UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

_________ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2004
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	**72-1125783**
(State of incorporation)	(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__ No__

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b2 of the Exchange Act). Yes__ No__

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

Class	Shares Outstanding at March 31, 2004
Common Stock, $.01 par value	2,000,000 Shares

BAYOU STEEL CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. **FINANCIAL STATEMENTS**

BAYOU STEEL CORPORATION
BALANCE SHEETS
ASSETS

	Successor Company	Predecessor Company
	(Unaudited) March 31, 2004	(Audited) September 30, 2003
CURRENT ASSETS:		
Cash	$ 97,890	$ 178,170
Receivables, net of allowance for doubtful accounts of $711,697 and $831,680 respectively	29,080,132	21,137,404
Inventories	47,531,160	50,228,969
Prepaid expenses	1,759,683	1,565,543
Total current assets	78,468,865	73,110,086
PROPERTY, PLANT AND EQUIPMENT, NET	628,529	83,936,529
OTHER ASSETS	—	1,918,971
Total assets	$ 79,097,394	$ 158,965,586

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	Successor Company	Predecessor Company
	(Unaudited) March 31, 2004	(Audited) September 30, 2003
CURRENT LIABILITIES:		
Accounts payable	$ 8,714,380	$ 6,505,980
Accrued plant turnaround costs	1,809,071	1,814,110
Other accrued liabilities	7,303,861	7,672,254
Debtor-in-possession financing	—	18,328,228
Credit Facility	19,801,989	—
Post-reorganization debt	5,792,906	—
Total current liabilities	43,422,207	34,320,572
PRE-PETITION LIABILITIES SUBJECT TO COMPROMISE	—	138,312,386
LONG-TERM DEBT	30,586,884	—
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, $.01 par value -		
Class A: 24,271,127 shares authorized, 0 and 10,619,380 issued and outstanding at March 31, 2004 and September 30, 2003, respectively	—	106,194
Class B: 4,302,347 shares authorized, 0 and 2,271,127issued and outstanding at March 31, 2004 and September 30, 2003, respectively	—	22,711
Class C: 100 shares authorized, 0 and 100 issued and outstanding at March 31, 2004 and September 30, 2003, respectively	—	1
New common equity: 5,000,000 authorized, 2,000,000 issued and outstanding at March 31, 2004 and September 30, 2003, respectively	20,000	—
Total common stock	20,000	128,906
Paid-in-capital	3,272,235	46,045,224
Retained earnings (accumulated deficit)	1,796,068	(59,363,569)

	Successor Company	Predecessor Company
	(Unaudited) March 31, 2004	(Audited) September 30, 2003
Accumulated other comprehensive income (loss)	—	(477,933)
Total common stockholders' equity (deficit)	5,088,303	(13,667,372)
Total liabilities and common stockholders' equity (deficit)	$ 79,097,394	$ 158,965,586

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Successor Company	Predecessor Company	
	Period from February 18, 2004 through March 31, 2004	Period from January 1, 2004 through February 17, 2004	Three Months Ended March 31, 2003
NET SALES	$ 30,014,886	$ 30,216,013	$ 37,394,347
COST OF SALES	26,347,391	31,219,279	42,271,929
GROSS MARGIN	3,667,495	(1,003,266)	(4,877,582)
IMPAIRMENT LOSS ON LONG-LIVED ASSETS	—	—	8,000,000
SELLING, GENERAL AND ADMINISTRATIVE	821,104	984,436	1,952,768
REORGANIZATION EXPENSE	—	766,769	1,809,962
OPERATING INCOME (LOSS)	2,846,391	(2,754,471)	(16,640,312)
OTHER INCOME (EXPENSE):			
Interest expense	(435,756)	(134,827)	(1,001,185)
Miscellaneous	585,433	(11,458)	54,177
Fresh-start adjustments	—	(79,627,465)	—
Gain on reorganization	—	98,922,094	—
	149,677	19,148,344	(947,008)
INCOME (LOSS) BEFORE INCOME TAX	2,996,068	16,393,873	(17,587,320)
PROVISION FOR INCOME TAX	1,200,000	—	—
NET INCOME (LOSS)	$ 1,796,068	$ 16,393,873	$ (17,587,320)
WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING	2,000,000	12,890,607	12,890,607
NET LOSS PER BASIC AND DILUTED COMMON SHARE	$ 0.90	$ 1.27	$ (1.36)

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Successor Company	Predecessor Company	
	Period from February 18, 2004 through March 31, 2004	Period from October 1, 2003 through February 17, 2004	Six months Ended March 31, 2003
NET SALES	$ 30,014,886	$ 81,909,905	$ 66,225,041
COST OF SALES	26,347,391	80,635,486	74,508,198
GROSS MARGIN	3,667,495	1,274,419	(8,283,157)
IMPAIRMENT LOSS ON LONG-LIVED ASSETS	—	—	8,000,000
SELLING, GENERAL AND ADMINISTRATIVE	821,104	2,766,346	3,666,100
REORGANIZATION EXPENSE	—	1,688,540	2,758,481
OPERATING INCOME (LOSS)	2,846,391	(3,180,467)	(22,707,738)
OTHER INCOME (EXPENSE):			
Interest expense	(435,756)	(378,141)	(4,019,853)
Miscellaneous	585,433	102,989	154,240
Fresh-start adjustments	—	(79,627,465)	—
Gain on reorganization	—	98,922,094	—
	149,677	19,019,477	(3,865,613)
INCOME (LOSS) BEFORE INCOME TAX	2,996,068	15,839,010	(26,573,351)
PROVISION FOR INCOME TAX	1,200,000	—	—
NET INCOME (LOSS)	$ 1,796,068	$ 15,839,010	$ (26,573,351)
WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING	2,000,000	12,890,607	12,890,607
NET LOSS PER BASIC AND DILUTED COMMON SHARE	$ 0.90	$ 1.23	$ (2.06)

