

FRIEDMAN INDUSTRIES INC

Form DEF 14A

July 24, 2007

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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
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Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

FRIEDMAN INDUSTRIES, INCORPORATED

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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FRIEDMAN INDUSTRIES, INCORPORATED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Friedman Industries, Incorporated:

The Annual Meeting of Shareholders of Friedman Industries, Incorporated will be held in the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Suite 5100, Houston, Texas, on Thursday, September 6, 2007, at 11:00 a.m. (local time), for the following purposes:

- (1) To elect a board of nine directors for the ensuing year.
- (2) To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors has fixed the close of business on July 13, 2007, as the record date for the determination of shareholders entitled to receive this notice and to vote at the meeting.

All shareholders are cordially invited to attend the meeting.

By Order of the Board of Directors,

Ben Harper
Secretary

July 27, 2007
Houston, Texas

IMPORTANT

Whether or not you expect to attend the meeting, please sign and date the enclosed proxy card and mail it in the enclosed envelope to assure representation of your shares. If you attend the meeting, you may vote either in person or by your proxy.

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FRIEDMAN INDUSTRIES, INCORPORATED

PROXY STATEMENT

**For Annual Meeting of Shareholders
To Be Held on September 6, 2007**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Friedman Industries, Incorporated (the Company), 4001 Homestead Road, Houston, Texas 77028 (telephone number 713-672-9433) to be used at the Annual Meeting of Shareholders to be held at 11:00 a.m. on Thursday, September 6, 2007 (the Annual Meeting), in the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Suite 5100, Houston, Texas, for the purposes set forth in the foregoing notice of the meeting. Properly executed proxies received in time for the meeting will be voted as directed therein, unless revoked in the manner provided hereinafter. As to any matter for which no choice has been specified in a proxy, the shares represented thereby will be voted by the persons named in the proxy (i) for the election as director of the nominees listed herein and (ii) in the discretion of such persons, in connection with any other business that may properly come before the meeting. If the enclosed form of proxy is executed and returned, it may nevertheless be revoked by the shareholder at any time before it is exercised pursuant to either the shareholder's execution and return of a subsequent proxy or the shareholder's voting in person at the Annual Meeting.

At the close of business on July 13, 2007, there were 6,712,108 shares of Common Stock, \$1.00 par value, of the Company (Common Stock) outstanding. Holders of record of Common Stock on such date will be entitled to one vote per share on all matters to come before the Annual Meeting.

The holders of a majority of the total shares of Common Stock issued and outstanding on the record date, whether present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. The shares held by each shareholder who signs and returns the enclosed form of proxy will be counted for purposes of determining the presence of a quorum at the Annual Meeting.

The Company's Annual Report to Shareholders for the fiscal year ended March 31, 2007, including financial statements, is enclosed with this proxy statement. The Annual Report to Shareholders does not constitute a part of the proxy soliciting materials. This proxy statement is being mailed on or about July 27, 2007, to shareholders of record as of July 13, 2007.

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The persons who are elected directors will hold office until the next Annual Meeting of Shareholders and until their successors are elected and shall qualify. The Board of Directors currently consists of nine members.

It is intended that the persons appointed as proxies to act on behalf of shareholders in the enclosed proxy will vote for the election of the nine nominees named below. The management of the Company does not contemplate that any of such nominees will become unavailable to serve as a director. However, should any nominee be unable to serve as a director or become unavailable for any reason, proxies which do not withhold authority to vote for that nominee may be voted for another nominee to be selected by the nominating committee of the Board of Directors.

The enclosed form of proxy provides a means for shareholders to vote for all of the nominees for director listed therein, to withhold authority to vote for one or more of such nominees or to withhold authority to vote for all of such nominees. Each director nominee receiving a plurality of votes cast will be elected director. The withholding of authority by a shareholder, abstentions and broker non-votes will be considered as not voted and will have no effect on the results of the election of those nominees.

The following table sets forth the names of the nominees for election to the Board of Directors, the principal occupation or employment of each of the nominees, the period during which each nominee has served as a director of the Company and the age of each nominee:

Nominee	Principal Occupation and Business Experience for more than the Last Five Years	Director Since	Age
William E. Crow	Chief Executive Officer since February 2006; President of the Company since 1996; President of Texas Tubular Products Division since 1990; formerly Vice President of the Company since 1981; formerly Chief Operating Officer of the Company since 1996	1998	60
Harold Friedman	Chairman of the Board since May 2006; formerly Vice Chairman of the Board of the Company since 1995; formerly President and Chief Operating Officer of the Company since 1975	1965	77
Jack Friedman	Retired; formerly Chairman of the Board and Chief Executive Officer of the Company since 1972	1965	86
Charles W. Hall	Attorney, Fulbright & Jaworski L.L.P. (law firm), Houston, Texas	1974	77
Durga D. Agrawal	President, Piping Technology & Products, Inc. (pipe fabrication), Houston, Texas	2006	62
Alan M. Rauch	President, Ener-Tex International Inc. (oilfield equipment sales), Houston, Texas	1980	72
Hershel M. Rich	Private investor and business consultant, Houston, Texas	1979	82
Joel Spira	Private investor; formerly Partner, Weinstein, Spira & Company (accounting firm), Houston, Texas	2007	69

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Nominee	Principal Occupation and Business Experience for more than the Last Five Years	Director Since	Age
Joe L. Williams	Business Development Manager Wells Fargo Insurance Services of Texas, Inc. (insurance and risk management), Houston, Texas, since February 2007; formerly Senior Vice President, Acordia of Texas, Inc., Houston, Texas, since 2005; formerly Managing Director, Acordia of Texas, Inc. since 2003; formerly for more than five years, Chairman and Chief Executive Officer, Wisenberg Insurance + Risk Management (insurance and risk management), Houston, Texas	2000	61

BOARD OF DIRECTORS

The business and affairs of the Company are managed under the direction of the Board of Directors. In addition to regular Board meetings, the Board of Directors has established a program for the independent directors to meet at regularly scheduled executive sessions without management present as often as necessary, but not less than once in each fiscal year. Mr. Weaver, who resigned as a director in June 2007, served as the presiding director for the executive sessions. The Board of Directors intends to appoint a replacement presiding director at its next meeting.

Director Qualifications

As set forth in the Charter of the Nominating Committee of the Board of Directors, a majority of the members of the Board of Directors must qualify as independent directors in accordance with the applicable provisions of the Securities Exchange Act of 1934, and the rules promulgated thereunder, and the applicable rules of the American Stock Exchange. In addition, the nominating committee shall consider the following qualifications in assessing director candidates: (a) an understanding of business and financial affairs and the complexities of a business organization; (b) a record of competence and accomplishments through leadership in industry, education, the professions or government; (c) a genuine interest in representing all of the shareholders and the interest of the Company overall; (d) a willingness to maintain a committed relationship with the Company as a director; (e) a willingness and ability to spend the necessary time required to function effectively as a director; (f) a reputation for honesty and integrity; and (g) such other additional qualifications as the nominating committee may establish from time to time, taking into account the composition and expertise of the entire Board of Directors.

Identifying and Evaluating Nominees for Directors

The nominating committee of the Board of Directors utilizes a variety of methods for identifying and evaluating nominees for director. The nominating committee assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the nominating committee will consider various potential candidates for director. Candidates may come to the attention of the nominating committee through current Board members, professional search firms, shareholders or other persons. These candidates will be evaluated at regular or special meetings of the nominating committee, and may be considered at any point during the year. In evaluating such nominations, the nominating committee seeks to achieve a balance of knowledge, experience and capability on the Board.

Sources for New Nominees

Dr. Agrawal and Mr. Spira were initially recommended by a non-management director and the Chairman of the Board, respectively, to the nominating committee, which in turn considered their potential nomination as directors and then recommended Dr. Agrawal and Mr. Spira to the full Board for election and inclusion in the list of nominees to be elected at the Annual Meeting of Shareholders.

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Board of Directors Independence

The Board of Directors has affirmatively determined that all members of the Board, with the exception of Messrs. J. Friedman, H. Friedman and Crow, are independent and have no material relationship with the Company that would interfere with the exercise of independent judgment.

Attendance at the Annual Meeting of Shareholders

The Board of Directors holds a regular meeting in conjunction with the Annual Meeting of Shareholders. Therefore, the directors are encouraged to and generally attend the Annual Meeting of Shareholders. Seven of the eight directors attended the 2006 Annual Meeting of Shareholders.

Communications with the Board

Shareholders may contact the Company's directors, a committee of the Board of Directors, the Board of Directors independent directors as a group or the Board of Directors generally, by mailing the communication to Friedman Industries, Incorporated, Shareholder Communications, P.O. Box 21147, Houston, Texas 77226, to the attention of the Corporate Secretary. Communications that are intended specifically for the independent directors should be sent to the same address, to the attention of the Presiding Director of the Executive Sessions.

Proposals submitted by shareholders for inclusion in the Company's annual proxy statement will not be considered shareholder communications under this policy and should be handled in accordance with the rules and regulations promulgated from time to time by the Securities and Exchange Commission and the procedures described below in this proxy statement.

