

FRIEDMAN INDUSTRIES INC

Form DEF 14A

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

SCHEDULE 14A

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

Filed by the Registrant    
Filed by a Party other than the Registrant

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

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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1) Amount Previously Paid:

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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 September 8, 2005, at 11:00 a.m. (local time), for the following purposes:

(1) To elect a board of eight 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 15, 2005, 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 29, 2005  
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 8, 2005**

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 8, 2005 (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 15, 2005, there were 7,139,747 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, 2005, 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 29, 2005, to shareholders of record as of July 15, 2005.

### ELECTION OF DIRECTORS

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 eight 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 eight 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
Jack Friedman	Chairman of the Board and Chief Executive Officer of the Company	1965	84
William E. Crow	President and Chief Operating Officer of the Company; President of Texas Tubular Products Division since 1990; formerly Vice President of the Company since 1981	1998	58
Harold Friedman	Retired; formerly Vice Chairman of the Board of the Company since 1995; formerly President and Chief Operating Officer of the Company since 1975	1965	75
Charles W. Hall	Attorney, Fulbright & Jaworski L.L.P. (law firm), Houston, Texas	1974	75
Alan M. Rauch	President, Ener-Tex International Inc. (oilfield equipment sales), Houston, Texas	1980	70
Hershel M. Rich	Private investor and business consultant, Houston, Texas	1979	80
Kirk K. Weaver	Since June 2004, President, FXI Corporation (technology support services), Houston, Texas; formerly business advisor since 2002; formerly for more than five years, Chairman of the Board and Chief Executive Officer, LTI Technologies, Inc. (technical services), Houston, Texas	1981	60
Joe L. Williams	Since 2005, Senior Vice President, Acordia of Texas, Inc., Houston, Texas; 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	59



## **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 of the Company 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 shall be the presiding director for each executive session.

### **Director Qualifications**

As set forth in the Charter of the Nominating Committee, 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 (the Exchange Act), 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 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.

### **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 Company's 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 Company's Annual Meeting of Shareholders. All eight directors attended the 2004 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.

#### **Director Compensation**

With the exception of directors who are employees of the Company, directors are currently paid \$1,000 per quarter and receive annually 400 shares of Common Stock pursuant to the Company's 2000 Non-Employee Director Stock Plan. In addition, the chairman of the audit committee and members of such committee receive \$1,000 and \$750, respectively, for each committee meeting attended. Directors who are employees of the Company receive no compensation for serving as director.

#### **Board of Directors Affiliations**

Messrs. Harold Friedman and Jack Friedman are brothers. Mr. Hall is associated with Fulbright & Jaworski L.L.P., legal counsel for the Company. Mr. Williams is Managing Director of Accordia of Texas, Inc. which provides various insurance services to the Company.

#### **Agreements with Harold Friedman**

In December 2004, the Company entered into two agreements with Harold Friedman, former Vice Chairman of the Board and a director of the Company. Pursuant to one of the agreements, a Stock Purchase Agreement, the Company purchased 624,207 shares of common stock of the Company from Mr. Friedman for an aggregate purchase price of \$2,767,734, or approximately \$4.434 per share. Pursuant to the other agreement, a 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. 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).

#### **Compensation Committee Interlocks and Insider Participation**

No member of the compensation and stock option committee of the Board of Directors of the Company was, during fiscal 2005, 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 2005, 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 2005, the Board met seven times. Messrs. H. Friedman, Crow, Rich, Weaver and Williams attended all of the meetings. Messrs. J. Friedman and Rauch attended six of the meetings. Mr. Hall attended five of the meetings.

The Board of Directors has an audit committee which currently consists of Messrs. Rauch, Weaver 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. The audit committee met five times in fiscal 2005, and Messrs. Rauch, Weaver and Williams attended all of the meetings.

The Board of Directors has a compensation and stock option committee composed of Messrs. Rauch, Rich 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. The compensation and stock option committee met two times in fiscal 2005. Messrs. Rauch and Williams attended both meetings and Mr. Rich attended one of the meetings.

The Board has a nominating committee composed of Messrs. Hall, Rauch, Rich, Weaver and Williams, 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 was attached as Appendix A to the proxy statement filed in connection with the Company's annual meeting of shareholders held on September 9, 2004. 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 in 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 one time in fiscal 2005. Messrs. Hall, Rich, Weaver and Williams attended this meeting. Mr. Rauch did not attend this meeting.

The Board formed a special committee comprised of Messrs. Hall, Rauch, Rich, Weaver and Williams to consider the purchase of 624,207 shares of Common Stock from Harold Friedman for approximately \$4.434 per share or a total of \$2,767,734. This special committee met eight times in fiscal 2005. Messrs. Rauch, Rich and Weaver attended all of the meetings. Messrs. Hall and Williams attended seven of the meetings.

During the fiscal year ended March 31, 2005, 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.

#### **Audit Committee Qualifications**

The Board 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 Exchange Act. The Board also has determined that each of the members of the audit committee is able to read and understand fundamental financial statements and that Mr. Weaver meets the financial sophistication requirements set forth in the applicable rules of the American Stock Exchange. In addition, the Board has determined that certain members of the audit committee possess the attributes of 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; however, no member acquired such attributes through the specific means required under that Act to meet such definition.

**EXECUTIVE COMPENSATION**

The following table sets forth the aggregate amount of cash compensation paid by the Company for the three fiscal years ended March 31, 2005, 2004 and 2003 to each of the Company's executive officers, including the Chief Executive Officer (collectively, the Named Executive Officers).

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	All Other Compensation(2)
		Salary (\$)	Bonus(1) (\$)	Securities Underlying Options/SARS (#)	(\$)
Jack Friedman Chairman of the Board and Chief Executive Officer	2005	110,000	167,503		2,200
	2004	110,000	35,922		2,200
	2003	110,000	35,527		2,200
Harold Friedman(3) Former Vice Chairman	2005	83,325	167,503		2,200
	2004	106,700	35,922		2,200
	2003	106,700	35,527		2,200
William E. Crow President and Chief Operating Officer	2005	86,000	248,254		2,200
	2004	86,000	50,883		2,200
	2003	86,000	50,290		2,200
Ben Harper Senior Vice President Finance and Secretary/Treasurer	2005	77,750	207,878		2,200
	2004	77,750	43,403		2,200
	2003	77,750	42,908		2,200
Thomas Thompson Senior Vice President Sales and Marketing	2005	77,750	207,878		2,200
	2004	77,750	43,403		2,200
	2003	77,750	42,908		2,200

(1) Includes performance and Christmas bonuses both of which are paid at the discretion of the Board of Directors.

(2) Reflects approximate payments made to the Company's profit sharing plan for the benefit of each Named Executive Officer.

(3) Mr. H. Friedman resigned as Vice Chairman of the Board as of December 31, 2004 and retired as a full-time employee of the Company.

There were no option grants to the Named Executive Officers during the fiscal year ended March 31, 2005.

The following chart summarizes certain information relating to options exercised by the Named Executive Officers during the fiscal year ended March 31, 2005 as well as the value of options held by the Named Executive Officers at March 31, 2005.

**Aggregated Option/SAR Exercises in Fiscal 2005 and Value Table  
at March 31, 2005**

Name	Shares		Number of Securities Underlying Unexercised Options/SARs at March 31, 2005 Exercisable	Value of Unexercised In-the-Money Options/SARs at March 31, 2005 Exercisable(1)
	Acquired on Exercise	Value Realized (\$)		
Jack Friedman				
Harold Friedman				
William E. Crow	23,782	210,709	100,555	\$406,388
Ben Harper			107,290	\$467,693
Thomas Thompson	120,348	1,205,833	2,894	\$ 10,708

(1) Based on the closing price of Common Stock on March 31, 2005.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Under the Exchange Act, the Company's directors, executive officers and 10% shareholders must report to the Securities and Exchange Commission certain transactions involving Common Stock. Based solely on a review of the copies of the reports required pursuant to Section 16(a) of the Exchange Act that have been furnished to the Company and written representations that no other reports were required, the Company believes that these filing requirements have been satisfied for the fiscal year ended March 31, 2005.

**Report of the Compensation and Stock Option Committee of the Board of Directors  
With Respect to Compensation of Executive Officers**

Historically, the profits of the Company have been a principal factor in determining the compensation of the Company's executive officers. The Committee believes that the Company's net profit constitutes a significant measure of the performance of the Company and should have a significant effect on executive officer compensation. Accordingly, each of the Company's executive officers, including the Chief Executive Officer, receives a base salary that the Committee believes is modest in comparison to salaries received by persons holding similar offices with other publicly held companies, plus a quarterly cash bonus based on a percentage of the Company's quarterly net income. During fiscal 2005, no increases in the executive officers' base salaries or bonus percentages were made.

The Committee also believes that it is important for the Company's senior executive officers to have a significant equity interest in the Company in order to further align their interests with those of the Company's shareholders and, therefore, compensation in the form of equity securities is appropriate. Accordingly, the Company maintains various stock option plans in which its executive officers, other than the Chief Executive Officer, and other key employees participate. Because the Chief Executive Officer already has significant equity interests in the Company, the Committee believes that his interests are already aligned with those of the Company's shareholders, and, therefore, compensation solely in the form of cash, rather than cash and equity securities, is appropriate.

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a limitation on deductions that can be taken by a publicly held corporation for compensation paid to certain of its executive officers. Under Section 162(m), a deduction is denied for compensation paid in a tax year beginning on or after January 1, 1994, to the Company's executive officers to the extent that such compensation exceeds \$1 million per individual. Stock option grants

pursuant to the Company's employee benefit plans may be exempt from the deduction limit if certain requirements are met.

The Committee has considered the effect of Section 162(m) on the Company's existing compensation program. Although certain grants of stock options to the Company's executive officers may not be exempt from the Section 162(m) deduction limitation, the Committee believes that for the foreseeable future, the compensation received by its covered executives will be within the limits of deductibility.

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

#### **Audit Committee Report**

The Board of Directors has adopted an Audit Committee charter. All members of the Audit Committee of the Board of Directors are independent in accordance with Section 121(A) of the American Stock Exchange Constitution & Rules and Rule 10A-3(b)(1) of the Exchange Act.

The Committee has reviewed and discussed with the Company's management and Ernst & Young LLP (E&Y), 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, 2005. The 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 the letter from E&Y required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committee), and has discussed with E&Y 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 E&Y 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, 2005.

The information in the foregoing four 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 Exchange Act or to liabilities under Section 18 of the Exchange Act nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company specifically incorporates these paragraphs by reference.

Alan M. Rauch  
Kirk K. Weaver  
Joe L. Williams

**Performance Graph**

The following graph compares the percentage change in the Company's cumulative total shareholder return on the Common Stock with the total cumulative return on the American Stock Exchange Composite Index ( ACI ) and the Steel & Iron Index per Microsoft Network ( SII ) for each fiscal year indicated. The graph is based on the assumption that \$100 is invested in the Common Stock of the Company, the ACI and the SII in March 2000 and that all dividends are reinvested.

**Comparison of Five-Year Cumulative Return**

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

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following table sets forth certain information concerning the beneficial ownership of Common Stock by each director, nominee for director, Named Executive Officer and officers and directors as a group and persons who owned of record more than 5% of Common Stock as of July 15, 2005:

Name	Amount and Nature of Beneficial Ownership(a)	Percentage of Shares Outstanding
Jack Friedman P.O. Box 21147 Houston, Texas 77226	1,102,496	15.4%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	479,786(b)	6.7%
Harold Friedman	119,205	1.7%
Charles W. Hall	6,948	*
Alan M. Rauch	2,420	*
Hershel M. Rich	41,357(c)	*
Kirk K. Weaver	7,391	*
Joe L. Williams	2,100	*
William E. Crow	100,555(d)	1.4%
Ben Harper	146,728(d)	2.0%
Thomas Thompson	2,894(d)	*
Officers and directors as a group (10 persons)	1,532,094(c)(d)	20.8%

\* Less than 1%.

- (a) Based upon information obtained from the officers, directors, director nominees and beneficial owners. Includes all shares beneficially owned according to the definition of beneficial ownership in the rules promulgated under the Exchange Act. Except as otherwise indicated, the indicated person has sole voting and investment power with respect to the shares. To the Company's knowledge, the only other record owner of Common Stock having more than 5% of the voting power of such class of security is Cede & Co. The Company is informed that Cede & Co. is a nominee name for The Depository Trust Company, a stock clearing corporation. The shares of Common Stock held by Cede & Co. are believed to be held for the accounts of various brokerage firms, banks and other institutions, none of which, to the Company's knowledge, owns beneficially more than 5% of the Common Stock except as described above.
- (b) The following information is based upon information contained in a Schedule 13G dated February 9, 2005, and otherwise received from the listed owner, Dimensional Fund Advisors Inc. ( Dimensional ). Dimensional is deemed to have beneficial ownership of 479,786 shares of the Company's Common Stock as of December 31, 2004. Dimensional, an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (collectively referred to herein as the Funds ). In its role as investment advisor or manager, Dimensional possesses voting and/or investment power over the securities of the Company that are owned by the Funds and may be deemed to be the beneficial owner of the shares of the Company held by the Funds. All of the shares of Common Stock described in the table are owned by the Funds, and Dimensional disclaims beneficial ownership of such



securities.

