

QUARTERLY REPORT

For the quarterly period ended March 31, 2005

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)

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BAYOU STEEL CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. **FINANCIAL STATEMENTS**

BAYOU STEEL CORPORATION
BALANCE SHEETS
ASSETS

	<u>(Unaudited)</u> <u>March 31, 2005</u>	<u>(Audited)</u> <u>September 30, 2004</u>
CURRENT ASSETS:		
Cash	\$ 112,278	\$ 119,726
Receivables, net of allowance for doubtful accounts of \$820,060 and \$757,317 respectively	25,768,868	25,206,139
Income Tax Refund	—	1,934,615
Inventories	82,879,312	54,509,773
Prepaid expenses	<u>1,799,912</u>	<u>3,035,958</u>
Total current assets	<u>110,560,370</u>	<u>84,806,211</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>8,539,013</u>	<u>2,739,615</u>
Total assets	<u>\$ 119,099,383</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>(Unaudited)</u> <u>March 31, 2005</u>	<u>(Audited)</u> <u>September 30, 2004</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 17,448,553	\$ 13,412,713
Accrued plant turnaround costs	939,308	2,398,125
Income taxes payable.....	4,333,024	—
Other accrued liabilities	6,825,725	6,560,009
Credit Facility	24,656,841	10,831,501
Post-reorganization obligations	167,071	824,957
Current portion of capital lease obligation.....	<u>51,786</u>	<u>—</u>
Total current liabilities	<u>54,422,308</u>	<u>34,027,305</u>
LONG-TERM DEBT AND POST REORGANIZATION OBLIGATIONS ...	30,443,852	30,591,802
CAPITAL LEASE OBLIGATION.....	855,958	—
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	10,327,160	9,199,592
Retained earnings	23,168,105	13,845,127
Accumulated other comprehensive income (loss)	<u>(138,000)</u>	<u>(138,000)</u>
Total common stockholders' equity	<u>33,377,265</u>	<u>22,926,719</u>
Total liabilities and common stockholders' equity	<u>\$ 119,099,383</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 March 31, 2005	Period from February 18, 2004 through March 31, 2004	Period from January 1, 2004 through February 17, 2004
NET SALES	\$ 62,127,164	\$ 30,014,886	\$ 30,216,013
COST OF SALES	<u>50,660,629</u>	<u>26,347,391</u>	<u>31,219,279</u>
GROSS MARGIN	11,466,535	3,667,495	(1,003,266)
SELLING, GENERAL AND ADMINISTRATIVE	1,937,086	821,104	984,436
REORGANIZATION EXPENSE	<u>—</u>	<u>—</u>	<u>766,769</u>
OPERATING INCOME (LOSS)	<u>9,529,449</u>	<u>2,846,391</u>	<u>(2,754,471)</u>
OTHER INCOME (EXPENSE):			
Interest expense	(991,275)	(435,756)	(134,827)
Miscellaneous	(111,039)	585,433	(11,458)
Fresh-start adjustments.....	—	—	(79,627,465)
Gain on reorganization.....	<u>—</u>	<u>—</u>	<u>99,127,163</u>
	<u>(1,102,314)</u>	<u>149,677</u>	<u>19,353,413</u>
INCOME BEFORE INCOME TAX	8,427,135	2,996,068	16,598,942
PROVISION FOR INCOME TAX	<u>3,286,583</u>	<u>1,200,000</u>	<u>—</u>
NET INCOME	<u>\$ 5,140,552</u>	<u>\$ 1,796,068</u>	<u>\$ 16,598,942</u>
WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING	2,000,000	2,000,000	12,890,607
NET INCOME PER BASIC COMMON SHARE	<u>\$ 2.57</u>	<u>\$ 0.90</u>	<u>\$ 1.29</u>
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	2,054,228	2,000,000	12,890,607
NET INCOME PER DILUTED COMMON SHARE	<u>\$ 2.50</u>	<u>\$ 0.90</u>	<u>\$ 1.29</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Successor Company		Predecessor Company
	Six Months Ended March 31, 2005	Period from February 18, 2004 through March 31, 2004	Period from October 1, 2003 through February 17, 2004
NET SALES	\$ 125,244,525	\$ 30,014,886	\$ 81,909,905
COST OF SALES	<u>104,377,711</u>	<u>26,347,391</u>	<u>80,635,486</u>
GROSS MARGIN	20,866,814	3,667,495	1,274,419
SELLING, GENERAL AND ADMINISTRATIVE	3,848,122	821,104	2,766,346
REORGANIZATION EXPENSE	<u>—</u>	<u>—</u>	<u>1,688,540</u>
