

## **MERGER CONSIDERATION** **(Updated as of May 8, 2006)**

*Consideration to be received by Bayou Steel stockholders in the Merger.* On the date the merger becomes effective, each issued and outstanding share of Bayou Steel common stock (other than those held in the treasury of Bayou Steel, held by any Subsidiary of Bayou Steel, held by the Merger Sub, or held by Dissenting Stockholders, if any) will be converted into, and become exchangeable for, the right to receive the merger consideration, which will finally be determined at the effective time of the merger. Bayou Steel currently believes that the merger consideration per share will be approximately \$75 per share based on current forecasts which involve a multiplicity of assumptions. The acquirer will make the merger consideration available to the Disbursement Agent, and the Disbursement Agent will pay the merger consideration. All capitalized terms used herein are as defined in Appendix A to the Proxy Statement.

Upon mailing the Proxy Statement, we estimated that the merger consideration would be between \$68 and \$78 per share of Bayou Steel common stock outstanding immediately prior to the effective time of the merger. The range was derived by forecasting financial operations for March, April, and May of this year. The projected financial results affect cash, net debt, and working capital, all of which affect the merger consideration for Bayou Steel stockholders. A significant factor that affects the amount of merger consideration is whether or not Bayou Steel's net operating loss carryforwards continue to be available at the time the merger is consummated. If, under Internal Revenue Code §382, there had been a change of control of Bayou Steel prior to February 17, 2006, Bayou Steel's ability to utilize any of the then remaining NOLs would have been fully impaired. Bayou Steel filed a ruling request with the IRS relating to its ability to identify a reasonable method to test for changes in ownership, as a publicly traded company that is not an SEC registrant and therefore not eligible to rely upon the safe harbor methods for SEC registrants, to determine whether or not there had been a subsequent change in control at any time after its emergence from bankruptcy. The ruling also requested that Bayou Steel be permitted to rely upon the charter amendments imposing restrictions on the creation of new 5% shareholders for purposes of the ownership change rules effective when the amendments were adopted in February 2005. The IRS recently issued a favorable ruling on the testing procedures to be used, and on the ability of the company to rely upon its shareholder restrictions imposed beginning in February 2005. Bayou Steel had last performed this testing through January 31, 2005 and concluded, at the time, based on these testing procedures, that no change of control had occurred through that testing date. Bayou Steel, at the time the Proxy Statement was mailed, was in the process of conducting another test using these same procedures to determine if there was a change of control subsequent to January 31, 2005. Bayou Steel has recently completed this test. Based on the actual results Bayou Steel obtained using the testing procedures approved via the ruling by the IRS, Bayou Steel has concluded that there was no change of control through February 2006, and further that it is likely that there will not be a change of control between February 2006 and the effective date of the merger. Please note that, although we believe the testing procedures approved via the IRS ruling were followed, Bayou Steel cannot provide assurance that it will not obtain actual knowledge of shifts in stock ownership occurring before February 2006 or the date of the merger that would indicate that an ownership change had actually occurred or that other information would come to light that would alter Bayou Steel's analysis.

All estimated purchase price adjustments, including this issue concerning the change of control and NOLs, are subject to review and finalization by the buyer and Bayou pursuant to the terms of the Merger Agreement.