

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

FORM 10-K

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2015
- 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)

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

19747 Hwy 59 N Suite 200, Humble, TX
(Address of principal executive offices)

77338
(Zip Code)

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

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

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

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 that 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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No _____

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

X

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, 2014 (computed by reference to the closing price on such date) was approximately \$53,123,000.

The number of shares of the registrant's Common Stock outstanding at June 11, 2015 was 6,799,444 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders of Friedman Industries, Incorporated for the fiscal year ended March 31, 2015 — Part II.

Proxy Statement for the 2015 Annual Meeting of Shareholders of Friedman Industries, Incorporated — Part III.

PART I

Item 1. Business

Friedman Industries, Incorporated (the “Company”), a Texas corporation incorporated in 1965, is 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, 2015, which financial statements are incorporated herein by reference in Item 8 hereof.

Coil Products

The Company purchases prime 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 owns and operates two coil processing facilities located in Hickman, Arkansas (“Hickman”) and Decatur, Alabama (“Decatur”). Each facility operates a cut-to-length line and a steel temper mill. The cut-to-length lines are designed to level the steel and cut the material to prescribed lengths. The steel temper mills are designed to improve the flatness of the steel and its surface qualities. The Company’s processing machinery is heavy, mill-type equipment capable of processing 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.

The Hickman and Decatur facilities are functionally equivalent with respect to machinery, equipment, capacities and products produced. The Company makes shipments of coil products based on which facility offers the desired product or, if the product is available at both facilities, based on other factors, such as customer location, freight conditions and the ability of the facility to fulfill the order on a timely basis.

The Company also purchases and markets non-standard hot-rolled steel coils through its XSCP Division (“XSCP”). XSCP routinely processes non-standard coils into flat, finished sheet and plate. XSCP operates from the Company’s Hickman and Decatur coil processing facilities and shares certain expenses and employees with Hickman and Decatur. In addition, Hickman and Decatur provide warehousing, processing and distribution services to XSCP.

The Company primarily purchases hot-rolled steel coils from steel mills operated by Nucor Steel Company (“NSC”) located near the Hickman and Decatur processing facilities. Loss of NSC as a source of coil supply could have a material adverse effect on the Company’s business.

The Company also processes customer-owned coils on a fee basis. Revenues generated from processing customer-owned coils are not material to the Company’s results of operations and financial condition.

Tubular Products

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

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 other recognized industry standards. TTP also employs various pipe processing equipment, including beveling machines, pipe handling equipment and other related machinery.

The Company is currently constructing a pipe-finishing facility in Lone Star, Texas that it expects to be completed and operational during the second quarter of fiscal 2016. The facility will focus primarily on threading and coupling oil country tubular goods.

In recent years, the Company has purchased steel coils from U.S. Steel Tubular Products, Inc. (“USS”), an affiliate of United States Steel Corporation, converted these coils into line and oil country pipe, and sold this pipe to USS pursuant to orders received from USS. The Company has also purchased pipe from USS and marketed it to other customers for structural and other miscellaneous applications. In addition, the Company manufactures pipe and markets it to other customers for structural and other miscellaneous applications.

Loss of USS as a supplier or customer could have a material 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.

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>2015</u>	<u>2014</u>
Coil Products	67%	57%
Tubular Products	33%	43%

Coil Products. The Company sells coil products and processing services to approximately 150 customers located primarily in the midwestern, southwestern and southeastern regions of the United States. The Company’s principal customers for these products and services are steel distributors and customers fabricating steel products such as storage tanks, steel buildings, farm machinery and equipment, construction equipment, transportation equipment, conveyors and other similar products. During the fiscal years ended March 31, 2015 and 2014, two and five customers of coil products, respectively, accounted for approximately 25% of the Company’s total sales. Sales of coil products to Trinity Industries, Inc. accounted for approximately 21% and 14% of the Company’s total sales in fiscal 2015 and 2014, respectively.

The Company sells substantially all of its coil products through its own sales force. At March 31, 2015, 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 makes regular commitments with many of its larger customers to supply minimum quantities of steel during agreed upon periods of time.

Tubular Products. The Company sells its tubular products nationally to approximately 140 customers. The Company’s principal customers for these products are steel and pipe distributors, piling contractors and, historically, USS. During the fiscal years ended March 31, 2015 and 2014, twenty-six and seven customers of tubular products, respectively, accounted for approximately 25% of the Company’s total sales. In fiscal 2015, no individual tubular customer accounted for 10% or more of the Company’s total sales. Sales of pipe to USS accounted for approximately 15% of the Company’s total sales in fiscal 2014. 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 a sales manager and two 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, 2015, the Company had approximately 100 full-time employees.

Executive Officers of the Company

The following table sets forth as of March 31, 2015, for each executive officer of the Company, the name, age, officer positions and arrangements with other persons regarding his selection as an officer, if any, and the period during which such officer has served in such capacity:

<u>Name</u>	<u>Age</u>	<u>Position, Offices with the Company and Other Arrangements, if any</u>
William E. Crow	67	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
Thomas Thompson . . .	64	Senior Vice President — Sales and Marketing since 1995; formerly Vice President—Sales since 1990
Alex LaRue	29	Vice President — Secretary and Treasurer since 2014; formerly Assistant Vice President — Secretary and Treasurer since 2013; formerly Controller — Texas Tubular Products since 2011

Item 1A. Risk Factors

Not required.

Item 1B. Unresolved Staff Comments

Not required.

Item 2. Properties

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

<u>Location</u>	<u>Approximate Size</u>	<u>Ownership</u>
Lone Star, Texas		
Plant — Texas Tubular Products	154,000 sq. feet	Owned(1)
Offices — Texas Tubular Products	12,200 sq. feet	Owned(1)
Land — Texas Tubular Products	122.4 acres	Owned(1)
Longview, Texas		
Offices	2,600 sq. feet	Leased(2)
Humble, TX		
Offices	2,500 sq. feet	Leased(3)
Hickman, Arkansas		
Plant and Warehouse — Coil Products	42,600 sq. feet	Owned(1)
Offices — Coil Products	2,500 sq. feet	Owned(1)
Land — Coil Products	26.2 acres	Owned(1)
Decatur, Alabama		
Plant and Warehouse — Coil Products	48,000 sq. feet	Owned(1)
Offices — Coil Products	2,000 sq. feet	Owned(1)
Land — Coil Products	47.3 acres	Owned(1)

- (1) All of the Company’s owned real properties, plants and offices are held in fee and are not subject to any mortgage or deed of trust.
- (2) The office lease is with a non-affiliated party, expires on April 30, 2018, and provides for an annual rental payment by the Company of \$32,736.

(3) The office lease is with a non-affiliated party, expires on December 31, 2016, and provides for an annual rental payment by the Company of \$37,826.

Item 3. Legal Proceedings

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

PART II

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

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

Reference is hereby made to the sections of the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2015, 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 29, 2015 was 250.

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, 2015, 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, 2015, are hereby incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2015 and 2014

Consolidated Statements of Earnings — Years ended March 31, 2015 and 2014

Consolidated Statements of Stockholders' Equity — Years ended March 31, 2015 and 2014

Consolidated Statements of Cash Flows — Years ended March 31, 2015 and 2014

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, 2015.

The following supplementary schedule for the Company for the year ended March 31, 2015, is included elsewhere in this report:

Schedule II — Valuation and Qualifying Accounts

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

Management's report on internal control over financial reporting appears on page 14 of the Company's Annual Report to Shareholders for the year ended March 31, 2015, which is incorporated herein by reference. This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the SEC that permit the Company to provide only management's report in this Annual Report.

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Except as otherwise set forth below, information with respect to Item 10 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2015 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2015 fiscal year.

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

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

Item 11. Executive Compensation

Information with respect to Item 11 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2015 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2015 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 plans as of March 31, 2015.

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 2015 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2015 fiscal year.

Item 13. Certain Relationships, Related Transactions and Director Independence

Information with respect to Item 13 is hereby incorporated herein by reference from the Company's proxy statement in respect of the 2015 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2015 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 2015 Annual Meeting of Shareholders, definitive copies of which are expected to be filed with the SEC on or before 120 days after the end of the Company's 2015 fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents included in this report

1. Financial Statements

The following financial statements and notes thereto of the Company are included in the Company's Annual Report to Shareholders for the fiscal year ended March 31, 2015, which is incorporated herein by reference:

Consolidated Balance Sheets — March 31, 2015 and 2014

Consolidated Statements of Earnings — Years ended March 31, 2015 and 2014

Consolidated Statements of Stockholders' Equity — Years end March 31, 2015 and 2014

Consolidated Statements of Cash Flows — Years ended March 31, 2015 and 2014

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

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

Schedule II — Valuation and Qualifying Accounts

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

3. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
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).
**10.1	— Credit Agreement referenced in the Company's Current Report on Form 8-K filed on May 14, 2015.
**10.2	— Line of Credit Note referenced in the Company's Current Report on Form 8-K filed on May 14, 2015.
**10.3	— Negative Pledge Agreement referenced in the Company's Current Report on Form 8-K filed on May 14, 2015.
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**14.1	— Friedman Industries, Incorporated Code of Conduct and Ethics.
**21.1	— List of Subsidiaries.
**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 Alex LaRue.

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**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.
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**101.INS	— XBRL Instance Document.
**101.SCH	— XBRL Taxonomy Schema Document.
**101.CAL	— XBRL Calculation Linkbase Document.
**101.DEF	— XBRL Definition Linkbase Document.
**101.LAB	— XBRL Label Linkbase Document.
**101.PRE	— XBRL Presentation Linkbase Document.

** Filed herewith.

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: Alex LaRue, Vice President — Secretary and Treasurer, Friedman Industries, Incorporated, P.O. Box 62388, Houston, Texas 77205.

SIGNATURES

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

FRIEDMAN INDUSTRIES, INCORPORATED

By: /s/ William E. Crow

William E. Crow
*Chief Executive Officer and
President*

Dated: June 11, 2015

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> /s/ WILLIAM E. CROW </u> William E. Crow	Chief Executive Officer and President and Director (Principal Executive Officer)	June 11, 2015
<u> /s/ ALEX LARUE </u> Alex LaRue	Vice President – Secretary and Treasurer (Principal Financial Officer)	June 11, 2015
<u> /s/ DURGA D. AGRAWAL </u> Durga D. Agrawal	Director	June 11, 2015
<u> /s/ CHARLES W. HALL </u> Charles W. Hall	Director	June 11, 2015
<u> /s/ ALAN M. RAUCH </u> Alan M. Rauch	Director	June 11, 2015
<u> /s/ MAX REICHENTHAL </u> Max Reichenthal	Director	June 11, 2015
<u> /s/ JOEL SPIRA </u> Joel Spira	Director	June 11, 2015
<u> /s/ JOE L. WILLIAMS </u> Joe L. Williams	Director	June 11, 2015

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

FRIEDMAN INDUSTRIES, INCORPORATED

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions— Describe(B)</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts— Describe(A)</u>		
Year ended March 31, 2015					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	<u>\$27,276</u>	<u>\$ 4,306</u>	<u>\$484,451</u>	<u>\$488,757</u>	<u>\$27,276</u>
Year ended March 31, 2014					
Allowance for doubtful accounts receivable and cash discounts (deducted from related asset account)	<u>\$37,276</u>	<u>\$12,363</u>	<u>\$541,556</u>	<u>\$563,919</u>	<u>\$27,276</u>

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

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

EXHIBIT INDEX

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Credit Agreement

This agreement dated as of April 27, 2015 is between JPMorgan Chase Bank, N.A. (together with its successors and assigns, the “**Bank**”), whose address is 712 Main Street, Houston, TX 77002-3201, and Friedman Industries, Incorporated (individually, the “**Borrower**” and if more than one, collectively, the “**Borrowers**”), whose address is 19747 Highway 59 North, Ste. 200, Houston, TX 77338.

1. Credit Facilities.

1.1 Scope. This agreement governs Facility A, and, unless otherwise agreed to in writing by the Bank and the Borrower or prohibited by any Legal Requirement (as hereafter defined), governs the Credit Facilities as defined below. Advances under any Credit Facilities shall be subject to the procedures established from time to time by the Bank. Any procedures agreed to by the Bank with respect to obtaining advances, including automatic loan sweeps, shall not vary the terms or conditions of this agreement or the other Related Documents regarding the Credit Facilities.

1.2 Facility A (Line of Credit). The Bank has approved a credit facility to the Borrower in the principal sum not to exceed \$5,000,000.00 in the aggregate at any one time outstanding (“**Facility A**”). Credit under Facility A shall be repayable as set forth in a Line of Credit Note executed concurrently with this agreement, and any renewals, modifications, extensions, rearrangements, restatements thereof and replacements or substitutions therefor.

1.3 Borrowing Base. The aggregate principal amount of advances outstanding at any one time under the Line of Credit Note (and any and all renewals, modifications, extensions, rearrangements, restatements thereof and replacements or substitutions therefor) evidencing Facility A (the “**Aggregate Outstanding Amount**”) shall not exceed the Borrowing Base or the maximum principal amount then available under Facility A, whichever is less (the “**Maximum Available Amount**”). If at any time the Aggregate Outstanding Amount exceeds the Maximum Available Amount, the Borrower shall immediately pay the Bank an amount equal to such excess. “**Borrowing Base**” means the aggregate of:

A. 80% of the book value of all Eligible Accounts; plus

B. 50% of the lower of cost (determined using the first-in, first-out method of inventory accounting) or wholesale market value, as determined by the Bank, of all Eligible Inventory, not to exceed the amount calculated as the Eligible Accounts component of the Borrowing Base in “A” above.

2. Definitions and Interpretations.

2.1 Definitions. As used in this agreement, the following terms have the following respective meanings:

A. “Account” means a trade account, account receivable, other receivable, or other right to payment for goods sold or leased or services rendered.

B. “Account Debtor” means the Person obligated on an Account.

C. “Affiliate” means any Person which, directly or indirectly Controls or is Controlled by or under common Control with, another Person, and any director or officer thereof. The Bank is under no circumstances to be deemed an Affiliate of the Borrower or any of its Subsidiaries.

D. “Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption.

E. “Authorizing Documents” means certificates of authority to transact business, certificates of good standing, borrowing resolutions, appointments, officer’s certificates, certificates of incumbency, and other documents which empower and authorize or evidence the power and authority of all Persons (other than the Bank) executing any Related Document or their representatives to execute and deliver the Related Documents and perform the Person’s obligations thereunder.

F. “Collateral” means all Property, now or in the future subject to any Lien in favor of the Bank, securing or intending to secure, any of the Liabilities.

G. “Control” as used with respect to any Person, means the power to direct or cause the direction of, the management and policies of that Person, directly or indirectly, whether through the ownership of Equity Interests, by contract, or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

H. “Credit Facilities” means all extensions of credit from the Bank to the Borrower, whether now existing or hereafter arising, including but not limited to those described in Section 1, if any, and those extended contemporaneously with this agreement.

I. “Distributions” means all dividends and other distributions made to any Equity Owners, other than salary, bonuses, and other compensation for services expended in the current accounting period.

J. “Eligible Accounts” means, at any time, all of the Borrower’s Accounts in which the Bank has a first priority continuing perfected Lien and which are earned and invoiced within thirty (30) days of being earned and which contain selling terms and conditions satisfactory to the Bank, are payable on ordinary trade terms, and are not evidenced by a promissory note, other instrument or chattel paper. The net amount of any Eligible Account against which the Borrower may borrow shall exclude all returns, discounts, credits, and offsets of any nature. Unless otherwise agreed to by the Bank in writing, Eligible Accounts do not include Accounts: (1) which are not owned by the Borrower free and clear of all Liens, constructive trust, statutory priorities not in favor of the Bank, and claims of Persons other than the Bank; (2) with respect to which the Account Debtor is an Affiliate of the Borrower or otherwise affiliated with or related to the Borrower, including without limitation, any employee, officer, director, Equity Owner or agent of the Borrower; (3) with respect to which goods are placed on consignment, guaranteed sale, bill-and-hold, sale-and-return, sale on approval, cash-on-delivery or other terms by reason of which the payment by the Account Debtor may be conditional; (4) with respect to which the Account Debtor is not a resident of the United States, except to the extent such Accounts are otherwise Eligible Accounts and are supported by insurance, bonds or other assurances satisfactory to the Bank; (5) subject to the U.S. Office of Foreign Asset Control Special Designated Nationals and Blocked Person’s List, or with respect to which the Account Debtor is otherwise a Person with whom the Borrower or the Bank is prohibited from doing business by any applicable Legal Requirement; (6) which are not payable in U.S. Dollars; (7) with respect to which the Borrower is or may become liable to the Account Debtor for goods sold or services rendered by the Account Debtor to the Borrower; (8) which are subject to dispute, counterclaim, deduction, withholding, defense, or setoff; (9) with respect to which the goods have not been shipped or delivered, or the services have not been rendered, to the Account Debtor, or which otherwise constitute pre-billed Accounts; (10) which constitute retainage, or are bonded Accounts; (11) with respect to which the Bank determines the creditworthiness, financial or business condition of the Account Debtor to be unsatisfactory; (12) of any Account Debtor who is the subject of any state or federal bankruptcy, insolvency, or debtor-in-relief acts, or who has had appointed a trustee, custodian, or receiver for the assets of such Account Debtor, or who has made an assignment for the benefit of creditors or has become insolvent or fails generally to pay its debts (including its payrolls) as such debts become due; (13) with respect to which the Account Debtor is the United States government or any department or agency of the United States; (14) otherwise determined to be ineligible by the Bank (15) which have not been paid in full within ninety (90) days from the due date; and (16) due from any one Account Debtor to the extent such Accounts constitute more than 15% of all Eligible Accounts. In no event will the balance of any Account of any single Account Debtor be eligible whenever the portion of the Accounts of such Account Debtor which have not been paid within ninety (90) days from the due date is in excess of 20% of the total amount outstanding on all Accounts of such Account Debtor.

K. “Eligible Inventory” means, at any time, all of the Borrower’s Inventory in which the Bank has a first priority continuing perfected Lien except Inventory which is: (1) not owned by it free and clear of all Liens except in favor of the Bank, and claims of Persons other than the Bank; (2) slow moving, obsolete, unsalable, damaged, defective, perishable, or unfit for

further processing; (3) work in process; (4) subject to consignment or otherwise in the possession of another Person, unless otherwise agreed to by the Bank in writing; (5) in transit or located outside of the United States; (6) identified to be purchased under a contract under which it has received, or is entitled to receive, an advance payment; (7) determined by the Bank to be ineligible due to licensing, intellectual property, or any Legal Requirements that would make it difficult to sell, lease or use such Inventory; (8) comprised of samples, returns, rejected items, re-work items, non-standard items, odd-lots, or repossessed goods; (9) produced in violation of applicable Legal Requirements, including the Fair Labor Standards Act and the regulations and orders of the Department of Labor; or (10) otherwise determined ineligible by the Bank; provided, however, that transportation and storage charges shall be excluded from amounts otherwise included in Eligible Inventory.

L. “Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

M. “Equity Owner” means a shareholder, partner, member, holder of a beneficial interest in a trust or other owner of any Equity Interests.

N. “GAAP” means generally accepted accounting principles in effect from time to time in the United States of America, consistently applied.

O. “Inventory” means raw materials, work in process, finished goods, merchandise, parts and supplies, of every kind and goods held for sale or lease or furnished under contracts of service and all documents of title, warehouse receipts, bills of lading, and all other documents of every type covering all or any part of the foregoing.

P. “Intangible Assets” means the aggregate amount of: (1) all assets classified as intangible assets under GAAP, including, without limitation, goodwill, trademarks, patents, copyrights, organization expenses, franchises, licenses, trade names, brand names, mailing lists, catalogs, excess of cost over book value of assets acquired, and bond discount and underwriting expenses; and (2) loans or advances to, investments in, or receivables from (i) any Affiliate, officer, director, employee, Equity Owner or agent of the Borrower or (ii) any Person if such loan, advance, investment or receivable is outside the Borrower’s ordinary course of business.

Q. “Legal Requirement” means any law, ordinance, decree, requirement, order, judgment, rule, Sanctions, regulation (or interpretation of any of the foregoing) of any foreign governmental authority, the United States of America, any state thereof, any political subdivision of any of the foregoing or any agency, department, commission, board, bureau, court or other tribunal having jurisdiction over the Bank, any Pledgor or any Obligor or any of its Subsidiaries or their respective Properties or any agreement by which any of them is bound.

R. “Liabilities” means all indebtedness, liabilities and obligations of every kind and character of the Borrower to the Bank, whether the obligations, indebtedness and liabilities are individual, joint and several, contingent or otherwise, now or hereafter existing, including, without limitation, all liabilities, interest, costs and fees, arising under or from any note, open account, overdraft, credit card, lease, Rate Management Transaction, letter of credit application, endorsement, surety agreement, guaranty, acceptance, foreign exchange contract or depository service contract, whether payable to the Bank or to a third party and subsequently acquired by the Bank, any monetary obligations (including interest) incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations, rearrangements, restatements, replacements or substitutions of any of the foregoing.

S. “Lien” means any mortgage, deed of trust, pledge, charge, encumbrance, security interest, collateral assignment or other lien or restriction of any kind.

T. “Notes” means all promissory notes, instruments and/or contracts now or hereafter evidencing the Credit Facilities.

U. “Obligor” means any Borrower, guarantor, surety, co-signer, endorser, general partner or other Person who may now or in the future be obligated to pay any of the Liabilities.

V. “Organizational Documents” means, with respect to any Person, certificates of existence or formation, documents establishing or governing the Person or evidencing or certifying that the Person is duly organized and validly existing in accordance with all applicable Legal Requirements, including all amendments, restatements, supplements or modifications to such certificates and documents as of the date of the Related Document referring to the Organizational Document and any and all future modifications thereto approved by the Bank.

W. “Permitted Investments” means (1) readily marketable direct obligations of the United States of America or any agency thereof with maturities of one year or less from the date of acquisition; (2) fully insured (if issued by a bank other than the Bank) certificates of deposit with maturities of one year or less from the date of acquisition issued by any commercial bank operating in the United States of America having capital and surplus in excess of \$500,000,000.00; and (3) commercial paper of a domestic issuer if at the time of purchase such paper is rated in one of the two highest rating categories of Standard and Poor’s Corporation or Moody’s Investors Service.

X. “Person” means any individual, corporation, partnership, limited liability company, joint venture, joint stock association, association, bank, business trust, trust, unincorporated organization, any foreign governmental authority, the United States of America, any state of the United States and any political subdivision of any of the foregoing or any other form of entity.

Y. “Pledgor” means any Person providing Collateral.

Z. “Property” means any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

AA. “Rate Management Transaction” means any transaction (including an agreement with respect thereto) that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option, derivative transaction or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

BB. “Related Documents” means this agreement, the Notes, applications for letters of credit, all loan agreements, credit agreements, reimbursement agreements, security agreements, mortgages, deeds of trust, pledge agreements, assignments, guaranties, and any other instrument or document executed in connection with this agreement or with any of the Liabilities.

CC. “Sanctions” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State.

DD. “Sanctioned Country” means, at any time, a country or territory which is the subject or target of any Sanctions.

EE. “Sanctioned Person” means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person controlled by any such Person.

FF. “Subsidiary” means, as to any particular Person (the “parent”), a Person the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of the

date of determination, as well as any other Person of which fifty percent (50%) or more of the Equity Interests is at the time of determination directly or indirectly owned, Controlled or held, by the parent or by any Person or Persons Controlled by the parent, either alone or together with the parent.

GG. "Tangible Net Worth" means total assets less the sum of Intangible Assets and total liabilities.

2.2 Interpretations. Whenever possible, each provision of the Related Documents shall be interpreted in such manner as to be effective and valid under applicable Legal Requirements. If any provision of this agreement cannot be enforced, the remaining portions of this agreement shall continue in effect. In the event of any conflict or inconsistency between this agreement and the provisions of any other Related Documents, the provisions of this agreement shall control. Use of the term "including" does not imply any limitation on (but may expand) the antecedent reference. Any reference to a particular document includes all modifications, supplements, replacements, renewals or extensions of that document, but this rule of construction does not authorize amendment of any document without the Bank's consent. Section headings are for convenience of reference only and do not affect the interpretation of this agreement. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP. Whenever the Bank's determination, consent, approval or satisfaction is required under this agreement or the other Related Documents or whenever the Bank may at its option take or refrain from taking any action under this agreement or the other Related Documents, the decision as to whether or not the Bank makes the determination, consents, approves, is satisfied or takes or refrains from taking any action, shall be in the sole and exclusive discretion of the Bank, and the Bank's decision shall be final and conclusive.

3. Conditions Precedent to Extensions of Credit.

3.1 Conditions Precedent to Initial Extension of Credit under each of the Credit Facilities.

Before the first extension of credit governed by this agreement and any initial advance under any of the Credit Facilities, whether by disbursement of a loan, issuance of a letter of credit, or otherwise, the Borrower shall deliver to the Bank, in form and substance satisfactory to the Bank:

A. Loan Documents. The Notes, and as applicable, the letter of credit applications, reimbursement agreements, the security agreements, the pledge agreements, financing statements, mortgages or deeds of trust, the guaranties, the subordination agreements, and any other documents which the Bank may reasonably require to give effect to the transactions described in this agreement or the other Related Documents;

B. Organizational and Authorizing Documents. The Organizational Documents and Authorizing Documents of the Borrower and any other Persons (other than the Bank) executing the Related Documents in form and substance satisfactory to the Bank that at a minimum: (i) document the due organization, valid existence and good standing of the Borrower and every other Person (other than the Bank) that is a party to this agreement or any other Related Document; (ii) evidence that each Person (other than the Bank) which is a party to this agreement or any other Related Document has the power and authority to enter into the transactions described therein; and (iii) evidence that the Person signing on behalf of each Person that is a party to the Related Documents (other than the Bank) is duly authorized to do so; and

C. Liens. The termination, assignment or subordination, as determined by the Bank, of all Liens on the Collateral in favor of any secured party (other than the Bank).

3.2 Conditions Precedent to Each Extension of Credit. Before any extension of credit governed by this agreement, whether by disbursement of a loan, issuance of a letter of credit or otherwise, the following conditions must be satisfied:

A. Representations. The representations of the Borrower and any other parties, other than the Bank, in the Related Documents are true on and as of the date of the request for and funding of the extension of credit;

B. No Event of Default. No default, event of default or event that would constitute a default or event of default but for the giving of notice, the lapse of time or both, has occurred in any provision of this agreement, the Notes or any other Related Documents and is continuing or would result from the extension of credit;

C. Additional Approvals, Opinions, and Documents. The Bank has received any other approvals, opinions and documents as it may reasonably request; and

D. No Prohibition or Onerous Conditions. The making of the extension of credit is not prohibited by and does not subject the Bank, any Obligor, or any Subsidiary of the Borrower to any penalty or onerous condition under, any Legal Requirement.

4. Affirmative Covenants. The Borrower agrees to do, and cause each of its Subsidiaries to do, each of the following:

4.1 Insurance. Maintain insurance with financially sound and reputable insurers, with such insurance and insurers to be satisfactory to the Bank, covering its Property and business against those casualties and contingencies and in the types and amounts as are in accordance with sound business and industry practices, and furnish to the Bank, upon request of the Bank, reports on each existing insurance policy showing such information as the Bank may reasonably request.

4.2 Existence. Maintain its existence and business operations as presently in effect in accordance with all applicable Legal Requirements, pay its debts and obligations when due under normal terms, and pay on or before their due date, all taxes, assessments, fees and other governmental monetary obligations, except as they may be contested in good faith if they have been properly reflected on its books and, at the Bank's request, adequate funds or security has been pledged or reserved to insure payment.

4.3 Financial Records. Maintain proper books and records of account, in accordance with GAAP, and consistent with financial statements previously submitted to the Bank.

4.4 Inspection. Permit the Bank, its agents and designees to: (a) inspect and photograph its Property, to examine and copy files, books and records, and to discuss its business, operations, prospects, assets, affairs and financial condition with the Borrower's or its Subsidiaries' officers and accountants, at times and intervals as the Bank reasonably determines; (b) perform audits or other inspections of the Collateral, including the records and documents related to the Collateral; and (c) confirm with any Person any obligations and liabilities of the Person to the Borrower or its Subsidiaries. The Borrower will, and will cause its Subsidiaries to cooperate with any inspection or audit. The Borrower will pay the Bank the reasonable costs and expenses of any audit or inspection of the Collateral (including fees and expenses charged internally by the Bank for asset reviews) promptly after receiving the invoice.