- (c) Does not include 14,796 shares beneficially owned and voted by the spouse of Mr. Rich, as to which shares beneficial ownership is disclaimed.
- (d) Includes 100,555 shares, 107,290 shares and 2,894 shares for Messrs. Crow, Harper and Thompson, respectively, all of which are subject to issuance upon the exercise of stock options within 60 days after July 15, 2005.

**RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS**

E&Y served as the Company's principal independent public accountants for fiscal year 2005. The audit committee typically engages the principal accountant for the audit of the Company's financial statements during the latter part of the fiscal year to which such financial statements relate and, therefore, has not yet engaged a principal public accountant for such services at this time. Representatives of E&Y are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Regarding fiscal year 2005 and 2004, the Company retained E&Y to provide services and paid fees therefor as indicated in the following table:

	<b>2005</b>	<b>2004</b>
	<b>Actual Fees</b>	<b>Actual Fees</b>
Audit Fees(1)	\$ 150,000	\$ 96,050
Audit-Related Fees		
Tax Fees(2)		17,250
All Other Fees(3)		16,705
Total Fees	\$ 150,000	\$ 130,005

- (1) Includes fees and expenses related to the fiscal year audit and interim reviews, notwithstanding when the fees and expenses were billed or when the services rendered.
- (2) Includes fees and expenses for tax services related to the preparation of federal and state tax returns and quarterly estimated tax payments from April through March of the fiscal year, notwithstanding when the fees and expenses were billed.
- (3) Includes fees for professional services rendered with regard to LIFO inventory valuation.

The audit committee has considered whether non-audit services provided by E&Y to the Company are compatible with maintaining E&Y's independence.

The audit committee has implemented pre-approval policies and procedures for all audit and non-audit services to be provided by the Company's independent public accountants to the Company. The audit committee has authorized the Company, without any further approval on the part of the audit committee, to engage E&Y to provide the following permissible non-audit services to the Company during the fiscal year ended March 31, 2006:

Quarterly review of the Company's interim financial statements and quarterly reports on Form 10-Q, provided that the cost of such services not exceed in the aggregate \$20,000 per year.

Thereafter, with regard to (i) all permissible non-audit services not included in the preceding sentence and (ii) those services described in the preceding sentence which exceed the annual threshold amounts stated therein, to be provided to the Company during the fiscal year ended March 31, 2006, the audit committee has designated the Chairman of the audit committee to approve in advance the provision by the independent public accountants of such services. There were no services approved by the audit committee pursuant to the de minimus exception in paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X during fiscal 2005.

**PROPOSALS OF SHAREHOLDERS**

Proposals of shareholders intended to be included in the Company's proxy statement and form of proxy for the 2006 Annual Meeting of Shareholders must be received at the Company's principal executive offices at 4001 Homestead Road, Houston, Texas 77028 on or before March 31, 2006.

**GENERAL**

Management knows of no other matter to be presented at the meeting. If any other matter should be presented upon which a vote may properly be taken, it is intended that shares represented by the proxies in the accompanying form will be voted with respect thereto in accordance with the best judgment of the person or persons voting such shares.

The cost of solicitation of proxies in the accompanying form will be paid by the Company. In addition to solicitation by use of the mails, certain directors, officers and regular employees of the Company may solicit the return of proxies by telephone, facsimile or personal interviews.

ANNUAL MEETING OF SHAREHOLDERS OF

**FRIEDMAN INDUSTRIES, INCORPORATED**

September 8, 2005

Please date, sign and mail  
your proxy card in the  
envelope provided as soon  
as possible.

ê Please detach along perforated line and mail in the envelope provided. ê

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF ALL OF THE NOMINEES FOR DIRECTOR.  
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS  
SHOWN HERE X

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1. Election of Directors:

2. In their discretion, the proxies are authorized to vote on such other matters as may properly come before the meeting or any adjournment thereof.

**NOMINEES:**

- J. Friedman
- H. Friedman
- W. Crow
- C. Hall
- A. Rauch
- H. Rich
- K. Weaver
- J. Williams

**FOR ALL NOMINEES**

**WITHHOLD AUTHORITY  
FOR ALL NOMINEES**

**FOR ALL EXCEPT  
(See instructions below)**

**For additional disclosure, please see the Notice of Annual Meeting of Shareholders and the Proxy Statement dated July 29, 2005 relating to such meeting, receipt of which is hereby acknowledged.**

**Unless otherwise directed by the shareholder, this proxy will be voted for the director nominees listed above. Any proxy or proxies heretofore given by the undersigned are hereby revoked.**

**Please sign below and return in the enclosed envelope.**

**INSTRUCTION:** Withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT**

and fill in the circle next to each nominee you wish to withhold, as shown here: **1**

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To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

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Signature of Shareholder \_\_\_\_\_ Date: \_\_\_\_\_ Signature of Shareholder \_\_\_\_\_ Date: \_\_\_\_\_

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**FRIEDMAN INDUSTRIES INCORPORATED**

**PROXY ANNUAL MEETING OF SHAREHOLDERS SEPTEMBER 8, 2005**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned shareholder of Friedman Industries, Incorporated (the Company ) hereby appoints Jack Friedman and Harold Friedman, and each of them, proxies of the undersigned, with full power of substitution, to vote at the Annual Meeting of Shareholders of the Company to be held in the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Suite 5100, Houston, Texas, on September 8, 2005, at 11:00 a.m. (local time), and at any adjournment thereof, the number of votes which the undersigned would be entitled to cast if personally present.

**(Continued and to be signed on the reverse side)**

ew Roman" SIZE="2">12,600

12,300

11,986(3)

(3)

(3)

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- (1) In March 2003, Mr. Jobs voluntarily cancelled all of his outstanding options, excluding those granted to him in his capacity as a Director. In March 2003, the Board awarded Mr. Jobs 10 million (split-adjusted) restricted shares of the Company's Common Stock that generally vest in full on the third anniversary of the grant date. The market value of the restricted shares at the end of fiscal year 2005 (based on \$53.20 per share, the closing price of Common Stock on the NASDAQ National Market on September 23, 2005) was \$532 million.
  
