

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

 X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2003
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-9982

BAYOU STEEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

72-1125783
(I.R.S. Employer
Identification No.)

138 Highway 3217, P.O. Box 5000, LaPlace, Louisiana 70069

(Address of principal executive offices)
(Zip Code)

(985) 652-4900
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b2 of the Exchange Act). Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Shares Outstanding at December 31, 2003</u>
Class A Common Stock, \$.01 par value	10,619,380
Class B Common Stock, \$.01 par value	2,271,127
Class C Common Stock, \$.01 par value	<u>100</u>
	<u>12,890,607</u>

BAYOU STEEL CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. **FINANCIAL STATEMENTS**

BAYOU STEEL CORPORATION
(DEBTORS-IN-POSSESSION)
CONSOLIDATED BALANCE SHEETS
ASSETS

	(Unaudited) December 31, 2003	(Audited) September 30, 2003
CURRENT ASSETS:		
Cash	\$ 101,890	\$ 178,170
Receivables, net of allowance for doubtful accounts	26,615,031	21,137,404
Inventories	47,164,832	50,228,969
Prepaid expenses	<u>2,005,488</u>	<u>1,565,543</u>
Total current assets	<u>75,887,241</u>	<u>73,110,086</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	3,427,260	3,427,260
Machinery and equipment	143,820,270	143,552,406
Plant and office building	<u>25,739,705</u>	<u>25,739,705</u>
	172,987,235	172,719,371
Less-Accumulated depreciation	<u>(90,891,818)</u>	<u>(88,782,842)</u>
Net property, plant and equipment	<u>82,095,417</u>	<u>83,936,529</u>
OTHER ASSETS	<u>1,610,460</u>	<u>1,918,971</u>
Total assets	<u>\$ 159,593,118</u>	<u>\$ 158,965,586</u>

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION
(DEBTORS-IN-POSSESSION)
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	(Unaudited)	(Audited)
	December 31,	September 30,
	2003	2003
CURRENT LIABILITIES:		
Post petition liabilities:		
Accounts payable	\$ 7,774,741	\$ 6,505,980
Accrued plant turnaround costs	1,616,603	1,814,110
Other accrued liabilities	6,320,194	7,672,254
Debtor-in-possession financing	<u>19,851,686</u>	<u>18,328,228</u>
Total current liabilities	<u>35,563,224</u>	<u>34,320,572</u>
PRE-PETITION LIABILITIES SUBJECT TO COMPROMISE	<u>138,331,532</u>	<u>138,312,386</u>
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' EQUITY(DEFICIT):		
Common stock, \$.01 par value -		
Class A: 24,271,127 authorized and 10,619,380 outstanding shares	106,194	106,194
Class B: 4,302,347 authorized and 2,271,127 outstanding shares	22,711	22,711
Class C: 100 authorized and outstanding shares	<u>1</u>	<u>1</u>
Total common stock	128,906	128,906
Paid-in capital	46,045,224	46,045,224
Retained earnings (accumulated deficit)	(59,918,432)	(59,363,569)
Accumulated other comprehensive income (loss)	<u>(557,336)</u>	<u>(477,933)</u>
Total common stockholders' equity (deficit)	<u>(14,301,638)</u>	<u>(13,667,372)</u>
Total liabilities and common stockholders' equity (deficit)	<u>\$ 159,593,118</u>	<u>\$ 158,965,586</u>

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION
(DEBTORS-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
	December 31,	
	<u>2003</u>	<u>2002</u>
NET SALES	\$ 51,693,892	\$ 28,830,694
COST OF SALES	<u>49,416,207</u>	<u>32,236,269</u>
GROSS MARGIN	2,277,685	(3,405,575)
SELLING, GENERAL AND ADMINISTRATIVE	1,781,910	1,713,033
REORGANIZATION EXPENSE	<u>921,771</u>	<u>948,819</u>
OPERATING LOSS	<u>(425,996)</u>	<u>(6,067,427)</u>
OTHER INCOME (EXPENSE):		
Interest expense	(243,314)	(3,018,668)
Miscellaneous	<u>114,447</u>	<u>100,063</u>
	<u>(128,867)</u>	<u>(2,918,605)</u>
NET LOSS	<u>\$ (554,863)</u>	<u>\$ (8,986,032)</u>
Weighted average basic and diluted common shares outstanding	12,890,607	12,890,607
Net loss per basic and diluted common share	<u>\$ (.04)</u>	<u>\$ (.70)</u>

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION
(DEBTORS-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	December 31,	
	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (554,863)	\$ (8,986,032)
Depreciation	2,157,569	1,926,278
Amortization	233,738	115,251
Provision for losses on accounts receivable	53,384	30,537
Gain on sale of investments	(156,629)	—
Reorganization expenses	921,771	948,819
Changes in working capital:		
(Increase) decrease in receivables	(5,531,011)	3,952,134
Decrease (increase) in inventories	3,064,137	(2,028,663)
(Increase) in prepaid expenses and other assets	(539,945)	(1,001,995)
Increase (decrease) in accounts payable	1,259,347	(3,730,992)
(Decrease) increase in interest payable and accrued liabilities	<u>(1,549,567)</u>	<u>123,501</u>
Net cash used in operations excluding reorganization expenses	(642,069)	(8,651,162)
NET CASH USED FOR REORGANIZATION EXPENSES ..		
Net cash used in operations	<u>(921,771)</u>	<u>(948,819)</u>
	<u>(1,563,840)</u>	<u>(9,599,981)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(316,457)	(652,739)
Proceeds from sale of investments	<u>280,559</u>	<u>—</u>
Net cash used in investing activities	<u>(35,898)</u>	<u>(652,739)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under debtor-in-possession financing facility	1,523,458	—
Net borrowings under line of credit	<u>—</u>	<u>11,175,222</u>
Net cash provided by financing activities	<u>1,523,458</u>	<u>11,175,222</u>
NET (DECREASE) INCREASE IN CASH	(76,280)	922,502
CASH, beginning balance	<u>178,170</u>	<u>57,290</u>
CASH, ending balance	<u>\$ 101,890</u>	<u>\$ 979,792</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the period for:		
Interest	\$ —	\$ —

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION
(DEBTORS-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003
(Unaudited)

1) **NATURE OF OPERATIONS AND BANKRUPTCY PROCEEDING**

Bayou Steel Corporation (the "Company") owns and operates a steel minimill and a stocking warehouse on the Mississippi River in LaPlace, Louisiana (the "Louisiana Facility"), a rolling mill with warehousing facilities in Harriman, TN (the "Tennessee Facility") and three additional stocking locations accessible to both production facilities through the Inland Waterway system. The Company produces light structural steel and merchant bar products for distribution to steel service centers and original equipment manufacturers/fabricators located throughout the United States, with export shipments of approximately 6% to Canada and Mexico.

On January 22, 2003, the Company and its subsidiaries, Bayou Steel Corporation (Tennessee) and River Road Realty Corporation, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The petition requesting an order for relief was filed in United States Bankruptcy Court, Northern District of Texas (the "Bankruptcy Court"), Case No. 03-30816 BJH (the "Petition Date"). As debtors-in-possession under Sections 1107 and 1108 of the Bankruptcy Code, the Company remained in possession of its properties and assets, and management continued to operate the business. The Company attributed the need to reorganize to market conditions in the U.S. steel industry resulting from significant pressure from imported steel products, low product pricing, and high energy costs. These factors, coupled with the effects of a slow down in the United States economy, have adversely affected the Company over the past several years. The Bankruptcy Court confirmed the Second Amended and Restated Plan of Reorganization of the Company and its subsidiaries on February 6, 2004 (the "Plan"). The Company anticipates that the Plan will be effective on or shortly after February 18, 2004 (the "Effective Date").

2) **BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"); however, see Note 4 regarding the status of an independent auditor's review. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. However, all adjustments, which, in the opinion of management, are necessary for fair presentation have been included except adjustments related to inventory. The inventory valuations as of December 31, 2003 are based on last-in, first-out ("LIFO") estimates of year-end levels and prices. The actual LIFO inventories will not be known until year-end quantities and indices are determined. These consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC as of and for the year ended September 30, 2003.

The accompanying consolidated financial statements include the accounts of Bayou Steel Corporation and its wholly-owned subsidiaries (the "Company") after elimination of all significant intercompany accounts and transactions. The results for the three months ended December 31, 2003 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2004.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Such financial statements have been prepared on the basis that the Company will continue as a going concern and do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company's recurring losses, negative cash flow from operations, and the Chapter

11 case raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, (i) the Company's ability to achieve profitable operations after confirmation, and (ii) the Company's ability to generate sufficient cash from operations to meet its obligations. The consolidated financial statements do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The financial statements are prepared in accordance with the American Institute of Certified Public Accountant's (the "AICPA") Statement of Position (SOP) 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. SOP 90-7 requires the Company to, among other things, (1) identify transactions that are directly associated with the bankruptcy proceedings from those events that occur during the normal course of business and (2) identify pre-petition liabilities subject to compromise from those that are not subject to compromise or are post petition liabilities (see Note 7). All liabilities arising before January 22, 2003 are subject to compromise. In addition, in accordance with the Bankruptcy Code, the Company discontinued accruing interest on the 9.5% first mortgage notes (the "Notes") as of the Petition Date as this debt is subject to compromise. The debtor-in-possession financing ("DIP Financing") is a post-petition liability and, therefore, not subject to compromise. The financial statements do not reflect the effect of any changes in the Company's capital structure as a result of the approved plan of reorganization or adjustments to the carrying value of assets or liability amounts that will be necessary as a result of actions by the Bankruptcy Court. The Company will adopt "Fresh Start Reporting" as required by the AICPA's SOP 90-7 on the Effective Date of the reorganization. The Company will then allocate the reorganization value to its assets and liabilities in relation to their fair value. Accordingly, the carrying values of assets and liabilities on the Effective Date of reorganization are expected to materially differ from the amounts shown as of December 31, 2003.

3) **THE PLAN OF REORGANIZATION**

On the Effective Date of the Plan, the Company will liquidate, over a year, unsecured trade claims at 9% to 10%, possibly higher under certain circumstances, of their face value. The existing holders of the Notes will receive a \$30 million Secured Note and 2 million shares of new common stock of the Company. The existing common stock will be extinguished and the holders of the stock will not receive or retain any property under the Plan. The new \$30 million note will be secured by the Louisiana plant. The principal will be due in 2011, and interest paid semi-annually at 9% per year. The Debtor-in-Possession (DIP) credit facility will be replaced with a new credit facility. Since the number of new shareholders will be less than 300, the Company may elect to be a non-reporting Company under the Securities Exchange Act of 1934.

4) **INDEPENDENT AUDITOR'S REVIEW STATUS**

Currently the Company has no independent auditor approved or engaged to review its interim financial statements primarily due to administrative constraints imposed by the current status of bankruptcy reorganization proceedings. Upon the Company emerging from bankruptcy, its new Board of Directors will appoint an independent auditor. As a consequence, the appointment will not be in time to engage such auditor to perform the required review of the Company's December 31, 2003 interim financial statements in accordance with professional standards as required by Rule 10-01(d) of Regulation S-X. Accordingly, the accompanying unaudited consolidated financial statements and notes thereto were not subject to such independent auditor review procedures.

5) **INVENTORIES**

Inventories consist of the following:

	(Unaudited) December 31, 2003	(Audited) September 30, 2003
Steel scrap	\$ 2,570,302	\$ 2,116,988
Billets	7,647,088	6,444,396
Finished product	32,253,210	34,833,154
LIFO adjustments	<u>(4,010,986)</u>	<u>(1,224,545)</u>
	38,459,614	42,169,993
Operating supplies	<u>8,705,218</u>	<u>8,058,976</u>
	<u>\$ 47,164,832</u>	<u>\$ 50,228,969</u>

As of December 31, 2003 and September 30, 2003, \$2.2 million in lower of LIFO cost or market reserves are included as reductions of finished product inventory.

6) **REORGANIZATION EXPENSES**

Reorganization expenses are expenses incurred by the Company as a result of its decision to restructure its debt prior to Petition Date and to reorganize under Chapter 11 of the Bankruptcy Code. The following summarizes the reorganization expenses provided by the Company during the quarter ended December 31, 2003 and 2002 respectively.