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	Successor	Predecessor Company	
	Period from February 18, 2004 through March 31, 2004	Period from October 1, 2003 through February 17, 2004	Six Months Ended March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 1,796,068	$ 15,839,010	$ (26,573,351)
Gain on reorganization	—	(98,922,094)	—
Fresh-start adjustments	—	79,627,465	—
Depreciation	1,941	3,395,408	3,924,149
Amortization	—	374,777	295,724
Provision for losses on accounts receivable	30,361	84,683	69,872
Provision for income taxes	1,200,000	—	—
Provision for loss on long-lived assets	—	—	8,000,000
Reduction in lower of cost or market inventory reserve	—	(621,051)	—
Gain on sale of investment	—	(156,629)	—
Reorganization expense	—	1,688,540	2,758,481
Changes in working capital:			
(Increase) decrease in receivables	(2,259,664)	(6,194,085)	1,622,093
Decrease in inventories	407,558	5,262,809	3,796,984
(Increase) in prepaid expenses and other assets	(807,287)	(279,424)	(2,113,932)
(Decrease) increase in accounts payable	(2,537)	1,996,345	3,622,202
(Decrease) increase in interest payable and accrued liabilities	(487,191)	(1,196,243)	1,292,617
Net cash provided by (used in) operations excluding reorganization expenses	(120,751)	899,511	(3,305,161)
NET CASH USED FOR REORGANIZATION EXPENSES	—	(1,688,540)	(2,366,151)
Net cash used in operating activities	(120,751)	(789,029)	(5,671,312)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(158,052)	(766,768)	(1,030,906)
Proceeds from sale of investment	—	280,559	—
Net cash used in investing activities	(158,052)	(486,209)	(1,030,906)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) under debtor-in-possession financing facility	—	(18,328,228)	14,939,788
Net borrowings (repayments) under line of credit	238,416	19,563,573	(8,192,660)
Net cash provided by financing activities	238,416	1,235,345	6,747,128
NET (DECREASE) INCREASE IN CASH	(40,387)	(39,893)	44,910
CASH, beginning balance	138,277	178,170	57,290
CASH, ending balance	$ 97,890	$ 138,277	$ 102,200

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)

	Common Stock							
	Class A	Class B	Class C	Successor Company Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Common Stockholders' Equity (Deficit)
BALANCE AT SEPTEMBER 30, 2003 (PREDECESSOR COMPANY)	$ 106,194	$ 22,711	$ 1	$ 0	$ 46,045,224	$ (59,363,569)	$ (477,933)	$ (13,667,372)
Realized gain on investment sold	—	—	—	—	—	—	(79,403)	(79,403)
Net income - October 1, 2003 through February 17, 2004	—	—	—	—	—	15,839,010	—	15,839,010
Reorganization adjustments	(106,194)	(22,711)	(1)	20,000	(43,972,989)	43,524,559	557,336	—
BALANCE AT FEBRUARY 18, 2004 (SUCCESSOR COMPANY)	—	—	—	20,000	2,072,235	—	—	2,092,235
Net income	—	—	—	—	—	1,796,068	—	1,796,068
Deferred tax valuation allowance adjustment - Predecessor Company income tax benefit .	—	—	—	—	1,200,000	—	—	1,200,000
BALANCE AT MARCH 31, 2004 (SUCCESSOR COMPANY)	$ —	$ —	$ —	$ 20,000	$ 3,272,235	$ 1,796,068	$ —	$ 5,088,303

The accompanying notes are an integral part of these statements

BAYOU STEEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2004
(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 “Petition Date”), 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. As discussed in Note 3 - Reorganization Under Chapter 11, the Bankruptcy Court confirmed the Second Amended and Restated Plan of Reorganization of the Company and its subsidiaries (the “Reorganization Plan”) on February 6, 2004. On February 18, 2004 (the “Effective Date”), the Company emerged from Chapter 11 bankruptcy. Upon emergence from Bankruptcy, the Company and its subsidiaries, Bayou Steel Corporation (Tennessee) and River Road Realty Corporation were consolidated into Bayou Steel Corporation (“the Company”) and became one legal entity.

2) BASIS OF PRESENTATION

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The financial statements are prepared in accordance with the AICPA’s Statement of Position 90-7 (“SOP 90-7"), Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. SOP 90-7 required the Company to, among other things, (1) segregate transactions that were directly associated with the bankruptcy proceedings from those events that occur during the normal course of business and (2) segregate pre-petition liabilities subject to compromise from those that were not subject to compromise or were post-petition liabilities and (3) apply “Fresh-Start Reporting” rules upon emergence from Bankruptcy. See Note 3 for description of the Reorganization Plan and Note 4 for the application of Fresh-Start Reporting. As a result of the Company’s emergence from Chapter 11 bankruptcy and the application of fresh-start reporting, financial statements for the Company for the periods subsequent to February 18, 2004 are referred to as the “Successor Company” and are not comparable to those for the periods prior to February 18, 2004, which are referred to as the “Predecessor Company.” The financial statements of the Predecessor Company represent the consolidated financial statements of the Company and its subsidiaries, Bayou Steel Corporation (Tennessee) and River Road Realty Corporation. A black dotted line has been inserted in the unaudited financial statements to distinguish, for accounting purposes, the periods associated with the Successor Company and the Predecessor Company.

The September 30, 2003 balance sheet information has been derived from the Predecessor Company’s audited financial statements. All significant intercompany accounts, transactions and profits have been eliminated. Certain information related to the Company’s organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Aside from the effects of fresh-start reporting, the Successor Company follows the same accounting policies as the Predecessor Company. These unaudited financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. These interim financial statements should be read in conjunction with the Predecessor Company’s audited consolidated financial statements and notes thereto included in the Predecessor Company’s Annual Report on Form 10-K for the year ended September 30, 2003.

3) **REORGANIZATION UNDER CHAPTER 11**

Under the terms of the Reorganization Plan, the Company will liquidate, over the year following the Company's emergence from bankruptcy, unsecured convenience and trade claims at 9% to 10%, possibly higher under some circumstances, of their face value. The Company's existing common stock, par value $.01 per share, outstanding prior to the Effective Date (the "Old Common Stock") was extinguished and holders of such shares did not receive or retain any new stock or property under the Reorganization Plan. The holders of the pre-petition 9.5% $120 million First Mortgage Notes (the "Old Notes") received $30 million in new First Mortgage Notes (the "New Notes"), and 2 million shares of new common stock (the "New Common Stock") of the Company. Additional shares of New Common Stock may be issued to certain tort claimants when the tort claim is resolved. The maximum shares that could be issued is approximately 570,000 shares or 22% of the then outstanding stock. The Debtor-in-Possession ("DIP") credit facility was replaced with a new credit facility. See Note 7 - Debt and Note 8 - Common Stock.

