I was trying to get the friendly url's to work for a few days now but havent been able to sit down and focus on it. Anyways I just got it to work.
Make sure to copy htaccess.txt to web-root-folder/ and rename it to .htaccess.
If Joomla is not installed in the root folder then modify the following line in .htaccess
RewriteBase /my-joomla-installation-folder
Also modify following line configuration.php located in joomla installation folder: