

QUARTERLY REPORT

For the quarterly period ended December 31, 2004

BAYOU STEEL CORPORATION

Delaware
(State of incorporation)

72-1125783
(I.R.S. Employer)

138 Highway 3217, P.O. Box 5000, LaPlace, Louisiana 70069
(Address of principal executive offices)
(Zip Code)

985-652-4900
(Telephone number, including area code)

BAYOU STEEL CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. **FINANCIAL STATEMENTS**

BAYOU STEEL CORPORATION
BALANCE SHEETS
ASSETS

	<u>Successor Company</u>	
	<u>(Unaudited)</u> <u>December 31,</u> <u>2004</u>	<u>(Audited)</u> <u>September 30,</u> <u>2004</u>
CURRENT ASSETS:		
Cash	\$ 107,953	\$ 119,726
Receivables, net of allowance for doubtful accounts of \$821,046 and \$757,317 respectively	21,726,915	25,206,139
Income Tax Refund	—	1,934,615
Inventories	68,823,578	54,509,773
Prepaid expenses	<u>2,899,904</u>	<u>3,035,958</u>
Total current assets	<u>93,558,350</u>	<u>84,806,211</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>5,919,526</u>	<u>2,739,615</u>
Total assets	<u>\$ 99,477,876</u>	<u>\$ 87,545,826</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>Successor Company</u>	
	<u>(Unaudited)</u> <u>December 31,</u> <u>2004</u>	<u>(Audited)</u> <u>September 30,</u> <u>2004</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 16,430,409	\$ 13,412,713
Accrued plant turnaround costs	1,360,804	2,398,125
Other accrued liabilities	7,427,440	6,560,009
Credit Facility	14,640,933	10,831,501
Post-reorganization obligations	422,139	824,957
Current portion of capital lease obligation.....	<u>47,973</u>	<u>—</u>
Total current liabilities	<u>40,329,698</u>	<u>34,027,305</u>
LONG-TERM DEBT AND POST REORGANIZATION OBLIGATIONS ...	30,591,802	30,591,802
CAPITAL LEASE OBLIGATION.....	883,447	—
COMMITMENTS AND CONTINGENCIES :		
COMMON STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value: 5,000,000 authorized, 2,000,000 issued and outstanding at December 31, 2004 and September 30, 2004, respectively	20,000	20,000
Paid-in-capital	9,763,376	9,199,592
Retained earnings	18,027,553	13,845,127
Accumulated other comprehensive income (loss)	<u>(138,000)</u>	<u>(138,000)</u>
Total common stockholders' equity	<u>27,672,929</u>	<u>22,926,719</u>
Total liabilities and common stockholders' equity	<u>\$ 99,477,876</u>	<u>\$ 87,545,826</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Successor Company	Predecessor Company
	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003
NET SALES	\$ 63,117,361	\$ 51,693,892
COST OF SALES	<u>53,717,082</u>	<u>49,416,207</u>
GROSS PROFIT	9,400,279	2,277,685
SELLING, GENERAL AND ADMINISTRATIVE	1,911,036	1,781,910
REORGANIZATION EXPENSE	<u>—</u>	<u>921,771</u>
OPERATING INCOME (LOSS)	<u>7,489,243</u>	<u>(425,996)</u>
OTHER INCOME (EXPENSE):		
Interest expense	(918,000)	(243,314)
Miscellaneous	<u>285,192</u>	<u>114,447</u>
	<u>(632,808)</u>	<u>(128,867)</u>
INCOME (LOSS) BEFORE INCOME TAX	6,856,435	(554,863)
PROVISION FOR INCOME TAX	<u>2,674,009</u>	<u>—</u>
NET INCOME (LOSS)	<u>\$ 4,182,426</u>	<u>\$ (554,863)</u>
WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING	2,000,000	12,890,607
NET INCOME (LOSS) PER BASIC COMMON SHARE	<u>\$ 2.09</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	2,082,772	12,890,607
NET INCOME (LOSS) PER DILUTED COMMON SHARE	<u>\$ 2.01</u>	<u>\$ (0.04)</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	Successor Company	Predecessor Company
	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 4,182,426	\$ (554,863)
Depreciation	193,888	2,157,569
Amortization.....	—	233,738
Provision for losses on accounts receivable	63,730	53,384
Deferred income taxes	563,784	—
Gain on sale of investment	—	(156,629)
Repayment of post-reorganization obligations	(402,818)	—
Changes in working capital:		
Decrease (increase) in receivables.....	3,415,494	(5,531,011)
(Increase) decrease in inventories	(14,313,805)	3,064,137
Decrease (increase) in prepaid expenses	136,054	(539,945)
Increase in accounts payable	4,952,311	332,189
(Decrease) in accrued liabilities	<u>(169,890)</u>	<u>(622,409)</u>
Net cash (used in) operations	(1,378,826)	(1,563,840)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,442,379)	(316,457)
Proceeds from sale of investment	<u>—</u>	<u>280,559</u>
Net cash used in investing activities	<u>(2,442,379)</u>	<u>(35,898)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under debtor-in-possession financing facility	—	1,523,458
Net borrowings (repayments) under line of credit	<u>3,809,432</u>	<u>—</u>
Net cash provided by financing activities	<u>3,809,432</u>	<u>1,523,458</u>
NET (DECREASE) INCREASE IN CASH.....	(11,773)	(76,280)
CASH, beginning balance	<u>119,726</u>	<u>178,170</u>
CASH, ending balance	<u>\$ 107,953</u>	<u>\$ 101,890</u>
SUPPLEMENTAL NON-CASH INVESTING & FINANCING ACTIVITIES:		
Acquisition of Leased Land.....	931,420	—