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 and six months ended March 31, 2004 and 2003 respectively (unaudited).

	Predecessor Company	
	Period from January 1, 2004 through February 17, 2004	Three Months Ended March 31, 2003
Professional and other fees	$ 553,889	$ 1,326,109
Write-down of deferred financing costs related to the terminated line of credit	—	392,330
Other	212,880	91,523
	$ 766,769	$ 1,809,962

	Predecessor Company	
	Period from October 1, 2003 through February 17, 2004	Six Months Ended March 31, 2003
Professional and other fees	$ 1,289,270	$ 2,063,824
Write-down of deferred financing costs related to the terminated line of credit	—	392,330
Other	399,270	302,327
	$ 1,688,540	$ 2,758,481

4) **FRESH-START REPORTING**

The Company was required to adopt "Fresh-Start Reporting" as specified by SOP-90-7. "Fresh-Start Reporting" is required upon a substantive change in control and requires that the reporting entity allocate the reorganization value of the Company to its assets in a manner similar to that which is required under SFAS No. 141, Business Combinations, for transactions reported on the basis of the purchase method, as of the Effective Date.

The enterprise value (debt plus equity excluding post-petition payables and accrued liabilities) of $60 million for the Company was based on the consideration of many factors and various valuation methods, including a discounted cash flow analysis using projected financial information, selected publicly traded company market multiples of certain companies operating businesses viewed to be similar to that of the Company, and other applicable ratios and valuation techniques believed by the Company, and its financial advisor during the Chapter 11 proceedings, to be representative of the Company's business and industry. The equity value of $2.1 million is equal to the enterprise value less debt, excluding post-petition payables and accrued liabilities. The reorganization value, which represents the amount of resources available for the satisfaction of post petition liabilities and allowed claims as negotiated among the Company, the Company's creditors, and its holders of equity interests, was $76.4 million (enterprise value plus post- petition payables and accrued liabilities).

The reorganization valuation was based upon a number of estimates and assumptions, which are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, there can be no assurance that the valuation will be realized, and actual results could vary materially and the carrying values of the Company's assets and liabilities may differ from the amounts shown in previous periods. Moreover, the value of the Company's Common Stock, if and when it commences trading on a national exchange, may differ materially from the valuation.

The impact of the reorganization and the application of "Fresh-Start Reporting" with respect to the Company's balance sheet as of February 18, 2004, is summarized below:

BALANCE SHEET IMPACT OF REORGANIZATION
(As of February 18, 2004)

Amounts ($000)	Predecessor Company	Adjustments to Record Effects of the Reorganization Plan		Successor Company
	Balance Sheet	Reorganization Adjustments	Fresh-Start Adjustments	Balance Sheet
Assets:				
Current assets	$ 74,791	$ (843)	$ 1,932	$ 75,880
Property and equipment, net	81,308	—	(80,836)	472
Other assets, net	1,635	(908)	(727)	—
Total assets	157,734	(1,751)	(79,631)	76,352
Liabilities:				
Current Liabilities:				
Post-petition accounts payable	8,537	(26)	—	8,511
Post-petition accrued liabilities	8,489	(645)	(3)	7,841
DIP Financing	19,564	(19,564)	—	—
Credit Facility	—	19,564	—	19,564
Current portion of post-reorganization debt	—	7,416	—	7,416
Total current liabilities	36,590	6,745	(3)	43,332
Long-term debt	—	30,000	—	30,000
Pre-petition Liabilities Subject to compromise	138,347	(138,347)	—	—
Post-reorganization debt	—	928	—	928
Total liabilities	174,937	(100,674)	(3)	74,260
Stockholders' Equity (Deficit):				
Common stock	129	(129)	—	—
New common equity	—	20	—	20
Additional paid-in capital	46,045	(43,973)	—	2,072
Retained earnings (deficit)	(63,377)	143,005	(79,628)	—
Total stockholders' equity (deficit)	(17,203)	98,923	(79,628)	2,092

	Balance Sheet	Reorganization Adjustments	Fresh-Start Adjustments	Balance Sheet
Total liabilities and stockholders' equity (deficit)	$ 157,734	$ (1,751)	$ (79,631)	$ 76,352

The post-reorganization debt is composed of $3.1 million to settle claims specified in the Reorganization Plan and $5.2 million to pay various professional fees and other charges, approved by the Bankruptcy Court, upon emerging from bankruptcy.

5) **INVENTORIES**

Inventories consist of the following:

	Successor Company (Unaudited) March 31, 2004	Predecessor Company (Audited) September 30, 2003
Steel scrap	$ 5,432,825	$ 2,116,988
Billets	3,953,827	6,444,396
Finished product	31,173,614	34,833,154
LIFO adjustments	—	(1,224,545)
	40,560,266	42,169,993
Operating supplies	6,970,894	8,058,976
	$ 47,531,160	$ 50,228,969

Billets and finished product are accounted for using the last-in, first-out ("LIFO") method of accounting for inventories. Scrap and operating supplies are accounted for using the average cost method.

In connection with adopting "Fresh-Start Reporting", the Company recorded an adjustment of approximately $2.3 million to increase inventory as of the Effective Date. This is primarily due to adjusting the inventories to a new base which is current market less reasonable margin.

6) **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following:

	Successor Company (Unaudited) March 31, 2004	Predecessor Company (Audited) September 30, 2003
Land	$ 472,418	$ 3,427,260
Machinery and equipment	158,052	143,552,406
Plant and office building	—	25,739,705
Total property, plant and equipment	630,470	172,719,371
Less - accumulated depreciation	(1,941)	(88,782,842)
Net property, plant and equipment	$ 628,529	$ 83,936,529

The carrying value of property, plant and equipment was reduced by $80.8 million as a result of the "Fresh-Start Reporting" as specified by SOP 90-7.

