

I, Ben Harper certify that:

1. I have reviewed this report on Form 10-K of Friedman Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 26, 2009

/s/ BEN HARPER

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Senior Vice President — Finance and  
Secretary/Treasurer

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

**Not Filed Pursuant to the Securities Exchange Act of 1934**

In connection with the Annual Report of Friedman Industries, Incorporated (the "Company") on Form 10-K for the fiscal year ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William E. Crow, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirement of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: \_\_\_\_\_ /s/ WILLIAM E. CROW  
*Chief Executive Officer and President*

Dated: June 26, 2009

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

**Not Filed Pursuant to the Securities Exchange Act of 1934**

In connection with the Annual Report of Friedman Industries, Incorporated (the "Company") on Form 10-K for the fiscal year ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ben Harper, Senior Vice President-Finance and Secretary/Treasurer for the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirement of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: \_\_\_\_\_  
/s/ BEN HARPER  
Senior Vice President — Finance  
and Secretary/Treasurer

Dated: June 26, 2009