Investor Information

To obtain a printed copy of our Code of Conduct and Ethics or the charter for the audit committee or the nominating committee of the Board of Directors, send a request to us in care of Investor Relations, P.O. Box 21147, Houston, Texas.

Director Compensation

With the exception of Messrs. Crow, J. Friedman and H. Friedman, directors are paid \$2,000 per quarter. In addition, the chairman of the audit committee and members of such committee receive \$1,000 and \$750, respectively, for each committee meeting attended. Messrs. Crow, H. Friedman and J. Friedman receive no compensation for serving as directors.

Except for the Mr. Crow who is a Named Executive Officer, the following table summarizes compensation paid to each director during the fiscal year ended March 31, 2007:

	Change in Pension Value and Non-Equity Nonqualified Deferred	All Other
Stock Option		

Name	Fees Earned or Paid in		Incentive Plan			Total (\$)
	Cash (\$)	Awards (\$)	Award (\$)	Compensation (\$)	Compensation Earnings (\$)	
Harold Friedman					13,200(1)	13,200
Jack Friedman					2,400(2)	2,400
Durga Agrawal, Ph.D.(3)	2,000					2,000
Charles W. Hall	8,000					8,000
Alan M. Rauch	14,000					14,000
Hershel M. Rich	8,000					8,000
Joel Spira(4)						
Kirk K. Weaver(5)	16,000					16,000
Joe L. Williams	14,000					14,000

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- (1) In December 2004, the Company entered into a Service Agreement with H. Friedman, former Vice Chairman of the Board, a director of the Company and, since May 2006, Chairman of the Board. Pursuant to the Service Agreement, effective as of December 31, 2004, Mr. Friedman resigned as Vice Chairman of the Board and retired as a full-time employee of the Company. The Service Agreement provides that Mr. H. Friedman will remain a part-time employee of the Company at an annual salary of \$13,200 for an initial term beginning January 1, 2005, and ending December 31, 2009 (subject to earlier termination upon certain specified events), and, thereafter, for automatically renewing successive one-year terms (subject to earlier termination upon such specified events and the Company's right to terminate the agreement as of the end of any such one-year term).
- (2) Effective as of the close of business on February 8, 2006, Mr. J. Friedman retired as Chairman of the Board and Chief Executive Officer and as an employee of the Company. The Company has agreed to continue to provide Mr. J. Friedman office facilities and secretarial assistance for his future use.
- (3) Named as a director in December 2006.
- (4) Named as a director in March 2007.
- (5) Mr. Weaver resigned as a director effective June 1, 2007.

Board of Directors Affiliations

Messrs. H. Friedman and J. Friedman are brothers and cousins to Mr. Spira. Mr. Hall is associated with Fulbright & Jaworski L.L.P., legal counsel for the Company. Mr. Williams is the Business Development Manager of Wells Fargo Insurance Services of Texas, Inc. which provides various insurance services to the Company.

Policies and Procedures with Respect to Approval of Related Party Transactions

In February 2007, the audit committee of the Board of Directors adopted a written policy with respect to related party transactions to document procedures pursuant to which such transactions are reviewed, approved or ratified. The policy applies to any transaction between the Company and any related party other than transactions (i) available to all employees generally or (ii) involving less than \$5,000 when aggregated with all similar transactions. The audit committee is responsible for reviewing, approving and ratifying any related party transaction. In general, the policy prohibits all related party transactions although the audit committee may approve related party transactions (A) in exceptional circumstances where the situation is urgent and no reasonable alternatives exist, (B) when the benefit is unique and significant or (C) the economic value to the Company is highly compelling over an extended period.

Compensation Committee Interlocks and Insider Participation

No member of the compensation and stock option committee of the Board of Directors was, during fiscal 2007, an officer or employee of the Company or its subsidiary, or was formerly an officer of the Company or its subsidiary, or had any relationships requiring disclosure by the Company under Item 404 of Regulation S-K.

During fiscal 2007, no executive officer of the Company served as (i) a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on the compensation and stock option committee of the Board of Directors, (ii) a director of another entity, one of whose executive officers served on the compensation and stock option committee of the Board of Directors, or (iii) a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served as a director of the Company.

Committees of the Board of Directors and Meeting Attendance

During fiscal 2007, the Board of Directors met six times. Messrs. H. Friedman, Crow and Rauch attended all of the meetings. Messrs. J. Friedman and Rich attended five of the meetings. Messrs. Hall and Williams attended four of the meetings. Messrs. Agrawal and Spira, both new directors, were eligible to attend one meeting each in fiscal 2007. Mr. Agrawal did not attend and Mr. Spira attended this meeting.