4.5 Financial Reports. Furnish to the Bank whatever information, statements, books and records the Bank may from time to time reasonably request, including at a minimum:

A. Within forty-five (45) days after each quarterly period, the consolidated financial statements of the Borrower and its Subsidiaries prepared and presented in accordance with GAAP, including a balance sheet as of the end of that period, and income statement for that period, and, if requested at any time by the Bank, statements of cash flow and retained earnings for that period, all certified as correct by one of its authorized agents.

B. Within one hundred and twenty (120) days after and as of the end of each of its fiscal years, the consolidated financial statements of the Borrower and its Subsidiaries prepared and presented in accordance with GAAP, including a balance sheet and statements of income, cash flow and retained earnings, such financial statements to be audited by an independent certified public accountant of recognized standing satisfactory to the Bank.

C. Within thirty (30) days after and as of the end of each calendar month in which there was an outstanding principal balance under Facility A on the last day of such calendar month, and if none of the following lists have been provided or are otherwise due as of the end of

the immediately preceding calendar month, with any request for an advance under the Credit Facilities, the following lists, each certified as correct by one of its authorized agents:

(1) a list of Accounts, aged from date of invoice, and

(2) a list of Inventory, valued at the lower of cost (determined using the first-in, first-out method of inventory accounting) or wholesale market value.

D. A borrowing base certificate, in form and detail satisfactory to the Bank, along with such supporting documentation as the Bank may request, at the following times: (A) within thirty (30) days after and as of the end of each calendar month in which there was an outstanding principal balance under Facility A on the last day of such calendar month, and (B) if no borrowing base certificate has been provided or is otherwise due as of the end of the immediately preceding calendar month, with any request for an advance under the Credit Facilities.

4.6 Notices of Claims, Litigation, Defaults, etc. Promptly inform the Bank in writing of: (1) all existing and all threatened litigation, claims, investigations, administrative proceedings and similar actions or changes in Legal Requirements affecting it which could materially affect its business, assets, affairs, prospects or financial condition; (2) the occurrence of any event which gives rise to the Bank's option to terminate the Credit Facilities; (3) the institution of steps by it to withdraw from, or the institution of any steps to terminate, any employee benefit plan as to which it may have liability; (4) any reportable event or any prohibited transaction in connection with any employee benefit plan; (5) any additions to or changes in the locations of its businesses; and (6) any alleged breach by the Bank of any provision of this agreement or of any other Related Document.

4.7 Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between it and any other Person.

4.8 Title to Assets and Property. Maintain good and marketable title to all of its Properties, and defend them against all claims and demands of all Persons at any time claiming any interest in them.

4.9 Additional Assurances. Promptly make, execute and deliver any and all agreements, documents, instruments and other records that the Bank may request to evidence any of the Credit Facilities, cure any defect in the execution and delivery of any of the Related Documents, perfect any Lien, comply with any Legal Requirement applicable to the Bank or the Credit Facilities or describe more fully particular aspects of the agreements set forth or intended to be set forth in any of the Related Documents.

4.10 Employee Benefit Plans. Maintain each employee benefit plan as to which it may have any liability, in compliance with all Legal Requirements.

4.11 Banking Relationship. Establish and maintain its primary banking depository and disbursement relationship with the Bank.

4.12 Compliance Certificates. Provide the Bank, within forty-five (45) days after the end of each fiscal quarter, with a certificate executed by its chief financial officer, or other officer or an individual satisfactory to the Bank, certifying that, as of the date of the certificate, no default exists under any provision of this agreement or the other Related Documents.

4.13 Compliance with Anti-Corruption Laws and Sanctions. Maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

5. Negative Covenants.

5.1 Unless otherwise noted, the financial requirements set forth in this section will be computed in accordance with GAAP applied on a basis consistent with financial statements previously submitted by the Borrower to the Bank.

5.2 Without the written consent of the Bank, the Borrower will not and no Subsidiary of the Borrower will:

A. Distributions. Redeem, retire, purchase or otherwise acquire, directly or indirectly, any of its Equity Interests, return any contribution to an Equity Owner or, other than stock dividends and dividends paid to the Borrower, declare or pay any Distributions; provided, however, that if there is no existing default under this agreement or any other Related Document and to do so will not cause a default under this agreement or any other Related Document the Borrower may pay Distributions to its Equity Owners.

B. Sale of Equity Interests. Issue, sell or otherwise dispose of its Equity Interests, *except that* the Borrower shall be permitted to issue common stock and distribute it from treasury shares pursuant to an employee stock option program adopted by the Borrower, provided that (1) the aggregate issuance of shares shall be less than an amount that would result in a change in Control of the Borrower, and (2) such plan shall not obligate the Borrower to repurchase such options or shares except subject in all respects to compliance with section 5.2 A of this agreement.

C. Debt. Incur, contract for, assume, or permit to remain outstanding, indebtedness for borrowed money, installment obligations, or obligations under capital leases or operating leases, other than (1) unsecured trade debt incurred in the ordinary course of business, (2) indebtedness owing to the Bank, (3) indebtedness reflected in its latest financial statement furnished to the Bank prior to execution of this agreement and that is not to be paid with proceeds of borrowings under the Credit Facilities, and (4) indebtedness outstanding as of the date hereof that has been disclosed to the Bank in writing and that is not to be paid with proceeds of borrowings under the Credit Facilities.

D. Guaranties. Guarantee or otherwise become or remain secondarily liable on the undertaking of another, except for endorsement of drafts for deposit and collection in the ordinary course of business.

E. Liens. Create or permit to exist any Lien on any of its Accounts or Inventory except: existing Liens known to and approved by the Bank; Liens to the Bank; Liens incurred in the ordinary course of business securing current non-delinquent liabilities for taxes, worker's compensation, unemployment insurance, social security and pension liabilities.

F. Use of Proceeds. Use, or permit any proceeds of the Credit Facilities to be used, directly or indirectly, for: (1) any personal, family or household purpose; or (2) the purpose of "purchasing or carrying any margin stock" within the meaning of Federal Reserve Board Regulation U. At the Bank's request, it will furnish a completed Federal Reserve Board Form U-1. Request any Credit Facility or use, or permit any proceeds of the Credit Facilities to be used, directly or indirectly, by the Borrower or any of its Subsidiaries or its or their respective directors, officers, employees and agents: (1) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws; (2) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country; or (3) in any manner that would result in the violation of any Sanctions applicable to any party hereto.

G. Continuity of Operations. (1) Engage in any business activities substantially different from those in which it is presently engaged; (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other Person, change its name, dissolve, or sell any assets out of the ordinary course of business; (3) enter into any arrangement with any Person providing for the leasing by it of Property which has been sold or transferred by it to such Person; or (4) change its business organization, the jurisdiction under which its business organization is formed or organized, or its chief executive office, or any places of its businesses.

H. Limitation on Negative Pledge Clauses. Enter into any agreement with any Person other than the Bank which prohibits or limits its ability to create or permit to exist any Lien on any of its Accounts or Inventory, whether now owned or hereafter acquired.

I. Conflicting Agreements. Enter into any agreement containing any provision which would be violated or breached by the performance of its obligations under this agreement or any of the other Related Documents.

J. Transfer of Ownership. Permit any pledge of any Equity Interest in it or any sale or other transfer of any Equity Interest in it.

K. Limitation on Loans, Advances to and Investments in Others and Receivables from Others. Purchase, hold or acquire any Equity Interest or evidence of indebtedness of, make or permit to exist any loans or advances to, permit to exist any receivable from, or make or permit to exist any investment or acquire any interest whatsoever in, any Person, except: (1) extensions of trade credit to customers in the ordinary course of business on ordinary terms; (2) Permitted Investments; and (3) loans, advances, investments and receivables existing as of the date of this agreement that have been disclosed to and approved by the Bank in writing and that are not to be paid with proceeds of borrowings under the Credit Facilities.

L. Organizational Documents. Alter, amend or modify any of its Organizational Documents.

M. Tangible Net Worth. Permit at any time, its Tangible Net Worth to be less than \$57,000,000.00.

N. Leverage Ratio. Permit at any time, its ratio of (i) total liabilities to (ii) Tangible Net Worth to be greater than 1.00 to 1.00.

O. Net Income. Permit its net income for any "Test Period" (hereinafter defined in this subsection) to be less than \$1.00. As used in this subsection, the term "**Test Period**" means each period of four consecutive fiscal quarters.

P. Government Regulation. (1) Be or become subject at any time to any Legal Requirement or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits the Bank from making any advance or extension of credit to it or from otherwise conducting business with it, or (2) fail to provide documentary and other evidence of its identity as may be requested by the Bank at any time to enable the Bank to verify its identity or to comply with any applicable Legal Requirement, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

Q. Subsidiaries. Form, create or acquire any Subsidiary.

5.3 Financial Statement Calculations. The financial covenant(s) set forth in the Section entitled "Negative Covenants" or in any subsection thereof shall, except as may be otherwise expressly provided with respect to any particular financial covenant, be calculated on the basis of the Borrower's financial statements prepared on a consolidated basis with its Subsidiaries in accordance with GAAP. Except as may be otherwise expressly provided with respect to any particular financial covenant, if any financial covenant states that it is to be tested with respect to any particular period of time (which may be referred to therein as a "Test Period") ending on any test date (e.g., a fiscal month end, fiscal quarter end, or fiscal year end), then compliance with that covenant shall be required commencing with the period of time ending on the first test date that occurs after the date of this agreement (or, if applicable, of the amendment to this agreement which added or amended such financial covenant).

6. Representations.

6.1 Representations and Warranties by the Borrower. To induce the Bank to enter into this agreement and to extend credit or other financial accommodations under the Credit Facilities, the Borrower represents and warrants as of the date of this agreement and as of the date of each request for credit under the Credit Facilities that each of the following statements is and shall remain true and correct throughout the term of this agreement and until all Credit Facilities and all Liabilities under the Notes and other Related Documents are paid in full: (a) its principal residence or chief executive office is at the address shown above, (b) its name as it appears in this agreement is its exact name as it appears in its Organizational Documents, (c) the execution and delivery of this agreement and the other

Related Documents to which it is a party, and the performance of the obligations they impose, do not violate any Legal Requirement, conflict with any agreement by which it is bound, or require the consent or approval of any other Person, (d) this agreement and the other Related Documents have been duly authorized, executed and delivered by all parties (other than the Bank) and are valid and binding agreements of those Persons, enforceable according to their terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by general principles of equity, (e) all balance sheets, profit and loss statements, and other financial statements and other information furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the Persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates, (f) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) is pending or threatened against it, and no other event has occurred which may in any one case or in the aggregate materially adversely affect it or any of its Subsidiaries' financial condition, properties, business, affairs or operations, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by the Bank in writing, (g) all of its tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being contested by it in good faith and for which adequate reserves have been provided, (h) it is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended, (i) there are no defenses or counterclaims, offsets or adverse claims, demands or actions of any kind, personal or otherwise, that it could assert with respect to this agreement or the Credit Facilities, (j) it owns, or is licensed to use, all trademarks, trade names, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted, (k) the execution and delivery of this agreement and the Notes and the performance of the obligations they impose, if the Borrower is other than a natural Person (i) are within its powers, (ii) have been duly authorized by all necessary action of its governing body, and (iii) do not contravene the terms of its Organizational Documents or other agreement or document governing its affairs; and (l) with respect to the Borrowing Base, (i) each asset represented by it to be eligible for Borrowing Base purposes of this agreement conforms to the eligibility definitions set forth in this agreement (ii) all asset values delivered to the Bank will be true and correct, subject to immaterial variance; and be determined on a consistent accounting basis; (iii) except as agreed to the contrary by the Bank in writing, each asset is now and at all times hereafter will be in its physical possession and shall not be held by others on consignment, sale or approval, or sale or return; (iv) except as reflected in schedules delivered to the Bank, each asset is now and at all times hereafter will be of good and merchantable quality, free from defects; and (v) each asset is not now and will not at any time hereafter be stored with a bailee, warehouseman, or similar Person without the Bank's prior written consent, and in such event, it will concurrently at the time of bailment cause any such bailee, warehouseman, or similar Person to issue and deliver to the Bank, warehouseman receipts in the Bank's name evidencing the storage of the assets.

6.2 Representations and Warranties Regarding Anti-Corruption Laws and Sanctions. The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, its Subsidiaries and their respective officers and employees and to the knowledge of the Borrower its directors and agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (a) the Borrower, any Subsidiary or to the knowledge of the Borrower or such Subsidiary any of their respective directors, officers or employees, or (b) to the knowledge of the Borrower, any agent of the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person. No advance, letter of credit, use of proceeds or other transaction contemplated by the Credit Facilities will violate Anti-Corruption Laws or applicable Sanctions.

7. Default/Remedies.

7.1 Events of Default/Acceleration. If any of the following events occurs, the Notes shall become due immediately, without notice, at the Bank's option, and the Borrower hereby waives notice of intent to accelerate the maturity of the Notes and notice of acceleration of the Notes upon the occurrence of any of the following events:

A. Any Obligor fails to pay when due any of the Liabilities or any other debt to any Person, or any amount payable with respect to any of the Liabilities, or under any Note, any other Related Document, or any agreement or instrument evidencing other debt to any Person.

B. Any Obligor or any Pledgor: (i) fails to observe or perform or otherwise violates any other term, covenant, condition or agreement of any of the Related Documents; (ii) makes any materially incorrect or misleading representation, warranty, or certificate to the Bank; (iii) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Bank; or (iv) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by the Related Documents) and the effect of such default will allow the creditor to declare the debt due before its stated maturity.

C. In the event (i) there is a default under the terms of any Related Document, (ii) any Obligor terminates or revokes or purports to terminate or revoke its guaranty or any Obligor's guaranty becomes unenforceable in whole or in part, (iii) any Obligor fails to perform promptly under its guaranty, or (iv) any Obligor fails to comply with, or perform under any agreement, now or hereafter in effect, between the Obligor and the Bank, or any Affiliate of the Bank or their respective successors and assigns.

D. There is any loss, theft, damage, or destruction of any Collateral not covered by insurance.

E. Any event occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of any Obligor or any Subsidiary of any Obligor.

F. Any Obligor or any of its Subsidiaries or any Pledgor: (i) becomes insolvent or unable to pay its debts as they become due; (ii) makes an assignment for the benefit of creditors; (iii) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its Property; (iv) commences any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws; (v) conceals or removes any of its Property, with intent to hinder, delay or defraud any of its creditors; (vi) makes or permits a transfer of any of its Property, which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or (vii) makes a transfer of any of its Property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid.

G. A custodian, receiver, or trustee is appointed for any Obligor or any of its Subsidiaries or any Pledgor or for a substantial part of their respective Property.

H. Any Obligor or any of its Subsidiaries, without the Bank's written consent: (i) liquidates or is dissolved; (ii) merges or consolidates with any other Person; (iii) leases, sells or otherwise conveys a material part of its assets or business outside the ordinary course of its business; (iv) leases, purchases, or otherwise acquires a material part of the assets of any other Person, except in the ordinary course of its business; or (v) agrees to do any of the foregoing; provided, however, that any Subsidiary of an Obligor may merge or consolidate with any other Subsidiary of that Obligor, or with the Obligor, so long as the Obligor is the survivor.

I. Proceedings are commenced under any bankruptcy, reorganization, liquidation, or similar laws against any Obligor or any of its Subsidiaries or any Pledgor and remain undismissed for thirty (30) days after commencement; or any Obligor or any of its Subsidiaries or any Pledgor consents to the commencement of those proceedings.

J. Any judgment is entered against any Obligor or any of its Subsidiaries, or any attachment, seizure, sequestration, levy, or garnishment is issued against any Property of any Obligor or any of its Subsidiaries or of any Pledgor or any Collateral.

K. Any individual Obligor or Pledgor dies, or a guardian or conservator is appointed for any individual Obligor or Pledgor or all or any portion of their respective Property, or the Collateral.

L. Any material adverse change occurs in: (i) the reputation, Property, financial condition, business, assets, affairs, prospects, liabilities, or operations of any Obligor or any of its Subsidiaries; (ii) any Obligor's or Pledgor's ability to perform its obligations under the Related Documents; or (iii) the Collateral.

7.2 Remedies. At any time after the occurrence of a default, the Bank may do one or more of the following: (a) cease permitting the Borrower to incur any Liabilities; (b) terminate any commitment of the Bank evidenced by any of the Notes; (c) declare any of the Notes to be immediately due and payable, without notice of acceleration, intention to accelerate, presentment and demand or protest or notice of any kind, all of which are hereby expressly waived; (d) exercise all rights of setoff that the Bank may have contractually, by law, in equity or otherwise; and (e) exercise any and all other rights pursuant to any of the Related Documents, at law, in equity or otherwise.

A. Generally. The rights of the Bank under this agreement and the other Related Documents are in addition to other rights (including without limitation, other rights of setoff) the Bank may have contractually, by law, in equity or otherwise, all of which are cumulative and hereby retained by the Bank. Each Obligor agrees to stand still with regard to the Bank's enforcement of its rights, including taking no action to delay, impede or otherwise interfere with the Bank's rights to realize on any Collateral.

B. Bank's Right of Setoff. The Borrower grants to the Bank a security interest in the Deposits, and the Bank is authorized to setoff and apply, all Deposits, Securities and Other Property, and Bank Debt against any and all Liabilities. This right of setoff may be exercised at any time from time to time after the occurrence of any default, without prior notice to or demand on the Borrower and regardless of whether any Liabilities are contingent, unmatured or unliquidated. In this paragraph: (a) the term "**Deposits**" means any and all accounts and deposits of the Borrower (whether general, special, time, demand, provisional or final) at any time held by the Bank (including all Deposits held jointly with another, but excluding any IRA or Keogh Deposits, or any trust Deposits in which a security interest would be prohibited by any Legal Requirement); (b) the term "**Securities and Other Property**" means any and all securities and other personal Property of the Borrower in the custody, possession or control of the Bank, JPMorgan Chase & Co. or their respective Subsidiaries and Affiliates (other than Property held by the Bank in a fiduciary capacity); and (c) the term "**Bank Debt**" means all indebtedness at any time owing by the Bank, to or for the credit or account of the Borrower and any claim of the Borrower (whether individual, joint and several or otherwise) against the Bank now or hereafter existing.

8. Miscellaneous.

8.1 Notice. Any notices and demands under or related to this agreement shall be in writing and delivered to the intended party at its address stated in this agreement, and if to the Bank, at its main office if no other address of the Bank is specified in this agreement, by one of the following means: (a) by hand; (b) by a nationally recognized overnight courier service; or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand; (b) on the Delivery Day after the day of deposit with a nationally recognized courier service; or (c) on the third Delivery Day after the notice is deposited in the mail. "**Delivery Day**" means a day other than a Saturday, a Sunday or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of the change in the manner provided in this provision.

8.2 Statements. The Bank may from time to time provide the Borrower with account statements or invoices with respect to any of the Liabilities ("Statements"). The Bank is under no duty or obligation to provide Statements, which, if provided, will be solely for the Borrower's convenience. Statements may contain estimates of the amounts owed during the relevant billing period, whether of principal, interest, fees or other Liabilities. If the Borrower pays the

full amount indicated on a Statement on or before the due date indicated on such Statement, the Borrower shall not be in default of payment with respect to the billing period indicated on such Statement; provided, that acceptance by the Bank of any payment that is less than the total amount actually due at that time (including but not limited to any past due amounts) shall not constitute a waiver of the Bank's right to receive payment in full at another time.

- 8.3 No Waiver.** No delay on the part of the Bank in the exercise of any right or remedy waives that right or remedy. No single or partial exercise by the Bank of any right or remedy precludes any other future exercise of it or the exercise of any other right or remedy. The making of an advance during the existence of any default or subsequent to the occurrence of a default or when all conditions precedent have not been met shall not constitute a waiver of the default or condition precedent. No waiver or indulgence by the Bank of any default is effective unless it is in writing and signed by the Bank, nor shall a waiver on one occasion bar or waive that right on any future occasion.
- 8.4 Integration; Severability.** This agreement, the Notes, and the other Related Documents embody the entire agreement and understanding between the Borrower and the Bank and supersede all prior agreements and understandings relating to their subject matter. If any one or more of the obligations of the Borrower under this agreement, the Notes, or the other Related Documents or any provision thereof is held to be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Borrower and the remaining provisions shall not in any way be affected or impaired; and the invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of such obligations or provisions in any other jurisdiction.
- 8.5 Joint and Several Liability.** Each party executing this agreement as the Borrower is individually, jointly and severally liable under this agreement.
- 8.6 Governing Law and Venue.** This agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this agreement may be brought by the Bank in any state or federal court located in the State of Texas, as the Bank in its sole discretion may elect. By the execution and delivery of this agreement, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of Texas is not a convenient forum or the proper venue for any such suit, action or proceeding.
- 8.7 Survival of Representations and Warranties.** The Borrower understands and agrees that in extending the Credit Facilities, the Bank is relying on all representations, warranties, and covenants made by the Borrower in this agreement or in any certificate or other instrument delivered by the Borrower to the Bank under this agreement or in any of the other Related Documents. The Borrower further agrees that regardless of any investigation made by the Bank, all such representations, warranties and covenants will survive the making of the Credit Facilities and delivery to the Bank of this agreement, shall be continuing in nature, and shall remain in full force and effect until such time as the Liabilities shall be paid in full.
- 8.8 Non-Liability of the Bank.** The relationship between the Borrower on one hand and the Bank on the other hand shall be solely that of borrower and lender. The Bank shall have no fiduciary responsibilities to the Borrower. The Bank undertakes no responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.
- 8.9 Indemnification of the Bank.** The Borrower agrees to indemnify, defend and hold the Bank, its parent companies, Subsidiaries, Affiliates, their respective successors and assigns and each of their respective shareholders, directors, officers, employees and agents (collectively, the "**Indemnified Persons**") harmless from any and against any and all loss, liability, obligation, damage, penalty, judgment, claim, deficiency, expense, interest, penalties, attorneys' fees (including the fees and expenses of any attorneys engaged by the Indemnified Person) and amounts paid in settlement ("**Claims**") to which any Indemnified Person may become subject arising out of or relating to the Credit Facilities, the Liabilities under this agreement or any other Related Documents or the Collateral, **including any**

Claims resulting from any Indemnified Person's own negligence, except to the limited extent that the Claims are proximately caused by the Indemnified Person's gross negligence or willful misconduct. The indemnification provided for in this paragraph shall survive the termination of this agreement and shall not be affected by the presence, absence or amount of or the payment or nonpayment of any claim under, any insurance.

8.10 Counterparts. This agreement may be executed in multiple counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts, taken together, shall constitute one and the same agreement.

8.11 Advice of Counsel. The Borrower acknowledges that it has been advised by counsel, or had the opportunity to be advised by counsel, in the negotiation, execution and delivery of this agreement and any other Related Documents.

8.12 Recovery of Additional Costs. If the imposition of or any change in any Legal Requirement, or the interpretation or application of any thereof by any court or administrative or governmental authority (including any request or policy not having the force of law) shall impose, modify, or make applicable any taxes (except federal, state, or local income or franchise taxes imposed on the Bank), reserve requirements, liquidity requirements, capital adequacy requirements, Federal Deposit Insurance Corporation (FDIC) deposit insurance premiums or assessments, or other obligations which would (A) increase the cost to the Bank for extending, maintaining or funding the Credit Facilities, (B) reduce the amounts payable to the Bank under the Credit Facilities, or (C) reduce the rate of return on the Bank's capital as a consequence of the Bank's obligations with respect to the Credit Facilities, then the Borrower agrees to pay the Bank such additional amounts as will compensate the Bank therefor, within five (5) days after the Bank's written demand for such payment. The Bank's demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by the Borrower, which explanation and calculations shall be conclusive in the absence of manifest error.

8.13 Expenses. To the extent not prohibited by applicable Legal Requirements and whether or not the transactions contemplated by this agreement are consummated, the Borrower is liable to the Bank and agrees to pay on demand all reasonable costs and expenses of every kind incurred (or charged by internal allocation) in connection with the negotiation, preparation, execution, filing, recording, amendment, modification, supplementing and waiver of this agreement and the Related Documents, the making, servicing and collection of the Credit Facilities and the realization on any Collateral and any other amounts owed under this agreement or the Related Documents, including without limitation reasonable attorneys' fees and court costs. These costs and expenses include without limitation any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding involving any Obligor, Pledgor, or Property of any Obligor, Pledgor, or Collateral. The obligations of the Borrower under this section shall survive the termination of this agreement.

8.14 Reinstatement. The Borrower agrees that to the extent any payment or transfer is received by the Bank in connection with the Liabilities, and all or any part of the payment or transfer is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid or transferred by the Bank or paid or transferred over to a trustee, receiver or any other entity, whether under any proceeding or otherwise (any of those payments or transfers is hereinafter referred to as a "**Preferential Payment**"), then this agreement and the Notes shall continue to be effective or shall be reinstated, as the case may be, even if all those Liabilities have been paid in full and whether or not the Bank is in possession of the Notes and whether any of the Notes has been marked, paid, released or cancelled, or returned to the Borrower and, to the extent of the payment, repayment or other transfer by the Bank, the Liabilities or part intended to be satisfied by the Preferential Payment shall be revived and continued in full force and effect as if the Preferential Payment had not been made. The obligations of the Borrower under this section shall survive the termination of this agreement.

8.15 Assignments. The Borrower agrees that the Bank and its Affiliates may at any time work together and share any information about the Borrower and its Affiliates and their relationships with the Bank or any of its Affiliates or their successors, with and among the

Bank or any of its Affiliates or their successors, or any purchaser or potential purchaser of any of the Notes or the other Liabilities, or any representative of any of the parties described in this sentence. The Borrower agrees that the Bank may at any time sell, assign or transfer one or more interests or participations in all or any part of its rights and obligations in the Notes to one or more purchasers whether or not related to the Bank.

8.16 Waivers. To the maximum extent not prohibited by applicable Legal Requirements, each Obligor waives (a) any right to receive notice of the following matters before the Bank enforces any of its rights: (i) any demand, diligence, presentment, dishonor and protest, or (ii) any action that the Bank takes regarding any Person, any Collateral, or any of the Liabilities, that it might be entitled to by law or under any other agreement; (b) any right to require the Bank to proceed against the Borrower, any other Obligor or any Collateral, or pursue any remedy in the Bank's power to pursue; (c) any defense based on any claim that any Obligor's obligations exceed or are more burdensome than those of the Borrower; (d) the benefit of any statute of limitations affecting liability of any Obligor or the enforcement hereof; (e) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities; and (f) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. Each Obligor consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or any part of any Collateral, to the addition of any other party, and to the release or discharge of, or suspension of any rights and remedies against, any Obligor. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver. No modification or waiver of any provision of the Notes is effective unless it is in writing and signed by the Person against whom it is being enforced. To the extent not prohibited by any Legal Requirement, each Obligor waives (a) all of its rights under Rule 31, Texas Rules of Civil Procedure, Chapter 43 of the Texas Civil Practice and Remedies Code, and Section 17.001 of the Texas Civil Practice and Remedies Code; (b) to the extent it is subject to the Texas Revised Partnership Act ("**TRPA**") or Section 152.306 of the Texas Business Organizations Code ("**BOC**"), compliance by the Bank with Section 3.05(d) of TRPA and Section 152.306(b) of BOC; and (c) if the Liabilities are secured by an interest in real Property, all of its rights under Sections 51.003, 51.004, and 51.005 of the Texas Property Code (as amended from time to time).

8.17 Time is of the Essence. Time is of the essence under this agreement and in the performance of every term, covenant and obligation contained herein.