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 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 combined into Bayou Steel Corporation ("the Company") and became one legal entity.

2) **BASIS OF PRESENTATION**

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 a 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 accompanying unaudited financial statements and financial information have been prepared in accordance with interim reporting requirements and do not include all of the information and footnotes normally included in annual financial statements prepared in accordance with generally accepted accounting principles. 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 annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Certain reclassifications have been made to prior years' financial statements to be consistent with the current year's presentation. 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 Successor Company's audited financial statements and notes thereto included in the Successor Company's Annual Report for the year ended September 30, 2004

3) **RECENT ACCOUNTING PRONOUNCEMENT**

As permitted by Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method effective July 1, 2005 will have an impact on the results of operations, although it will have no impact on the overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 10 to the financial statements. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. Since no stock options were exercised, there was no tax impact on the Company's financial statements in prior periods.

4) **REORGANIZATION UNDER CHAPTER 11**

Under the terms of the Reorganization Plan, the Company is required to 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 is required to liquidate over five years secured property tax claims at 100% 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 claims (the "Pre-reorganization Tort Claims") are resolved. The maximum number of shares that could be issued is approximately 530,000 shares or 21% of the then outstanding stock. This would dilute earnings per share. While the Company believes that its exposure to such Pre-reorganization Tort Claims is substantially mitigated by its existing insurance coverage, to the extent that any consideration is exchanged by the Company in settling these claims, such amounts, if any, would impact the Company's statement of operations in the period in which the matters are resolved. The Debtor-in-Possession ("DIP") credit facility was replaced with a new credit facility. See Note 8 – Debt and Post Reorganization Obligations.

Approximately \$922,000 of reorganization expenses were incurred by the Company during the quarter ended December 31, 2003.

5) **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 Company’s reorganization and the related application of “Fresh-Start Reporting” significantly impacted the Company’s financial position, particularly with respect to the carrying values of property, plant and equipment, pre-petition liabilities subject to compromise, long-term debt and stockholders’ equity (deficit).

6) **INVENTORIES**

Inventories consist of the following:

	<u>Successor Company</u>	
	<u>(Unaudited) December 31, 2004</u>	<u>(Audited) September 30, 2004</u>
Steel scrap	\$ 6,418,480	\$ 6,741,146
Billets	18,211,577	5,001,587
Finished product.....	53,433,139	49,761,968
LIFO adjustments.....	<u>(16,706,182)</u>	<u>(13,954,112)</u>
	61,357,014	47,550,589
Operating supplies.....	<u>7,466,564</u>	<u>6,959,184</u>
	<u>\$ 68,823,578</u>	<u>\$ 54,509,773</u>

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

7) **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following:

	<u>Successor Company</u>	
	<u>(Unaudited) December 31, 2004</u>	<u>(Audited) September 30, 2004</u>
Land	\$ 1,403,838	\$ 472,418
Machinery and equipment.....	<u>4,733,031</u>	<u>2,290,652</u>
Total property, plant and equipment	6,136,869	2,763,070
Less - accumulated depreciation	<u>(217,343)</u>	<u>(23,455)</u>
Net property, plant and equipment.....	<u>\$ 5,919,526</u>	<u>\$ 2,739,615</u>

8) **DEBT AND POST-REORGANIZATION OBLIGATIONS**

	<u>Successor Company</u>	
	<u>(Unaudited) December 31, 2004</u>	<u>(Audited) September 30, 2004</u>
	<u>(in millions)</u>	<u>(in millions)</u>
New Credit Agreement	\$ 14.6	\$ 10.8
9% First Mortgage Notes	30.0	30.0
Post-reorganization obligations.....	<u>1.0</u>	<u>1.4</u>
Total debt and post-reorganization obligations	45.6	42.2
Less - current portion of long-term debt and post- reorganization obligations	<u>15.0</u>	<u>11.6</u>
Total long-term portion of debt and post- reorganization obligations.....	<u>\$ 30.6</u>	<u>\$ 30.6</u>

Post-reorganization obligations included the discharge of pre-petition 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.