	(Unaudited) Quarter Ended December 31, 2003	(Unaudited) Quarter Ended December 31, 2002
Professional and other fees	\$ 735,381	\$ 737,714
Other	<u>186,390</u>	<u>211,105</u>
	<u>\$ 921,771</u>	<u>\$ 948,819</u>

7) **PRE-PETITION LIABILITIES SUBJECT TO COMPROMISE**

The principal categories of claims classified as liabilities subject to compromise under reorganization proceedings are identified below. All amounts below will be subject to future adjustments on February 18, 2004 when the Company emerges from bankruptcy. Under the plan of reorganization, all pre-petition claims subject to compromise will be paid and discharged at amounts substantially less than their allowed amounts (see Note 3). These liabilities have been reclassified as noncurrent because of the automatic stay provision of the Chapter 11 proceeding.

On a consolidated basis, recorded pre-petition liabilities subject to compromise under Chapter 11 Proceedings, consisted of the following:

	(Unaudited) December 31, 2003	(Audited) September 30, 2003
First Mortgage Notes	\$ 119,498,613	\$ 119,470,053
Accounts Payable	11,018,403	11,027,817
Accrued interest on First Mortgage Notes	<u>7,814,516</u>	<u>7,814,516</u>
Total liabilities subject to compromise	<u>\$ 138,331,532</u>	<u>\$ 138,312,386</u>

As a result of the bankruptcy filing, principal and interest payments were not made on pre-petition under-secured debt. The total interest on the pre-petition under-secured first mortgage notes (See Footnote 8) that was not charged to earnings for the period from January 23, 2003 to December 31, 2003, was approximately \$10.6 million. Such interest is not being accrued as the Bankruptcy Code generally disallows the payment of interest that accrues post-petition with respect

to pre-petition unsecured or under-secured claims.

8) **LONG-TERM DEBT**

The Notes are presented in the accompanying balance sheets net of the original discount of \$1,142,400 which is being amortized over the life of the Notes. As of December 31, 2003 and September 30, 2003, the Notes, net of the unamortized original issue discount of \$501,387 and \$529,947 respectively, are reported in the accompanying consolidated balance sheets as a non-current liability and the Company continues to carry the unamortized debt issue cost of \$1.4 million as a non-current asset. The principal and accrued interest up to the Petition Date are included in pre-petition liabilities subject to compromise. On the effective date of the Plan, certain adjustments to the presentation and carrying values of the Company's debt and related discounts and/or issue costs will be required (See Note 3). The fair value of the Notes on December 31, 2003 and September 30, 2003 was uncertain. The notes are secured by a first priority lien, subject to certain exceptions, on existing real property, plant and equipment, and most additions or improvements at the Louisiana Facility.

9) **DEBTORS-IN-POSSESSION FINANCING AND EXIT FINANCING**

On February 28, 2003, the Bankruptcy Court approved the Debtor-In-Possession Financing Agreement ("DIP Agreement") between the Company and the existing lenders on its credit facility. The DIP Agreement, which is a \$45 million credit facility and has a twelve month term, is secured by inventory, receivables, and certain fixed assets previously unencumbered by other debt agreements, bears interest at prime plus 1% or LIBOR plus 3%. Based on the borrowing base criteria, as defined, approximately \$20.0 million is available as of December 31, 2003; however, the Company is required to maintain a minimum liquidity reserve of \$7.5 million. This minimum effectively reduces additional availability for borrowing to \$12.5 million. The DIP Agreement required, among other things, the Company to meet certain cash operating performance measures based on the Company's weekly budget for a 13 week period ending which ended April 26, 2003. The Company was in compliance throughout the period. There are no other financial performance covenants. The maximum amount outstanding under the DIP Agreement during the three-month period ended December 31, 2003 was \$22.3 million. The average borrowings were \$20.2 million and the weighted average interest rate was 4.82%.

The DIP Agreement expires February 18, 2004. The current lender has indicated that it would extend the term if the Plan is not effective on that date. The Company has executed a commitment letter with a new lender. The proposed loan agreement was submitted to the Bankruptcy Court on February 5, 2004. The Company anticipates closing on February 18, 2004. The new proposed agreement is a \$45 million credit facility and has a three year term. It is secured by inventory, receivables, and certain fixed assets (excluding the Louisiana plant) and bears interest at prime plus 0.5% or LIBOR plus 2.5% adjusted periodically based on availability. Based on the borrowing base criteria, as defined, approximately \$24 million would be available on the effective date before transactions contemplated by the Plan. The Company will need to maintain a minimum availability of \$5 million at all times. The other maintenance covenant is a limitation on capital expenditures. This is the same covenant as in the new Indenture under which the new \$30 million secured notes will be issued upon the effective date.

10) **CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

Bayou Steel Corporation (Tennessee) and River Road Realty Corporation (collectively the "guarantor subsidiaries"), which are wholly-owned by and which comprise all of the direct and indirect subsidiaries of the Company, fully and unconditionally guarantee the Notes on a joint and several basis. The Indenture provides certain restrictions on the ability of the guarantor subsidiaries to make distributions to the Company. Upon the Effective Date, the guarantor subsidiaries will merge into the Company. The following are condensed consolidating balance sheets as of December 31, 2003 and September 30, 2003 and condensed consolidating statements of operations for the three months ending December 31, 2003 and 2002 and condensed consolidating statements of cash flows for the three months ended December 31, 2003 and 2002 (in thousands).

Condensed Balance Sheets**December 31, 2003 (Unaudited)**

	Guarantor			
	Parent	Subsidiaries	Eliminations	Consolidated
Current assets	\$ 102,876	\$ 14,156	\$ (41,145)	\$ 75,887
Property and equipment, net	70,505	11,591	—	82,096
Other noncurrent assets	(17,453)	127	18,936	1,610
Total assets	<u>\$ 155,928</u>	<u>\$ 25,874</u>	<u>\$ (22,209)</u>	<u>\$ 159,593</u>
Current liabilities	\$ 33,776	\$ 42,932	\$ (41,145)	\$ 35,563
Pre-Petition liabilities	136,454	1,878	—	138,332
Equity deficit	(14,302)	(18,936)	18,936	(14,302)
Total liabilities and equity	<u>\$ 155,928</u>	<u>\$ 25,874</u>	<u>\$ (22,209)</u>	<u>\$ 159,593</u>

September 30, 2003 (Audited)

	Guarantor			
	Parent	Subsidiaries	Eliminations	Consolidated
Current assets	\$ 100,567	\$ 15,023	\$ (42,480)	\$ 73,110
Property and equipment, net	72,226	11,711	—	83,937
Other noncurrent assets	(17,318)	144	19,093	1,919
Total assets	<u>\$ 155,475</u>	<u>\$ 26,878</u>	<u>\$ (23,387)</u>	<u>\$ 158,966</u>
Current liabilities	\$ 32,708	\$ 44,093	\$ (42,480)	\$ 34,321
Pre-Petition liabilities	136,434	1,878	—	138,312
Equity (deficit)	(13,667)	(19,093)	19,093	(13,667)
Total liabilities and equity	<u>\$ 155,475</u>	<u>\$ 26,878</u>	<u>\$ (23,387)</u>	<u>\$ 158,966</u>

Condensed Statements of Operations**Three Months Ended December 31, 2003 (Unaudited)**

	Guarantor			
	Parent	Subsidiaries	Eliminations	Consolidated
Net sales	\$ 46,750	\$ 13,437	\$ (8,493)	\$ 51,694
Cost of sales and administrative expense ...	(46,424)	(13,267)	8,493	(51,198)
Reorganization expenses	(922)	—	—	(922)
Operating loss	(596)	172	—	(426)
Interest and other income (expense)	41	(14)	(156)	(129)
Net loss	<u>\$ (555)</u>	<u>\$ 156</u>	<u>\$ (156)</u>	<u>\$ (555)</u>

Three Months Ended December 31, 2002 (Unaudited)

	Guarantor			
	Parent	Subsidiaries	Eliminations	Consolidated
Net sales	\$ 27,690	\$ 5,575	\$ (4,434)	\$ 28,831
Cost of sales and administrative expense ...	(31,671)	(6,712)	4,434	(33,949)
Reorganization expenses	(949)	—	—	(949)
Operating loss	(4,930)	(1,137)	—	(6,067)
Interest and other income (expense)	(4,056)	(243)	1,380	(2,919)
Net loss	<u>\$ (8,986)</u>	<u>\$ (1,380)</u>	<u>\$ 1,380</u>	<u>\$ (8,986)</u>

Condensed Statements of Cash Flows**Three Months Ended December 31, 2003 (Unaudited)**

	Guarantor			Consolidated
	Parent	Subsidiaries	Eliminations	
Cash flows from operating activities:				
Net loss	\$ (555)	\$ 156	\$ (156)	\$ (555)
Noncash items	3,020	190	—	3,210
Equity in losses of subsidiaries	(156)	—	156	—
Changes in working capital	<u>(2,990)</u>	<u>(307)</u>	<u>—</u>	<u>(3,297)</u>
Net cash used in operations excluding reorganization expenses	(681)	39	—	(642)
Net cash used for reorganization expenses: .	<u>\$ (921)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (921)</u>
Net cash used in operations	<u>(1,602)</u>	<u>39</u>	<u>—</u>	<u>(1,563)</u>
Cash flows from investing activities:				
Purchases of property and equipment	(277)	(39)	—	(316)
Proceeds from sale of investments	<u>280</u>	<u>—</u>	<u>—</u>	<u>280</u>
Net cash used in investing activities ...	<u>3</u>	<u>(39)</u>	<u>—</u>	<u>(36)</u>
Cash flows from financing activities:				
Net borrowing on DIP Financing	<u>1,523</u>	<u>—</u>	<u>—</u>	<u>1,523</u>
Net cash provided from financing activities	<u>1,523</u>	<u>—</u>	<u>—</u>	<u>1,523</u>
Net change in cash	(76)	—	—	(76)
Cash, beginning of period	<u>178</u>	<u>—</u>	<u>—</u>	<u>178</u>
Cash, end of period	<u>\$ 102</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 102</u>

Three Months Ended December 31, 2002 (Unaudited)

	Guarantor			Consolidated
	Parent	Subsidiaries	Eliminations	
Cash flows from operating activities:				
Net loss	\$ (8,986)	\$ (1,380)	\$ 1,380	\$ (8,986)
Noncash items	2,799	222	—	3,021
Equity in losses of subsidiaries	1,380	—	(1,380)	—
Changes in working capital	<u>(3,844)</u>	<u>1,158</u>	<u>—</u>	<u>(2,686)</u>
Net cash used in operations excluding reorganization expenses:	(8,651)	—	—	(8,651)
Net cash used for reorganization expenses:	<u>(949)</u>	<u>—</u>	<u>—</u>	<u>(949)</u>
Net cash used in operations	<u>(9,600)</u>	<u>—</u>	<u>—</u>	<u>(9,600)</u>
Cash flows from investing activities:				
Purchases of property and equipment	<u>(652)</u>	<u>—</u>	<u>—</u>	<u>(652)</u>
Cash flows from financing activities:				
Net borrowings under line of credit	<u>11,175</u>	<u>—</u>	<u>—</u>	<u>11,175</u>
Net change in cash	923	—	—	923
Cash, beginning of period	<u>57</u>	<u>—</u>	<u>—</u>	<u>57</u>
Cash, end of period	<u>\$ 980</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 980</u>

11) **COMMITMENTS AND CONTINGENCIES**

The Company is subject to various federal, state, and local laws and regulations concerning the discharge of contaminants that may be emitted into the air, discharged into waterways, and the disposal of solid and/or hazardous wastes such as electric arc furnace dust. In addition, in the event of a release of a hazardous substance generated by the Company, it could be potentially responsible for the remediation of contamination associated with such a release. There are various claims and legal proceedings arising in the ordinary course of business pending against or involving the Company wherein monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect its financial position or results of operations.

Unless modified by the Bankruptcy Court, pursuant to the automatic stay provision of Section 362 of the Bankruptcy Code, most pre-petition litigation against the Company is currently stayed. Upon the Effective Date of the Plan, the stay will be lifted.

As of December 31, 2003, the Company has entered into forward price commitments totaling \$1.1 million for approximately 55% of the natural gas it expects to utilize in its production over the next three months. Although the Company intends to fulfill its commitments under the agreements, a trading market does exist for such commitments.

12) **EARNINGS PER SHARE**

The Company maintains an incentive stock award plan for certain key employees under which there are outstanding stock options to purchase 185,000, 165,000, 75,000, and 89,000 shares of its Class A Common Stock at exercise prices of \$0.80, \$3.25, \$4.75, and \$4.375 per share, respectively. Upon the effective date of the Plan, these stock options will be canceled. The Plan provides for the creation of a new stock option plan.

Because the Company generated losses in the quarters ended December 31, 2003 and 2002 respectively, there were no common stock equivalents considered outstanding for purposes of computing diluted earnings (loss) per share computation. Common stock equivalents excluded from the calculation of diluted earnings (loss) per share were 544,000 in the three-months ended December 31, 2003 and 2002.

The Company has elected to adopt the disclosure only provisions of Statement of Financial Accounting Standards ("SFAS 123") and SFAS 148, Accounting for Stock-Based Compensation—Transition and Disclosure ("SFAS 148") and continues to apply Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations in accounting for its stock-based compensation plans. The pro-forma net income and related pro-forma earnings per share effect from applying SFAS 123 and 148 did not result in a material change to the actual results and earnings per share amounts reported.

13) **INCOME TAXES**

As of December 31, 2003, for tax purposes, the Company had net operating loss carryforwards ("NOLs") of approximately \$175 million available to utilize against regular taxable income. The NOLs will expire in varying amounts through fiscal 2023. A change of control, as defined by section 382 of the Internal Revenue Service code, would seriously limit the Company's ability to utilize the NOLs. The Plan could result in such a change of control.

The realization of a net deferred tax asset is dependent in part upon generation of sufficient future taxable income. The Company periodically assesses the carrying value of this asset taking into consideration many factors including changing market conditions, historical trend information, and modeling expected future financial performance. Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," ("SFAS 109") requires, among other things, that the Company determine whether it is "more likely than not" that it will realize such benefits and that all negative and positive evidence be considered (with more weight given to evidence that is "objective and verifiable") in making the determination. SFAS 109 further indicates that objective negative evidence, such as cumulative losses in

recent years, losses expected in early future years, and a history of potential tax benefits expiring unused, is difficult to overcome. As a result of the bankruptcy and the Company's continued operating losses, as of December 31, 2003, the Company has fully reserved for any future benefit that might be derived as a result of the fiscal 2003 operating results.

Item 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the historical consolidated financial statements of Bayou Steel Corporation and related notes thereto included in Part I, Item 1 of this Report and the Company's audited consolidated financial statements, footnotes, and Management's Discussion and Analysis of Financing Condition and Results of Operation contained in the Annual Report on Form 10-K for the fiscal year ended September 30, 2003. Unless otherwise indicated, all references to the "Company" or "Debtors" herein are intended to refer to Bayou Steel Corporation. This section contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers should refer to "Forward Looking Information" included in this report and in the Annual Report on Form 10-K for the fiscal year ended September 30, 2003 for risk factors.

Currently the Company has no independent auditor approved or engaged to review its interim financial statements primarily due to administrative constraints imposed by the current status of bankruptcy reorganization proceedings. Upon the Company emerging from bankruptcy, its new Board of Directors will appoint an independent auditor. As a consequence, the appointment will not be in time to engage such auditor to perform the required review of the Company's December 31, 2003 interim financial statements in accordance with professional standards as required by Rule 10-01(d) of Regulation S-X. Accordingly, the accompanying unaudited consolidated financial statements and notes thereto were not subject to such independent auditor review procedures.

LIQUIDITY, FINANCING MATTERS, AND BANKRUPTCY PROCEEDINGS

During the past several years, the domestic steel market has experienced significant downward economic pressure largely due to declines in market prices and shipments that initially were influenced by high volumes of foreign steel imported into the United States at prices which challenged the domestic industry's ability to viably compete. More recently, the industry has been negatively affected by the weakened United States economy in general following a period of significantly higher costs of production due to increased electricity, natural gas, and oxygen cost experienced in 2000 and into 2001 and again in 2003. These forces have led to negative operating economics for certain domestic producers. As a result, many steel manufacturers have curtailed production and/or ceased operations, and a number of steel industry producers have sought protection under the United States Bankruptcy Code.

As a result of these conditions, the Company has experienced sharp declines in shipment volumes and operating margins resulting in negative cash flow from operations and the generation of significant net losses over the past four years. Such conditions have significantly deteriorated the Company's liquidity and constrained its ability to meet certain obligations under its debt agreements.

On January 22, 2003, the Company and its subsidiaries, Bayou Steel Corporation (Tennessee) and River Road Realty Corporation, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The petition requesting an order for relief was filed in United States Bankruptcy Court, Northern District of Texas (the "Bankruptcy Court"), Case No. 03-30816 BJH (the "Petition Date"). As debtors-in-possession under Sections 1107 and 1108 of the Bankruptcy Code, the Company remained in possession of its properties and assets, and management continued to operate the business. The Company attributed the need to reorganize to market conditions in the U.S. steel industry resulting from significant pressure from imported steel products, low product pricing, and high energy costs. These factors, coupled with the effects of a slow down in the United States economy, have adversely affected the Company over the past several years. The Bankruptcy Court confirmed the Second Amended and Restated Plan of Reorganization of the Company and its subsidiaries on February 6, 2004 (the "Plan"). The Company anticipates that the

Plan will be effective on or shortly after February 18, 2004.

On the Effective Date of the Plan, the Company will liquidate, over a year, unsecured trade claims at 9% to 10%, possibly higher under certain circumstances, of their face value. The existing holders of the Notes will receive a \$30 million Secured Note and 2 million shares of new common stock of the Company. The existing common stock will be extinguished and the holders of the stock will not receive or retain any property under the Plan. The new \$30 million note will be secured by the Louisiana plant. The principal will be due in 2011, and interest paid semi-annually at 9% per year. The Debtor-in-Possession (DIP) credit facility will be replaced with a new credit facility. Since the number of new shareholders will be less than 300, the Company may elect to be a non-reporting Company under the Securities Exchange Act of 1934.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Such financial statements have been prepared on the basis that the Company will continue as a going concern and do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company's recurring losses, negative cash flow from operations, and the Chapter 11 case raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, (i) the Company's ability to achieve profitable operations after such confirmation, and (ii) the Company's ability to generate sufficient cash from operations to meet its obligations. The consolidated financial statements do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The financial statements are prepared in accordance with the American Institute of Certified Public Accountant's (the "AICPA") Statement of Position (SOP) 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. SOP 90-7 requires the Company to, among other things, (1) identify transactions that are directly associated with the bankruptcy proceedings from those events that occur during the normal course of business and (2) identify pre-petition liabilities subject to compromise from those that are not subject to compromise or are post petition liabilities (see Note 7). All liabilities arising before January 22, 2003 are subject to compromise. In addition, in accordance with the Bankruptcy Code, the Company discontinued accruing interest on the 9.5% first mortgage notes (the "Notes") as of the Petition Date as this debt is subject to compromise. The debtor-in-possession financing ("DIP Financing") is a post-petition liability and, therefore, not subject to compromise. The financial statements do not reflect the effect of any changes in the Company's capital structure as a result of the approved plan of reorganization or adjustments to the carrying value of assets or liability amounts that will be necessary as a result of actions by the Bankruptcy Court. The Company will adopt "Fresh Start Reporting" as required by the AICPA's SOP 90-7 on the Effective Date of the reorganization. The Company will then allocate the reorganization value to its assets and liabilities in relation to their fair value. Accordingly, the carrying values of assets and liabilities on the Effective Date of reorganization are expected to materially differ from the amounts shown as of December 31, 2003.

RESULTS OF OPERATIONS

The Company reported a net operating loss of \$0.4 million in the first quarter of fiscal 2004 (or the three months ended December 31, 2003) compared to a net operating loss of \$6.1 million in the first quarter of fiscal 2003 (or the three months ended December 31, 2002). Three major factors account for the \$5.7 million favorable change. First, due to rapidly rising prices for scrap, fuels, and alloys, which collectively represent over 50% of costs, all steel producers, including the Company, raised prices on most products several times during the first quarter of fiscal 2004. As a result of the average selling price increasing more than the price of the raw material scrap, metal margin (the difference between the selling price of the finished product and the price of scrap) increased \$28 per ton. Second, shipments increased 52% in the first quarter of fiscal 2004 compared to the same period in the prior year. These two factors resulted in a \$22.9 million increase in net sales. Third, per unit conversion costs decreased \$9 per ton in the first quarter of fiscal 2004 compared to the same period in the prior year despite an increase of \$1.3 million, or \$8 per ton in fuel prices. This reduction, coupled with the increase in shipments, resulted in an increase in cost of sales of \$15.9 million. These favorable variances were offset by a \$1.3 million increase in the price of fuel in the first quarter of fiscal 2004 compared to the same period in the prior year.

The following table sets forth shipment and sales data.

	Three Months Ended December 31,	
	<u>2003</u>	<u>2002</u>
Net Sales (in thousands)	\$ 51,694	\$ 28,831
Shipment Tons	151,184	99,550
Average Selling Price Per Ton	\$ 339	\$ 285
Metal Margin Per Ton	\$ 211	\$ 183

A. Sales

Net sales for the quarter increased by 79% on a 52% increase in shipments and a 19% increase in the average selling price compared to the first quarter of fiscal 2003. The increase in shipments is attributable to a recent improvement of market conditions, which began in the fourth quarter of fiscal 2003, and several sales initiatives implemented during the reorganization. Shipments in the first quarter of fiscal 2004 were 14% higher than the average of the prior three quarters. The first quarter shipments were the highest in twelve prior quarters. Backlog and shipment levels continue to be solid. Generally, as a result of higher domestic demand and lower imports, there has been a higher utilization of capacity in the industry.

The selling price increased compared to both the prior year comparable quarter as well as the immediate preceding quarter. In the fourth fiscal quarter of 2003, selling prices improved \$30 per ton from the lowest quarter during that year. The selling price continued to improve in the first fiscal quarter of 2004 rising \$28 per ton. Subsequent to quarter end, there have been several price increases and an announced price increase of \$44 per ton, effective March 10, 2004. These price increases have generally been related to the sharply escalating prices for scrap and the increasing prices for alloys and fuel.

B. Cost of Goods Sold

Cost of goods sold increased \$17 million or 53% for the quarter compared to the prior year quarter. However, due to the continued increases in average selling price and shipments, the Company had a gross profit margin of \$2.3 million for the quarter compared to a gross margin loss of \$3.4 million for the same quarter in the prior year.

Scrap is used in the Company's melting operations in Louisiana and is a significant component of the cost of billets utilized by its rolling mills. Scrap cost during the first quarter increased \$26 per ton or 26% compared to the same period last year. The cost of scrap was \$19 per ton or 17 % higher in the first quarter of fiscal 2004 than the average of the prior four quarters. The sharp increase in the price of scrap appears to be due to increased domestic demand as steel producers began operating at higher levels of capacity utilization and due to high levels of exports. Scrap prices continued to rise rapidly in January and February of 2004. The prices for additives and alloys have also increased significantly and are anticipated to increase again in the spring of 2004.

Conversion cost includes labor, energy, maintenance materials, and supplies used to convert raw materials into billets and billets into finished product. Conversion cost per ton for the Louisiana operations decreased 6% in the first quarter of fiscal 2004 compared to the same period last year despite a \$1.3 million, or \$8 per ton increase in electricity, gas, and oxygen prices. This is primarily due to an increase in production and capacity utilization that resulted in lower fixed cost per ton. The Tennessee rolling mill experienced a 16% decrease in conversion cost largely driven by increased production, lower fixed costs, and cost control initiatives.

The Company anticipates that finishing capacity will be constrained in the second fiscal quarter due to the availability of billets. The future plans for fiscal 2004 and forward are to purchase substantial quantities of billets for the Tennessee Facility on the open market. In the past the Company has not experienced any shortages or significant delays

in delivery of these materials. However, the Company has not been able to obtain billets in the last few months. The Company is hopeful that an adequate supply of raw materials will continue to be available to supplement internally supplied billets. The Company does expect that availability will be tighter in the future as compared to the past. If billets are not available, it could impact the Company's ability to meet future plans.

In efforts to stabilize natural gas cost, the Company entered into certain forward commitments to purchase a portion of its future natural gas requirements. As of December 31, 2003, the Company has entered into forward price commitments for approximately 55% of the natural gas it expects to utilize in its production over the next three months. Although the Company intends to fulfill its commitments under the agreements, a trading market does exist for such commitments.

C. **Selling, General and Administrative and Reorganization Expenses**

Selling, general and administrative expenses increased slightly in the first quarter of fiscal 2004 compared to the first quarter of the prior fiscal year, primarily due to an increase in the cost of certain insurance policies. Reorganization expenses were approximately the same.

D. **Net Loss**

Net loss decreased \$8.4 million in the first quarter of fiscal 2004 compared to the first quarter of fiscal 2003 due to three factors. First metal margin increased \$28 per ton due to the selling price of the finished product increasing more than the price of scrap. Second, shipments increased 52% in the first quarter of fiscal 2004. These two factors resulted in a \$22.9 million increase in net sales. Third, conversion costs decreased in both the Louisiana operations and the Tennessee rolling mill. These reductions, coupled with the increase in shipments resulted in an increase in cost of sales of \$14.6 million. Cost of sales also increased \$1.3 million due to the increase in the price of fuels. Lastly, other income (expense) decreased \$2.8 million as the Company discontinued accruing interest on the \$120 million of First Mortgage Notes (the "Notes") since this liability is subject to compromise in Chapter 11 proceedings.

LIQUIDITY AND CAPITAL RESOURCES

A. **Liquidity and Financing Matters**

On February 28, 2003, the Bankruptcy Court approved the Debtor-In-Possession Financing Agreement ("DIP Agreement") between the Company and the existing lenders on its credit facility. The DIP Agreement, which is a \$45 million credit facility and has a twelve month term, is secured by inventory, receivables, and certain fixed assets previously unencumbered by other debt agreements, bears interest at prime plus 1% or LIBOR plus 3%. Based on the borrowing base criteria, as defined, approximately \$20.0 million is available as of December 31, 2003; however, the Company is required to maintain a minimum liquidity reserve of \$7.5 million. This minimum effectively reduces additional availability for borrowing to \$12.5 million. The DIP Agreement required, among other things, the Company to meet certain cash operating performance measures based on the Company's weekly budget for a 13 week period ending which ended April 26, 2003. The Company was in compliance throughout the period. There are no other financial performance covenants. The maximum amount outstanding under the DIP Agreement during the three-month period ended December 31, 2003 was \$22.3 million. The average borrowings were \$20.2 million and the weighted average interest rate was 4.82%.

The DIP Agreement expires February 18, 2004. The current lender has indicated that it would extend the term if the Plan is not effective on that date. The Company has executed a commitment letter with a new lender. The proposed loan agreement was submitted to the bankruptcy court on February 5, 2004. The Company anticipates closing on February 18, 2004. The new proposed agreement is a \$45 million credit facility and has a three year term. It is secured by inventory, receivables, and certain fixed assets (excluding the Louisiana plant) and bears interest at prime plus 0.5% or LIBOR plus 2.5% adjusted periodically based on availability. Based on the borrowing base criteria, as defined, approximately \$24 million would be available on the effective date before transactions contemplated by the Plan. The

Company will need to maintain a minimum availability of \$5 million at all times. The other maintenance covenant is a limitation on capital expenditures. This is the same covenant as in the new Indenture under which the new \$30 million secured notes will be issued upon the effective date.

B. Operating Cash Flow

As of December 31, 2003, the Company had minimal cash on hand and \$19.8 million drawn on its DIP facility. For the first three months of fiscal 2004, cash from operations improved significantly as cash used in operations was reduced from \$9.6 million in the first quarter of fiscal 2003 to \$1.6 million in the first quarter of fiscal 2004. The \$1.6 million used in operations was due largely to the increase in receivables which reflects the higher selling prices and improving business environment. During the first quarter of fiscal 2004, inventories decreased by \$3.0 million in order to reduce inventory levels commensurate with aggressive capital management. During the same period of the prior year \$9.6 million was used in operations for similar reasons.

Excluding reorganization expenses and changes in working capital, the Company continues to reach cash flow breakeven from operations which began in the third quarter of fiscal 2003. The Company's liquidity position remains its highest priority. The Company has projected to achieve operating cash flow breakeven, before changes in working capital and reorganization expenses, throughout fiscal 2004. This is predicated on many assumptions, including maintaining current price realizations and stabilization in the scrap prices and moderation of the recent fuel prices.

C. Capital Expenditures

Capital expenditures totaled \$0.3 million in the first three months of fiscal 2004 compared to \$0.7 million in the same period last year. Spending during both periods has been limited to required facility maintenance capital programs. Given current conditions and the condition of the facilities, capital programs over the next twelve months will continue to be directed towards maintenance programs requiring approximately \$3.2 million. As of December 31, 2003 there were no significant commitments remaining to complete authorized projects under construction.

OTHER COMMENTS

Forward-Looking Information, Inflation and Other

This document contains various "forward-looking" statements which represent the Company's expectation or belief concerning future events. Statements regarding the Company's ability to obtain suitable debtor in-possession financing and to complete its bankruptcy reorganization proceedings timely, the outcome of the reorganization plan, the Company's ability to sustain current operations during the pendency of the reorganization including its ability to maintain normal relationships with customers, the ability of the Company to establish normal terms and conditions with suppliers and vendors, costs of the reorganization process, the adequacy of financing arrangements during the reorganization period, future market prices, operating results, synergies, future operating efficiencies, future governmental actions and the results of such actions, cost savings and other statements which are not historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements.

The Company cautions that a number of important factors could, individually or in the aggregate, cause actual results to differ materially from those included in the forward-looking statements. These include but are not limited to statements relating to future actions, prospective products, future dealings with the noteholders or senior credit lenders, future performance or results of current and anticipated new products, sales efforts, availability of raw materials and billets, expenses such as fuel and scrap cost, the outcome of contingencies, the cost of environmental compliance and financial results. From time to time, the Company also may provide oral or written forward-looking statements in other materials released to the public. Any or all of the forward-looking statements in this report and in any other public statements may turn out to be wrong, and can be affected by inaccurate assumptions by known or unknown risks and uncertainties. Many factors mentioned in the discussion above will be important in determining future results.