8.18 Confidentiality. The Bank agrees that it will treat information provided by the Borrower or its representatives to the Bank (the "**Information**") as confidential; provided, however, that the Bank may disclose the Information (a) to its Affiliates and its and its Affiliates' directors, employees, officers, auditors, consultants, agents, counsel and advisors (such Affiliates and such Persons collectively, "**Representatives**"), it being understood that its Representatives shall be informed by the Bank of the confidential nature of such Information and be instructed to comply with the terms of this section to the same extent as is required of the Bank hereunder; (b) in response to a subpoena or other legal process, or as may otherwise be required by law, order or regulation, or upon the request or demand of any governmental or regulatory agency or authority having jurisdiction over the Bank or its Representatives or to defend or prosecute a claim brought against or by the Bank and/or its Representatives; (c) to actual and prospective assignees, actual and prospective participants, and actual and prospective swap counterparties, provided that all such participants, assignees or swap counterparties execute an agreement with the Bank containing provisions substantially the same as those contained in this section; (d) to holders of Equity Interests in the Borrower, other than holders of any Equity Interest in a publicly traded company; (e) to any Obligor; and (f) with the Borrower's consent. The restrictions contained in this section shall not apply to Information which (a) is or becomes generally available to the public other than as a result of a disclosure by the Bank or its Representatives in breach of this section, or (b) becomes available to the Bank or its Representatives from a source, other than the Borrower or one of its agents, who is not known to the Bank or its Representatives to be bound by any

obligations of confidentiality to the Borrower, or (c) was known to the Bank or its Representatives prior to its disclosure to the Bank or its Representatives by the Borrower or one of its agents or was independently developed by the Bank or its Representatives, or (d) was or is, after the date hereof, disclosed (or required to be disclosed) by the Borrower to the Bank or any of its Representatives under or in connection with any existing financing relationship between the Borrower and the Bank or any of its Representatives, the disclosure of which shall be governed by the agreements executed in connection with such financing relationship. Any Person required to maintain the confidentiality of the Information as provided in this section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

- 9. USA PATRIOT ACT NOTIFICATION.** The following notification is provided to the Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each Person that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for the Borrower: When the Borrower opens an account, if it is an individual the Bank will ask for its name, taxpayer identification number, residential address, date of birth, and other information that will allow the Bank to identify it, and, if it is not an individual the Bank will ask for its name, taxpayer identification number, business address, and other information that will allow the Bank to identify it. The Bank may also ask, if the Borrower is an individual, to see its driver's license or other identifying documents, and if it is not an individual, to see its Organizational Documents or other identifying documents.

- 10. WAIVER OF SPECIAL DAMAGES.** THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.
- 11. JURY WAIVER.** TO THE MAXIMUM EXTENT NOT PROHIBITED BY APPLICABLE LAW, THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE OTHER RELATED DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING DESCRIBED HEREIN.

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

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Address(es) for Notices:

19747 Highway 59 North, Ste. 200
Houston, TX 77338
Attn: Alex LaRue

Attn: William E. Crow

Address for Notices:

712 Main Street
Houston, TX 77002-3201
Attn: Bryan Bayliss

Borrower:

Friedman Industries, Incorporated

By: /s/ ALEX LARUE

Alex LaRue VP-Secretary & Treasurer
Printed Name Title

Date Signed: 5/5/2015

By: /s/ WILLIAM E. CROW

William E. Crow Pres/CEO
Printed Name Title

Date Signed: 5/5/2015

Bank:

JPMorgan Chase Bank, N.A.

By: /s/ BRYAN BAYLISS

Bryan Bayliss Authorized Officer
Printed Name Title

Date Signed: 5/8/2015



\$5,000,000.00

Date: April 27, 2015

Promise to Pay. On or before April 30, 2016, for value received, Friedman Industries, Incorporated (the “Borrower”) promises to pay to JPMorgan Chase Bank, N.A., whose address is 712 Main Street, Houston, TX 77002-3201 (the “Bank”) or order, in lawful money of the United States of America, the sum of Five Million and 00/100 Dollars (\$5,000,000.00) or so much thereof as may be advanced and outstanding, plus interest on the unpaid principal balance as provided below.

Interest Rate Definitions. As used in this Note, the following terms have the following respective meanings:

“Adjusted LIBOR Rate” means, with respect to a LIBOR Rate Advance for the relevant Interest Period, the sum of (i) the Applicable Margin plus (ii) the quotient of (a) the LIBOR Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period.

“Adjusted One Month LIBOR Rate” means, with respect to a CB Floating Rate Advance for any day, the sum of (i) 2.50% Per Annum plus (ii) the quotient of (a) the interest rate determined by the Bank by reference to the Page to be the rate at approximately 11:00 a.m. London time, on such date or, if such date is not a Business Day, on the immediately preceding Business Day for dollar deposits with a maturity equal to one (1) month, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to dollar deposits in the London interbank market with a maturity equal to one (1) month.

“Advance” means a LIBOR Rate Advance or a CB Floating Rate Advance and **“Advances”** means all LIBOR Rate Advances and all CB Floating Rate Advances under this Note.

“Applicable Margin” means with respect to any CB Floating Rate Advance, – 0.50% Per Annum and with respect to any LIBOR Rate Advance, 2.50% Per Annum.

“Business Day” means (i) with respect to the Adjusted One Month LIBOR Rate and any borrowing, payment or rate selection of LIBOR Rate Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Texas and/or New York for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day other than a Saturday, Sunday or any other day on which national banking associations are authorized to be closed.

“CB Floating Rate” means the Prime Rate; *provided* that the CB Floating Rate shall, on any day, not be less than the Adjusted One Month LIBOR Rate. The CB Floating Rate is a variable rate and any change in the CB Floating Rate due to any change in the Prime Rate or the Adjusted One Month LIBOR Rate is effective from and including the effective date of such change in the Prime Rate or the Adjusted One Month LIBOR Rate, respectively.

“CB Floating Rate Advance” means any borrowing under this Note when and to the extent that its interest rate is determined by reference to the CB Floating Rate.

“Interest Period” means, with respect to a LIBOR Rate Advance, a period of one (1), two (2) or three (3) month(s) commencing on a Business Day selected by the Borrower pursuant to this Note. Such Interest Period shall end on the day which corresponds numerically to such date one (1), two (2) or three (3) month(s) thereafter, as applicable, *provided, however*, that if there is no such numerically corresponding day in such first, second or third succeeding month(s), as applicable, such Interest Period shall end on the last Business Day of such first, second or third succeeding month(s), as applicable. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, *provided, however*, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

“LIBOR Rate” means with respect to any LIBOR Rate Advance for any Interest Period, the interest rate determined by the Bank by reference to Reuters Screen LIBOR01, formerly known as Page 3750 of the Moneyline Telerate Service (together with any successor or substitute, the

“**Service**”) or any successor or substitute page of the Service, providing rate quotations comparable to those currently provided on such page of the Service, as determined by the Bank from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market (the “**Page**”) to be the rate at approximately 11:00 a.m. London time, two Business Days prior to the commencement of the Interest Period for dollar deposits with a maturity equal to such Interest Period. If no LIBOR Rate is available to the Bank, the applicable LIBOR Rate for the relevant Interest Period shall instead be the rate determined by the Bank to be the rate at which the Bank offers to place U.S. dollar deposits having a maturity equal to such Interest Period with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period.

“**LIBOR Rate Advance**” means any borrowing under this Note when and to the extent that its interest rate is determined by reference to the Adjusted LIBOR Rate.

“**Prime Rate**” means the rate of interest Per Annum announced from time to time by the Bank as its prime rate. The Prime Rate is a variable rate and each change in the Prime Rate is effective from and including the date the change is announced as being effective. THE PRIME RATE IS A REFERENCE RATE AND MAY NOT BE THE BANK’S LOWEST RATE.

“**Principal Payment Date**” is defined in the paragraph entitled “Principal Payments” below.

“**Regulation D**” means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

“**Reserve Requirement**” means the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D.

Interest Rates. The Advance(s) evidenced by this Note may be drawn down and remain outstanding as up to five (5) LIBOR Rate Advances and/or a CB Floating Rate Advance. The Borrower shall pay interest to the Bank on the outstanding and unpaid principal amount of each CB Floating Rate Advance at the CB Floating Rate plus the Applicable Margin and each LIBOR Rate Advance at the Adjusted LIBOR Rate. Interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days, unless that calculation would result in a usurious interest rate, in which case interest will be calculated on the basis of a 365 or 366 day year, as the case may be. In no event shall the interest rate applicable to any Advance exceed the maximum rate allowed by law. Any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

Bank Records. The Bank shall, in the ordinary course of business, make notations in its records of the date, amount, interest rate and Interest Period of each Advance hereunder, the amount of each payment on the Advances, and other information. Such records shall, in the absence of manifest error, be conclusive as to the outstanding principal balance of and interest rate or rates applicable to this Note.

Notice and Manner of Electing Interest Rates on Advances. The Borrower shall give the Bank written notice (effective upon receipt) of the Borrower’s intent to draw down an Advance under this Note no later than 2:00 p.m. Central time, on the date of disbursement, if the full amount of the drawn Advance is to be disbursed as a CB Floating Rate Advance and no later than 11:00 a.m. Central time three (3) Business Days before disbursement, if any part of such Advance is to be disbursed as a LIBOR Rate Advance. The Borrower’s notice must specify: (a) the disbursement date, (b) the amount of each Advance, (c) the type of each Advance (CB Floating Rate Advance or LIBOR Rate Advance), and (d) for each LIBOR Rate Advance, the duration of the applicable Interest Period; *provided, however*, that the Borrower may not elect an Interest Period ending after the maturity date of this Note. Each LIBOR Rate Advance shall be in a minimum amount of One Hundred Thousand and 00/100 Dollars (\$100,000.00). All notices under this paragraph are irrevocable. By the Bank’s close of business on the disbursement date and upon fulfillment of the conditions set forth herein and in any other of the Related Documents, the Bank shall disburse the requested Advances in immediately available funds by crediting the amount of such Advances to the Borrower’s account with the Bank.

Conversion and Renewals. The Borrower may elect from time to time to convert one type of Advance into another or to renew any Advance by giving the Bank written notice no later than 2:00

p.m. Central time, on the date of the conversion into or renewal of a CB Floating Rate Advance and 11:00 a.m. Central time three (3) Business Days before conversion into or renewal of a LIBOR Rate Advance, specifying: (a) the renewal or conversion date, (b) the amount of the Advance to be converted or renewed, (c) in the case of conversion, the type of Advance to be converted into (CB Floating Rate Advance or LIBOR Rate Advance), and (d) in the case of renewals of or conversion into a LIBOR Rate Advance, the applicable Interest Period, provided that (i) the minimum principal amount of each LIBOR Rate Advance outstanding after a renewal or conversion shall be One Hundred Thousand and 00/100 Dollars (\$100,000.00); (ii) a LIBOR Rate Advance can only be converted on the last day of the Interest Period for the Advance; and (iii) the Borrower may not elect an Interest Period ending after the maturity date of this Note. All notices given under this paragraph are irrevocable. If the Borrower fails to give the Bank the notice specified above for the renewal or conversion of a LIBOR Rate Advance by 11:00 a.m. Central time three (3) Business Days before the end of the Interest Period for that Advance, the Advance shall automatically be converted to a CB Floating Rate Advance on the last day of the Interest Period for the Advance.

Interest Payments. Interest on the Advances shall be paid on the first day of each month, beginning with the first month following disbursement of the Advance, whether the Advance is a CB Floating Rate Advance or LIBOR Rate Advance.

Principal Payments. All outstanding principal and interest is due and payable in full on April 30, 2016, which is defined herein as the "Principal Payment Date".

Default Rate of Interest. After a default has occurred under this Note, whether or not the Bank elects to accelerate the maturity of this Note because of such default, all Advances outstanding under this Note, shall bear interest at a Per Annum rate equal to the interest rate being charged on each such Advance plus three percent (3.00%) from the date the Bank elects to impose such rate. Imposition of this rate shall not affect any limitations contained in this Note on the Borrower's right to repay principal on any LIBOR Rate Advance before the expiration of the Interest Period for each such Advance.

Prepayment/Funding Loss Indemnification. The Borrower may prepay all or any part of any CB Floating Rate Advance at any time without premium or penalty.

The Borrower shall pay the Bank amounts sufficient (in the Bank's reasonable opinion) to compensate the Bank for any loss, cost, or expense incurred as a result of:

A. Any payment of a LIBOR Rate Advance on a date other than the last day of the Interest Period for the Advance, including, without limitation, acceleration of the Advances by the Bank pursuant to this Note or the other Related Documents; or

B. Any failure by the Borrower to borrow or renew a LIBOR Rate Advance on the date specified in the relevant notice from the Borrower to the Bank.

Additional Costs. If any applicable domestic or foreign law, treaty, government rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall (a) affect the basis of taxation of payments to the Bank of any amounts payable by the Borrower under this Note or the other Related Documents (other than taxes imposed on the overall net income of the Bank by the jurisdiction or by any political subdivision or taxing authority of the jurisdiction in which the Bank has its principal office), or (b) impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, Federal Deposit Insurance Corporation deposit insurance premiums or assessments) against assets of, deposits with or for the account of, or credit extended by the Bank, or (c) impose any other condition with respect to this Note or the other Related Documents and the result of any of the foregoing is to increase the cost to the Bank of extending, maintaining or funding any LIBOR Rate Advance or to reduce the amount of any sum receivable by the Bank on any Advance, or (d) affect the amount of capital or liquidity required or expected to be maintained by the Bank (or any corporation controlling the Bank) and the Bank determines that the amount of such capital or liquidity is increased by or based upon the existence of the Bank's obligations under this Note or the other Related Documents and the increase has the effect of reducing the rate of return on the Bank's (or its controlling corporation's) capital as a consequence of the obligations under this Note or the other Related Documents to a level

below that which the Bank (or its controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then the Borrower shall pay to the Bank, from time to time, upon request by the Bank, additional amounts sufficient to compensate the Bank for the increased cost or reduced sum receivable. Whenever the Bank shall learn of circumstances described in this section which are likely to result in additional costs to the Borrower, the Bank shall give prompt written notice to the Borrower of the basis for and the estimated amount of any such anticipated additional costs. A statement as to the amount of the increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the Borrower, shall be conclusive and binding for all purposes absent manifest error in computation.

Illegality. If any applicable domestic or foreign law, treaty, rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall make it unlawful or impossible for the Bank to maintain or fund the LIBOR Rate Advances, then, upon notice to the Borrower by the Bank, the outstanding principal amount of the LIBOR Rate Advances, together with accrued interest and any other amounts payable to the Bank under this Note or the other Related Documents on account of the LIBOR Rate Advances shall be repaid (a) immediately upon the Bank's demand if such change or compliance with such requests, in the Bank's judgment, requires immediate repayment, or (b) at the expiration of the last Interest Period to expire before the effective date of any such change or request provided, however, that subject to the terms and conditions of this Note and the other Related Documents the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any LIBOR Rate Advance repaid in accordance with this section with a CB Floating Rate Advance in the same amount.