7) **DEBT**

	Successor Company	Predecessor Company
	(Unaudited) March 31, 2004	(Audited) September 30, 2003
	(in millions)	(in millions)
DIP Agreement	$ —	$ 18.3
New Credit Agreement	19.8	—
9.5% First Mortgage Notes (Old Notes) and Accrued Interest..	—	127.3
9% First Mortgage Notes	30.0	—
Pre-petition trade payables	—	11.0
Post-reorganization debt	6.4	
Total debt	56.2	156.6
Less - current portion of long-term debt	25.6	156.6
Total long-term portion of debt	$ 30.6	$ 0.0

As of September 30, 2003,the Old Notes, accrued interest on the Old Notes, and pre-petition trade payables were included in pre-petition liabilities subject to compromise which totaled $138.3 million. Post reorganization debt includes the discharge of prepetition secured and unsecured trade debt as well as professional fees ordered by the Bankruptcy Court to be paid.

Credit Agreements

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 was a $45 million credit facility and had a twelve month term expiring on February 18, 2004. It was secured by inventory, receivables, and certain fixed assets previously unencumbered by other debt agreements and bore interest at prime plus 1% or London Interbank Borrowing Rate (LIBOR) plus 3%. The DIP Agreement established a lending arrangement for the Company under certain conditions while in bankruptcy. The DIP Agreement expired on February 18, 2004.

On the Effective Date, the Company entered into a new line of credit agreement (the "New Credit Agreement"), with a new lender replacing the previous DIP credit agreement. The terms of the new agreement call for available borrowings up to $45 million, including outstanding letters of credit, using a borrowing base of accounts receivable and inventory. Based on the borrowing base criteria, $24.9 million was available as of March 31, 2004. The three-year agreement, which expires on February 17, 2007, is secured by accounts receivable, inventory, and all fixed assets except for the Louisiana Facility. The line of credit bears interest at Prime plus 0.50% or LIBOR plus 2.50% through the period ending February 17, 2005. Thereafter, loans bear interest at Prime plus 0% to 1.0% or LIBOR plus 2.0% to 3.0% based on excess availability. The terms of the agreement require the Company to, among other things, maintain a minimum excess availability of $5 million, limit additional indebtedness, and limit capital expenditures. As of March 31, 2004, $19.8 million was drawn under the revolving credit facility.

The maximum amount outstanding under the DIP Agreement during the period from October 1, 2003 through February 17, 2004 was $22.3 million. The average borrowings were $19.9 million and the weighted average interest rate was 4.85%. The maximum amount outstanding under the New Credit Agreement during the period from February 18, 2004 through March 31, 2004 was $22.6 million. The average borrowings were $20.9 million and the weighted average interest rate was 4.39%.

Under the terms of the New Credit Agreement, the lender may establish certain "availability reserves", as defined, which, if imposed, must be established in good faith by the lender, the result of which could reduce the amount of availability under the line of credit below the amount that would otherwise be established under the borrowing base determination. Generally the lender's rights to impose such reserves must be supported by events, conditions, contingencies or risks which, as determined by the lender in good faith, do or may affect the underlying collateral. No such availability reserves have been established by the lender, and management is unaware of any conditions that currently exist that would result in the establishment of such availability reserves.

New Notes

On the Effective Date, the Old Notes, which had a face value of $120 million and had a 9.5% coupon, were cancelled and replaced with the New Notes. The New Notes, which have a face value of $30 million, are senior obligations of the Company, secured by a first priority lien, subject to certain exceptions, on existing real property, plant and equipment, and most additions or improvements thereto at the Louisiana Facility. The indenture under which the New Notes are issued contains covenants which restrict the Company's ability to incur additional indebtedness (excluding borrowings under the New Credit Agreement), make certain levels of dividend payments, exceed certain levels of capital expenditures, or place liens on the assets acquired with such indebtedness.

The New Notes, which bear interest at the stated rate of 9% per annum, are due March 31, 2011 with semi-annual interest payments due March 31 and September 30 of each year. The Company may redeem the New Notes at any time without penalty. The fair value of the New Notes on March 31, 2004 was approximately par value.

8) **COMMON STOCK**

Under the terms of the Reorganization Plan, the holders of the Old Notes received 2 million of the 5 million authorized shares of New Common Stock of the Company, par value $.01 per share. Additional shares of New Common Stock may be issued to certain tort claimants under the Reorganization Plan. The maximum shares that could be issued is approximately 570,000 shares or 22% of the then outstanding shares. This would dilute earnings per share. The Old Common Stock was extinguished.

9) **STOCK OPTION PLANS**

On the Effective Date the stock option plan of the Predecessor Company was terminated. The Reorganization Plan established the 2004 Stock Option Plan (the "Key Employee Plan") of the newly reorganized Company. The purpose of the Key Employee Plan is to increase stockholder value by furnishing stock options designed to attract, retain, reward, and motivate key employees and to strengthen the mutuality of interests between such employees and the Company's stockholders. The maximum number of shares of New Common Stock, subject to certain adjustments, that may be delivered to participants under the Key Employee Plan is 105,000 shares. On April 5, 2004, the Board of Directors granted to certain key employees 105,000 incentive stock options to purchase the Company's New Common Stock, exercisable at the estimated market price on the grant date of $11.00 per share. The options vest in three equal installments over a two-year period as follows: one-third vest immediately on the date of the grant , one-third vest on the first anniversary of the grant date and one-third shall vest on the second anniversary of the grant date. Pursuant to the Key Employee Plan, all options vest automatically upon a Change of Control (as defined in the Plan). The options expire ten years from the grant date. As of March 31, 2004, there were no options outstanding under the Key Employee Plan.

The Board of Directors approved the 2004 Stock Option Plan for Directors (the "Directors' Plan") for the purpose of increasing shareholder value and to strengthen the mutuality of interests between such directors and the Company's stockholders. The maximum number of shares of New Common Stock, subject to certain adjustments, that may be delivered to participants is 42,000 shares. On April 5, 2004, the Board of Directors granted to certain non-employee directors 42,000 non-qualified stock options, to purchase the New Company's Common Stock, exercisable at the market price on the grant date of $11.00 per share. The options vest in three equal installments over a three-year period as follows: one-third vest on the first anniversary of the grant date, one-third vest on the second anniversary of the grant date and one-third vest on the third anniversary of the grant date. Pursuant to the Directors' Plan, all options vest automatically upon a Change of Control. As of March 31, 2004, there were no options outstanding under the Directors' Plan.

The Company has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and SFAS No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure - An Amendment of SFAS No. 123" ("SFAS 148"),which, among other provisions, established an optional fair value method of accounting for stock-based compensation, including stock option awards. The Company has elected to adopt the disclosure only provisions of SFAS 123 and SFAS 148, and continues to apply APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations including FIN No. 44, "Accounting for Certain Transactions Involving Stock Compensation" 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 to the Predecessor Company stock options and stock options was immaterial for all periods presented in the accompanying financial statements.