On February 18, 2004, the Company entered into a new line of credit agreement (the “New Credit Agreement”), with a new lender replacing the previous DIP agreement. The terms of the New Credit 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, \$29.2 million of additional borrowing capacity was available as of December 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, not pay dividends, and limit capital expenditures. Pursuant to the provisions of the New Credit Agreement, the Company is subject to, and is currently in compliance with the terms of the agreement. As of December 31, 2004, \$14.6 million was drawn under the revolving credit facility. The terms of the New Credit Agreement require the Company to pay a fee of 1% of the maximum facility if the agreement is terminated after February 18, 2005.

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 maximum amount outstanding under the New Credit Agreement during the three-month period ended December 31, 2004 was \$17.7 million. The average borrowings were \$14.9 million and the weighted average interest rate was 5.62%.

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.

9) **CAPITAL LEASE**

During the first quarter of fiscal 2005, the Company entered into a scrap processing facility capital lease. The term of the lease is ten years with the option to extend the lease for two successive five year terms. The Company recorded the lease at \$931,420 which is the present value of the lease payments at a discount rate of 5.5% as of December 31, 2004.

10) **STOCK BASED COMPENSATION**

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, determined by a third party valuation firm, 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 December 31, 2004, there were 105,000 incentive stock options outstanding under the Key Employee Plan and 35,000 were exercisable.

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 48,000 shares. On April 5, 2004, July 26, 2004, September 24, 2004, and December 16, 2004, the Board of Directors granted to certain non-employee directors 24,000, 12,000, 6,000, and 6,000 non-qualified stock options, to purchase the New Company’s Common Stock, exercisable at the market price on the grant dates of \$11.00, \$19.30, \$28.50, and \$32.78 per share, respectively. 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. The options expire ten years from the grant date. On December 16, 2004, 6,000 options were forfeited at a market price of \$11.00 per share. As of December 31, 2004, there were 42,000 incentive stock options outstanding under the Directors’ Plan and no shares were exercisable.

The Company accounts for its stock-based employee compensation plan under the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related Interpretations. The Company has adopted the disclosure-only provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation (FAS 123), as amended by FASB Statement No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (FAS 148). Had the Company elected to adopt the fair value recognition provisions of FAS 123, pro forma net income and net income per share would be as follows:

	<u>Successor Company</u> <u>Three-Months</u> <u>Ended</u> <u>December 31,</u> <u>2004</u>
Thousands of Dollars, except per share data	
Net Income, as reported.....	\$ 4,182
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	<u>(83)</u>
Pro forma net income.....	<u>\$ 4,099</u>
Earnings per share:	
Basic-as reported	2.09
Basic-pro forma	2.05
Diluted-as reported	2.01
Diluted-pro forma	1.97

Upon approval by the Board of Directors, employees who received options under the Key Employee Plan were offered the option of terminating the vested portion of their stock options (35,000 stock options as of December 31, 2004 for) cash consideration which was defined as the weighted average traded price for the Company's stock in the month of December less the exercise price. The affected employees chose to accept the offer in February 2005. In addition, it is the intention of the Board of Directors to offer a similar arrangement to the same employees and to directors, receiving options under the Directors' Plan, who collectively hold 41,000 additional stock options that vest in April 2005. As a result of the foregoing, the Company anticipates that a compensation expense charge of approximately \$2 million will be recognized in the second fiscal quarter of 2005. In addition, the dilutive effect of stock options (see footnote 11) will be reduced. The Company is evaluating certain alternatives to restructure and/or modify an arrangement covering certain other unvested options which may involve replacing such options, with restricted stock, stock appreciation rights, or other equity instruments. It is likely, that any such modifications, will result in additional compensation charges in the period in which such revisions are made effective.

With respect to the three month period ended December 31, 2003, there was no material impact with respect to the presentation of pro forma net income (loss) per share for the application of the assumed fair value of stock options outstanding under the former stock option plan of the Predecessor Company.

11) 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 earnings per common share is calculated based on earnings available to common stockholders and the weighted average number of common shares outstanding during the reported period. Diluted earnings per common share 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 earnings per common share for all periods presented prior to the Effective Date, 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 the three months ended December 31, 2003 with respect to the Predecessor Company. For the three-month period ended December 31, 2004 (Successor Company), there were 2,082,772 common stock equivalents considered for the purpose of the diluted earnings per share computation.

The denominators used in determining basic and diluted earnings (loss) per share were as follows:

	Successor Company	Predecessor Company
	Three-Months Ended December 31, 2004	Three-Months Ended December 31, 2003
Weighted average shares used in computing		
Income (loss) per share – basic	2,000,000	12,890,607
Dilutive effect of stock options	<u>82,772</u>	<u>—</u>
Weighted average shares used in computing		
Income (loss) per share – diluted	<u>2,082,772</u>	<u>12,890,607</u>

The numerators used in determining basic and diluted earnings (loss) per share were equal to the Company's net income (loss) for each respective period presented in the accompanying statements of operations.

12) **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 in which 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.

As of December 31, 2004, the Company has entered into forward price commitments for approximately 26.8% of the natural gas it expects to utilize in its production over the next three months.