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The Board of Directors has an audit committee which currently consists of Messrs. Rauch, Spira (Chair) and Williams. The audit committee discusses with the independent accountants and management the Company's financial statements and the scope of the audit examinations, reviews with the independent accountants the audit budget, receives and reviews the audit report submitted by the independent accountants, reviews with the independent accountants internal accounting and control procedures and engages the Company's independent auditors. The audit committee's responsibilities to the Board of Directors are further detailed in the Second Amended and Restated Charter of the Audit Committee, as amended, which is not available on the Company's web site but is attached as Appendix A to this proxy statement. The audit committee met eight times in fiscal 2007, and Messrs. Rauch and Williams attended all of the meetings.

The Board of Directors has a compensation and stock option committee composed of Messrs. Rauch, Rich (Chair) and Williams. The compensation and stock option committee considers and recommends for approval by the Board of Directors adjustments to the compensation of the executive officers of the Company and the implementation of any compensation program. In addition, the compensation and stock option committee administers any stock option or stock plan of the Company pursuant to the terms of such plan. As permitted by the rules of the American Stock Exchange, the compensation and stock option committee does not currently operate under a charter. The compensation and stock option committee met two times in fiscal 2007. Messrs. Rauch and Rich attended both meetings. Mr. Williams attended one of the meetings.

The Board of Directors has a nominating committee currently composed of Messrs. Agrawal, Hall, Rauch, Rich, Spira and Williams (Chair), each of whom is independent in accordance with the applicable rules of the American Stock Exchange. Board of Directors nominees are proposed by the nominating committee. The nominating committee's responsibilities to the Board of Directors are further detailed in the Charter of the Nominating Committee, which is not available on the Company's website but is attached as Appendix B to this proxy statement. The nominating committee normally does not consider unsolicited director nominees put forth by shareholders because the need for a new director generally only occurs on limited occasions when a director position becomes open as a result of a decision to increase the size of the Board or if a director retires or resigns. If and when such an event might occur, the Board of Directors believes that it is in the best interest of the Company to focus the Company's resources on evaluating candidates at the appropriate time and who come to the Company through reputation or a relationship which initially validates the reasonableness of the person as a candidate or through professional search processes that do the same. The nominating committee met three times in fiscal 2007. Messrs. Rauch, Rich, and Williams attended all of the meetings. Mr. Hall attended two of the meetings. Mr. Agrawal was eligible to attend one meeting and did not attend.

During the fiscal year ended March 31, 2007, no director attended fewer than 75% of all meetings of the Board of Directors and of any committee of which such director was a member except for Mr. Hall who attended 67% of the meetings and Mr. Agrawal who attended none of the meetings. Mr. Agrawal is a new director and was eligible to attend two meetings in fiscal 2007.

Audit Committee Qualifications

The Board of Directors has affirmatively determined that all members of the audit committee are independent in accordance with the applicable rules of the American Stock Exchange and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934. The Board also has determined that each of the members of the audit committee is able to read and understand fundamental financial statements. In addition, the Board has determined that Mr. Spira meets the financial sophistication requirements set forth in the applicable rules of the American Stock Exchange and qualifies as an audit committee financial expert, as that term is defined in the rules promulgated by the Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002.

Audit Committee Report

The audit committee of the Board of Directors has reviewed and discussed with the Company's management and Malone & Bailey, PC (M&B), the Company's independent auditors, the audited financial statements of the Company contained in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2007. The

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committee has also discussed with the Company's independent auditors the matters required to be discussed pursuant to SAS 61 (Codification of Statements on Auditing Standards, Communication with Audit Committees).

The committee received and has discussed the written disclosures and letters from M&B required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committee), and has discussed with M&B its independence in connection with its audit of the Company's most recent financial statements. The committee has also considered whether the provision of non-audit services to the Company by M&B is compatible with maintaining that firm's independence.

Based on the review and discussions referred to above, the committee approved, ratified and confirmed the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

The information in the foregoing three paragraphs shall not be deemed to be soliciting material, or be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to liabilities under Section 18 of the 1934 Act nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the 1934 Act, except to the extent that the Company specifically incorporates these paragraphs by reference.