10) EARNINGS PER SHARE

Basic and diluted earnings per common share are based upon the weighted average number of common shares outstanding during the respective periods. Basic EPS is calculated based on earnings available to common shareholders and the weighted average number of common shares outstanding during the reported period. Diluted EPS includes additional dilution from the potential exercise of stock options. The incremental shares from the exercise of stock options were not included in computing diluted EPS for all periods presented, since the effect of such was antidilutive. Common stock equivalents excluded from the calculation of diluted earnings (loss) per share were approximately 500,000 shares subject to options outstanding for all periods presented for the Predecessor Company. For the period of February 18, 2004 through March 31, 2004 (Successor Company), there were no common stock equivalents for the purposes of the diluted earnings per share computation.

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.

12) EMPLOYEE RETIREMENT BENEFITS

The components of net periodic pension costs of the Company's employee defined benefit plans recognized within the accompanying statements of operations follow:

	Successor Company	Predecessor Company	
	Period from February 18, 2004 through March 31, 2004	Period from January 1, 2004 through February 17, 2004	Three Months Ended March 31, 2003
Service cost	$ 55,193	$ 61,907	$ 119,556
Interest cost	46,067	51,671	90,755
Expected return on plan assets	(43,574)	(53,944)	(169,890)
Recognized net actuarial (gain) loss	—	3,429	13,284
Amortization of prior service cost	—	1,641	84,976
Net periodic pension cost	$ 57,686	$ 64,704	$ 138,681

	Successor Company	Predecessor Company	
	Period from February 18, 2004 through March 31, 2004	Period from October 1, 2003 through February 17, 2004	Six Months Ended March 31, 2003
Service cost	$ 55,193	$ 179,006	$ 239,111
Interest cost	46,067	149,408	181,509
Expected return on plan assets	(43,574)	(155,982)	(339,780)
Recognized net actuarial (gain) loss	—	10,287	26,567
Amortization of prior service cost	—	4,373	169,952
Net periodic pension cost	$ 57,686	$ 187,092	$ 277,359

In connection with the application of fresh-start reporting discussed in Note 4, the Company recorded adjustments totaling approximately $600,000 to fully accrue for the difference between the fair value of assets held within its defined benefit plans and the plans' respective projected benefit obligations.

During fiscal 2004, the Company has contributed $95,291 to its defined benefit plans and additional contributions of $397,384 are expected to be funded within the latter half of fiscal 2004.

13) INCOME TAXES

As of September 30, 2003, the company had approximately $175 million in pre-reorganization net operating loss (the "NOL") carryforward. Upon reorganization, there is a cancellation of debt income (the "COD"), as defined by the Internal Revenue Code of 1986, as amended (the "Code" or "IRC"). Depending on whether or not there has been a change of control (within the meaning of IRC Section 382), the COD calculation differs. As required by the Code, the NOL carryforwards were reduced by the COD. As of the Effective Date, NOL carryforwards would be reduced to approximately $75 million if there was not an ownership change and $109.2 million if there was an ownership change. The Company has fully reserved for any future benefits that might be derived from its NOLs as of March 31, 2004.

A change of control, would severely limit the Company's ability to utilize the NOLs and other pre-reorganization built-in losses, e.g. tax depreciation, to reduce taxes. A change of control is deemed to have occurred if more than 50% of the Company's previously outstanding 9.5% First Mortgage Notes were traded during the period extending from eighteen months prior to the petition date (January 22, 2003) and through the Effective Date of the Company's reorganization (February 17, 2004). The Company is currently studying this decision and will make a timely decision on the best course of action. While this process has not yet been completed, management believes that it is likely that a change of control, as defined, did occur, which under this assumption would result in annual limitations of approximately $1.7 million with respect to the level of prior NOL's and certain other tax benefits that would be available to offset future taxable income

Even if there is not a change of control, the Company can elect, upon filing its fiscal 2004 income tax return with the Internal Revenue Service, to be treated as if a change of control occurred. The Company has until June 15, 2005 to make its election (if available) and to file the fiscal 2004 income tax return.

The accompanying statement of operations for the period from February 18, 2004 through March 31, 2004 (Successor Company) includes the recognition of income tax expense at an effective rate of approximately 40%. In addition, a positive adjustment of $1.2 million was recorded as an increase to stockholders' equity during the same period reflecting adjustment to the deferred tax asset valuation allowance previously established by the Predecessor Company prior to the Effective Date of the Reorganization.

14. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) for the respective periods presented follow (000's):

	Successor Company	Predecessor Company	
	Period from February 18, 2004 through March 31, 2004	Period from January 1, 2004 through February 17, 2004	Three Months Ended March 31, 2003
Net income (loss)	$ 1,796	$ 16,394	$ (17,587)
Changes in Accumulated Other Comprehensive Income:			
Minimum pension liability adjustments	—	557	—
Comprehensive income (loss)	$ 1,796	$ 16,951	$ (17,587)

	Successor Company	Predecessor Company	
	Period from February 18, 2004 through March 31, 2004	Period from October 1, 2003 through February 17, 2004	Six Months Ended March 31, 2003
Net income (loss)	$ 1,796	$ 15,839	$ (26,573)
Changes in Accumulated Other Comprehensive Income:			

	Period from February 18, 2004 through March 31, 2004	Period from October 1, 2003 through February 17, 2004	Six Months Ended March 31, 2003
Realized gain on investment sold	—	(79)	—
Minimum pension liability adjustments .	—	557	—
Comprehensive income (loss)	$ 1,796	$ 16,317	$ (26,573)

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 the Company and related notes thereto included in Part I, Item 1 of this Report and the Predecessor 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.

LIQUIDITY, FINANCING MATTERS, AND BANKRUPTCY PROCEEDINGS

As discussed in Note 3 of the notes to financial statements in Item 1. "Financial Statements", on February 18, 2004 (the "Effective Date"), the Company emerged fromChapter 11 bankruptcy. Upon emergence from Bankruptcy, the Company and its subsidiaries, Bayou Steel Corporation (Tennessee) and River Road Realty Corporation were merged into Bayou Steel Corporation ("the Company") and became one legal entity.