13) **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
	Three-Months Ended December 31, 2004	Three-Months Ended December 31, 2003
Service cost	\$ 120,069	\$ 117,099
Interest cost	123,720	97,738
Expected return on plan assets	(115,507)	(92,448)
Recognized net actuarial loss	—	—
Amortization of prior service cost.....	<u>16,264</u>	<u>—</u>
Net periodic pension cost.....	<u>\$ 144,546</u>	<u>\$ 122,389</u>

In addition to the Company's two employee defined benefit plans, the Company maintains a Supplemental and Restoration Retirement Plan which became effective October 1, 2004. The plan covers executives of the Company. The net periodic pension cost related to this plan recognized in the first quarter of fiscal 2005 was \$105,000.

14) **INCOME TAXES**

As of September 30, 2003, the company had approximately \$175 million in pre-reorganization net operating loss (the "NOL") carryforwards. 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 \$73.4 million if there was not an ownership change and \$107.6 million if there was an ownership change although these would be subject to the limitations described below. The Company has fully reserved for any future benefits that might be derived from its NOLs as of December 31, 2004. Such an NOL limitation 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. An NOL limitation is deemed to have occurred if more than 50% of the Company's previously outstanding 9.5% First Mortgage Notes were acquired during the period extending from eighteen months prior to the petition date (January 22, 2003) and held through the Effective Date of the Company's reorganization (February 17, 2004). While a final determination of whether an NOL limitation applies has not been made pending the completion of certain analysis of market transactions occurring over this period, management believes it is prudent to present its financial statements assuming that an NOL limitation did occur, which under this assumption would result in an annual limitation of approximately \$1.7 million with respect to the level of prior NOLs that can be utilized over the next 20 years and approximately \$14 million of certain other tax benefits (in the aggregate over the next 5 years), such as tax deductible depreciation, that otherwise would be available to offset future taxable income. Once a final determination is made, and if management concludes that the NOL limitation does not apply, there would be no impact to the accompanying statements of operations, however certain reclassifications may be required with respect to the Company's balance sheet impacting additional paid-in-capital, income taxes payable, and/or income taxes receivable.

The accompanying statement of operations for the three-month period ended December 31, 2004 (Successor Company) includes the recognition of income tax expense at an effective rate of approximately 39%. In addition, a positive adjustment of \$0.6 million was recorded as an increase to stockholders' equity during the first quarter of fiscal year 2005 reflecting adjustment to the deferred tax asset valuation allowance previously established by the Predecessor Company prior to the Effective Date of the Reorganization.

15) **COMPREHENSIVE INCOME (LOSS)**

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

	Successor Company	Predecessor Company
	Three-Months Ended December 31, 2004	Three-Months Ended December 31, 2003
Net income (loss).....	\$ 4,182	\$ (555)
Changes in Accumulated Other Comprehensive Income:		
Realized gain on investment sold	—	(79)
Comprehensive income (loss)	<u>\$ 4,182</u>	<u>\$ (634)</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIO

OVERVIEW

On 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 the United States Bankruptcy Court for the Northern District of Texas (the "Bankruptcy Court"). 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 economy, had adversely affected the Company for several years prior to the Petition Date.

The goal of the Chapter 11 filing was to maximize recovery by creditors and shareholders by preserving the Company as a viable entity with a going concern value. The protection afforded by the Chapter 11 filing permitted the Company to preserve cash and restructure its debt. The Bankruptcy Court confirmed the Reorganization Plan on February 6, 2004. On the Effective Date, the Company emerged from Chapter 11 bankruptcy. Upon emergence from Bankruptcy, the Company was consolidated with its subsidiaries, Bayou Steel Corporation (Tennessee) and River Road Realty Corporation and became one legal entity.

Following is a summary of the significant terms of the Reorganization Plan:

- The Company is required to 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.
- On the Effective Date the Company amended and restated its by-laws and filed a second amended and restated certificate of incorporation with the Delaware Secretary of State authorizing the issuance of up to an aggregate of 5 million shares of common stock, par value \$0.01 per share.
- On the Effective Date the Company exchanged, on a pro-rata basis, \$120 million in 9.5% First Mortgage Notes that were outstanding prior to its bankruptcy filing (the "Old Notes") for \$30 million in 9% First Mortgage Notes (the "New Notes"), and 2 million shares of par value \$0.01 per share common stock (the "New Common Stock"). Additional shares of New Common Stock may be issued to certain tort claimants when the Pre-reorganization Tort Claims are resolved. The maximum shares that could be issued is approximately 530,000 shares or 21% of the then outstanding stock. While the Company believes that its exposure to such Pre-reorganization Tort Claims is substantially mitigated by its existing insurance coverage, to the extent that any consideration is exchanged by the Company in settling these claims, such amounts, if any, would impact the Company's statement of operations in the period in which the matters are resolved.
- The Company cancelled all shares of its common stock, par value \$0.01 per share, outstanding prior to the Effective Date (the "Old Common Stock"). Holders of such shares did not receive or retain any New Common Stock or property under the Reorganization Plan.