- (2) Market value of restricted stock units granted on March 24, 2004 (based on \$12.75 per share, the closing price of the Company's common stock on the NASDAQ National Market on the day of grant). Restricted stock units generally vest over four years with 50% of the total number of shares vesting on each of the second and fourth anniversaries of the grant date. The market value of the restricted stock units at the end of fiscal year 2005 (based on \$53.20 per share, the closing price of Common Stock on the NASDAQ National Market on September 23, 2005) was \$31.92 million for Mr. Cook and \$26.60 million for each of Messrs. Johnson, Oppenheimer and Rubinstein.
  
- (3) Consists of matching contributions made by the Company in accordance with the terms of the 401(k) plan.

**Option Grants in Last Fiscal Year**

There were no options, restricted stock, or restricted stock units granted to the Named Executive Officers during fiscal year 2005.

**Table of Contents****Options Exercised and Year-End Option Holdings**

The following table provides information about stock option exercises by the Named Executive Officers during fiscal year 2005 and stock options held by each of them at fiscal year-end. The table has been adjusted to reflect the Company's two-for-one stock split in February 2005.

**AGGREGATED OPTION EXERCISES IN THE LAST FISCAL YEAR****AND FISCAL YEAR-END OPTION VALUES**

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options at Fiscal Year-End \$(1)	
	(#)	(\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
Steven P. Jobs			120,000(2)	(3)	\$ 5,694,000(2)	
Timothy D. Cook	500,000	\$ 13,329,677		(3)		
Ronald B. Johnson	1,350,000	\$ 32,257,127	2,100,000	150,000(3)	\$ 61,910,625	\$ 6,220,500
Peter Oppenheimer			1,107,500	37,500(3)	\$ 45,994,859	\$ 1,560,062
Jonathan Rubinstein	1,800,000	\$ 31,012,815		(3)		

- (1) Market value of securities underlying in-the-money options at the end of fiscal year 2005 (based on \$53.20 per share, the closing price of Common Stock on the NASDAQ National Market on September 23, 2005), minus the exercise price.
- (2) Consists of 120,000 options granted to Mr. Jobs in his capacity as a director pursuant to the 1997 Director Stock Option Plan. Since accepting the position of CEO, Mr. Jobs is no longer eligible to receive option grants under the Director Plan. In March 2003, Mr. Jobs voluntarily cancelled all of his outstanding options, excluding those granted to him in his capacity as a director.
- (3) This does not include 10 million restricted shares granted to Mr. Jobs, 600,000 restricted stock units granted to Mr. Cook, and 500,000 restricted stock units granted to each of Messrs. Johnson, Oppenheimer, and Rubinstein.

**Equity Compensation Plan Information**

The following table sets forth certain information, as of September 24, 2005, concerning shares of common stock authorized for issuance under all of the Company's equity compensation plans. The table has been adjusted to reflect the Company's two-for-one stock split in February 2005.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by shareholders	42,365,700	\$ 23.27	62,791,724(1)
Equity compensation plans not approved by shareholders	30,827,565	\$ 10.27	
Total equity compensation plans(2)	73,193,265	\$ 17.79	62,791,724



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- (1) This number includes 3,834,300 shares of common stock reserved for issuance under the Employee Stock Purchase Plan, 440,000 shares available for issuance under the 1997 Director Stock Option Plan, and 58,517,424 shares available for issuance under the 2003 Employee Stock Plan. The grant of 5,260,000

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restricted stock units has been deducted from the number of shares available for future issuance. Shares of restricted stock and restricted stock units granted after April 2005 count against the shares available for grant as two shares for every share granted. This amount does not include shares under the 1990 Stock Option Plan that was terminated in 1997. No new options can be granted under the 1990 Stock Option Plan.

- (2) This table does not include 28,082 outstanding options assumed in connection with a prior acquisition of a company that originally granted those options. These assumed options have a weighted average exercise price of \$3.39 per share. No additional options may be granted under the assumed plan.

### **Arrangements with Named Executive Officers**

#### *Change In Control Arrangements Stock Options, Restricted Stock, and Restricted Stock Units*

In the event of a change in control of the Company, all outstanding options under the Company's stock option plans, except the Director Plan, will, unless otherwise determined by the plan administrator, become fully exercisable, and will be cashed out at an amount equal to the difference between the applicable change in control price and the exercise price. The Director Plan provides that upon a change in control of the Company, all outstanding options held by non-employee directors will automatically become fully exercisable and will be cashed out at an amount equal to the difference between the applicable change in control price and the exercise price of the options. A change in control under these plans is generally defined as (i) the acquisition by any person of 50% or more of the combined voting power of the Company's outstanding securities or (ii) the occurrence of a transaction requiring shareholder approval and involving the sale of all or substantially all of the assets of the Company or the merger of the Company with or into another corporation.

In addition, options, restricted stock grants, and restricted stock units granted to the Named Executive Officers generally provide that in the event there is a change in control, as defined in the Company's stock option plans, and if in connection with or following such change in control, their employment is terminated without Cause or if they should resign for Good Reason, those options, restricted stock, and restricted stock units outstanding that are not yet vested as of the date of such change in control shall become fully vested. Further, restricted stock and restricted stock units granted to the Named Executive Officers also provide that, in the event the Company terminates the Officer without cause at any time, the restricted stock units and restricted stock will vest in full. Generally, Cause is defined to include a felony conviction, willful disclosure of confidential information or willful and continued failure to perform his or her employment duties. Good Reason includes resignation of employment as a result of a substantial diminution in position or duties, or an adverse change in title or reduction in annual base salary.

### **Certain Relationships and Related Transactions**

In March 2002, the Company entered into a Reimbursement Agreement with its Chief Executive Officer, Mr. Steven P. Jobs, for the reimbursement of expenses incurred by Mr. Jobs in the operation of his private plane when used for Apple business. The Reimbursement Agreement is effective for expenses incurred by Mr. Jobs for Apple business purposes since he took delivery of the plane in May 2001. During 2005, the Company recognized a total of \$1,075,545 in expenses pursuant to this reimbursement agreement related to expenses incurred by Mr. Jobs during 2005.

In October 2005, the Company entered into an agreement with Pixar to sell certain of Pixar's short films on the iTunes Music Store. Mr. Jobs, the Company's Chief Executive Officer, is also the Chief Executive Officer, Chairman, and a large shareholder of Pixar.