Under the terms of the Reorganization Plan, the Company will liquidate, over a year, pre-petition unsecured convenience and trade claims at 9% to 10%, possibly higher under some circumstances, of their face value. The Company's existing common stock, par value $.01 per share, outstanding prior to the Effective Date (the "Old Common Stock") was extinguished and holders of such shares did not receive or retain any New Common Stock or property under the Reorganization Plan. The holders of the pre-petition 9.5% $120 million First Mortgage Notes (the "Old Notes") received $30 million in new 9% First Mortgage Notes (the "New Notes"), and 2 million shares of new common stock (the "New Common Stock") of the Company. The Debtor-in-Possession (DIP) credit facility was replaced with a new credit facility. See Notes 7 and 8 of notes to financial statements in Item 1. "Financial Statements".

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial statements are prepared in accordance with the AICPA's Statement of Position 90-7 ("SOP 90-7"), Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. SOP 90-7 required the Company to, among other things, (1) identify transactions that were 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 were not subject to compromise or were post-petition liabilities and (3) apply "Fresh-Start Reporting" rules upon emergence from Bankruptcy. See Note 3 of notes to financial statements in Item 1. "Financial Statements" for description of the Reorganization Plan and Note 4 of notes to financial statements in Item 1. "Financial Statements" for the application of Fresh-Start Reporting. As a result of the Company's emergence from Chapter 11 bankruptcy and the application of Fresh-Start Reporting, financial statements for the Company for the periods subsequent to February 18, 2004 are referred to as the "Successor Company" and are not comparable to those for the periods prior to February 18, 2004, which are referred to as the "Predecessor Company." A black line has been drawn in the unaudited financial statements to distinguish, for accounting purposes, the periods associated with the Successor Company and the Predecessor Company.

However, for purposes of this discussion, the Predecessor Company's results for the period from January 1, 2004 through February 17, 2004 have been combined with the Successor Company's results for the period from February 18, 2004 through March 31, 2004. These combined results are compared to the Predecessor Company's results for the three months ended March 31, 2003. In addition, these results have been combined with the Predecessor Company's results for the three months ended December 31, 2003 and compared to the Predecessor Company's results for the six months ended March 31, 2003.

RESULTS OF OPERATIONS

The following financial information reflects the Predecessor and Successor Companies' combined financial statements for the three and six months ended March 31, 2004 compared to the same prior year periods (in thousands).

	(Unaudited) Three Months Ended March 31,		(Unaudited) Six Months Ended March 31,	
	2004	2003	2004	2003
Net sales	$ 60,231	$ 37,394	$ 111,925	$ 66,225
Cost of sales	57,566	42,272	106,982	74,508
Gross margin	2,665	(4,878)	4,943	(8,283)
Impairment loss on long-lived asset	—	8,000	—	8,000
Selling, general and administrative expense	1,806	1,952	3,588	3,666
Reorganization expense	767	1,810	1,689	2,759
Operating income (loss)	92	(16,640)	(334)	(22,708)
Other income (expense):				
Interest expense	(570)	(1,001)	(813)	(4,020)
Fresh-start adjustments	(79,627)	—	(79,627)	—
Gain on reorganization	98,922	—	98,922	—
Miscellaneous	574	54	689	154
	19,299	(947)	19,171	(3,866)
Income (loss) before income tax	19,391	(17,587)	18,837	(26,574)
Provision for income tax	1,200	—	1,200	—
Net income (loss)	$ 18,191	$ (17,587)	$ 17,637	$ (26,574)

The Company reported operating income of $92,000 in the second quarter of fiscal 2004 (or the three months ended March 31, 2004) compared to a net operating loss of $16.6 million in the second quarter of fiscal 2003 (or the three months ended March 31, 2003). Several major factors account for the $16.7 million favorable change. First, due to rapidly rising prices for scrap, fuels, and alloys, which collectively represent over 50% of costs, steel producers, including the Company, raised prices on most products several times during the second 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 30% in the second quarter of fiscal 2004 compared to the same period in fiscal 2003. The improvement in average selling price for the Company's products reflected improving domestic demand and a more favorable pricing environment due to fewer viable competitors. Second, shipments increased 12% in the second quarter of fiscal 2004 compared to the same period in the prior year. These two factors resulted in a $8.9 million improvement in operating income. Third, an impairment loss of $8 million was recorded in the second quarter of fiscal 2003 and no such impairment loss was recognized in fiscal 2004. Fourth, per unit conversion costs increased $6 per ton in the second quarter of fiscal 2004 compared to the same period in the prior year primarily due to an increase in fuel prices; this adversely affected operating income by $0.9 million. And finally, reorganization expenses decreased $1.1 million as the company emerged from bankruptcy on February 18, 2004.

The Company reported a loss from operations for the first six months of fiscal 2004 of $334,000 compared to $22.7 million in the same period of fiscal 2003. A non-cash impairment charge of $8 million was recorded in fiscal 2003, and there was no such charge in fiscal 2004. Excluding the non-cash impairment charge, the $14.4 million improvement is primarily due to increased shipments and improved metal margins.

The following table sets forth the combined shipment and sales data.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net Sales (in thousands)	$ 60,231	$ 37,394
Shipment Tons	146,695	130,680
Average Selling Price Per Ton	$ 406	$ 282

	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Net Sales (in thousands)	$ 111,925	$ 66,225
Shipment Tons	297,879	230,230
Average Selling Price Per Ton	$ 372	$ 283

A. **Sales**

Net sales for the quarter increased by 61% on a 12% increase in shipments and a 43% increase in the average selling price compared to the second quarter of fiscal 2003. The increase in shipments is attributable to a continued improvement in domestic demand, which began in the fourth quarter of fiscal 2003, and several sales initiatives implemented during the reorganization. Shipments in the first quarter of the prior year were adversely affected by filing for bankruptcy in that quarter. Shipments in the second quarter of fiscal 2004 were slightly lower than the first quarter of 2004 but still 5% higher than the average of the prior three quarters. Sales would have been higher if not for the lack of billets to run the finishing operations at higher levels of utilization. Backlog and shipment levels continue to be solid. However, in the summer of 2004, Steel Dynamics will begin producing products in their Pittsboro, Indiana mill which compete with the Company's Louisiana and Tennessee facilities, and this competitive development may have an effect on pricing.