- All of the Company's obligations under the \$45 million Debtor-in-Possession credit facility (the "DIP Facility") were satisfied in full through refinancing with the new credit facility discussed below.
- 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 Facility. 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. 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.

The unaudited financial statements as of December 31, 2004 and December 31, 2003 and the audited financial statements as of September 30, 2004 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 are post-petition liabilities and (3) apply "Fresh-Start Reporting" rules upon emergence from Bankruptcy. 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 17, 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 financial statements to distinguish, for accounting purposes, the periods associated with the Successor Company and the Predecessor Company.

As of the Effective Date, 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. The assets and liabilities of the Company have been recorded at their fair values. Equity value was determined with the assistance of independent advisors. The enterprise value (debt plus equity excluding post-petition payables and accrued liabilities) 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 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.

Since emerging from bankruptcy, the Company has experienced positive operating results driven largely by a significant upswing in the domestic steel market. These favorable market conditions have significantly enhanced the Company's operating metrics in comparison to results realized in recent years, particularly in the periods leading up to and through the Company's bankruptcy reorganization. While the Company currently benefits from the favorable market conditions now enjoyed within the industry, historical steel market conditions have proven to be volatile over time, and such volatility could impact the Company's operating results in future periods.

RESULTS OF OPERATIONS

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

	Quarter Ended December 31,	
	2004	2003
Net Sales	\$ 63,117,361	\$ 51,693,892
Shipment Tons	113,080	151,184
Average Selling Price Per Ton	\$ 552	\$ 339

First Quarter Fiscal 2005 Compared to First Quarter Fiscal 2004

The Company reported operating income of \$7.5 million in the first quarter ending December 31, 2004 of fiscal 2005 compared to an operating loss of \$0.4 million in the first quarter ending December 31, 2003 of fiscal 2004. The principal factor accounting for the \$7.9 million favorable change include substantial improvement in the metal margin (the difference between the selling price of the finished product and the price of scrap) increasing 66% in the first quarter of fiscal 2005 compared to fiscal 2004, consolidation among steel producers competing in the market over the last few years, and strong domestic demand for steel products in 2004. These factors resulted in a more favorable competitive and pricing climate for the Company and its products. Partially offsetting these improved conditions were increasing prices of the Company's raw materials of scrap, fuels, and alloys, which collectively represent over 50% of production costs. Although production costs increased, the average selling price for steel products increased at a more rapid rate than the price of the raw material scrap, resulting in \$139 per ton improvement in metal margin. Shipments decreased 25% in the first quarter of fiscal 2005 compared to fiscal 2004, resulting in a \$2.1 million decrease in operating income. Higher production costs in the first quarter of fiscal 2005 as compared to the prior year quarter eroded operating income by \$2.6 million. The rising prices of alloys reduced operating income by approximately \$1.4 million. Finally, reorganization expenses decreased \$0.9 million as the Company emerged from bankruptcy on February 18, 2004.

Net Sales. Net sales for the first quarter of fiscal 2005 increased by 22% on a 25% decrease in shipments and a 63% increase in the average selling price compared to fiscal 2004. The rapid escalation of prices over the past year is unusual; there is no assurance that prices will remain at these levels or that prices will not fall just as quickly. The decrease in shipments is attributable to a softness in domestic demand due to the high inventory levels of the Company's customers who were working down inventories built when prices were rapidly escalating. Sales from the Tennessee plant would have been higher if not for the lack of billets to run the rolling operations at higher levels of utilization. Backlog continues to be solid.

In the first quarter of fiscal 2005, average selling prices improved \$213 per ton from the average in the first quarter of fiscal 2004. There have been eight price increases and two decreases during the period. 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 in fiscal 2004 for the Company's products. There have been no further price increases since August 2004. In December 2004 there was a \$30 per ton price decrease. Scrap prices have been stable during this period, however scrap prices trended down in December 2004. Additionally, there are fewer competitors than several years ago, leading to a more favorable pricing climate.

Cost of Sales. Cost of sales increased \$4.3 million or 9% for the first quarter of fiscal 2005 compared to the first quarter of fiscal 2004 due to higher per unit cost due to increasing prices for scrap metal, alloys and energy even though shipments were down. However, due to the continued increases in average selling price, the Company had a gross profit margin of \$9.4 million for the first quarter of fiscal 2005 compared to a gross margin of \$2.3 million for the first quarter of fiscal 2004.

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. The cost of scrap was 57% higher in the first quarter of fiscal 2005 than fiscal 2004. The sharp increase in the price of scrap appears to be due to increased domestic demand as steel producers begin to meet the demand by operating at higher levels of capacity utilization and due to high levels of exports, particularly to the People's Republic of China. The Company has controlled the availability and the cost of steel scrap to some degree by producing its own shredded and cut grade scrap through its scrap processing division, Mississippi River Recycling ("MRR"), which supplied approximately 36% of the Company's steel scrap requirements in fiscal 2004 and 30% in 2003. MRR has opened a new remote scrap processing yard late in the first quarter of fiscal 2005. The Company expects that MRR will supply a greater percentage of scrap in fiscal 2005 and beyond. Due to a variety of reasons, including flooding on the river, lock closures, and restrictions on tow sizes, there is a temporary shortage of barges. This could last six to eight weeks. This may temporarily impact the availability or cost of scrap during the second quarter of fiscal 2005. The same barge shortage could impact shipments out of the stocking locations since inventory may not be able to be restocked on a timely basis.