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**Report of the Audit & Finance Committee**

*The following is the report of the Audit & Finance Committee (the Audit Committee ) with respect to the Company s audited financial statements for the fiscal year ended September 24, 2005. The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the 1934 Securities Exchange Act, as amended, except to the extent that the Company specifically incorporates such information by reference in such filing.*

The Audit & Finance Committee (the Audit Committee ) is comprised of three members: Messrs. Campbell and York and Dr. Levinson. All of the members are independent directors under the NASDAQ audit committee structure and membership requirements. The Audit Committee operates under a written charter adopted by the Board. A copy of the charter can be found on the Company s website at [www.apple.com/investor](http://www.apple.com/investor).

The Audit Committee is primarily responsible for assisting the Board in fulfilling its oversight responsibility by reviewing the financial information that will be provided to shareholders and others, appointing the independent auditor, reviewing the services performed by the Company s independent auditors and internal audit department, evaluating the Company s accounting policies and its system of internal controls that management and the Board have established, and reviewing significant financial transactions. The Audit Committee does not itself prepare financial statements or perform audits, and its members are not auditors or certifiers of the Company s financial statements.

In fulfilling its oversight responsibility of appointing and reviewing the services performed by the Company s independent auditors, the Audit Committee carefully reviews the policies and procedures for the engagement of the independent auditor, including the scope of the audit, audit fees, auditor independence matters and the extent to which the independent auditor may be retained to perform non-audit related services.

Prior to the enactment of the Sarbanes-Oxley Act of 2002 (the Act ), the Company adopted an auditor independence policy that banned its auditors from performing non-financial consulting services, such as information technology consulting and internal audit services. This auditor policy mandates that the audit and non-audit services and related budget be approved by the Audit Committee in advance, and that the Audit Committee be provided with quarterly reporting on actual spending. This policy also mandates that no auditor engagements for non-audit services may be entered into without the express approval of the Audit Committee.

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended September 24, 2005 with the Company s management and KPMG LLP. The Audit Committee has also discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees.

The Audit Committee has also received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with the auditors the auditors independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the financial statements referred to above be included in the Company s Annual Report on Form 10-K for the fiscal year ended September 24, 2005.

**Members of the Audit & Finance Committee**

William V. Campbell

Arthur D. Levinson

Jerome B. York (Chairman)

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**Company Stock Performance**

The following graph shows a five-year comparison of cumulative total shareholder return, calculated on a dividend reinvested basis, for the Company, the S&P 500 Composite Index (the *S&P 500*) and the S&P Computers (Hardware) Index (the *Industry Index*). The graph assumes \$100 was invested in each of the Company's Common Stock, the S&P 500 and the Industry Index on September 30, 2000. Data points on the graph are annual. Note that historic stock price performance is not necessarily indicative of future stock price performance.

**OVERVIEW OF PROPOSALS**

This Proxy Statement contains three proposals requiring shareholder action. Proposal No. 1 requests the election of seven directors to the Company's Board. Proposal No. 2 requests the ratification of the appointment of KPMG LLP as independent auditors of the Company for fiscal year 2006. Proposal No. 3 is a shareholder proposal. Each of the proposals is discussed in more detail in the pages that follow.

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

The Board has nominated the current directors, Messrs. Anderson, Campbell, Drexler, Gore, Jobs and York and Dr. Levinson, to be elected to serve for a one-year term and until their successors are duly elected and qualified. Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the proxy card or, if no direction is made, for the election of the Board's seven nominees. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxy holders will vote for a nominee designated by the present Board to fill the vacancy.

**Table of Contents****Vote Required**

The seven nominees for director receiving the highest number of affirmative votes of the shares entitled to be voted for them shall be elected as directors. Votes withheld from any director are counted for purposes of determining the presence or absence of the quorum, but have no other legal effect under California law.

**Recommendation**

**The Board recommends that shareholders vote FOR the election of Messrs. Anderson, Campbell, Drexler, Gore, Jobs and York and Dr. Levinson.**

**PROPOSAL NO. 2****RATIFICATION OF APPOINTMENT OF AUDITORS**

The Audit & Finance Committee of the Board of Directors has appointed KPMG LLP ( *KPMG* ), independent auditors, to audit the Company's consolidated financial statements for fiscal year 2006. KPMG served as the Company's independent auditors for fiscal year 2005. At the Annual Meeting, the shareholders are being asked to ratify the appointment of KPMG as the Company's independent auditors for fiscal year 2006. In the event of a negative vote on such ratification, the Audit & Finance Committee will reconsider its selection. Representatives of KPMG will be present at the Annual Meeting and will have the opportunity to respond to appropriate questions and to make a statement if they so desire.

**Fees Paid To The Independent Auditors**

The following table sets forth the fees paid to the Company's independent registered public accounting firm, KPMG LLP, during fiscal years 2005 and 2004.

**Audit and Non-Audit Fees**

	2005	2004
Audit Fees	\$ 6,948,800(1)	\$ 3,402,300
Audit-Related Fees	46,700(2)	57,000
Tax Fees	923,000(3)	784,500
All Other Fees		
<b>Total</b>	<b>\$ 7,918,500</b>	<b>\$ 4,243,800</b>

- (1) Audit fees relate to professional services rendered in connection with the audit of the Company's annual financial statements and internal control over financial reporting, quarterly review of financial statements included in the Company's Forms 10-Q, and audit services provided in connection with other statutory and regulatory filings.
- (2) Audit-related fees primarily relate to professional services for the audits of employee benefit plans.
- (3) Tax fees include \$690,000 for professional services rendered in connection with tax compliance and preparation relating to the Company's expatriate program, tax audits and international tax compliance; and \$233,000 for international tax consulting and planning services. The Company does not engage KPMG to perform personal tax services for its executive officers.

**Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services Performed by the Independent Auditors**

Prior to the enactment of the Sarbanes-Oxley Act of 2002 (the *Act*), the Company adopted an auditor independence policy that banned its auditors from performing non-financial consulting services, such as



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information technology consulting and internal audit services. This auditor policy also mandates that the audit and non-audit services and related budget be approved by the Audit Committee in advance, and that the Audit Committee be provided with quarterly reporting on actual spending. In accordance with this policy, all services to be performed by KPMG were pre-approved by the Audit Committee.