The selling price increased compared to both the prior year comparable quarter as well as the immediate preceding quarter. In the second fiscal quarter of 2004, selling prices improved $124 per ton from the lowest price per ton of the previous four quarters. The selling price increase in the second fiscal quarter of 2004 was $67 per ton. Subsequent to March 31, 2004, there have been two additional price increases totaling $50 per ton. These price increases have generally been related to the sharply escalating prices for scrap and the increasing prices for alloys and fuel as well as stronger demand for the Company's products. Additionally, there are fewer competitors than several years ago, leading to a more favorable pricing climate. Scrap prices are declining which may result in declining selling prices in the next few months.

Net sales for the six month period ended March 31, 2004 increased $46 million or 69% compared to the first six months of 2003, primarily due to a 29% increase in shipments coupled with a 31% increase in average selling price. These fluctuations are the result of the market factors noted above and the reaction of customers in 2003 to the Company's bankruptcy filing.

B. **Cost of Goods Sold**

Cost of goods sold increased $15.3 million or 36% for the quarter compared to the prior year quarter due to a higher volume of shipments and higher prices for scrap metal, alloys and energy. However, due to the continued increases in average selling price and shipments, the Company had a gross profit margin of $2.7 million for the quarter compared to a gross margin loss of $4.9 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 second quarter increased 65% compared to the same period last year. The cost of scrap was 57 % higher in the second 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, particularly to the Republic of China. Scrap prices peaked in May of 2004 and are expected to decline over the next few months; this may impact selling prices. The prices for additives and alloys have also increased significantly and have increased again in the spring of 2004.

As part of Fresh-Start Accounting, the Company switched from using the last-in, first-out ("LIFO") method of accounting for steel scrap inventories to the average cost method. Scrap inventories represent 11% of the total inventories as of March 31, 2004. The change resulted in an increase in scrap inventory values of $1.2 million in fresh-start accounting. For the period from February 18, 2004 through March 31,2004, this adjustment had an approximately $900,000 favorable effect on results of operations. Going forward, this will have a negative impact on gross margins as these inventories are sold, if scrap prices continue to decline, as expected.

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 increased 4.5% in the second quarter of fiscal 2004 compared to the same period last year primarily due to a $1.1 million, or $4 per ton increase in electricity, natural gas, and oxygen prices. Prices have continued to be high and may continue to be high for some time. The Tennessee rolling mill experienced a 9% decrease in conversion cost largely driven by increased production, lower fixed costs, and a decrease in depreciation expense due to the reorganization.

The Company anticipates that finishing capacity will be constrained in the remaining two fiscal quarters 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 been able to purchase adequate quantities of billets at economical prices. However, the Company has not been able to obtain purchased billets at economical prices in the last few months. The Company is hopeful that some billets will be available in the summer to supplement internally supplied billets. The Company expects that availability will be tighter in the future as compared to the past. If purchased billets are not available, production of finished product could be limited, resulting in potential lost sales opportunities provided business conditions remain the same.

As part of Fresh-Start Reporting, the Company adjusted inventories on the Effective Date to current market less a reasonable profit margin. Market prices are at an all time high for the Company's products due to record high scrap costs and a robust economy. As market prices decline with declines in scrap prices, the market price may exceed the new, higher inventory basis on the Effective Date. This would lead to a lower of cost or market charge to cost of goods sold sometime in the future. The market prices over the past ten years have, in many periods, been lower than the new basis on the Effective Date.

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

Selling, general and administrative expenses decreased slightly in the second quarter of fiscal 2004 compared to the second quarter of the prior fiscal year, primarily due to a decrease in the cost of certain insurance policies. Reorganization expenses decreased approximately $1 million during the three and six months ended March 31, 2004, respectively, compared to the same prior year periods, as the Company emerged from bankruptcy midway through the second quarter of 2004 and did not incur additional reorganization expense subsequent to the Effective Date.

D. **<u>Interest Expense</u>**

Interest expense decreased $0.4 million and $3.2 million respectively during the quarter and six months ended March 31, 2004 as compared to the same prior year periods. This is due to the elimination of interest expense on the pre-petition Old Notes after the Petition Date which was partially offset by the interest expense on the New Notes after the Effective Date.

E. **<u>Miscellaneous Income (Expense)</u>**

Miscellaneous income increased $520,000 and $535,000 for the three and six months ended March 31, 2004, respectively, compared to the same prior year periods. This increase is due primarily to the settlement of a lawsuit in March 2004, related to the Company's claim against a former supplier that participated in a price fixing arrangement against the steel industry in previous years.

F. **<u>Fresh-Start and Gain on Reorganization</u>**

Upon emerging from bankruptcy on February 18, 2004, the Company recorded fresh-start accounting related charges totaling $79.6 million and a gain on the reorganization, primarily related to the discharge of pre-petition liabilities, of $98.9 million.

G. **<u>Income Taxes</u>**

The accompanying statement of operations for the period from February 18, 2004 through March 31, 2004 (Successor Company) includes the recognition of income tax expense at an effective rate of approximately 40%. In addition, a positive adjustment of $1.2 million was recorded as an increase to stockholders' equity during the same period reflecting adjustment to the deferred tax asset valuation allowance previously established by the Predecessor Company prior to the Effective Date of the Reorganization. No net income tax expense (benefit) was provided for any period presented with respect to the Statement of Operations of the Predecessor Company.

H. **<u>Net income (loss)</u>**

Net income (loss) improved $35.8 million in the second quarter of fiscal 2004 compared to the second quarter of fiscal 2003 due to several factors. Other income (expense) increased approximately $20.2 million primarily due to the gain on reorganization offset by the fresh-start adjustments. Income tax expense in the second quarter was $1.2 million compared to zero in the comparable prior year quarter. Additionally, an impairment loss of $8 million was recorded in fiscal 2003 and no such loss occurred in fiscal 2004. The remaining $7.6 million improvement is due to market conditions, particularly a higher metal margin and more shipments.

For the six months ended March 31, 2004, net income (loss) improved $44.2 million primarily due to the same factors noted above.

<u>LIQUIDITY AND CAPITAL RESOURCES</u>

A. **<u>Liquidity and Financing Matters</u>**

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 was a $45 million credit facility and expired on February 18, 2004. It was secured by inventory, receivables, and certain fixed assets previously unencumbered by other debt agreements and bore interest at Prime plus 1% or London Interbank Borrowing Rate (LIBOR) plus 3%.