OPERATING INCOME (LOSS)	<u>17,018,692</u>	<u>2,846,391</u>	<u>(3,180,467)</u>
OTHER INCOME (EXPENSE):			
Interest expense	(1,909,275)	(435,756)	(378,141)
Miscellaneous	174,153	585,433	102,989
Fresh-start adjustments.....	—	—	(79,627,465)
Gain on reorganization.....	<u>—</u>	<u>—</u>	<u>99,127,163</u>
	<u>(1,735,122)</u>	<u>149,677</u>	<u>19,224,546</u>
INCOME BEFORE INCOME TAX	15,283,570	2,996,068	16,044,079
PROVISION FOR INCOME TAX	<u>5,960,592</u>	<u>1,200,000</u>	<u>—</u>
NET INCOME	<u>\$ 9,322,978</u>	<u>\$ 1,796,068</u>	<u>\$ 16,044,079</u>
WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING	2,000,000	2,000,000	12,890,607
NET INCOME PER BASIC COMMON SHARE	<u>\$ 4.66</u>	<u>\$ 0.90</u>	<u>\$ 1.24</u>
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	2,028,825	2,000,000	12,890,607
NET INCOME PER DILUTED COMMON SHARE	<u>\$ 4.60</u>	<u>\$ 0.90</u>	<u>\$ 1.24</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Successor Company</u>		<u>Predecessor Company</u>
	<u>Six Months Ended March 31, 2005</u>	<u>Period from February 18, 2004 through March 31, 2004</u>	<u>Period from October 1, 2003 through February 17, 2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 9,322,978	\$ 1,796,068	\$ 16,044,079
Gain on reorganization	—	—	(99,127,163)
Fresh-start adjustments	—	—	79,627,465
Depreciation.....	188,241	1,941	3,395,408
Amortization.....	—	—	374,777
Settlement of stock options.....	821,707	—	—
Provision for losses on accounts receivable.....	126,289	30,361	84,683
Deferred income taxes	1,127,568	1,200,000	—
Reduction in lower of cost or market inventory reserve	—	—	(621,051)
Gain on sale of investment.....	—	—	(156,629)
Repayment of post-reorganization obligation.....	(805,836)	—	—
Changes in working capital:			
Decrease (increase) in receivables	745,597	(2,259,664)	(6,194,085)
(Increase) decrease in inventories.....	(28,369,539)	407,558	5,262,809
Decrease (increase) in prepaid expenses and other assets	1,236,046	(807,287)	(279,424)
Increase (decrease) in accounts payable	8,868,864	(2,537)	2,507,646
(Decrease) in accrued liabilities	<u>(1,193,101)</u>	<u>(487,191)</u>	<u>(1,707,544)</u>
Net cash (used in) provided by operations	(7,931,186)	(120,751)	(789,029)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(5,056,219)	(158,052)	(766,768)
Proceeds from sale of investment	—	—	280,559
Net cash used in investing activities	<u>(5,056,219)</u>	<u>(158,052)</u>	<u>(486,209)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings under debtor-in-possession financing facility	—	—	(18,328,228)
Net borrowings (repayments) under line of credit	13,825,340	238,416	19,563,573
Payments to settle stock options.....	(821,707)	—	—
Repayments under capital lease obligation.....	<u>(23,676)</u>	<u>—</u>	<u>—</u>
Net cash provided by financing activities	<u>12,979,957</u>	<u>238,416</u>	<u>1,235,345</u>
NET (DECREASE) INCREASE IN CASH.....	(7,448)	(40,387)	(39,893)
CASH, beginning balance	<u>119,726</u>	<u>138,277</u>	<u>178,170</u>
CASH, ending balance	<u>\$ 112,278</u>	<u>\$ 97,890</u>	<u>\$ 138,277</u>
SUPPLEMENTAL NON-CASH INVESTING & FINANCING ACTIVITIES:			
Acquisition of leased land.....	<u>\$ 931,420</u>	<u>\$ —</u>	<u>\$ —</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31 2005
(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 5% 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 4 for a description of the Reorganization Plan and Note 5 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**

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R) which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R will be effective for the Company in the fiscal year beginning after December 15, 2005.