Subsequent to the enactment of the Act, the Audit Committee met with KPMG to further understand the provisions of that Act as it relates to auditor independence. KPMG rotated the lead audit partner for fiscal year 2005 and will rotate other partners as appropriate in compliance with the Act. The Audit Committee will continue to monitor the activities undertaken by KPMG to comply with the Act.

### **Vote Required**

The affirmative vote of (i) a majority of the shares represented and voting and (ii) a majority of the quorum will be required to approve this Proposal.

### **Recommendation**

**The Board recommends that shareholders vote FOR ratification of the appointment of KPMG LLP as the Company's independent auditors.**

## **PROPOSAL NO. 3**

### **SHAREHOLDER PROPOSAL**

The Education Foundation of America, represented by As You Sow, 311 California St., Suite 510, San Francisco, CA 94104, owner of approximately 15,200 shares of the Company's common stock, has submitted the following proposal:

### **ELECTRONIC WASTE TAKE-BACK AND RECYCLING**

WHEREAS Apple Computer emphasizes a commitment to environmental leadership. Yet the technical innovation responsible for leadership in designing and marketing products has not extended to developing adequate end-of-life programs.

The National Safety Council reported in 1999 that only 11% of discarded computers were recycled, compared with 28% of overall municipal solid waste. Electronic waste constitutes from 2% to 5% of the US municipal solid waste stream and is growing rapidly.

CEO Steve Jobs stated at the April 2005 annual meeting that Apple is a leader on environmental initiatives. Taking back iPods for free is a welcome step but on computer take back, our company still appears to be an industry laggard. If iPods can be returned to Apple stores, why not iMacs? Apple takes computer products back only if customers pay a fee, providing a significant disincentive to recycle.

Other companies have taken more significant actions to provide free recycling to supplement fee-based systems. In 2004, Dell sponsored groups to coordinate free recycling that collected 3 million pounds of equipment. Hewlett Packard partnered with Office Depot to offer free nationwide recycling, resulting in 10.5 million pounds of equipment. Apple needs to show leadership by developing similar broad-based programs. As Apple board member Al Gore has stated, "We need to reaffirm that we have a right to assert values even if a supply and demand equation says, 'That's not efficient.'"

Dell and Hewlett Packard have both announced public computer take back goals so stakeholders can measure progress against those goals; Apple has not.

Recent reports indicate that large amounts of discarded computers are being improperly shipped to developing countries. Shareholders need assurances that the company has taken adequate measures to ensure its recycling vendors don't export hazardous wastes.

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The company should monitor the environmental impact of computers after they are collected for recycling. Apple's web site says discarded plastics are used as fuel in smelters. Whenever plastic combusts, it can potentially create deadly dioxins. Burning plastic is not recycling.

The company has lobbied against legislation asking computer producers to take responsibility for most of the cost of recycling. Apple appears to want taxpayers to foot most of the bill for recycling.

We believe Apple Computer can avoid financial, legal and reputational risk and gain competitive advantage by taking additional measures to develop a leadership position on collection and safe disposition of old computers.

**BE IT RESOLVED** that Apple Computer's board of directors prepare a report, at reasonable cost, studying ways to improve its computer recycling programs, to be released within six months of the annual shareholder meeting.

### SUPPORTING STATEMENT

The report should include a commitment to set public take back goals for end-of-life equipment; study the feasibility of using Apple stores as take back centers, take back partnerships with resellers and other measures to stimulate recycling. It should discuss measures taken to prevent improper export of hazardous waste, the environmental impact of its recycling processes, and explain its lobbying position on take back legislation.

#### **Board of Directors Statement Opposing Shareholder Proposal**

The Company has a strong environmental policy that goes well beyond the shareholder proposal's very narrow view of environmental stewardship.

Measuring Apple's environmental friendliness only by its activities at the end of a product's life ignores the many ways the Company is committed to protecting the environment. Apple's comprehensive environmental policy and successful track record support this commitment. The Company makes it a priority to minimize a product's environmental impact long before it is discarded.

Apple designs its products with recycling in mind, making them easy to dismantle and using high-quality materials that are valuable to recyclers. These factors also promote a healthy electronics recycling market.

Apple led the industry by aggressively moving away from lead-filled CRT displays, in favor of flat-panel displays for personal computers. The Company also recently reduced the size of iPod and software packaging by more than 50%, saving hundreds of thousands of pounds of waste in the first fiscal quarter of 2006 alone.

Not only does the Company comply with all applicable hazardous substance laws worldwide, it has its own Substance Control Policy that goes beyond such regulations by banning other potentially hazardous chemicals from use in Apple products, packaging and manufacturing. Apple's environmental policies, including updated lists of banned and restricted substances, are available online at [www.apple.com/environment](http://www.apple.com/environment).

Apple's products meet energy management standards such as ENERGY STAR, and in many performance categories the Company has set energy consumption limits that are even stricter than these standards require. Apple is on schedule for compliance with the European Union's directive on the Restriction of Hazardous Substances (RoHS) by July 2006.

In the area of product take-back, the proposal is uninformed about Apple's many successful programs around the world.

Apple promotes the recycling of products through its own take-back initiatives and through national collective take-back programs. The Company supports environmental legislation that recognizes good environmental design, encourages fairness and flexibility for all impacted stakeholders, and ensures that true hazards are eliminated and controlled. Apple was the first computer manufacturer to support California's SB 20, a recycling bill that became law in 2003 and has become a model for take-back legislation in other states.



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The Company has initiated a number of recycling programs globally that have diverted millions of pounds of IT equipment from landfills:

In August 2005, the Company began a trade-in program for educational institutions and business customers in the United States. To date, more than 60 tons of electronic waste have been diverted from landfill as a result of this program, which is still in its early stages.

Since October 2002, the Company's recycling partnership with the City of Cupertino has recycled more than 155 tons of electronics. This program accepts any electronic product for free, regardless of manufacturer.

In 2001, the Company began a take-back service for customers through the Apple Recycles program. This program has recycled over 90% by weight of all equipment collected.

Apple conducts a free iPod recycling program through its U.S. retail stores, offering environmentally friendly disposal and a 10% discount on the purchase of a new iPod.

Apple is also participating in recycling programs in Asia, including nationwide programs in Japan and Taiwan. Based on the most recent audits of Apple's U.S. recycling, no hazardous waste from these programs is shipped outside North America. All recovered materials are processed domestically, with the exception of some commodity materials that can be recycled for future use. Plastics recovered by these programs are not being used for fuel in smelting. The Company's recycling policies prohibit it.