Inability to Determine Interest Rate. If the Bank determines that (a) quotations of interest rates for the relevant deposits referred to in the definition of Adjusted LIBOR Rate are not being provided for purposes of determining the interest rate on a LIBOR Rate Advance as provided in this Note, or (b) the relevant interest rates referred to in the definition of Adjusted LIBOR Rate do not accurately cover the cost to the Bank of making, funding or maintaining LIBOR Rate Advances, then the Bank shall at the Bank's option, give notice of such circumstances to the Borrower, whereupon (i) the obligation of the Bank to make LIBOR Rate Advances shall be suspended until the Bank notifies the Borrower that the circumstances giving rise to the suspension no longer exists, and (ii) the Borrower shall repay in full the then outstanding principal amount of each LIBOR Rate Advance, together with accrued interest, on the last day of the then current Interest Period applicable to the LIBOR Rate Advance, provided, however, that, subject to the terms and conditions of this Note and the other Related Documents, the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any LIBOR Rate Advance repaid in accordance with this section with an Advance bearing interest at the CB Floating Rate plus the Applicable Margin for CB Floating Rate Advances in the same amount. If the Bank determines on any day that quotations of interest rates for the relevant deposits referred to in the definition of Adjusted One Month LIBOR Rate are not being provided for purposes of determining the interest rate on any CB Floating Rate Advance on any day, then each CB Floating Rate Advance shall bear interest at the Prime Rate plus the Applicable Margin for CB Floating Rate Advances until the Bank determines that quotations of interest rates for the relevant deposits referred to in the definition of Adjusted One Month LIBOR Rate are being provided.

Obligations Due on Non-Business Day. Whenever any payment under this Note becomes due and payable on a day that is not a Business Day, if no default then exists under this Note, the maturity of the payment shall be extended to the next succeeding Business Day, except, in the case of a LIBOR Rate Advance, if the result of the extension would be to extend the payment into another calendar month, the payment must be made on the immediately preceding Business Day.

Matters Regarding Payment. The Borrower will pay the Bank at the Bank's address shown above or at such other place as the Bank may designate. Payments shall be allocated among principal, interest and fees at the discretion of the Bank unless otherwise agreed or required by applicable law. Acceptance by the Bank of any payment which is less than the payment due at the time shall not constitute a waiver of the Bank's right to receive payment in full at that time or any other time.

Authorization for Direct Payments (ACH Debits). To effectuate any payment due under this Note or under any other Related Documents, the Borrower hereby authorizes the Bank to initiate debit entries to Account Number xxxxx at the Bank and to debit the same to such account. This authorization to initiate debit entries shall remain in full force and effect until the Bank has received written notification of its termination in such time and in such manner as to afford the Bank a reasonable opportunity to act on it. The Borrower represents that the Borrower is and will be the owner of all funds in such account. The Borrower acknowledges: (1) that such debit entries may cause an overdraft of such account which may result in the Bank's refusal to honor items drawn on such account until adequate deposits are made to such account; (2) that the Bank is under no duty or obligation to initiate any debit entry for any purpose; and (3) that if a debit is not made because the above-referenced account does not have a sufficient available balance, or otherwise, the payment may be late or past due.

Late Fee. Any principal or interest which is not paid within 10 days after its due date (whether as stated, by acceleration or otherwise) shall be subject to a late payment charge of five percent (5.00%) of the total payment due, in addition to the payment of interest, up to the maximum amount of One Thousand Five Hundred and 00/100 Dollars (\$1,500.00) per late charge. The Borrower agrees to pay and stipulates that five percent (5.00%) of the total payment due is a reasonable amount for a late payment charge. The Borrower shall pay the late payment charge upon demand by the Bank or, if billed, within the time specified.

Purpose of Loan. The Borrower acknowledges and agrees that this Note evidences a loan for a business, commercial, agricultural or similar commercial enterprise purpose, and that no advance shall be used for any personal, family or household purpose. The proceeds of the loan shall be used only for the Borrower's working capital purposes.

Credit Facility. The Bank has approved a credit facility to the Borrower in a principal amount not to exceed the face amount of this Note. The credit facility is in the form of advances made from time to time by the Bank to the Borrower. This Note evidences the Borrower's obligation to repay those advances. The aggregate principal amount of debt evidenced by this Note is the amount reflected from time to time in the records of the Bank. Until the earliest to occur of maturity, any default, event of default, or any event that would constitute a default or event of default but for the giving of notice, the lapse of time or both, the Borrower may borrow, pay down and reborrow under this Note subject to the terms of the Related Documents.

Usury. The Bank does not intend to charge, collect or receive any interest that would exceed the maximum rate allowed by law. If the effect of any applicable law is to render usurious any amount called for under this Note or the other Related Documents, or if any amount charged or received with respect to this Note, or if any prepayment by the Borrower, results in the payment of any interest in excess of that permitted by law, then all excess amounts collected by the Bank shall be credited on the principal balance of this Note (or, if this Note and all other indebtedness arising under or pursuant to the other Related Documents shall have been paid in full, refunded to the Borrower), and the provisions of this Note and the other Related Documents shall immediately be deemed reformed and the amounts thereafter collectable reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law. All sums paid, or agreed to be paid, by the Borrower for the use, forbearance, or detention of money under this Note or the other Related Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits the Bank to contract for, charge or receive a greater amount of interest, the Bank will rely on federal law instead of the Texas Finance Code. To the extent that Chapter 303 of the Texas Finance Code is applicable to this Note, the "weekly ceiling" specified in Chapter 303 is the applicable ceiling.

Per Annum. In this Note the term "Per Annum" means for a year deemed to be comprised of 360 days, unless the calculation would result in a usurious interest rate, in which case interest will be calculated on the basis of a 365 or 366 day year, as the case may be.

Miscellaneous. This Note binds the Borrower and its successors, and benefits the Bank, its successors and assigns. Any reference to the Bank includes any holder of this Note. This Note is

subject to that certain Credit Agreement by and between the Borrower and the Bank, dated April 27, 2015, and all amendments, restatements and replacements thereof (the "Credit Agreement") to which reference is hereby made for a more complete statement of the terms and conditions under which the loan evidenced hereby is made and is to be repaid. The terms and provisions of the Credit Agreement are hereby incorporated and made a part hereof by this reference thereto with the same force and effect as if set forth at length herein. No reference to the Credit Agreement and no provisions of this Note or the Credit Agreement shall alter or impair the absolute and unconditional obligation of the Borrower to pay the principal and interest on this Note as herein prescribed. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. If any one or more of the obligations of the Borrower under this Note or any provision hereof is held to be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Borrower and the remaining provisions shall not in any way be affected or impaired; and the invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of such obligations or provisions in any other jurisdiction. Time is of the essence under this Note and in the performance of every term, covenant and obligation contained herein.

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

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Address: 19747 Highway 59 North, Ste. 200
Houston, TX 77338

Borrower:

Friedman Industries, Incorporated

By: /s/ ALEX LARUE

Alex LaRue VP-Secretary & Treasurer

Printed Name

Title

Date Signed: 5/5/2015

By: /s/ WILLIAM E. CROW

William E. Crow Pres/CEO

Printed Name

Title

Date Signed: 5/5/2015

The Bank is executing this Note for the purpose of acknowledging and agreeing to the notice given under §26.02 of the Texas Business and Commerce Code and the Bank's failure to execute or authenticate this Note will not invalidate this Note.

Bank:

JPMorgan Chase Bank, N.A.

By: /s/ BRYAN BAYLISS

Bryan Bayliss Authorized Officer

Printed Name

Title



Negative Pledge Agreement

Dated as of April 27, 2015

FOR VALUABLE CONSIDERATION, the undersigned, Friedman Industries, Incorporated (the "Pledgor"), agrees and pledges to JPMorgan Chase Bank, N.A., whose address is 712 Main Street, Houston, TX 77002-3201 (the "Bank"), its successors and assigns, that from the date of this agreement until the "Liabilities" are paid in full, the Pledgor will not, without the express written consent of the Bank, which consent shall be at the sole discretion of the Bank, create or permit to exist any mortgage, deed of trust, lien, assignment, pledge, title retention lien, or other encumbrance or security interest with respect to accounts receivable and inventory (the "Property"), except liens (i) securing indebtedness to the Bank, and (ii) of current taxes not delinquent or as security for taxes being contested in good faith, or in connection with worker's compensation insurance, unemployment insurance, or of mechanics and material men for sums not due or sums being contested in good faith for which adequate funds have been reserved.

Borrower. The term "Borrower" in this agreement means each and all of the following: Friedman Industries, Incorporated.

Liabilities. The term "Liabilities" in this agreement means all debts, obligations, indebtedness and liabilities of every kind and character of the Borrower whether individual, joint and several, contingent or otherwise, now or hereafter existing in favor of the Bank including without limitation, all liabilities, interest, costs and fees, arising under or from any note, open account, overdraft, credit card, lease, Rate Management Transaction, letter of credit application, endorsement, surety agreement, guaranty, acceptance, foreign exchange contract or depository service contract, whether payable to the Bank or to a third party and subsequently acquired by the Bank, any monetary obligations (including interest) incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations, rearrangements, restatements, replacements or substitutions of any of the foregoing. The term "Rate Management Transaction" in this agreement means any transaction (including an agreement with respect thereto) that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option, derivative transaction or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

The Pledgor covenants, represents and warrants to the Bank that the following statements are and will remain true until this agreement is terminated and the Liabilities are paid in full: (a) the Pledgor has disclosed to the Bank in writing any location(s) where the Property may be located; (b) the Property is free and clear of all encumbrances, liens, pledges, assignments, mortgages, deeds of trusts and security interests, and the Pledgor has not executed or recorded, or permitted others to execute or record, any security documents or financing statements or similar records relating to any of the Property (except, if applicable, to the Bank); and (c) all of the Property is titled in the Pledgor's legal name.

If the Pledgor defaults in the performance of any agreement set forth herein, the Bank may declare the Liabilities (notwithstanding any provision thereof) immediately due and payable, without demand, notice of intent to accelerate or notice of any kind.

No delay on the part of the Bank in the exercise of any power or right shall operate as a waiver thereof, nor shall any single or partial exercise of any power or right preclude other or further exercise thereof, or the exercise of any other power or right.

Any notices and demands under or related to this document shall be in writing and delivered to the intended party at its address stated herein, and if to the Bank, at its main office if no other address of the Bank is specified herein, by one of the following means: (a) by hand, (b) by a nationally recognized overnight courier service, or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand, (b) on the Delivery Day after the day of deposit with a nationally recognized courier service, or (c) on the third Delivery Day

after the notice is deposited in the mail. "Delivery Day" means a day other than a Saturday, a Sunday, or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of such change in the manner provided in this provision.

Time is of the essence under this agreement and in the performance of every term, covenant and obligation contained herein.

Governing Law and Venue. This agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to its laws of conflicts). The Pledgor agrees that any legal action or proceeding with respect to any of its obligations under this agreement may be brought by the Bank in any state or federal court located in the State of Texas, as the Bank in its sole discretion may elect. By the execution and delivery of this agreement, the Pledgor submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Pledgor waives any claim that the State of Texas is not a convenient forum or the proper venue for any such suit, action or proceeding.

WAIVER OF SPECIAL DAMAGES. THE PLEDGOR WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

JURY WAIVER. TO THE MAXIMUM EXTENT NOT PROHIBITED BY APPLICABLE LAW, THE PLEDGOR AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN OR AMONG THE PLEDGOR AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS DOCUMENT. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING DESCRIBED HEREIN.

This agreement shall be binding on the Pledgor and its successors and assigns, and shall inure to the benefit of the Bank and its successors and assigns.

THIS AGREEMENT REPRESENTS THE FINAL AGREEMENT OF THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

19747 Highway 59 North, Ste. 200
Houston, TX 77338

Fax/Telex No. (832) 644-9836

Fax/Telex No. (832) 644-9836

Pledgor:

Friedman Industries, Incorporated

By: /s/ ALEX LARUE
Alex LaRue VP-Secretary & Treasurer
Printed Name Title

Date Signed: 5/5/2015

By: /s/ WILLIAM E. CROW
William E. Crow Pres/CEO
Printed Name Title

Date Signed: 5/5/2015

The Bank is executing this agreement for the purpose of acknowledging and agreeing to the foregoing Jury Waiver, the notice given under §26.02 of the Texas Business and Commerce Code and the Bank's failure to execute or authenticate this agreement will not invalidate this agreement.

Bank:

JPMorgan Chase Bank, N.A.

By: /s/ BRYAN BAYLISS
Bryan Bayliss Authorized Officer
Printed Name Title

**THE COMPANY'S ANNUAL
REPORT TO SHAREHOLDERS FOR
THE FISCAL YEAR ENDED MARCH 31, 2015**

**FRIEDMAN
INDUSTRIES,
INCORPORATED**

**2015
ANNUAL REPORT**

FINANCIAL HIGHLIGHTS

	2015	2014
Net sales	\$108,322,780	\$116,149,022
Net earnings	\$ 382,330	\$ 1,712,926
Net earnings per share (Basic)	\$ 0.06	\$ 0.25
Cash dividends per share	\$ 0.07	\$ 0.20
Stockholders' equity	\$ 63,217,025	\$ 63,310,656
Working capital	\$ 47,466,244	\$ 52,075,979

TO OUR SHAREHOLDERS:

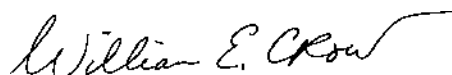
Friedman Industries, Incorporated (the "Company") experienced a challenging marketplace for the Company's products in fiscal 2015. The Company earned \$382,330 (\$0.06 per share diluted) on sales of \$108,322,780 in fiscal 2015 compared to earnings of \$1,712,926 (\$0.25 per share diluted) on sales of \$116,149,022 in fiscal 2014. The Company experienced improved sales for its coil product segment but decreased sales for its tubular product segment due to oversupply, foreign competition and a weakened U.S. energy industry.

The steel industry, as a whole, is cyclical. During fiscal 2015, the Company experienced volatility in the market for its products and services as a result of fluctuations in steel prices and a downswing in the U.S. energy industry during the second half of the year. Management is focused on balancing operational requirements with changing market conditions.

Construction continues on the pipe-finishing facility located in Lone Star, Texas as a component of the Company's Texas Tubular Products division. The facility will focus primarily on threading and coupling oil country tubular goods. The Company expects the facility to be completed and operational in the second quarter of fiscal 2016. The construction remains on budget with approximately \$7,131,000 capitalized toward the project as of March 31, 2015.

You are invited to attend the Annual Meeting of Shareholders scheduled to start at 11:00 a.m. (Central Time) on Friday, August 28, 2015, in the offices of Norton Rose Fulbright US LLP, 1301 McKinney, 51st Floor, Houston, Texas 77010.

Sincerely,



William E. Crow
Chief Executive Officer and President

OFFICERS

William E. Crow
*Chief Executive Officer and
President*

Thomas N. Thompson
Senior Vice President — Sales and Marketing

Benny B. Harper
Vice President

Ronald L. Burgerson
Vice President

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

Robert McCain
Vice President — Decatur Facility

Dale Ray
Vice President

Robert Sparkman
Vice President of Sales — Coil Divisions

Steve Teeter
Vice President — Hickman Facility

Alex LaRue
Vice President — Secretary and Treasurer

Charles W. Hall
Assistant Secretary

COMPANY OFFICES AND WEB SITE

CORPORATE OFFICE
P.O. Box 62388
Houston, Texas 77205
713-672-9433

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

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

WEB SITE
www.friedmanindustries.com

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

AUDITORS
Hein & Associates LLP
500 Dallas Street, Suite 2500
Houston, TX 77002

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

DIRECTORS

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
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Houston, Texas

Alan M. Rauch
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International, Inc.
(oilfield equipment sales)*
Houston, Texas

Max Reichenthal
*President, Texas Iron and Metal
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Spira & Company (accounting firm)*
Houston, Texas

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Consultants, LLC
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Houston, Texas

ANNUAL REPORT ON FORM 10-K

Shareholders may obtain without charge a copy of the Company's Annual Report on Form 10-K for the year ended March 31, 2015 as filed with the U.S. Securities and Exchange Commission. Written requests should be addressed to: Alex LaRue, Vice President — Secretary and Treasurer, Friedman Industries, Incorporated, P.O. Box 62388, Houston, Texas 77205.

DESCRIPTION OF BUSINESS

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

At its coil processing facilities in Hickman, Arkansas (“Hickman”) and Decatur, Alabama (“Decatur”), 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’s XSCP Division (“XSCP”) purchases and markets non-standard hot-rolled coils. XSCP routinely processes non-standard coils into flat, finished sheet and plate. XSCP operates at both Hickman and Decatur, which provide personnel, warehousing, processing and distribution services to XSCP. 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 also processes customer-owned coils on a fee basis. Revenues generated from processing customer-owned coils are not material to the Company’s results of operations and financial condition.

The Company sells its coil products and processing services directly through the Company’s own sales force to approximately 150 customers located primarily in the midwestern, southwestern and southeastern regions 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 (“TTP”) located in Lone Star, Texas, manufactures, purchases, processes and markets tubular products (“pipe”). The Company sells pipe nationally to approximately 140 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. The Company also purchases a substantial portion of its annual supply of pipe and coil material used in pipe production from USS. Loss of USS as a supplier or customer could have a material 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.

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

RANGE OF HIGH AND LOW SALES PRICES OF COMMON STOCK

	Fiscal 2015		Fiscal 2014	
	High	Low	High	Low
First Quarter	\$8.79	\$8.03	\$10.12	\$9.00
Second Quarter	8.80	7.91	10.36	9.56
Third Quarter	8.30	6.95	10.23	8.31
Fourth Quarter	7.24	6.05	9.00	7.87

CASH DIVIDENDS DECLARED PER SHARE OF COMMON STOCK

	Fiscal 2015	Fiscal 2014
First Quarter	\$.02	\$.08
Second Quarter .....	.02	.08
Third Quarter .....	.02	.02
Fourth Quarter .....	.01	.02

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

The approximate number of shareholders of record of the Company as of May 29, 2015 was 250.

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31	
	2015	2014
CURRENT ASSETS:		
Cash	\$ 2,225,924	\$ 15,081,024
Accounts receivable, net of allowances for bad debts and cash discounts of \$27,276 at March 31, 2015 and 2014	6,896,186	9,347,289
Inventories	40,850,666	35,288,559
Other	144,579	129,796
TOTAL CURRENT ASSETS	<u>50,117,355</u>	<u>59,846,668</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	1,082,331	1,082,331
Buildings and yard improvements	7,026,980	7,014,180
Machinery and equipment	30,690,049	30,691,636
Construction in progress	7,374,177	1,509,185
Less accumulated depreciation	<u>(30,656,226)</u>	<u>(28,934,601)</u>
	15,517,311	11,362,731
OTHER ASSETS:		
Deferred income tax asset	187,358	—
Cash value of officers' life insurance and other assets	1,136,000	1,075,000
TOTAL ASSETS	<u>\$ 66,958,024</u>	<u>\$ 72,284,399</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31	
	2015	2014
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 2,148,555	\$ 7,206,340
Dividends payable	67,994	135,989
Contribution to profit sharing plan	51,000	52,500
Employee compensation and related expenses	383,562	375,860
TOTAL CURRENT LIABILITIES	<u>2,651,111</u>	<u>7,770,689</u>
DEFERRED INCOME TAX LIABILITY	—	189,998
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	1,089,888	1,013,056
STOCKHOLDERS' EQUITY:		
Common stock, par value \$1:		
Authorized shares — 10,000,000		
Issued shares — 7,975,160 at March 31, 2015 and 2014, 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, 2015 and 2014, respectively)	(5,475,964)	(5,475,964)
Retained earnings	<u>31,714,155</u>	<u>31,807,786</u>
TOTAL STOCKHOLDERS' EQUITY	<u>63,217,025</u>	<u>63,310,656</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$66,958,024</u>	<u>\$72,284,399</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended March 31	
	2015	2014
Net sales	\$108,322,780	\$116,149,022
Costs and expenses:		
Cost of products sold	103,244,712	109,086,539
Selling, general and administrative	4,453,292	4,587,787
	<u>107,698,004</u>	<u>113,674,326</u>
	624,776	2,474,696
Interest and other income	61,040	62,012
EARNINGS BEFORE INCOME TAXES	<u>685,816</u>	<u>2,536,708</u>
Income taxes:		
Current	680,842	996,063
Deferred	(377,356)	(172,281)
	<u>303,486</u>	<u>823,782</u>
NET EARNINGS	<u>\$ 382,330</u>	<u>\$ 1,712,926</u>
Weighted average number of common shares outstanding:		
Basic	6,799,444	6,799,444
Diluted	6,799,444	6,799,444
Net earnings per share:		
Basic	\$ 0.06	\$ 0.25
Diluted	\$ 0.06	\$ 0.25

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings
BALANCE AT MARCH 31, 2013	\$7,975,160	29,003,674	(5,475,964)	31,454,749
Net earnings	—	—	—	1,712,926
Cash dividends (\$0.20)	—	—	—	(1,359,889)
BALANCE AT MARCH 31, 2014	7,975,160	29,003,674	(5,475,964)	31,807,786
Net earnings	—	—	—	382,330
Cash dividends (\$0.07)	—	—	—	(475,961)
BALANCE AT MARCH 31, 2015	<u>\$7,975,160</u>	<u>\$29,003,674</u>	<u>(\$ 5,475,964)</u>	<u>\$31,714,155</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31	
	2015	2014
OPERATING ACTIVITIES		
Net earnings	\$ 382,330	\$ 1,712,926
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	1,721,625	1,823,072
Deferred taxes	(377,356)	(172,281)
Change in post-retirement benefits other than pensions	76,832	69,907
Changes in operating assets and liabilities:		
Accounts receivable, net	2,451,103	(309,741)
Inventories	(5,562,107)	3,930,609
Other	(14,783)	(26,249)
Accounts payable and accrued expenses	(5,057,785)	(3,975,464)
Employee compensation and related expenses	7,702	(157,962)
Contribution to profit sharing plan	(1,500)	—
Net cash provided by (used in) operating activities	(6,373,939)	2,894,817
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(5,876,205)	(1,907,231)
Increase in cash value of officers' life insurance	(61,000)	(62,000)
Net cash used in investing activities	(5,937,205)	(1,969,231)
FINANCING ACTIVITIES		
Cash dividends paid	(543,956)	(1,767,856)
Net cash used in financing activities	(543,956)	(1,767,856)
Decrease in cash	(12,855,100)	(842,270)
Cash at beginning of year	15,081,024	15,923,294
Cash at end of year	\$ 2,225,924	\$15,081,024

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REVENUE RECOGNITION: Revenue from sales of products is recognized at the time that title and the risks and rewards of ownership pass, which is on the date of shipment. This date is when the terms of customers’ arrangements are met, the sales price is fixed or determinable and collection is reasonably assured.

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.

INVENTORIES: Inventories consist of prime coil, non-standard coil and tubular materials. Prime coil inventory consists primarily of raw materials, non-standard coil inventory consists primarily of raw materials and tubular inventory consists of both raw materials and finished goods. 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, 2015 and March 31, 2014, replacement cost exceeded LIFO cost by approximately \$4,139,000 and \$9,024,000, respectively. Cost for non-standard coil inventory is determined using the specific identification method. Cost for tubular inventory is determined using the weighted average method. 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	
	2015	2014
Prime coil inventory	\$ 8,419,340	\$ 7,685,177
Non-standard coil inventory	1,804,635	2,572,787
Tubular raw material	1,888,849	463,254
Tubular finished goods	28,737,842	24,567,341
	<u>\$40,850,666</u>	<u>\$35,288,559</u>

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

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

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company assesses recoverability by comparing the carrying amount of the asset to estimated undiscounted future cash

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

flows expected to be generated by the asset. If an asset is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset's carrying amount exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairments were necessary at March 31, 2015 or 2014.

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 no interest in fiscal 2015 or 2014. The Company paid income taxes of approximately \$688,000 and \$748,000 in fiscal 2015 and 2014, respectively. In fiscal 2015 and 2014, noncash financing activity consisted of accrued dividends of \$67,994 and \$135,989, respectively.

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.

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

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

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 6% and 15% of total Company sales in fiscal 2015 and 2014, respectively. Sales of coil products to Trinity Industries, Inc. accounted for approximately 21% and 14% of total Company sales in fiscal 2015 and 2014, respectively. No other customers accounted for 10% or more of total sales in the two years ended March 31, 2015. Loss of USS or Trinity as a customer could have a material adverse effect on the Company's business.

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

NEW ACCOUNTING PRONOUNCEMENTS:

There were no new accounting pronouncements that affected the financial statements and disclosures of the Company for the fiscal years ended March 31, 2015 or 2014.

2. STOCK OPTIONS AND CAPITAL STOCK

In fiscal 2015 and 2014, the Company maintained no stock option plans. Accordingly, no options were outstanding and no options were granted in either fiscal 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, 2015 or March 31, 2014.

3. COMMITMENTS AND CONTINGENCIES

The Company is obligated under noncancelable operating leases for its Longview, Texas and Humble, Texas office buildings, which expire April 30, 2018 and December 31, 2016, respectively. The following is a schedule of future minimum annual rental payments for the next five years required under these operating leases as of March 31, 2015:

2016	\$ 70,562
2017	61,106
2018	32,736
2019	2,728
2020	—
Total	<u>\$167,132</u>

Rental expenses for leased properties were approximately \$70,500 during both fiscal 2015 and 2014.

4. EARNINGS PER SHARE

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

	<u>Year Ended March 31</u>	
	<u>2015</u>	<u>2014</u>
Basic		
Net earnings	<u>\$ 382,330</u>	<u>\$1,712,926</u>
Weighted average common shares	<u>6,799,444</u>	<u>6,799,444</u>
Dilutive		
Net earnings	<u>\$ 382,330</u>	<u>\$1,712,926</u>
Weighted average common shares and common share equivalents	<u>6,799,444</u>	<u>6,799,444</u>

5. INCOME TAXES

Components of tax expense (benefit) are as follows:

	Year Ended March 31	
	2015	2014
Federal		
Current	\$ 519,271	\$ 863,049
Deferred	(377,356)	(172,281)
	141,915	690,768
State		
Current	161,571	133,014
	161,571	133,014
Total	\$ 303,486	\$ 823,782

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

	Year Ended March 31	
	2015	2014
Income tax expense at U.S. federal statutory rate	34.0%	34.0%
Benefit of tax deduction allowed to manufacturing companies	(7.0)	(3.0)
Other	(1.0)	—
Current year state and local income taxes net of federal income tax benefit	7.3	1.5
True up during the current year of income taxes on prior year filing	11.0	—
Provision for income taxes	44.3%	32.5%

The Company's tax returns may be subject to examination by the Internal Revenue Service for the fiscal years ending March 31, 2012 through March 31, 2014. State and local returns may be subject to examination for fiscal years ended March 31, 2012 through March 31, 2014.

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	
	2015	2014
Deferred tax liabilities:		
Depreciation	\$(1,231,047)	\$(1,555,000)
Total deferred tax liabilities	(1,231,047)	(1,555,000)
Deferred tax assets:		
Inventory capitalization	201,094	170,000
LIFO Inventory	783,645	785,000
Postretirement benefits other than pensions	370,562	344,000
Other	63,104	66,002
Total deferred tax assets	1,418,405	1,365,002
Net deferred tax asset (liability)	\$ 187,358	\$ (189,998)

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 six years of service.