Consequently, no forward-looking statements can be guaranteed. Actual future results may vary materially. The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are advised, however, to consult any further disclosures on related subjects in the Company's other reports to the Securities and Exchange Commission.

The Company is subject to increases in the cost of energy, supplies, salaries and benefits, additives, alloys, and steel scrap due to inflation. Finished goods prices are influenced by supply, which varies with steel mill capacity and utilization, import levels, and market demand.

There are various claims and legal proceedings arising in the ordinary course of business pending against or involving the Company wherein monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings, with exception to the events discussed in "Liquidity and Capital Resources," would not materially affect its financial position.

The Company provides the following cautionary discussion of risks, uncertainties, and possibly inaccurate assumptions relevant to our businesses. These are factors that could cause actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect future operating results. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

- ▶ General economic conditions in the United States.
- ▶ Potential additional military conflicts in the Persian Gulf area or other parts of the world pursuant to the United States efforts to combat domestic and global terrorism.
- ▶ The imports into the United States that have affected the steel market.
- ▶ The highly cyclical and seasonal nature of the steel industry.
- ▶ The possibility of increased competition from other minimills.
- ▶ The Company's ability to expand its product lines and increase acceptance of existing product lines.
- ▶ The Company's ability to rationalize its products without adversely impacting other products.
- ▶ Additional capacity in the Company's product lines.
- ▶ Running shorter production cycles in a cost effective manner.
- ▶ The availability of raw materials such as steel scrap and AAF.
- ▶ The availability to obtain additional billets.
- ▶ The cost and availability of fuels, specifically natural gas and electricity.
- ▶ The costs of environmental compliance and the impact of government regulations.
- ▶ The Company's relationship with its workforce.
- ▶ The restrictive covenants and tests contained in the Company's existing and future debt instruments that could limit its operating and financial flexibility.
- ▶ The risk that the Company will not have the liquidity required to meet its commitments either through utilization of existing and future credit agreements, alternative agreements or internally generated funds.
- ▶ The cost of restructuring charges.
- ▶ The inability of the Company to implement its plan of reorganization.

Item 4. **CONTROLS AND PROCEDURES**

CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedure (as is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act") as of a date within 90 days before the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

CHANGES IN INTERNAL CONTROLS

Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On January 22, 2003, the Company voluntarily filed for relief under Chapter 11 of the U.S. Bankruptcy Code. The petition was filed in the Bankruptcy court, Case No. 03-30816BJH. The Company continues to operate business as debtors-in-possession under Sections 1107 and 1108 of the Bankruptcy Code. The Bankruptcy court confirmed the Second Amended and Restated Plan of Reorganization of the Company and its subsidiaries on February 6, 2004. The Company anticipates the Plan will be effective on or shortly after February 18, 2004.

The Company is involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. The Company believes the resolution of these matters and the incurrence of their related costs and expenses should not have a material adverse effect on its consolidated financial position, results of operations or liquidity. In addition, unless modified by the Bankruptcy Court, pursuant to the automatic stay provision of Section 362 of the Bankruptcy Code, most pre-petition litigation against the Company is currently stayed. Upon the Effective Date, the stay will be lifted.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Prior to the Company's filing for protection under Chapter 11 of the U.S. Bankruptcy Code on January 22, 2003, the Company was unable to make the \$5.7 million semiannual interest payment due under its Notes. As a result, on December 16, 2002 the Company was in default of the Notes and, due to cross default provisions, the Company was also in default of its \$50 million line of credit agreement. The total interest on the Notes not charged to earnings for the period from January 23, 2003 to December 31, 2003 was approximately \$10.6 million.

Item 5. OTHER INFORMATION

The Company has been delisted from the American Stock Exchange. An alternative trading system does not appear to be available at this time or for the foreseeable future. Upon the Effective Date of the Plan, the Company's common stock will be canceled. New stock will be issued to the holders of the notes.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1996).
- 3.2 Amended Restated By-laws of the Company (incorporated herein by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2000).
- 4.1 Indenture (including form of First Mortgage Note and Subsidiary guarantee between each recourse subsidiary of the Company and the Trustee), dated May 22, 1998, between the Company, Bayou Steel Corporation (Tennessee), River Road Realty Corporation and Bank One, as trustee (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 1998).

- 4.2 Debtor-In-Possession Loan and Security Agreement by and among Congress Financial Corporation as Lender and Bayou Steel Corporation and Bayou Steel Corporation (Tennessee) as Debtors-In-Possession and Borrower dated February 28, 2003.
- 31.1 Certification of Howard M. Myers pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Richard J. Gonzalez pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Howard M. Myers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Richard J. Gonzalez pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) **Reports on Form 8-K**

No reports were filed on Form 8-K by the Registrant during the first quarter of fiscal year 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BAYOU STEEL CORPORATION

By /s/ Richard J. Gonzalez
Richard J. Gonzalez
Vice President, Chief Financial Officer,
Treasurer, and Secretary

Date: February 17, 2004

I, Howard M. Meyers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bayou Steel Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 45 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 17, 2004

/s/ HOWARD M. MEYERS
Howard M. Meyers
Chairman of the Board and
Chief Executive Officer

I, Richard J. Gonzalez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bayou Steel Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 45 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 17, 2004

/s/ RICHARD J. GONZALEZ
Richard J. Gonzalez
Vice President, Chief Financial Officer,
Secretary, and Treasurer

CERTIFICATION
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly Report of Bayou Steel Corporation (the "Company") on Form 10-Q for the period ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Howard m. Meyers, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 except that the Accountants' review required by Rule 10-01(d) of Regulation SX was not performed; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2004

/s/ HOWARD M. MEYERS
Howard M. Meyers
Chairman of the Board and
Chief Executive Officer

CERTIFICATION
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly Report of Bayou Steel Corporation (the "Company") on Form 10-Q for the period ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Gonzalez, Vice President, Chief Financial Officer, Secretary, and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 except that the Accountants' review required by Rule 10-01(d) of Regulation SX was not performed; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2004

/s/ RICHARD J. GONZALEZ
Richard J. Gonzalez
Vice President, Chief Financial Officer,
Secretary, and Treasurer