Apple is continually improving its environmental, health and safety management systems and the environmental quality of its products. The Board of Directors does not believe that it is in the best interest of shareholders to spend additional Company time and resources preparing and distributing a report on means to further improve one aspect of the company's comprehensive environmental policies, which lead the industry and go far beyond the scope of the shareholder proposal.

### **Vote Required**

The affirmative vote of (i) a majority of the shares represented and voting and (ii) a majority of the quorum will be required to approve this Proposal.

### **Recommendation**

**The Board recommends a vote AGAINST the proposal entitled Electronic Waste Take-Back And Recycling.**

## **OTHER MATTERS**

The Company knows of no other matters to be submitted to the shareholders at the Annual Meeting. If any other matters properly come before the shareholders at the Annual Meeting, it is the intention of the persons named on the enclosed proxy card to vote the shares they represent as the Board may recommend.

## **SHAREHOLDER PROPOSALS**

Shareholder proposals to be considered for inclusion in the proxy statement and form of proxy relating to the next annual meeting must be received no later than November 15, 2006. In addition, the Company's bylaws provide for the timing and content of notice that shareholders must provide to the Company's Corporate Secretary at 1 Infinite Loop, Cupertino, CA 95014, for the nomination of directors or other proposals to be properly presented at a shareholder meeting. Pursuant to these provisions, notice of a nomination or proposal must be received by the Company not less than 60 days prior to the meeting; provided, however, that in the event



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that less than 70 days notice or prior public disclosure of the date of the meeting is given to shareholders, notice must be received by the 10th business day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made.

**SHAREHOLDERS SHARING AN ADDRESS**

Shareholders sharing an address with another shareholder may receive only one set of proxy materials at that address unless they have provided contrary instructions. Any such shareholder who wishes to receive a separate set of proxy materials now or in the future may write or call the Company to request a separate copy of these materials from:

Investor Relations

1 Infinite Loop MS 301-4IR

Cupertino, CA 95014

(408) 974-3123

Similarly, shareholders sharing an address with another shareholder who have received multiple copies of the Company's proxy materials may write or call the above address and phone number to request delivery of a single copy of these materials.

**THE BOARD OF DIRECTORS**

Dated: March 13, 2006

**Table of Contents****Appendix A****APPLE COMPUTER, INC.****AUDIT AND FINANCE COMMITTEE CHARTER**

There shall be a Committee of the Board of Directors (the "Board") of Apple Computer, Inc. (the "Corporation") to be known as the Audit and Finance Committee ("Committee") with purpose, composition, duties, authority, and responsibilities, as follows:

**I. PURPOSE OF THE COMMITTEE.** The primary purpose of the Committee is to assist the Board in oversight and monitoring of: (i) the Corporation's financial statements and other financial information provided by the Corporation to its shareholders and others; (ii) compliance with legal and regulatory requirements; (iii) the independent auditors, including their qualifications and independence; (iv) the Corporation's systems of internal controls, including the Internal Audit function; and (v) the auditing, accounting, and financial reporting process generally. The Committee shall prepare the report required by the rules of the Securities and Exchange Commission ("SEC") to be included in the Corporation's annual proxy statement. The Committee does not itself prepare financial statements or perform audits, and its members are not auditors or certifiers of the Corporation's financial statements. It is not the duty of the Committee to conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with Generally Accepted Accounting Principles and applicable rules and regulations. These are the responsibilities of Management and the independent auditors.

**II. COMPOSITION OF THE COMMITTEE.** The members of the Committee shall be appointed by the Board. The Committee will be composed of not less than three members and shall be composed of directors satisfying the independence requirements of applicable NASDAQ and SEC rules. The Chairman of the Committee shall be designated by the Board. Each member shall be able to read and understand fundamental financial statements, in accordance with the NASDAQ National Market Audit Committee requirements, and at least one member will have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background, including a current or past position as a principal financial officer or other senior officer with financial oversight responsibilities and will otherwise qualify as an "audit committee financial expert" as defined by applicable SEC rules.

**III. COMMITTEE MEETINGS.** The Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Committee shall meet at least quarterly with Management, the Director of Internal Audit, and the independent auditors in separate executive sessions to discuss any matters that the Committee or any of these groups believe should be discussed privately. The Committee shall meet with the independent auditors and Management quarterly to review the Corporation's financial information. The Committee shall report to the full Board with respect to its meetings. The Chairman of the Board, any member of the Committee, or the Secretary of the Corporation may call meetings of the Committee. The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

**IV. AUTHORITY AND RESOURCES.** The Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a Committee meeting or to meet with any members of, or consultants to, the Committee. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants, or other advisors and experts to assist in any investigation and performance of its functions at the Corporation's expense.

**V. DUTIES AND RESPONSIBILITIES.** To fulfill its responsibilities and duties the Committee shall:

*Independent Auditor*

1. Appoint, compensate, and oversee the work of the independent auditors (including resolving disagreements between Management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

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2. Pre-approve audit and non-audit services to be provided to the Corporation by the independent auditors. In this regard, the Committee shall have the sole authority to approve the hiring and firing of the independent auditors and all fees and terms of audit and non-audit engagements with the independent auditors, in each case as may be permissible and compatible with the auditors independence. The Committee shall also review and approve disclosures with respect to non-audit services.
3. Review and provide guidance with respect to the external audit and the Corporation's relationship with its independent auditors by (i) reviewing the independent auditors' proposed audit scope, approach and independence; (ii) obtaining on a periodic basis a statement from the independent auditors regarding relationships and services with the Corporation which may impact independence and presenting this statement to the Board, and to the extent there are relationships, monitoring and investigating them; (iii) ensuring that the independent auditors submit to the Committee on an annual basis a written statement (consistent with Independence Standards Board Standards No. 1) delineating all relationships and services that may impact the objectivity and independence of the independent auditors; and (iv) reviewing reports submitted to the Committee by the independent auditors in accordance with the applicable SEC requirements.
4. Obtain and review an annual report from the independent auditors describing (i) the independent auditors' internal quality control procedures and (ii) any material issues raised by the recent internal quality control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and steps taken to deal with any such issues.
5. Review the experience and qualifications of the senior members of the independent auditor team.
6. Review and concur with the Corporation's hiring of employees of the independent auditor who were engaged on the Corporation's account.
7. Review the performance of the independent auditors on an annual basis.
8. Periodically discuss with the independent auditors, (i) their judgments about the quality, appropriateness, and acceptability of the Corporation's accounting principles and financial disclosure practices, as applied in its financial reporting, and (ii) the completeness and accuracy of the Corporation's financial statements.