6. PROFIT SHARING PLAN (Continued)

The retirement portion of the Plan covers substantially all employees, including officers. The Company's contribution expenses, which are determined at the discretion of the Board of Directors in an amount not to exceed 15% of the total compensation paid during the year to all eligible employees, were \$190,000 for the year ended March 31, 2015, and \$206,000 for the year ended March 31, 2014. 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 \$44,000 and \$47,500 for the years ended March 31, 2015 and 2014, 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. The Company's coil operations involve converting steel coils into flat sheet and plate steel cut to customer specifications and reselling steel coils. Through its tubular operations, the Company purchases, processes, manufactures and markets tubular products. The following is a summary of significant financial information relating to the product groups:

	Year Ended March 31	
	2015	2014
NET SALES:		
Coil	\$ 72,913,058	\$ 66,138,845
Tubular	35,409,722	50,010,177
TOTAL NET SALES	<u>\$108,322,780</u>	<u>\$116,149,022</u>
OPERATING PROFIT (LOSS):		
Coil	\$ (259,690)	\$ (839,442)
Tubular	2,602,210	5,288,372
TOTAL OPERATING PROFIT	2,342,520	4,448,930
General corporate expenses	(1,717,744)	(1,974,234)
Interest and other income	61,040	62,012
TOTAL EARNINGS BEFORE INCOME TAXES	<u>\$ 685,816</u>	<u>\$ 2,536,708</u>
IDENTIFIABLE ASSETS:		
Coil	\$ 21,248,710	\$ 22,308,165
Tubular	42,143,785	33,794,992
General corporate assets	63,392,495	56,103,157
TOTAL ASSETS	<u>\$ 66,958,024</u>	<u>\$ 72,284,399</u>
DEPRECIATION:		
Coil	\$ 1,141,567	\$ 1,140,250
Tubular	571,086	673,850
Corporate and other	8,972	8,972
TOTAL DEPRECIATION	<u>\$ 1,721,625</u>	<u>\$ 1,823,072</u>
CAPITAL EXPENDITURES:		
Coil	\$ 229,425	\$ 364,443
Tubular	5,646,780	1,533,489
Corporate and other	—	9,299
TOTAL CAPITAL EXPENDITURES	<u>\$ 5,876,205</u>	<u>\$ 1,907,231</u>

7. INDUSTRY SEGMENT DATA (Continued)

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 the cash value of officers' life insurance. Although inventory is transferred at cost between product groups, there are no sales between product groups. Capital expenditures were related primarily to the construction of the Company's pipe-finishing facility located in Lone Star, Texas. As of March 31, 2015, capitalized expenditures related to the construction of the facility totaled approximately \$7,131,000.

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, 2015 and 2014:

	Quarter Ended			
	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015
Net sales	\$27,904,521	\$31,544,474	\$23,552,636	\$25,321,149
Gross profit	1,042,061	2,420,929	1,258,797	356,281
Net earnings (loss)	(118,250)	765,655	187,643	(452,718)
Basic(1)	(.02)	.11	.03	(.07)
Diluted(1)	(.02)	.11	.03	(.07)

	Quarter Ended			
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014
Net sales	\$29,582,144	\$26,310,369	\$28,274,696	\$31,981,813
Gross profit	2,443,844	1,077,913	1,846,778	1,693,948
Net earnings	808,359	27,659	487,468	389,440
Basic . . . . .	.12	.00	.07	.06
Diluted . . . . .	.12	.00	.07	.06

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

9. SUBSEQUENT EVENTS

On May 8, 2015, the Company entered into a credit arrangement for a \$5,000,000 revolving line of credit facility (the "Credit Facility") with JPMorgan Chase Bank N.A. (the "Bank"). The Credit Facility expires on April 30, 2016. At the Company's election, advances under the Credit Facility bear interest at either (1) the Bank's prime rate minus 0.50% or (2) the applicable one-, two- or three-month LIBOR rate plus 2.5%. Interest payments on amounts advanced are due monthly. Advances under the Credit Facility are unsecured, but the Company entered into a Negative Pledge Agreement in favor of the Bank to not create or permit to exist any encumbrance or security interest with respect to its accounts receivable or inventory to any party without the written consent of the Bank. The Credit Facility contains financial covenants that require the Company to not permit: tangible net worth to be less than \$57,000,000, ratio of total liabilities to tangible net worth to be greater than 1.00 to 1.00 and net income for any period of four consecutive fiscal quarters to be less than \$1.00.

As of June 11, 2015, the Company has not advanced any amount under the Credit Facility.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Friedman Industries, Incorporated and its subsidiary (the "Company") as of March 31, 2015 and 2014, and the related consolidated statements of earnings, stockholders' equity and cash flows for the years then ended. Our audits also included the financial statement schedule of Friedman Industries, Incorporated listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 financial position of Friedman Industries, Incorporated and its subsidiary as of March 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, 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.

/S/ HEIN & ASSOCIATES LLP

Houston, Texas
June 11, 2015

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on such assessment, management concluded that, as of March 31, 2015, our internal control over financial reporting is effective based on that criteria.

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

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

RESULTS OF OPERATIONS

Year ended March 31, 2015 compared to year ended March 31, 2014

During the year ended March 31, 2015, sales, costs of goods sold and gross profit decreased \$7,826,242, \$5,841,827 and \$1,984,415, respectively, from the comparable amounts recorded during the year ended March 31, 2014. The decrease in sales was related to both a decline in tons sold and a decrease in the average per ton selling price. Tons sold decreased from approximately 163,000 tons in fiscal 2014 to approximately 156,000 tons in fiscal 2015. The average per ton selling price decreased from approximately \$712 per ton in fiscal 2014 to approximately \$694 per ton in fiscal 2015. The decrease in costs of goods sold was related primarily to the decline in tons sold. The average per ton cost decreased from approximately \$669 per ton in fiscal 2014 to approximately \$662 per ton in fiscal 2015. The decrease in gross profit was related to the decline in sales and a decline in margins earned on sales. Gross profit as a percentage of sales decreased from approximately 6.1% in fiscal 2014 to approximately 4.7% in fiscal 2015.

Coil product segment sales increased \$6,774,213 during fiscal 2015. This increase resulted from both an increase in the average selling price and an increase in coil tons sold. The average per ton selling price increased from approximately \$710 per ton in fiscal 2014 to approximately \$742 per ton in fiscal 2015. Coil tons sold increased from approximately 93,000 tons in fiscal 2014 to approximately 98,000 tons in fiscal 2015. The improvement in coil segment sales was primarily attributed to customers manufacturing products used in the commercial freight industry. The coil product segment recorded operating losses of \$259,690 and \$839,442 in fiscal 2015 and fiscal 2014, respectively. The Company continues to experience intense competition for sales resulting in compressed margins. Management believes these market conditions are due to the commoditized nature of hot-rolled sheet and plate.

The Company is primarily dependent on Nucor Steel Company ("NSC") for its supply of coil inventory. In fiscal 2015, NSC continued to supply the Company with steel coils in amounts that were adequate for the Company's purposes. The Company does not currently anticipate any significant change in such supply from NSC. Loss of NSC as a supplier could have a material adverse effect on the Company's business.

Tubular product segment sales decreased by \$14,600,455 during fiscal 2015. This decrease resulted from a decline in tons sold and a decrease in the average selling price. Tubular tons sold decreased from approximately 70,000 tons in fiscal 2014 to approximately 58,000 tons in fiscal 2015. The decrease in tons sold was primarily attributed to a decline in sales of tubular products manufactured by the Company for use in the oil and gas industry. The average per ton selling price of tubular products decreased from approximately \$715 per ton in fiscal 2014 to approximately \$613 per ton in fiscal 2015. The decrease in average selling price per ton was primarily related to a change in the sales mix between pipe manufactured by the Company and mill reject pipe obtained from outside suppliers. Historically, manufactured pipe has had a higher average selling price per ton than mill reject pipe. Tubular product segment operating profit decreased \$2,686,162 in fiscal 2015. Segment operating profits as a percentage of segment sales were approximately 7.3% and 10.6% in fiscal 2015 and 2014, respectively. In fiscal 2015, the tubular segment experienced a reduction in tons produced, which had the effect of increasing the per ton cost of production and decreasing margins earned. Management believes the lower demand for its tubular products is related to soft market conditions created by oversupply, foreign competition and a decline in the U.S. energy business.

U.S. Steel Tubular Products, Inc. ("USS") has been the Company's primary supplier of tubular products and coil material used in pipe manufacturing and has been a major customer of finished tubular products. Certain finished tubular products used in the energy business are manufactured by

the Company and sold to USS. Loss of USS as a supplier or customer could have a material 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.

Income taxes for fiscal 2015 decreased \$520,296 from the amount recorded in fiscal 2014. This decrease was related primarily to the decrease in earnings before taxes in fiscal 2015.

FINANCIAL CONDITION, LIQUIDITY AND SOURCES OF CAPITAL

The Company remained in a strong, liquid position at March 31, 2015. Current ratios were 18.9 and 7.7 at March 31, 2015 and March 31, 2014, respectively. Working capital was \$47,466,244 at March 31, 2015 and \$52,075,979 at March 31, 2014.

During the year ended March 31, 2015, the Company maintained assets and liabilities at levels it believed were commensurate with operations. Changes in balance sheet amounts occurred in the ordinary course of business. Cash was primarily used in the purchase of inventories, reduction of accounts payable, payment of dividends and expenditures related to the construction of the Company's pipe-finishing facility. The Company expects to continue to monitor, evaluate and manage balance sheet components depending on changes in market conditions and the Company's operations.

The Company is continuing construction of its pipe-finishing facility in Lone Star, Texas. The Company currently estimates the total construction costs for the facility will be approximately \$9,200,000. As of March 31, 2015, capitalized expenditures related to the construction of the facility totaled approximately \$7,131,000. The Company expects the facility to be completed and operational in the second quarter of fiscal 2016.

Subsequent to year end, the Company entered into a Credit Agreement on May 8, 2015 with JPMorgan Chase Bank N.A. to provide a \$5,000,000 revolving line of credit facility (the "Credit Facility"). The Credit Facility expires on April 30, 2016. The Company has not advanced any amounts under the Credit Facility as of June 11, 2015.

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 2015 and 2014, 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 that 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.

FORWARD-LOOKING STATEMENTS

From time to time, the Company may make certain statements that contain "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1996, as amended) and that involve risk and uncertainty. 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 U.S. Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. 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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net sales	\$108,322,780	\$116,149,022	\$136,448,786	\$161,521,993	\$131,709,492	\$65,132,170	\$208,779,750	\$178,785,110	\$199,726,619	\$181,900,351
Net earnings	\$ 382,330	\$ 1,712,926	\$ 6,135,812	\$ 8,150,464	\$ 8,155,637	\$ 652,024	\$ 13,673,406	\$ 4,465,127	\$ 7,018,318(1)	\$ 6,453,888
Current assets	\$ 50,117,355	\$ 59,846,668	\$ 64,283,557	\$ 65,007,891	\$ 54,562,344	\$48,703,119	\$ 42,673,377	\$ 49,422,594	\$ 51,31,369	\$ 47,551,003
Current liabilities	\$ 2,651,111	\$ 7,770,689	\$ 12,312,082	\$ 13,853,388	\$ 9,467,375	\$ 7,576,278	\$ 3,353,013	\$ 14,784,366	\$ 23,266,583	\$ 18,383,193
Working capital	\$ 47,466,244	\$ 52,075,979	\$ 51,971,475	\$ 51,154,503	\$ 45,094,969	\$41,126,841	\$ 39,320,364	\$ 34,638,228	\$ 28,464,786	\$ 29,167,810
Total assets	\$ 66,958,024	\$ 72,284,399	\$ 76,575,129	\$ 78,570,393	\$ 69,584,131	\$65,031,722	\$ 60,460,064	\$ 66,958,392	\$ 65,871,706	\$ 55,930,889
Stockholders' equity	\$ 63,217,025	\$ 63,310,656	\$ 62,957,619	\$ 63,417,268	\$ 58,802,514	\$56,358,410	\$ 56,114,352	\$ 44,956,741	\$ 42,109,998	\$ 37,097,335
Net earnings as a percent of										
Net sales	0.4	1.5	4.5	5.0	6.2	1.0	6.5	2.5	3.5	3.5
Stockholders' equity	0.6	2.7	9.7	12.9	13.9	1.2	24.4	9.9	16.7	17.4
Weighted average number of common shares outstanding:										
Basic	6,799,444	6,799,444	6,799,444	6,799,444	6,799,444	6,799,444	6,799,444	6,733,942	6,685,577	7,072,637
Per share										
Net earnings per share:										
Basic	\$ 0.06	\$ 0.25	\$ 0.90	\$ 1.20	\$ 1.20	\$ 0.10	\$ 2.01	\$ 0.66	\$ 1.05(1)	\$ 0.91
Stockholders' equity	\$ 9.30	\$ 9.31	\$ 9.26	\$ 9.33	\$ 8.65	\$ 8.29	\$ 8.25	\$ 6.68	\$ 6.30	\$ 5.25
Cash dividends per common share	\$ 0.07	\$ 0.20	\$ 0.97	\$ 0.52	\$ 0.84	\$ 0.06	\$ 0.37	\$ 0.27	\$ 0.34	\$ 0.32

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



FRIEDMAN INDUSTRIES, *Incorporated*

P.O. BOX 62388 • HOUSTON, TEXAS 77205 • (713) 672-9433



FRIEDMAN INDUSTRIES, INCORPORATED
CODE OF CONDUCT AND ETHICS

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

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

- Carry out their duties honestly and with the highest degree of integrity.
- Avoid actual or apparent conflicts of interest between personal and professional relationships.
- Report promptly any transaction or relationship that could compromise one’s ability to (i) adhere fully to the Code, other Company policies or applicable laws or (ii) make business decisions without regard to personal gain or benefit.
- Seek, at all times, to provide information to Company officials and its outside professionals (e.g. accountants, counsel, insurance providers, etc.) that is accurate, relevant, complete, objective, timely and understandable, and encourage others within the Company to do the same.
- Use reasonable efforts to assure full, fair, accurate, timely and understandable disclosure of information related to the Company’s business and financial operations in Company reports and documents filed with the U.S. Securities and Exchange Commission (the “SEC”) or the NYSE MKT 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 Vice President — Secretary & Treasurer. 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 Vice President — Secretary & Treasurer 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 Vice President — Secretary & Treasurer, at P.O. Box 62388, Houston, Texas 77205. In addition, reports may be made to the Chairman of the Audit Committee by calling (713) 622-7000 or sent to Three Greenway Plaza, Suite 1700, Houston, Texas 77046.

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

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

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

SUBSIDIARIES

FRIEDMAN/DECATUR, L.L.C.

Alabama Limited Liability Company

100% owned

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 11, 2015

/s/ WILLIAM E. CROW

Chief Executive Officer and President

I, Alex LaRue, certify that:

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

Dated: June 11, 2015

/s/ ALEX LARUE

Vice President – Secretary and Treasurer

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

Not Filed Pursuant to the Securities Exchange Act of 1934

In connection with the Annual Report of Friedman Industries, Incorporated (the "Company") on Form 10-K for the fiscal year ended March 31, 2015, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Alex LaRue, Vice President — 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, as amended, that:

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

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

By: _____ /s/ ALEX LARUE
Vice President — Secretary and Treasurer

Dated: June 11, 2015