On the Effective Date, the Company entered into a new line of credit agreement (the "New Credit Agreement"), with a new lender replacing the previous DIP credit agreement. The terms of the new agreement call for available borrowings up to $45 million, including outstanding letters of credit, using a borrowing base of accounts receivable and inventory. Based on the borrowing base criteria, $24.9 million was available as of March 31, 2004. The three-year agreement, which expires on February 17, 2007, is secured by accounts receivable, inventory, and all fixed assets except for the Louisiana Facility. The line of credit bears interest at Prime plus 0.50% or LIBOR plus 2.50% through the period ending February 17, 2005. Thereafter, loans bear interest at Prime plus 0% to 1.0% or LIBOR plus 2.0% to 3.0% based on excess availability. The terms of the agreement require the Company to maintain a minimum excess availability of $5 million. As of March 31, 2004, $19.8 million was borrowed under the revolving credit facility.

The maximum amount outstanding under the DIP Agreement during the period from October 1, 2003 through February 17, 2004 was $22.3 million. The average borrowings were $19.9 million and the weighted average interest rate was 4.85%. The maximum amount outstanding under the New Credit Agreement during the period from February 18, 2004 through March 31, 2004 was $22.6 million. The average borrowings were $20.9 million and the weighted average interest rate was 4.39%.

Under the terms of the New Credit Agreement, the lender may establish certain “availability reserves”, as defined, which, if imposed, must be established in good faith by the lender, the result of which could reduce the amount of availability under the line of credit below the amount that would otherwise be established under the borrowing base determination. Generally the lender’s rights to impose such reserves must be supported by events, conditions, contingencies or risks which, as determined by the lender in good faith, do or may affect the underlying collateral. No such availability reserves have been established by the lender, and management is unaware of any conditions that currently exist that would result in the establishment of such availability reserves.

The Company believes that its internally generated funds and its availability under its line of credit will be adequate to meet its foreseeable short-term and long-term liquidity needs, as the Company exists today. Any future expansion may require the Company to pursue other, additional sources of liquidity.

B. **Operating Cash Flow**

For the six months ended as of March 31, 2004, the Company had minimal cash on hand and $19.8 million drawn on its credit facility. For the first six months of fiscal 2004, net cash used in operations before reorganization expenses improved significantly as cash used in operations was reduced from $3.3 million in the first six months of fiscal 2003 to net cash provided of $0.7 million in the first six months of fiscal 2004. The $0.7 million provided by operations was due largely to inventories decreasing by $5.7 million as a result of demand exceeding production which was constrained by a lack of billets. During the same period of the prior year $3.8 million was provided by operations due to a decrease in inventory as a result of reducing operating levels.

Excluding reorganization expenses and changes in working capital, the Company continues to achieve 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, for the remainder of 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 $0.6 million in the first six months of fiscal 2004 compared to $1.0 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 six months will continue to be directed towards maintenance programs requiring approximately $1.8 million. As of March 31, 2004 there were no significant commitments remaining to complete authorized projects under construction.

OTHER COMMENTS

Forward-Looking Information, Inflation and Other

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 capacities 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 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.
- Steel imports into the United States.
- 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 alloys.
- The ability to purchase additional billets at economical prices.
- 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.

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 Bankruptcy court confirmed the Second Amended and Restated Plan of Reorganization of the Company and its subsidiaries on February 6, 2004. The Company emerged from Bankruptcy on February 18, 2004, the Effective Date.

The Company is involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. Some of these are part of the reorganization plan and will be discharged through the issuance of additional New Common Stock. 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.

Item 3. **DEFAULTS UPON SENIOR SECURITIES**

None.

Item 5. **OTHER INFORMATION**

In connection with the Bankruptcy, the Company was delisted from the American Stock Exchange. Presently, the Company is not officially listed. However, the Company's stock is trading on the Nasdaq pink sheets under BYUA.PK. The Company will continue to be a publicly reporting company and will address whether or not to officially list itself on a trading system in the future. Upon the Effective Date of the Plan, the Company's Old Common Stock was canceled. New Common Stock was issued to the holders of the Old Notes.

On March 10, 2004, Bayou Steel Properties Limited ("BSPL"), an unrelated company, launched a tender offer for all outstanding shares of the Company's New Common Stock at a price of $2.50 per share. The offer was scheduled to expire at 5:00 p.m., New York City time, on April 21, 2004. To date, no communication has been received by the Company regarding this offer, therefore the Company considers the offer expired.

Item 6. **EXHIBITS AND REPORTS ON FORM 8-K**

(a) **Exhibits**

2.1 Debtors' Second Amended Joint Plan of Reorganization dated February 4, 2004 (incorporated by reference to the Company's Form 8-K filed February 18, 2004).

2.2 Delaware Certificate of Merger for River Road Realty Corporation and the Company dated February 18, 2004.

2.3 Louisiana Certificate of Merger for River Road Realty Corporation and the Company dated February 18, 2004.

2.4 Certificate of Merger for the Bayou Steel Corporation (Tennessee) and the Company dated February 18, 2004.

3.1 Amended and Restated Certificate of Incorporation of the Company dated February 18, 2004.

3.2 Amended and Restated Bylaws of the Company dated February 17, 2004.

4.1 Indenture between the Company and J.P. Morgan Trust Company, N.A., as Trustee dated February 18, 2004.

4.2 Loan and Security Agreement between the Company and Fleet Capital Corporation as lender and agent and the other lenders thereto, dated as of February 18, 2004.

4.3 9% First Mortgage Notes due 2011 of the Company.

4.4 Registration Rights Agreement by and among the Company and the Holders party thereto, dated February 18, 2004.

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

(a) The Company filed a Form 8-K, dated February 18, 2004, reporting under Item 1 that the Company completed all required transactions and satisfied all remaining conditions for its Second Amended and Restated plan of Reorganization and Item 3 that the Company completed all required transactions and satisfied all remaining conditions for its Plan to emerge from Chapter 11 bankruptcy.

(b) The Company filed a Form 8-K, dated March 10, 2004, reporting under Item 5 that the Company received an unsolicited tender offer from Bayou Steel Properties Limited.

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: May 24, 2004