*Financial Reporting*

9. Review with Management and the independent auditor:

The Corporation's annual audited financial statements, and related footnotes, and quarterly unaudited financial statements, including the disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, prior to filing the Corporation's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, respectively, with the SEC.

The independent auditors' audit of the annual financial statements and their report thereon.

The accompanying Management Letter and any reports with respect to interim periods.

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Any major changes to the Corporation's accounting principals and practices.

Any significant changes required in the independent auditors' audit plan.

Any difficulties or disputes with Management encountered during the course of the audit.

Other matters related to the conduct of the audit that are to be communicated to the Committee under Generally Accepted Auditing Standards.

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10. Review with Management, the independent auditors, and the Corporation's counsel, as appropriate, any legal and regulatory matters that may have a material impact on the financial statements, related compliance policies, and programs and reports received from regulators.
11. Review and discuss earnings press releases prior to public disclosure.
12. Provide a report for inclusion in the Corporation's proxy statement in accordance with the rules and regulations of the SEC.
13. Oversee compliance with the requirements of the SEC for disclosure of auditors' services and audit committee member qualifications and activities.
14. Discuss with the independent auditors the financial statements and audit findings, including any significant adjustments, Management judgments and accounting estimates, significant new accounting policies and disagreements with Management and any other matters described in SAS No. 61, as may be modified or supplemented.

*Internal Controls*

15. Review the adequacy of the Corporation's internal controls and the procedures designed to ensure compliance with applicable laws and regulations.
16. Consider and review with the independent auditor and the Director of Internal Audit the adequacy of the Corporation's internal controls and any related significant findings and recommendations of the independent auditor and internal auditing together with Management's responses thereto.
17. Establish procedures for receiving, retaining and treating complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

*Internal Audit*

18. Review and concur with the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit.
19. Consider, in consultation with the Director of Internal Audit and the independent auditor, the audit scope and plan of the internal auditors and the independent auditors.
20. Review with the Director of Internal Audit and the independent auditor the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
21. Consider and review with Management and the Director of Internal Audit:

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Significant findings during the year and Management's responses thereto.

Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.

Any changes required in the planned scope of their audit plan.

The Internal Audit department budget and staffing.

### *Management Discussions*

22. Review and discuss with Management (i) Management's financial risk assessment and risk management policies, (ii) the Corporation's major financial risk exposures and the steps Management has taken to monitor and control such exposures.

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23. Review with Management and the independent auditors any correspondence with regulators or governmental agencies and any employee complaints regarding the Corporation's financial statements or accounting policies.
24. Periodically review separately with each of Management, the independent auditors, and the Director of Internal Audit (i) any disagreements between Management and the auditors in connections with any audits, (ii) any difficulties encountered during the course of audits, including restrictions in scope or access to required information, and (iii) Management's response.
25. Consider and approve, if appropriate, significant changes to the Corporation's accounting principles and financial disclosure practices as recommended by Management and the independent auditors. Review with Management and the independent auditors, at appropriate intervals, the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
26. Inquire about the application of the Corporation's accounting policies and its consistency from period to period, and the compatibility of these accounting policies with Generally Accepted Accounting Principles, and, when applicable, the provisions for future occurrences that may have a material impact on the financial statements of the Corporation.
27. Review and discuss with Management the program that Management has established to monitor compliance with the Corporation's code of business ethics and conduct.
28. Review and discuss with Management all disclosures made by the Corporation concerning any material changes in the financial condition or operations of the Corporation.
29. Review annually the independent auditors' letter of recommendations to Management and Management's responses.
30. Review any Management decision to seek a second opinion from independent auditors other than the Corporation's regular independent auditors with respect to any significant accounting issues.
31. Review with Management and the independent auditors the sufficiency and quality of the Internal Audit Department staff and other financial and accounting personnel of the Corporation.

*Treasury and Finance*

32. Review periodically the capital structure of the Corporation, and, when necessary, recommend to the Board transactions or alterations to the Corporation's capital structure.
33. Review and recommend to the Board changes in the Corporation's treasury resolutions and expenditure authorizations.
34. Periodically review matters pertaining to the Corporation's investment practices for cash management, foreign exchange, investments, and derivatives.
- 35.

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Review for approval or disapproval special transactions or expenditures as specifically delegated by the Board, or such other special transactions or expenditures not specifically delegated by the Board if determined by the Committee that approval by the full Board is not necessary or convenient, such as transactions that require relatively rapid decisions.

36. Review and discuss with Management all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), leases and other relationships of the Corporation with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves, or significant components of revenues or expenses.
37. Review with Management the sale or acquisition of equity investments and asset acquisitions or dispositions that may have a material current or future effect on financial condition, changes in

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financial condition, results of operations, liquidity, capital resources, capital reserves, or significant components of revenues or expenses.

38. Review and discuss with Management the Corporation's effective tax rate, adequacy of tax reserves and significant tax developments.  
*Other*

39. Provide an open avenue of communication between the internal auditors, the independent auditor, and the Board.

40. Review the Committee's charter, structure, processes, and membership requirements at least once a year.

41. Report Committee actions to the Board with such recommendations as the Committee deems appropriate.

42. Review and approve in advance any proposed related-party transactions and report to the full Board on any approved transactions.

43. The Committee can delegate any of its responsibilities to the extent allowed under applicable law.

44. The Committee will perform such other functions as assigned by law, the Corporation's charter or bylaws, or the Board.

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## Directions to the Annual Shareholder Meeting

**FROM SAN JOSE:**

Take 280 northbound  
Take the De Anza Blvd. exit  
Make a left onto De Anza Blvd. (at signal)  
Make a left onto Mariani Avenue  
Enter Infinite Loop Parking Lot at the end of Mariani Avenue.  
Proceed to Building 4

**FROM SAN FRANCISCO:**

Take 280 southbound  
Take the De Anza Blvd. exit  
Make a right onto De Anza Blvd. (at signal)  
Make a left onto Mariani Avenue  
Enter Infinite Loop Parking Lot at the end of Mariani Avenue.  
Proceed to Building 4

Attendance at the Annual Meeting is limited to shareholders. Admission to the meeting will be on a first-come, first-served basis. In the interest of saving time and money, Apple has opted to provide the enclosed Form 10-K for 2005 in lieu of producing a glossy annual report.

**APPLE COMPUTER, INC.**

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