As permitted by the Financial Accounting Standards Board Statement No. 123 (SFAS No. 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 in connection with the granting of at-the-money employee stock options. Accordingly, the adoption of SFAS No. 123R's fair value method will have an impact on the Company's results of operations, although it is not expected to have a significant impact on the Company's overall financial position. The impact of adoption of SFAS No. 123R cannot be predicted at this time because, among other things, it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 10 to the financial statements. SFAS No. 123R 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 previous 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 \$767,000 and \$1,689,000 of reorganization expenses were incurred by the Company during the second quarter and six months ended March 31, 2004.

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)</u> <u>March 31,</u> <u>2005</u>	<u>(Audited)</u> <u>September 30,</u> <u>2004</u>
Steel scrap	\$ 2,953,148	\$ 6,741,146
Billets	19,185,106	5,001,587
Finished product.....	63,820,424	49,761,968
LIFO adjustments.....	<u>(11,331,880)</u>	<u>(13,954,112)</u>
	74,626,798	47,550,589
Operating supplies.....	<u>8,252,514</u>	<u>6,959,184</u>
	<u>\$ 82,879,312</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 consist of the following:

	<u>Successor Company</u>	
	<u>(Unaudited)</u> March 31, 2005	<u>(Audited)</u> September 30, 2004
Land	\$ 1,403,838	\$ 472,418
Machinery and equipment.....	<u>7,346,871</u>	<u>2,290,652</u>
Total property, plant and equipment	8,750,709	2,763,070
Less - accumulated depreciation	<u>(211,696)</u>	<u>(23,455)</u>
Net property, plant and equipment.....	<u>\$ 8,539,013</u>	<u>\$ 2,739,615</u>

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

	<u>Successor Company</u>	
	<u>(Unaudited)</u> March 31, 2005	<u>(Audited)</u> September 30, 2004
	<u>(in millions)</u>	<u>(in millions)</u>
New Credit Agreement	\$ 24.7	\$ 10.8
9% First Mortgage Notes	30.0	30.0
Post-reorganization obligations.....	<u>0.6</u>	<u>1.4</u>
Total debt and post-reorganization obligations	55.3	42.2
Less - current portion of long-term debt and post-reorganization obligations	<u>24.9</u>	<u>11.6</u>
Total long-term portion of debt and post-reorganization obligations.....	<u>\$ 30.4</u>	<u>\$ 30.6</u>

Post-reorganization obligations included the discharge of pre-petition secured and unsecured trade debt.

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, \$18.5 million of additional borrowing capacity was available as of March 31, 2005. 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. As of March 31, 2005, the interest rate was set at prime plus 0% or LIBOR plus 2.0%. 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 March 31, 2005, \$24.7 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 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 six-month period ended March 31, 2005 was \$25.2 million. The average borrowings were \$17.3 million and the weighted average interest rate was 5.5%.

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 was the present value of the lease payments at a discount rate of 5.5% as of the lease initiation date.

10) **STOCK BASED COMPENSATION**

The Reorganization Plan established the 2004 Stock Option Plan (the “2004 Key Employee Plan”) of the newly reorganized Company. The purpose of the 2004 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 2004 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 2004 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.

The Board of Directors approved the 2004 Stock Option Plan for Directors (the “2004 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 2004 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 an exercise price of \$11.00 per share.

On April 1, 2005, the Board of Directors approved the 2005 Stock Option Plan (the “2005 Stock Option Plan”). The purpose of the 2005 Stock Option Plan is to increase stockholder value by furnishing stock options designed to attract, retain, reward, and motivate key employees, officer, and directors of the Company and to strengthen the mutuality of interests between such service providers 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 2005 Stock Option Plan is 200,000 shares. Pursuant to the 2005 Stock Option Plan upon a Change of Control (as defined in the Plan) the options expire ten years from the grant date.

Upon approval by the Board of Directors, employees and directors who received options under the 2004 Key Employee Plan and the 2004 Directors’ Plan were offered the option of terminating the vested portion of their stock options for cash consideration which was defined as the weighted average trade price for the Company’s stock in the immediate 30 days preceding the vesting date less the exercise price. On April 5, 2004 there were 35,000 vested stock options, all of which were terminated for cash consideration in the second quarter of fiscal 2005. As a result of the foregoing, the Company recognized a \$0.8 million expense in the second quarter of fiscal 2005. On April 5, 2005 another 37,667 stock options were vested all of which were settled for cash in the third quarter of fiscal 2005. The Company will recognize a \$0.7 million charge in the third quarter of fiscal 2005. Upon approval by the Board of Directors, employees and most directors were offered the option of terminating the unvested portion of their stock options for restricted stock under the 2005 Stock Option Plan. Restricted stock was exchanged for the value of the stock options which was defined as the weighted average trade price for the

Company's stock in the immediate 30 days preceding April 6, 2005 less the exercise price of the underlying stock option. The Company terminated 51,666 unvested stock options and issued 30,442 shares of restricted stock on April 5, 2005. The restricted stock was issued at a fair market value of \$28.25 per share on April 5, 2005. The restriction is lifted upon the same vesting dates as the dates on the terminated options, April 5, 2006 and April 5, 2007. As a result of this modification, the Company will recognize over the term of the restricted stock charges of \$0.9 million of which \$0.4 million is recorded in fiscal 2005, \$0.4 million in fiscal 2006, and \$0.1 million in fiscal 2007.

The following table summarizes the transactions.

	2004 Key Employee Plan	2004 Directors Plan
Stock Options Outstanding 12/31/04	105,000	42,000
Forfeitures	(6,667)	—
Terminated for Cash	<u>(35,000)</u>	<u>—</u>
Stock Options Outstanding 3/31/05	<u>63,333</u>	<u>42,000</u>

As of April 5, 2005 there were 16,000 outstanding options remaining under the 2004 Directors' Plan and none remaining on the 2004 Key Employee Plan. The remaining options have a weighted average exercise price of \$27.81 per option.

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:

	Successor Company		
	Three Months Ended March 31, 2005	Six Months Ended March 31, 2005	Period from February 18, 2004 through March 31, 2004
Thousands of Dollars, except per share data			
Stock-based employee compensation cost included in the determination of net income as reported, net of related tax effects	\$ 822	\$ 822	\$ —
Net Income, as reported.....	5,141	9,323	1,796
Deduct: Total stock-based employee compensation expense determined under the fair value based method for unvested awards, net of related tax effects	<u>(151)</u>	<u>(297)</u>	<u>—</u>
Pro forma net income	<u>\$ 4,990</u>	<u>\$ 9,026</u>	<u>\$ 1,796</u>
Earnings per share:			
Basic-as reported	2.57	4.66	0.90
Basic-pro forma	2.50	4.51	0.90
Diluted-as reported	2.50	4.60	0.90
Diluted-pro forma	2.43	4.45	0.90

With respect to the periods prior to the date of reorganization, there was no material impact with respect to the presentation of pro forma net income 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 per share were approximately 500,000 shares subject to options outstanding for the period from October 1, 2003 through February 17, 2004 with respect to the Predecessor Company. For the period from February 18, 2004 through March 31, 2004 (Successor Company), there were no common stock equivalents considered for the purpose of the diluted earnings per share computation. In the second quarter of fiscal 2005 and the six-month period ended March 31, 2005 (Successor Company), there were 54,228 and 28,825 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:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Weighted average shares used in computing Income per share – basic.....	2,000,000	2,000,000	2,000,000	2,000,000
Dilutive effect of stock options	<u>54,228</u>	<u>—</u>	<u>28,825</u>	<u>—</u>
Weighted average shares used in computing income per share – diluted	<u>2,054,228</u>	<u>2,000,000</u>	<u>2,028,825</u>	<u>2,000,000</u>

The numerators used in determining basic and diluted earnings per share were equal to the Company's net income 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 March 31, 2005, the Company has entered into forward price commitments for approximately 8% of the natural gas it expects to utilize in its production through June 2005.

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 March 31, 2005	Period from February 18, 2004 Through March 31, 2004	Period from January 1, 2004 Through February 17, 2004
Service cost	\$ 120,069	\$ 55,193	\$ 61,907
Interest cost	123,720	46,067	51,671
Expected return on plan assets	(115,507)	(43,574)	(53,944)
Recognized net actuarial loss	—	—	3,429
Amortization of prior service cost.....	<u>16,264</u>	<u>—</u>	<u>1,641</u>
Net periodic pension cost.....	<u>\$ 144,546</u>	<u>\$ 57,686</u>	<u>\$ 64,704</u>

	Successor Company		Predecessor Company
	Six-Months Ended March 31, 2005	Period from February 18, 2004 Through March 31, 2004	Period from October 1, 2003 Through February 17, 2004
Service cost	\$ 240,138	\$ 55,193	\$ 179,006
Interest cost	247,440	46,067	149,408
Expected return on plan assets	(231,014)	(43,574)	(155,982)
Recognized net actuarial loss	—	—	10,287
Amortization of prior service cost.....	<u>32,528</u>	<u>—</u>	<u>4,373</u>
Net periodic pension cost.....	<u>\$ 289,092</u>	<u>\$ 57,686</u>	<u>\$ 187,092</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 quarter and six months ended March 31, 2005 was \$473,413 and \$578,413, respectively.

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 March 31, 2005. 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 second quarter and six months ended March 31, 2005 and 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 39%. In addition, a positive adjustment of \$1.1 million was recorded as an increase to stockholders' equity during the six-month period ended March 31, 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**

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

	Successor Company		Predecessor Company
	Three Months Ended March 31, 2005	Period from February 18, 2004 Through March 31, 2004	Period from January 1, 2004 Through February 17, 2004
Net income	\$ 5,141	\$ 1,796	\$ 16,599
Changes in Accumulated Other Comprehensive Income:			
Minimum pension liability adjustments	—	—	557
Comprehensive income	<u>\$ 5,141</u>	<u>\$ 1,796</u>	<u>\$ 17,156</u>

	Successor Company		Predecessor Company
	Six Months Ended March 31, 2005	Period from February 18, 2004 Through March 31, 2004	Period from October 1, 2003 Through February 17, 2004
Net income	\$ 9,323	\$ 1,796	\$ 16,044
Changes in Accumulated Other Comprehensive Income:			
Realized gain on investment sold.....	—	—	(79)
Minimum pension liability adjustments	—	—	557
Comprehensive income	<u>\$ 9,323</u>	<u>\$ 1,796</u>	<u>\$ 16,522</u>

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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 liquidated, over the year following the Company’s emergence from bankruptcy, unsecured convenience and trade claims at 9% to 10%.
- 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 are 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% 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 March 31, 2005 and 2004 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, 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 cyclical, and a return to a less favorable industry environment could impact the Company's operating results in future periods.

RESULTS OF OPERATIONS

The following table sets forth the combined shipments and selling price data.

	Quarter Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Shipment Tons.....	114,936	146,695	228,016	297,879
Average Selling Price Per Ton	\$ 532	\$ 406	\$ 542	\$ 372

The following financial information reflects the Successor Company's financial statements for the three and six months ended March 31, 2005 compared to the same prior year periods (in thousands) for the Predecessor and Successor Companies' combined financial statements.

	(Unaudited) Three Months Ended March 31,		(Unaudited) Six Months Ended March 31,	
	2005	2004	2005	2004
Net sales	\$ 62,127	\$ 60,231	\$ 125,244	\$ 111,925
Cost of sales.....	<u>50,661</u>	<u>57,566</u>	<u>104,378</u>	<u>106,982</u>
Gross margin.....	11,466	2,665	20,866	4,943
Selling, general and administrative expense.....	1,937	1,806	3,848	3,588
Reorganization expense.....	<u>—</u>	<u>767</u>	<u>—</u>	<u>1,689</u>
Operating income (loss)	9,529	92	17,018	(334)
Other income (expense):				
Interest expense.....	(991)	(570)	(1,909)	(813)
Fresh-start adjustments.....	—	(79,627)	—	(79,627)
Gain on reorganization.....	—	98,922	—	98,922
Miscellaneous.....	<u>(111)</u>	<u>574</u>	<u>174</u>	<u>689</u>
	<u>(1,102)</u>	<u>19,299</u>	<u>(1,735)</u>	<u>19,171</u>
Income before income tax	8,427	19,391	15,283	18,837
Provision for income tax	<u>3,287</u>	<u>1,200</u>	<u>5,961</u>	<u>1,200</u>
Net income	<u>\$ 5,140</u>	<u>\$ 18,191</u>	<u>\$ 9,322</u>	<u>\$ 17,637</u>

Second Quarter Fiscal 2005 Compared to Second Quarter Fiscal 2004

The Company reported operating income of \$9.5 million in the second quarter of fiscal 2005 (or the three months ended March 31, 2005) compared to an operating income of \$0.1 million in the second quarter of fiscal 2004 (or the three months ended March 31, 2004). The principal factor accounting for the \$8.7 million favorable change is a substantial improvement in the metal margin (the difference between the selling price of the finished product and the price of scrap) which increased 53% in the second quarter of fiscal 2005 compared to fiscal 2004. Consolidation among steel producers competing in the market over the last few years resulted in a more favorable competitive and pricing climate for the Company and its products. The weakness of the dollar, the significant increase in ocean freight rates, and the strengthening of world markets have contributed to reducing imports which compete with the Company's 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 an improved metal margin. Shipments decreased 22% in the second quarter of fiscal 2005 compared to fiscal 2004, which had a \$2.4 million unfavorable affect on operating income. The purchase of additional billets added an additional \$1.1 million to cost of sales. The improvement in the metal margin and, to a lesser extent, the improvement in operating efficiencies offset the unfavorable impact of the above factors.

The Company reported operating income of \$17.0 for the first six months of fiscal 2005 compared to a loss from operations for the first six months of fiscal 2004 of \$334,000. The \$17.3 million improvement is primarily due to the improved metal margins.

Net Sales. Net sales for the second quarter of fiscal 2005 increased by 3% on a 22% decrease in shipments and a 31% increase in the average selling price compared to the same period in fiscal 2004.

During the second quarter of fiscal 2004 customers, particularly service centers were accelerating shipments in order to build inventory during a period when there were several price increases and when there was virtual allocation of steel products among customers due to strong demand. Inventories have now been established, steel consumption has moderated, and customers are managing inventory levels much more carefully. Fluctuations in ferrous scrap costs have caused a cycle of speculation and concern for customers, who believe there may be a possible steel commodity price reduction, particularly since scrap costs in the second quarter of fiscal 2005 are lower than the immediate preceding quarter and are continuing to trend downward. This concern has further heightened customer's inventory management practices as customers order less and work down inventories in anticipation of another price decline. Second quarter shipments were also negatively impacted by seasonal weakening for the Company's products and by the closure of the Ohio River which ultimately restricted the movement of product to the Company's stocking locations that historically account for nearly 50% of the Company's shipments. Product is now flowing normally to the stocking locations.

In the second quarter of fiscal 2005, average selling prices improved \$126 per ton from the average in the second 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 price increases since August 2004. In December 2004 there was a \$30 per ton price decrease. Effective May 16, 2005, there was another \$30 per ton decrease in the net selling price. Scrap prices have been relatively stable during the second fiscal quarter. Scrap prices appear to be trending down in the third fiscal quarter. Although lagging the decrease in selling prices, scrap prices could decrease \$30 per ton by June 2005. Industry consolidation has resulted in fewer competitors than several years ago, leading to a more favorable pricing climate. 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.

Net sales for the six month period ended March 31, 2005 increased \$13.3 million or 12% compared to the first six months of 2004 due to a 46% increase in average selling price which was partially offset by a 23% decrease in shipments. These fluctuations are the result of the market factors noted above.

Some of the Company's competitors are much larger and have more product lines than the Company. These competitors have begun offering rebates to selected customers, including customers of the Company, on purchases of all product lines. If the practice expanded, the Company's sales may be impacted.

Cost of Sales. Cost of sales decreased \$6.9 million or 12.0% for the second quarter of fiscal 2005 compared to the second quarter of fiscal 2004 due to a 22% decrease in shipments which was partially offset by higher per unit cost caused by increasing prices for scrap metal, alloys and energy. However, due to the 53% increase in metal margin, the Company had a gross profit margin of \$11.5 million for the second quarter of fiscal 2005 compared to a gross margin of \$2.7 million for the second 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 the first quarter of fiscal 2004. The increase in the price of scrap appears to be due to increased domestic demand as steel producers began 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. In the second quarter of fiscal 2005 scrap costs were only 3% higher than the second quarter of fiscal 2004; however, the scrap costs for the second fiscal quarter were 7% lower than the first quarter. This reflects a softening in the steel industry.

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 30% of the Company's steel scrap requirements in the first six months of fiscal 2005, 36% in 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 was a temporary shortage of barges during the quarter. This lasted six to eight weeks. This temporarily impacted the availability and cost of scrap during the second quarter of fiscal 2005. The Company drew down its scrap inventory during this period.

