

QUARTERLY REPORT

For the quarterly period ended December 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

	(Unaudited) December 31, 2005	(Audited) September 30, 2005
CURRENT ASSETS:		
Cash	\$ 14,567,480	\$ 5,121,889
Receivables, net of allowance for doubtful accounts of \$628,630 and \$561,273, respectively	27,491,577	31,930,286
Inventories	65,470,914	61,796,269
Prepaid expenses	<u>1,623,745</u>	<u>878,620</u>
Total current assets	<u>109,153,716</u>	<u>99,727,064</u>
PROPERTY, PLANT AND EQUIPMENT, NET	14,747,842	13,822,783
OTHER ASSETS.....	<u>1,295,893</u>	<u>1,295,893</u>
Total assets	<u>\$ 125,197,451</u>	<u>\$ 114,845,740</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) December 31, 2005	(Audited) September 30, 2005
CURRENT LIABILITIES:		
Accounts payable	\$ 20,498,006	\$ 15,433,763
Accrued plant turnaround costs	2,462,163	1,688,740
Other accrued liabilities	5,359,998	6,300,434
Income taxes payable.....	9,375,449	11,748,274
Credit Facility	—	—
Current portion of accrued pension	787,481	887,410
Current portion of long-term debt and post reorganization obligation	<u>288,775</u>	<u>268,928</u>
Total current liabilities	<u>38,771,872</u>	<u>36,327,549</u>
LONG-TERM LIABILITIES:		
Debt and post reorganization obligations	31,216,387	31,319,175
Accrued pension	<u>3,013,714</u>	<u>2,764,020</u>
Total liabilities	<u>73,001,973</u>	<u>70,410,744</u>
COMMITMENTS AND CONTINGENCIES :		
COMMON STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value: 5,000,000 authorized, 2,000,000 issued and outstanding at December 31, 2005 and September 30, 2005, respectively.....	20,000	20,000
Additional paid-in-capital	16,129,849	11,599,292
Retained earnings	36,359,092	33,129,167
Accumulated other comprehensive income (loss)	<u>(313,463)</u>	<u>(313,463)</u>
Total stockholders' equity	<u>52,195,478</u>	<u>44,434,996</u>
Total liabilities and stockholders' equity	<u>\$ 125,197,451</u>	<u>\$ 114,845,740</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004
NET SALES	\$ 67,246,477	\$ 63,117,361
COST OF SALES	<u>59,039,276</u>	<u>53,717,082</u>
GROSS PROFIT	8,207,201	9,400,279
SELLING, GENERAL AND ADMINISTRATIVE	<u>2,290,670</u>	<u>1,911,036</u>
OPERATING INCOME	<u>5,916,531</u>	<u>7,489,243</u>
OTHER INCOME (EXPENSE):		
Interest expense	(746,999)	(918,000)
Interest income.....	107,799	—
Miscellaneous	<u>2,855</u>	<u>285,192</u>
	<u>(636,345)</u>	<u>(632,808)</u>
INCOME BEFORE INCOME TAX	5,280,186	6,856,435
PROVISION FOR INCOME TAX	<u>2,050,261</u>	<u>2,674,009</u>
NET INCOME.....	<u>\$ 3,229,925</u>	<u>\$ 4,182,426</u>
WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING	2,000,000	2,000,000
NET INCOME PER BASIC COMMON SHARE	<u>\$ 1.61</u>	<u>\$ 2.09</u>
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	2,021,100	2,082,772
NET INCOME PER DILUTED COMMON SHARE	<u>\$ 1.60</u>	<u>\$ 2.01</u>

The accompanying notes are an integral part of these statements.