The prices for additives and alloys have also increased significantly during the last nine months of fiscal 2004 due to heavy demand from the People's Republic of China and production problems by several major producers. These prices adversely affected operating income by approximately \$1.4 million in the first quarter of fiscal 2005 as compared to fiscal 2004. Prices for certain additives and alloys have decreased in the second quarter of fiscal 2005. This could reduce alloy per ton costs up to approximately \$5 per ton.

Conversion cost includes labor, energy, maintenance materials, and supplies on equipment used to convert raw materials into billets and billets into finished product. Conversion cost per ton for the Louisiana operations increased approximately 10% or \$14 per ton in the first quarter of fiscal 2005 compared to last year. The higher per unit conversion costs were primarily due to the condition of the equipment which adversely impacted production and increased repair costs. In December 2004, the Company underwent a much needed shutdown in the plants to conduct equipment maintenance that was partially deferred due to limited funds during the bankruptcy. Production and efficiencies have increased since the shutdown. The Company accrues in advance for the planned shutdown based upon an estimate of expenses. The Company recorded approximately an additional \$0.6 million in the first fiscal quarter of 2005 over its normal quarterly shutdown accruals to reflect the additional costs incurred during the shutdown due to issues which could not be assessed until dismantling the equipment. There was no depreciation in the fiscal 2005 quarter as compared to \$1.4 million of depreciation in the first fiscal

quarter of 2004. Electricity and natural gas prices have continued to be high and may continue to be high for some time. The Tennessee rolling mill experienced a 22% increase in per unit conversion cost largely driven by the same factors. In addition, due to the lack of available billets, Tennessee reduced mode of operations in the first quarter of 2005 as compared to the prior year comparable quarter.

Period costs include shipping, distribution, and other costs, such as depreciation, related to cost of sales. The Company recorded a \$0.6 million increase in its workmen's compensation accrual and a \$0.3 million accrual for profit sharing; there was no such adjustments in the prior year comparable quarter. Availability of barges in the second fiscal quarter due to flooding on the Mississippi River and its tributaries may result in the Company temporarily using truck and rail, a more costly mode of transportation, more frequently during that period.

In efforts to stabilize natural gas cost, the Company enters into certain forward commitments to purchase a portion of its future natural gas requirements. At the end of the first quarter of fiscal 2005, the Company had entered into forward price commitments for approximately 26.8% of the natural gas it expected to utilize in its production over the following three months.

Finishing capacity (and consequently sales) in fiscal 2004 was constrained due to the limited availability of billets. In the first quarter of fiscal 2005 the Company purchased substantial quantities of billets for the Tennessee Facility on the open market. As a result, the Company will increase production at the Tennessee plant by 25%. Since the purchased billet costs were greater than internally supplied billets, margin per unit will be lower on the incremental production than the current margin.

Selling, General and Administrative Expenses. Selling, general and administrative (the "SG&A") expenses increased by \$129,000 in the first quarter of fiscal 2005 compared to fiscal 2004. Legal fees related to governance issues and litigation, directors' fees, and tax consultation fees were higher than the prior year comparable quarter. The Company anticipates that SG&A expenses will increase as the Company voluntarily complies with certain provisions of Sarbanes-Oxley related to internal controls.

Reorganization Expense. Reorganization expenses decreased approximately \$0.9 million during the first quarter of fiscal 2005, compared to the prior year. Since the Company emerged from bankruptcy midway through the second quarter of 2004, there were no additional reorganization expenses.

Interest Expense. Interest expense increased \$0.7 million during the first quarter of fiscal 2005 as compared to fiscal 2004. This is due to the interest expense on the New Notes after the Effective Date. There was no interest expenses recorded on the Old Notes from the Petition Date through the Effective Date.

Miscellaneous Income. Miscellaneous income increased \$171,000 for the first quarter of fiscal 2005 compared to fiscal 2004. The Company settled a lawsuit related to a pre-reorganization claim under its health care plan. The Company received \$0.3 million in the first quarter of fiscal 2005. In fiscal 2004, the Company sold shares of stock acquired in a customer bankruptcy as settlement of a trade receivable.

Income Tax. The statement of operations for the first fiscal quarter of 2005 includes the recognition of income tax expense at an effective rate of approximately 39% for the income generated during the period. In addition, a positive adjustment of \$0.6 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 income taxes were recorded in the prior comparable period.