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 which the Company believes is impacting all steel producers. Prices for certain additives and alloys have decreased in the second quarter of fiscal 2005. In addition, the Company substituted lower price alloys for more expensive ones. These two factors reduced alloy costs by approximately \$6 per ton. The net of these price changes adversely affected operating income by approximately \$0.3 million in the second quarter of fiscal 2005 as compared to fiscal 2004.

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 decreased approximately \$2 per ton in the second quarter of fiscal 2005 compared to last year. Conversion cost per ton decreased \$10 per ton in the second quarter as compared to the preceding quarter. 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, particularly in the melting facility have increased significantly since the shutdown. The Tennessee rolling mill also experienced a 6% decrease in per unit conversion cost largely driven by the same factors. In addition, Tennessee increased its mode of operations in the second quarter of 2005 as compared to the prior year comparable quarter by 35%; this drove down per unit fixed costs. Electricity and natural gas prices have continued to be high and may continue to be high for some time.

The Company purchased offshore billets during the first six months of fiscal 2005 in anticipation of improving market conditions which would have allowed the Company to run its Tennessee operations at capacity. The delivered cost of the purchase billets was at a higher per unit price than the Company's per unit cost of production. When the purchased billets were combined with the internally generated billets, costs of sales were adversely impacted by \$2.1 million over the first six months of fiscal 2005. To the extent that the purchased billets allow the Company to operate at higher levels of finishing capacity than its own internal billet production would have allowed, then the additional margin from the sale of the additional production would partially offset the higher purchase price of the billets.

During the second quarter of fiscal 2005, the Company accrued \$1.0 million in charges for profit sharing, incentive plans, and retirement plans. There were no such charges in the second quarter of 2004.

Due to the improving market conditions, the Company reduced the lower of cost or market reserve by \$0.6 million in the period ending on February 17, 2004. The lower of cost or market reserve was eliminated in the fresh-start accounting for the opening Balance Sheet on the Effective Date. There were no such adjustments in fiscal 2005.

Upon approval by the Board of Directors, employees and directors who received options under the Key Employee Plan and the Directors Plan were offered the option of terminating the vested portion of their stock options for cash consideration which was defined as the weighted average trade price for the Company's stock in the immediate 30 days preceding the vesting date less the exercise price. The affected employees and several directors chose to accept the offer. As a result of the foregoing, the Company recorded a compensation expense charge of approximately \$0.8 million in the second fiscal quarter of 2005 and will record \$0.7 million in the third fiscal quarter of fiscal 2005.

In efforts to stabilize natural gas cost, the Company occasionally enters into certain forward commitments to purchase a portion of its future natural gas requirements. At the end of the second quarter of fiscal 2005, the Company had entered into forward price commitments for approximately 8% of the natural gas it expected to utilize in its production over the following three months.

As part of Fresh-Start Reporting, the Company adjusted inventories on the Effective Date to current market less a reasonable profit margin. In addition, the Company increased its inventory levels for billets and finished goods over the past four quarters. Market prices are at an all time high for the Company's products due to record high scrap costs and a solid economy. As market prices decline with declines in scrap prices, the market price may exceed the new, higher inventory basis on the Effective Date and on the new last-in, first-out ("LIFO") inventory layers. If this occurred, a lower of cost or market charge to cost of goods sold would be required. The market prices over the past ten years have, in many periods, been lower than the current basis.

Selling, General and Administrative Expenses. Selling, general and administrative (the "SG&A") expenses increased by \$0.1 million in the second quarter and \$0.3 million for the first six months of fiscal 2005 compared to the same periods in 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 section 404 of the Sarbanes-Oxley Act related to internal controls. The Company anticipates that it will be compliant by September 30, 2006.

Reorganization Expense. Reorganization expenses decreased approximately \$0.8 million during the first quarter and \$1.7 million for the first six months of fiscal 2005, compared to the same periods in the prior fiscal 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 \$0.4 million during the second quarter and \$1.1 million during the first six months of fiscal 2005 as compared to the same periods in fiscal 2004. This is due to the interest expense on the New Notes after the Effective Date. There was no interest expense recorded on the Old Notes from the Petition Date through the Effective Date.

Miscellaneous Income (Expense). Miscellaneous income in the second quarter of fiscal 2004 is primarily due to the settlement of a lawsuit related to the Company's claim against a former supplier that participated in a price fixing arrangement against the steel industry in previous years. The Company received \$0.3 million in the first quarter of fiscal 2005 for settling a lawsuit related to a pre-reorganization claim under its health care plan.