BAYOU STEEL CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,229,925	\$ 4,182,426
Depreciation	222,665	193,888
Compensation expense related to restricted stock	107,471	—
Provision for losses on accounts receivable	84,975	63,730
Deferred income taxes	2,050,261	563,784
Repayment of post-reorganization obligations	(54,770)	(402,818)
Changes in working capital:		
Decrease in receivables	4,353,735	3,415,494
Increase in inventories	(3,674,645)	(14,313,805)
(Increase) decrease in prepaid expenses	(745,125)	136,054
Increase in accounts payable	5,064,241	4,952,311
Decrease in other accrued liabilities	<u>(17,249)</u>	<u>(169,890)</u>
Net cash provided by (used in) operations	10,621,484	(1,378,826)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	<u>(1,147,724)</u>	<u>(2,442,379)</u>
Net cash used in investing activities	<u>(1,147,724)</u>	<u>(2,442,379)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under line of credit	<u>—</u>	<u>3,809,432</u>
Repayments under capital lease obligation	<u>(28,169)</u>	<u>—</u>
Net cash provided by financing activities	<u>(28,169)</u>	<u>3,809,432</u>
NET INCREASE(DECREASE) IN CASH.....	9,445,591	(11,773)
CASH, beginning balance	<u>5,121,889</u>	<u>119,726</u>
CASH, ending balance	<u>\$ 14,567,480</u>	<u>\$ 107,953</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, 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.

2) **BASIS OF PRESENTATION**

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. 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 Company’s audited financial statements and notes thereto included in the Company’s Annual Report for the year ended September 30, 2005.

3) **RECENT ACCOUNTING PRONOUNCEMENTS**

The provisions of Statement of Financial Accounting Standards No. 154 “Accounting Changes and Error Corrections – A Replacement of Accounting Principles Board Opinion No. 20 and Financial Accounting Standards Board Statement No. 3” are effective for fiscal years beginning after December 15, 2005. This statement addresses how to present prior period financial statements when a voluntary change in accounting principle is applied. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate that was affected by a change in accounting principles, and (2) correction of errors in previously issued financial statements should be termed a “restatement.” The Company is considering the provisions of this statement and, at present, does not believe its adoption will have a material impact on future results of operation.

The provisions of Statement of Financial Accounting Standards No. 151 “Inventory Costs and amendment of ARB 43, Chapter 4” is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. This statement clarifies the accounting for abnormal amounts of idle facility expense,

freight, handling costs and wasted materials. This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal”. In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The Company has adopted this statement and its adoption had no material impact on current results of operation.

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. 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 8 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.

4) **INVENTORIES**

Inventories consist of the following:

	(Unaudited) December 31, 2005	(Audited) September 30, 2005
Steel scrap	\$ 6,200,756	\$ 5,861,148
Billets	10,493,725	11,348,723
Finished product.....	57,914,524	47,668,571
LIFO adjustments.....	<u>(17,882,100)</u>	<u>(11,686,604)</u>
	56,726,905	53,191,838
Operating supplies.....	<u>8,744,009</u>	<u>8,604,431</u>
	<u>\$ 65,470,914</u>	<u>\$ 61,796,269</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.

5) **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following:

	(Unaudited) December 31, 2005	(Audited) September 30, 2005
Land	\$ 1,403,838	\$ 1,403,838
Machinery and equipment.....	<u>14,401,920</u>	<u>13,254,196</u>
Total property, plant and equipment	15,805,758	14,658,034
Less - accumulated depreciation	<u>(1,057,916)</u>	<u>(835,251)</u>
Net property, plant and equipment.....	<u>\$ 14,747,842</u>	<u>\$ 13,822,783</u>

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

	(Unaudited) December 31, 2005	(Audited) September 30, 2005
	(in millions)	(in millions)
Credit Facility	\$ —	\$ —
9% First Mortgage Notes	30.0	30.0
Capital lease obligations	1.0	1.0
Post-reorganization obligations.....	<u>0.5</u>	<u>0.6</u>
Total debt	31.5	31.6
Less - current portion of long-term debt	<u>(0.3)</u>	<u>(0.3)</u>
Total long-term portion of debt.....	<u>\$ 31.2</u>	<u>\$ 31.3</u>

Post-reorganization obligations include the discharge of pre-petition secured property tax claims ordered by the Bankruptcy Court to be paid.

Credit Facility

On February 18, 2004, the Company entered into a revolving line of credit agreement (the “Credit Facility”), the terms of the Credit Facility 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, not pay dividends, and limit capital expenditures. Pursuant to the provisions of the Credit Facility, the Company is subject to, and is currently in compliance with the terms of the agreement. No funds were borrowed under the revolving line of credit agreement during the first quarter of fiscal 2006.