Net Income. Net income improved \$4.7 million in the first quarter of fiscal 2005 compared to fiscal 2004 primarily due to the improved metal margin. Also contributing to the improvement was the cessation of reorganization expenses in the first quarter of fiscal 2005. The Successor Corporation incurred interest expense on the 9% \$30 million Notes; none was recorded in the predecessor's first fiscal quarter in 2004. Income tax expense in the first quarter of fiscal 2005 was \$2.7 million compared to zero in the predecessor's first fiscal quarter in 2004.

Upon approval by the Board of Directors, employees who received options under the Key Employee Plan were offered the option of terminating the vested portion of their stock options (35,000 stock options as of December 31, 2004 for) cash consideration which was defined as the weighted average traded price for the Company's stock in the month of December less the exercise price. The affected employees chose to accept the offer in February 2005. In addition, it is the intention of the Board of Directors to offer a similar arrangement to the same employees and to directors, receiving options under the Directors' Plan, who collectively hold 41,000 additional stock options that vest in April 2005. As a result of the foregoing, the Company anticipates that a compensation expense charge of approximately \$2 million will be recognized in the second fiscal quarter of 2005. In addition, the dilutive effect of stock options (see footnote 11) will be reduced. The Company is evaluating certain alternatives to restructure and/or modify an arrangement covering certain other unvested options which may involve replacing such options, with restricted stock, stock appreciation rights, or other equity instruments. It is likely, that any such modifications, will result in additional compensation charges in the period in which such revisions are made effective.

LIQUIDITY AND CAPITAL RESOURCES

A. Liquidity and Financing Matters

Since the Company's emergence from Chapter 11 bankruptcy, its primary sources of financing have been revenue from sales and revolving credit loans under the New Credit Agreement. The Company entered into the New Credit Agreement on the Effective Date. This agreement replaced the previous DIP Facility Agreement. The Company believes that its internally generated funds and funds available under the New Credit Agreement 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 financing.

Credit Agreement

On the Effective Date, the Company entered into the New Credit Agreement. The terms of the New Credit 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 and after deducting current borrowings, \$29.2 million was available as of December 31, 2004. The overall \$45 million limit on the New Credit Agreement and the inventory limit reduced availability by \$13.7 million. The Company is considering modifying the New Credit Agreement to eliminate these limitations. 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, limit additional indebtedness, pay no dividends, and limit capital expenditures. Pursuant to the provisions of the revolving loan agreement, the Company is subject to, and is currently in compliance with all affirmative covenants and negative covenants. During the first quarter of fiscal 2005, the Company

borrowed an additional \$3.8 million under its line of credit in order to fund the maintenance to the plant facilities during shutdown and the purchase of billets. As of December 31, 2004, \$14.6 million was borrowed under the revolving credit agreement.

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.

First Mortgage 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 Company is subject to and is in compliance with all affirmative and negative covenants of the Indenture.

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 December 31, 2004 was approximately par value.

Post Reorganization Obligations

Post Reorganization obligations included the discharge of pre-petition secured and unsecured trade debt. Upon emerging from bankruptcy, post reorganization debt totaled \$8.1 million. As of December 31, 2004, post reorganization debt has been reduced to \$1.0 million of which \$0.6 million is payable over five years.

Capital Lease

During the first quarter of fiscal 2005, the Company entered into a scrap processing facility capital lease. The term of the lease is ten years with the option to extend the lease for two successive five year terms. The Company recorded the lease at \$931,420 which is the present value of the lease payments at a discount rate of 5.5% as of December 31, 2004.

Capital Expenditures and Planned Shutdown

Capital expenditures totaled \$2.4 million in the first quarter of fiscal 2005, \$3.1 million in fiscal 2004 and \$1.4 million in fiscal 2003. Spending during fiscal 2004 and 2003 was limited to required facility maintenance projects due to limited funds during the Company’s bankruptcy. Given current market conditions and the condition of the facilities, the Company expects to spend approximately \$4

million on maintenance capital in fiscal 2005. In addition, the Company is planning to invest approximately \$3 million in new or upgraded machinery and equipment of which \$1.6 million is for the establishment of a new remote scrap processing facility. The Company took a planned shutdown for two weeks in late calendar 2004 and early 2005 to perform maintenance on certain equipment. Even though the Company accrues in advance for the expenses related to the shutdown, the Company spent approximately \$3.9 million for repairs and \$2 million of the above mentioned \$4 million on maintenance capital projects. Lastly, the Company is evaluating an investment of \$5 million to expand its Louisiana warehouse. As of December 31, 2004, there were no significant commitments remaining to complete authorized projects under construction.