Fresh-Start and Gain on Reorganization. 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.

Income Tax. The statements of operations for the first quarter and for the first six months of fiscal 2005 and for the period from the Effective Date through the end of the second quarter of fiscal 2004 include the recognition of income tax expense at an effective rate of approximately 39% for the income generated during the period. In addition, positive adjustments of \$1.1 million were 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.

Net Income. Net income in the second quarter and first six months of fiscal 2005 was \$5.1 million and \$9.3 million, respectively. Net income in the second quarter and first six months of fiscal 2004 was \$18.2 million and \$17.6 million, respectively. The second quarter and the first six months of fiscal 2004 were favorably impacted by the net of fresh-start adjustments and the gain on reorganization for \$19.3 million. The second quarter and first six months of fiscal 2005 were favorably impacted by improved market conditions.

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, \$18.5 million was available as of March 31, 2005. The overall \$45 million limit on the New Credit Agreement and the inventory limit reduced availability by \$25.4 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. As of April 30, 2005, \$30.7 million was borrowed and \$13.1 million was available 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 March 31, 2005 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 \$8.4 million. As of March 31, 2005, post reorganization debt has been reduced to \$0.6 million which is payable over the next four 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 \$5.1 million in the first six months 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. 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 \$2.4 million on maintenance capital projects. In addition, the Company is planning to spend approximately \$3.7 million on capital during the last six months of fiscal 2005. Lastly, the Company is evaluating an investment of \$5 million to expand its Louisiana warehouse in fiscal 2006. As of March 31, 2005, there were no significant commitments remaining to complete authorized projects under construction.

Operating Cash Flow

For the six months ended March 31, 2005, the Company used in operations \$7.9 million in cash even though net income was \$9.3 million. Deferred income taxes, due to pre-reorganization tax attributes, and depreciation had a positive impact on cash flow of \$1.2 million. The Company also repaid \$0.8 million of post-reorganization obligations related to trade debt and property taxes. Changes in working capital in the first six months of fiscal 2005 used \$18.3 million in cash. Although there were several significant changes in working capital items, inventories alone used \$28.4 million in cash. The Company's inventory of billets, the semi-finished product used by the rolling mills, increased by approximately \$14 million. Current billet inventory is higher than what the Company currently needs. The Company purchased offshore billets in anticipation of improving market conditions which would have allowed the Company to run its Tennessee operations at capacity; the market did not improve as anticipated. The Company purchased offshore billets, which have long lead times, due to a lack of domestic supply. Also, the melt shop's productivity improved significantly after the planned maintenance shutdown in December, resulting in additional billets. Over the next six months, the Company, through various measures including a one week plant shutdown and reducing operations, plans to reduce billet inventory by approximately \$10 million. In addition, the Company increased its finished goods inventory in anticipation of improving markets for its product. The Company has reduced its operations by 15% to 20% to bring finished goods inventory more in line with current business conditions. Due to the decrease in shipments at the end of March as compared to September, receivables generated \$0.7 million in cash. Accounts payable increased by \$4.0 million due to obtaining additional credit from trade vendors since the Effective Date and due to additional expenditures for repairs and maintenance capital. Taxes payable increased by \$4.3 over the past six months. As of September 30, 2004, the Company's interim tax payments were greater than the calculated taxes due; the income tax refund of \$1.9 million was applied to fiscal 2005 interim tax payments.

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 MATTERS 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 March 31, 2005, the low bid was \$28.00 per share and the high bid was \$34.00 per share; the low sale was \$26.00 per share and the high sale was \$36.00 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.
3.3	Certificate of Amendment to the Certificate of Incorporation of the Company dated February 3, 2005.
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	First Amendment to Loan and Security Agreement between the Company and Fleet Capital Corporation as lender and agent and the other lenders thereto, dated as of August 12, 2004.
4.4	9% First Mortgage Notes due 2011 of the Company (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2004).
4.5	Registration Rights Agreement by and among the Company and the Holders party thereto, dated February 18, 2004.
4.6	Second Amendment to Loan and Security Agreement between the Company and Fleet Capital Corporation as lender and agent and the other lenders thereto, dated as of January 1, 2005.
10.7	Stockholder Rights Agreement, dated May 27, 2004.
10.8	First Amendment to Stockholder Rights Agreement dated June 18, 2004.
10.9	Second Amendment to Stockholder Rights Agreement dated March 8, 2005.