Under the terms of the Credit Facility, 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

The First Mortgage Notes (“the 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 Notes are issued contains covenants which restrict the Company’s ability to incur additional indebtedness (excluding borrowings under the Credit Facility), make certain levels of dividend payments, exceed certain levels of capital expenditures, or place liens on the assets acquired with such indebtedness.

The 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 Notes at any time without penalty.

7) **CAPITAL LEASE**

During fiscal year 2005, the Company entered into capital leases on real property for a new scrap processing facility and for a certain piece of equipment. The term of the real property lease is ten years with the option to extend the lease for two successive five year periods. The Company recorded the lease at \$931,420 which represents the present value of the lease payments at a discount rate of 5.5% as of the lease initiation date. The term of the equipment lease is three years. The lease is recorded at \$137,993 which represents the present value of the lease payments at a discount rate of 5% as of the lease initiation date.

8) **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 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 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.

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 Common Stock, subject to certain adjustments, that may be delivered to participants is 42,000 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 Company’s Common Stock, exercisable at the market price on the grant dates of \$11.00, \$19.30, and \$28.50 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 April 1, 2005, the Board of Directors approved the 2005 Stock Incentive Plan (the “2005 Stock Incentive Plan”). The purpose of the 2005 Stock Incentive Plan is to increase stockholder value by furnishing stock options, restricted stock, or other stock based awards designed to attract, retain, reward, and motivate key employees, officers, 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 Incentive Plan is 200,000 shares. Pursuant to the 2005 Stock Incentive Plan, all stock-based instruments vest automatically upon a Change of Control (as defined in the Plan). The stock-based instruments expire ten years from the grant date.

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 recognized a \$0.7 million charge in the third quarter of fiscal 2005. Employees and most directors were offered the option of terminating the unvested portion of their stock options for restricted stock under the 2005 Stock Incentive 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 30,284 shares of restricted stock on April 5, 2005 under the 2005 Stock Incentive Plan. The restricted stock was issued at the market price on April 5, 2005 of \$28.25 per share. 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 was recorded in fiscal 2005, \$0.1 million in fiscal 2006. As of December 31, 2005, there were 16,000 incentive stock options outstanding under the Directors’ Plan and 4,000 shares were exercisable and there were no stock options outstanding under the Key Employee Plan.

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:

	Three-Months Ended December 31, 2005	Three-Months Ended December 31, 2004
Thousands of Dollars, except per share data		
Net Income, as reported.....	\$ 3,230	\$ 4,182
Add: Stock-based employee compensation cost included in the determination of net income as reported, net of related tax effects.....	66	—
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	<u>(131)</u>	<u>(83)</u>
Pro forma net income	<u>\$ 3,165</u>	<u>\$ 4,099</u>
Earnings per share:		
Basic-as reported	1.61	2.09
Basic-pro forma	1.58	2.05
Diluted-as reported	1.60	2.01
Diluted-pro forma	1.57	1.97

9) **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 based instruments. For the three-month periods ended December 31, 2005 and 2004, there were 2,021,100 and 2,082,772, respectively of common stock equivalents considered for the purpose of the diluted earnings per share computation.

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

	Three-Months Ended December 31, 2005	Three-Months Ended December 31, 2004
Weighted average shares used in computing Income per share – basic	2,000,000	2,000,000
Dilutive effect of stock based instruments	<u>21,100</u>	<u>82,772</u>
Weighted average shares used in computing Income per share – diluted	<u>2,021,100</u>	<u>2,082,772</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.

10) **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. Certain members of the Company's senior management have agreements that require cash payments if a change of control and termination of employment occurs related to the Company's outstanding common stock. 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.

11) **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:

	Three-Months Ended December 31, 2005	Three-Months Ended December 31, 2004
Service cost	\$ 133,697	\$ 139,358
Interest cost	167,775	154,021
Expected return on plan assets	(133,397)	(115,507)
Amortization of loss.....	10,183	—
Amortization of prior service cost.....	<u>71,674</u>	<u>71,674</u>
Net periodic pension cost.....	<u>\$ 249,932</u>	<u>\$ 249,546</u>

The Company maintains three defined benefit retirement plans, one for employees covered by the contracts with the United Steelworkers of America, one for the substantially all other employees, except those employees at the Tennessee Facility, and a supplemental executive retirement plan for certain of the Company's officers.