Operating Cash Flow

For the quarter ended December 31, 2004, the Company used in operations \$1.4 million even though net income was \$4.2 million. Deferred income taxes, due to pre-reorganization tax attributes, and depreciation had a positive impact on cash flow of \$0.4 million. Changes in working capital in the first quarter of fiscal 2005 used \$6 million in cash; there were several significant changes in working capital items. First, due to the decrease in shipments at the end of December as compared to September, receivables generated \$3.4 million in cash. Second, inventories used \$14.3 million. The growth in billet inventories represented 94% of the increase. Since foreign billets have long lead times for delivery, the Company made several opportunistic purchases of billets in early fall that were received in December. In November and December, the rolling mill, which converts billets into shapes, fell short of expected levels of production due to the condition of the equipment, resulting in higher levels of inventory than needed. The Company expects to reduce these levels in the near term. Lastly, accrued liabilities were reduced by \$0.2 million as shutdown expenses were charged against the accrued plant turnaround costs. Accounts payable increased by \$4.9 million due to repairs and maintenance capital involved in the plant turnaround.

Off-Balance Sheet Transactions

As of the date of this report, the Company has no off-balance sheet transactions, arrangements, or other relationships with other entities or persons that would adversely affect liquidity, availability of capital resources, financial position or results of operations.

OTHER COMMENTS

Forward-Looking Information and Inflation

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.

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.

Quantitative And Qualitative Disclosure About Market Risk

The Company is exposed to certain market risks that are inherent in financial instruments arising from transactions that are entered into in the normal course of business. The Company does not enter into derivative financial instrument transactions to manage or reduce market risk, except for its forward commitments to purchase a portion of its natural gas requirements, or for speculative purposes. The forward gas purchase commitments provide a fixed purchase price whereby the Company purchases gas at a rate that could differ from spot rates during the period of purchase. The revolving credit facility has a variable interest rate which reduces the potential exposure of interest rate risk from a cash flow perspective.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings which involve claims for damages exceeding 10% of its current assets except as described below. The Company is not a party to any material pending litigation which, if decided adversely, would have a significant impact on the business, income, assets, or operation of the Company, and the Company is not aware of any material threatened litigation which might involve the Company.

There is a pending lawsuit filed by an employee of a third-party contractor used by the Company to unload barge loads of steel product at the Company's Chicago stocking facility. According to the allegations in the suit, the plaintiff was injured while working on a barge docked at the Company's facility, unloading a shipment of steel that came from the Louisiana facility. The injuries to the plaintiff were serious. A claim was filed in the Company's Bankruptcy case in the amount of \$25,000,000. If successful, the Plaintiff would be paid in common stock as opposed to cash as required by the court-approved plan of reorganization. The claim has been submitted to the Company's insurance carrier, and the carrier has retained counsel to defend the lawsuit under a reservation of rights. Any amount not covered by insurance would be added to the general unsecured claims allowed by the Bankruptcy Court to determine the percentage of equity to which the claimant is entitled.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTTERS TO A VOTE OF SECURITY HOLDERS

On December 21, 2004, the Company solicited stockholder approval to amend the Certificate of Incorporation of Bayou Steel Corporation. On January 31, 2005, the solicitation period ended. The stockholders voted 52% for the proposed charter amendment.

The Company has undertaken an evaluation to determine whether there will be any limitation on its ability to utilize approximately \$75 million in accumulated net operating losses to apply against future federal and state income tax liabilities. If the Company makes the determination that there is no limitation following its emergence from bankruptcy in 2004, then the Company must satisfy on an ongoing basis several stringent tests imposed by the Internal Revenue Code related to the continuity of the Company's stockholder base. One of these tests, which precipitated the charter amendment, is that the Company not have experienced, within any consecutive three-year period now, or in the future, from the date the Company emerged from bankruptcy in 2004, a change of control within the meaning of the Internal Revenue Code.

A primary focal point of the IRS in evaluating whether the Company has experienced a change of control is the trading activity of stockholders who either are, or become, holders of five percent or more of the Company's common stock. The amendment restricts the ability of all stockholders of the Company to dispose of shares to a person who either presently is, or who by virtue of the transaction would become, more than a five percent stockholder. The amendment empowers the Company to disregard and unwind any such trades, and forbids the transfer agent from registering the transfer.

ITEM 5. OTHER INFORMATION

The Company's New Common Stock is not traded on an Exchange and there is no established public trading market for the Company's New Common Stock. However, the New Common Stock of the Company has traded on the OTC Pink Sheets under the symbol BYUA on a limited and sporadic basis. For the quarter ending December 31, 2004, the low bid was \$18.00 per share and the high bid was \$35.50 per share; the low sale was \$26.00 per share and the high sale was \$39.25 per share. No bid information for the Old Common Stock is presented since the Old Common Stock did not trade on an exchange after the Petition Date and was cancelled upon the Effective Date.

The Company believes that all of the shares of its common stock were issued pursuant to an exemption from registration under the Securities Act and that none of such shares are restricted securities within the meaning of Rule 144 under the Securities Act.

ITEM 6. EXHIBITS

The following exhibits can be found on the Company's website:

<u>Number</u>	<u>Description of Exhibit</u>
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.

- 4.5 Registration Rights Agreement by and among the Company and the Holders party thereto, dated February 18, 2004.
- 10.7 Stockholder Rights Agreement, dated May 27, 2004.
- 10.8 First Amendment to Stockholder Rights Agreement dated June 18, 2004.