Alan M. Rauch
Joel Spira
Joe L. Williams

Procedures and Processes for Determining Executive and Director Compensation

The compensation and stock option committee of the Board of Directors is responsible for reviewing and recommending to the full Board of Directors the compensation of the Chief Executive Officer and the Named Executive Officers of the Company. The committee also reviews and discusses with the Chief Executive Officer, and recommends to the full Board of Directors, the compensation for all other officers of the Company. The committee may retain compensation consultants or other advisers it deems appropriate, however the committee's general practice is not to use a compensation consultant. Based on the committee's analysis of relevant data, the committee determines its recommendation regarding the compensation of our Chief Executive Officer during an executive session of the committee at which the Chief Executive Officer is not present. Our Chief Executive Officer makes recommendations regarding the compensation of our other executive officers and other officers to the committee. The committee considers the recommendations, discusses the recommendations with our Chief Executive Officer, may discuss the matter in executive session and then makes recommendations to the full Board of Directors. The final determination as to the compensation of the Chief Executive Officer and other officers of the Company is made by the full Board of Directors based on the recommendations of the committee.

The Board of Directors or an authorized committee thereof may from time to time review and determine the form and amount of director compensation, including cash, equity-based awards and other director compensation to maintain a transparent and readily understandable compensation program which insures that the directors continue to receive fair and appropriate compensation for the time commitment required to discharge their duties as directors for a company of our size.

Compensation Committee Report

The compensation and stock option committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis with the Company's management. Based upon such review and the related

discussions, the committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Alan M. Rauch
Hershel M. Rich
Joe L. Williams

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The following table sets forth certain information regarding compensation paid for services rendered during the fiscal year ended March 31, 2007 to each of our executive officers, including the principal executive officer and the principal financial officer (collectively, the Named Executive Officers):

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Option Awards (\$)	Non-Equity Incentive Awards (\$)	Change in Pension Value and Nonqualified Deferred Compensation (\$)	All Other Compensation (\$)(3)	Total (\$)
William E. Crow Chief Executive Officer and President	2007	86,000	276,394				5,737	368,131
Ben Harper Senior Vice President Finance and Secretary/Treasurer	2007	77,750	231,328				5,172	314,250
Thomas Thompson Senior Vice President Sales and Marketing	2007	77,750	231,328				5,172	314,250

(1) Represents base salary.

(2) Includes quarterly bonuses based on a percentage of the Company's quarterly net income and Christmas bonuses, each of which is paid at the discretion of the Board of Directors.

(3) Reflects contributions by the Company to the Friedman Industries, Inc. Employees' Retirement Plan and the Friedman Industries, Inc. Employees' 401 (K) Plan for the benefit of the Named Executive Officers.

Compensation Discussion and Analysis

The primary objectives of the Company's compensation program for Named Executive Officers is to retain experienced, honest executives to manage the affairs of the Company and generate profits for its shareholders and to reward such executives appropriately for their efforts. The compensation and stock option committee is charged with

the oversight of executive compensation. Members of the committee are Messrs. Alan M. Rauch, Hershel M. Rich (Chair) and Joe L. Williams, each of whom is considered to be an independent director pursuant to the rules of the American Stock Exchange. Recommendations by the committee as to executive compensation are brought before and are considered by the Board of Directors.

Consistent with the primary objectives noted above, the Company pays its Named Executive Officers a base salary considered to be modest in comparison to salaries received by persons holding similar offices with other publicly held companies, plus a quarterly bonus based on a percentage of the Company's quarterly net income. The quarterly bonuses provide the most significant element of compensation for the Named Executive Officers and generate an incentive for the Named Executive Officers to manage the Company efficiently and thereby produce profits for its shareholders. The Board of Directors determines annually for each Named Executive Officer the percentage of the Company's net profits that will be used for the next year to determine quarterly bonus payments. No changes to base salaries or to percentages related to quarterly bonuses have been made in the last three fiscal years. Other compensation listed in the Compensation Table relates to the Company's contribution to the Friedman Industries, Inc. Employees Retirement Plan (the Retirement Plan) and the Friedman Industries, Inc. Employees 401(k) Plan (the 401(k) Plan) for the benefit of each Named Executive Officer. The Retirement Plan, a defined contribution plan, covers substantially all employees of the Company. The 401(k) Plan requires participating employees to defer income and the Company matches a portion thereof. The Company matches 25% of the first 4%

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of an employee's deferral amount. The Company maintains group insurance coverage on substantially all of its employees. The Company accrues approximately \$1,000 each month for each employee for this coverage.

In the past, under the Company's 1996 Stock Option Plan, the Company granted options from time to time to certain officers and employees of the Company. Pursuant to this plan, each of Messrs. Crow and Harper were granted options to purchase 42,918 shares of the Company's Common Stock at \$2.33 per share. These options were granted on November 20, 2002 and became fully exercisable on May 20, 2003. Mr. Thompson was also granted options, exercised such options in prior years and has no remaining options. No additional options may be granted under the terms of this plan. The Committee believes that the Named Executive Officers should have some equity interest in the Company to further align their interest with those of the shareholders. However, the Company believes tha