12) **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 February 17, 2004, the date of the Company's reorganization (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 NOLs under a change of control would be subject to the limitations. 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, the Old Notes, were acquired during the period extending from eighteen months prior to the petition date (January 22, 2003) and held through the Effective Date. Based on current information, management believes that no change of control (within the meaning of IRC Section 382) occurred leading up to and through the Effective Date.

Should a change of control occur subsequent to the Effective Date and through February 17, 2007, there is a risk that, from that point forward, the Company's ability to utilize any then remaining NOLs attributable to the Company's operations prior to the Effective Date could be either fully impaired or significantly limited. The Company's shareholders, subsequent to February 2005, ratified a Charter Amendment (the "Amendment"), the purpose of which was to restrict certain shareholders from disposing of their interest in the Company's stock for a certain period of time to reduce the risk that future changes in the ownership of the Company's stock would result in a change of control, thus causing a potential impairment to the available NOLs. The Company filed a ruling request with the Internal Revenue Service ("IRS") relating to its ability to identify a method to efficiently test changes in ownership to determine if there has been, after the Effective Date, a subsequent change in control (within the meaning of IRC Section 382). No such method existed for a non-SEC filing company whose stock is publicly traded except to track each and every change in ownership. In January 2006, the Company received a favorable ruling request from the Internal Revenue Service ("IRS") that provides the Company with a more efficient method to periodically test changes in ownership to determine if there has been, after the Effective Date, a subsequent change in control. The Company last performed this test through January 31, 2005 and concluded that no change of control had occurred through that testing date. The Company is in the process of conducting another test to determine if there was a change of control subsequent to January 31, 2005. As of December 31, 2005, the Company has prepared its financial statements utilizing the full benefit of the Predecessor Company tax attributes through January 31, 2005, including the NOLs and tax depreciation. As a result certain reclassifications were made with respect to the Company's balance sheet increasing additional paid-in-capital and reducing income taxes payable by \$4.1 million. There was no impact on the statement of operations. For the period subsequent to January 31, 2005 the Company has prepared its financial statements as if certain tax benefits were limited (as would be the case under a change of control scenario) pending the completion of the Company's updated ownership change test procedures currently underway. Once the Company has completed the procedures to test for potential ownership changes in the second quarter of fiscal 2006, if the results of this test indicate that no change of control occurred through such date, additional reclassifications would be recorded between the balance sheet accounts of income taxes payable and additional paid-in-capital. Since its reorganization, the Company has fully reserved for any future benefits that might be derived from its NOLs and other tax assets.

The accompanying statement of operations for the three-month periods ended December 31, 2005 and 2004 includes the recognition of income tax expense at an effective rate of approximately 39%.

13) **COMPREHENSIVE INCOME (LOSS)**

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

	Three-Months Ended December 31, 2005	Three-Months Ended December 31, 2004
Net income (loss).....	<u>\$ 3,230</u>	<u>\$ 4,182</u>
Comprehensive income (loss)	<u>\$ 3,230</u>	<u>\$ 4,182</u>

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

The following discussion and analysis should be read in conjunction with the Management’s Discussion and Analysis of Financial Condition and Results of Operations included as part of the Company’s Annual Report as of and for the year ended September 30, 2005.

RESULTS OF OPERATIONS

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

	Quarter Ended December 31,	
	2005	2004
Net Sales	\$ 67,246,477	\$ 63,117,361
Shipment Tons	123,417	113,080
Average Selling Price Per Ton	\$ 540	\$ 552

First Quarter Fiscal 2006 Compared to First Quarter Fiscal 2005

The Company reported operating income of \$5.9 million in the first quarter ending December 31, 2005 of fiscal 2006 compared to operating income of \$7.5 million in the first quarter ending December 31, 2004 of fiscal 2005. The principal factors accounting for the \$1.6 million unfavorable decrease in operating income in the first quarter of fiscal 2006 is the substantial increase in energy costs between the comparable periods. The cost of energy used in the production of billets and finished goods increased approximately \$3.0 million or 24% in the first quarter of fiscal 2006 as compared to the first quarter of fiscal 2005. The second factor is a decline in the metal margin (the difference between the selling price of the finished product and the price of scrap) which reduced operating income by approximately \$1.6 million in the first quarter of fiscal 2006 as compared to the same period in fiscal 2005. Other cost of production, excluding scrap and energy, increased approximately \$0.5 million or 2% in the first quarter of 2006 as compared to the first quarter of 2005. The effects of higher energy costs and slightly lower metal margins was partially offset by an increase in total shipments between the periods of 9%, which added approximately \$1.1 million in operating income in fiscal 2006. The Company also achieved improvements in production yields which increased gross margin by \$0.3 million and reduction in the consumption and costs of additives, alloys and flux resulted in a reduction in costs of \$0.7 million when comparing the first quarter of fiscal 2006 to the same period in fiscal 2005. Lastly, in the first quarter of fiscal 2005 the Company had two significant expenses relating to workers compensation reserve and the reserve for plant shutdown. These two adjustments totaled approximately \$1.3 million.

Net Sales. Net sales for the first quarter of fiscal 2006 increased by \$4.1 million, or 7%, as a 9% increase in shipments was partially offset by a 3% decrease in the average selling price when compared to the same period in fiscal 2005. A significant contributing factor to the quarter-to-quarter improvement was the relatively depressed sales levels at the beginning of fiscal 2005, reflecting a trend that began in the third quarter of fiscal 2004. This decline in sales was further heightened by certain customers’ inventory management practices as customers ordered less and reduced inventories in anticipation of price declines in the first and second quarter of fiscal year 2005. During the third and fourth quarters of fiscal year 2005, customers began to replenish inventory levels which were then at an eighteen month

low. The backlog has grown from 195,000 tons at the end of September 2005 to 240,000 tons at the end of December 2005.

The average selling price for fiscal 2005 was \$519 with its quarterly high mark of \$552 occurring in the first quarter of fiscal 2005 and its lowest quarterly average of \$499 in the fourth quarter of 2005. A \$45 per ton increase in September 2005, together with low customer inventories, spurred shipments in the fourth quarter of fiscal 2005 resulting in a rebound in sales. However, prices have moderated in 2005, as noted above but prices have not declined to pre-2004 levels. In December 2005, a \$20 per ton price increase, announced in November, was implemented by several competitors as scrap metal prices and fuel prices began to increase. Prices appear to have stabilized in thus far in the second fiscal quarter of 2006.

Cost of Sales. Cost of sales increased \$5.3 million, or 10%, for the first quarter of fiscal 2006 compared to the first quarter of fiscal 2005. This is due to an increase in shipments of approximately 10,000 tons or 9% between the comparative quarters and an increase in certain costs to manufacture finished goods.

The cost of scrap, which accounts for approximately 50% of the total production costs of the finished products produced by the Company, increased less than 1% between the fiscal quarter ending December 31, 2004 and the fiscal quarter ending December 31, 2005. The Company expects scrap prices to increase in the second fiscal quarter, although the availability of scrap due to the two major hurricanes that made landfall in the Gulf Coast area in 2005 may partially offset the impact.

The consumption and costs, to a lesser extent, of additives, alloys and flux were reduced in the first quarter of fiscal 2006 as compared to the first quarter of fiscal 2005 and resulted in \$0.7 million in additional gross margin. The Company was able to substitute a less costly alloy for a more expensive alloy.

Conversion cost includes labor, energy, maintenance materials, and supplies on equipment used to convert raw materials into billets and billets into finished product. The majority of the increase in conversion cost is due to costs of energy used in the production of billets and finished goods increased approximately \$3.0 million or 24% in the first quarter of fiscal 2006 as compared to the first quarter of fiscal 2005. Due to extensive damage to offshore oil and gas drilling and production and to inland refineries in the aftermath of the two hurricanes that made landfall on the Louisiana coast in 2005, natural gas prices spiked in the first fiscal quarter of 2006. Since the electricity providers to the Louisiana and Tennessee Facilities use natural gas as their primary fuel source and since one of the provider's nuclear plants was shutdown for part of the time, electricity prices reached record highs during the quarter. The Company expects there prices to moderate in the second fiscal quarter of 2006. Conversion costs, excluding energy, increased approximately \$0.5 or 2% in the first quarter of 2006 as compared to the first quarter of 2005. The Company has improved its production yield over the same period and resulted in improved gross margin of \$0.3 million.

The Company, in the aftermath of the two hurricanes that struck the Louisiana coast, has had difficulty in attracting and retaining workers. The Company had to reduce operations due to insufficient number of workers. This increased the per unit fixed costs during the first quarter of fiscal 2006. Due to the success of some recent initiatives to attract more workers (which will increase hourly labor costs), the Company expects to increase production from five day to six day per week operations.

The cost incurred to ship finished goods to customers and to Company depots increased approximately \$0.5 million in the first quarter of fiscal 2006 as compared to the same time period in fiscal

2005. This increase in shipping costs can be attributed to increases in freight due to increases in freight rates and fuel surcharges over the periods.

Selling, General and Administrative Expenses. Selling, general and administrative cost increased by approximately \$0.4 million due to increased compensation expense in the first quarter of fiscal 2006 as compared to the same period in fiscal 2005. This increase in compensation expense is attributable to the fact that Company has filled positions that were open during the bankruptcy period and increases to incentive compensation plans between the comparable periods.

Interest Expense. Interest expense decreased \$0.2 million during the first quarter of fiscal 2006 as compared to fiscal 2005. This is due to the fact that the Company did not draw on its Credit Facility during the first quarter of fiscal 2006. No funds were borrowed under the Company's revolving credit agreement as of December 31, 2005 or September 30, 2005.

Interest Income. The Company had approximately \$14.5 million in cash at December 31, 2005. The majority of these funds are maintained in an interest bearing account which generated interest income of approximately \$0.1 million in the first quarter of fiscal 2006.

Miscellaneous Income. Miscellaneous income decreased \$0.3 million for the first quarter of fiscal 2006 compared to fiscal 2005. The Company received \$0.3 million in the first quarter of fiscal 2005 related to the settlement of its claim under its health care plan.

Income Tax. The statement of operations for the first fiscal quarters of 2006 and 2005 includes the recognition of income tax expense at an effective rate of approximately 39% for the income generated during such periods.

Net Income. Net income declined \$1.0 million in the first quarter of fiscal 2006 compared to fiscal 2005, primarily due to the increase in energy costs. Partially offsetting the negative impact of the increase in energy costs was the 9% increase in shipments during the same period.

LIQUIDITY AND CAPITAL RESOURCES

A. Liquidity and Financing Matters

The Company's primary sources of financing have been revenue from sales and borrowings from time to time under a revolving line of credit agreement ("the Credit Facility"). The Company believes that its internally generated funds and funds available under the Credit Facility are adequate to meet its foreseeable short-term and long-term liquidity needs.

Credit Facility

In February 2004, the Company entered into a revolving line of credit agreement. Under the terms of the Credit Facility the Company may borrow 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, \$43.4 million was available as of December 31, 2005. The three-year Credit Facility, 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 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 December 31, 2005, no funds were borrowed under the revolving credit agreement.

Under the terms of the Credit Facility, 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

The First Mortgage Notes (“the 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 Notes are issued contains covenants which restrict the Company’s ability to incur additional indebtedness (excluding borrowings under the Credit Facility), 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 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 Notes at any time without penalty. The fair value of the Notes on December 31, 2005 was approximately par value.

Capital Lease

During fiscal year 2005, the Company entered into capital leases on real property for a new scrap processing facility and for a certain piece of equipment. The term of the real property lease is ten years with the option to extend the lease for two successive five year periods. The Company recorded the lease at \$931,420 which represents the present value of the lease payments at a discount rate of 5.5% as of the lease initiation date. The term of the equipment lease is 3 years. The lease is recorded at \$137,993 which represents the present value of the lease payments at a discount rate of 5% as of the lease initiation date.

Capital Expenditures and Planned Shutdown

Capital expenditures totaled \$1.2 million in the first quarter of fiscal 2006 and \$2.4 million in fiscal 2005. Spending during the first quarter of fiscal 2006 included facility upgrades and maintenance projects as well as mill rolls replacements. Spending during the first quarter of fiscal 2005 was primarily limited to required facility maintenance projects and replacement of mill rolls. Given current market conditions and the condition of the facilities, the Company expects to spend approximately \$5.8 million on maintenance capital in the next twelve months. In addition, the Company is planning to invest approximately \$10.1 million in new or upgraded machinery and equipment, including an expansion to its warehouse. The Company is also planning a plant shutdown for two weeks in the fourth quarter of calendar 2006 to perform maintenance on certain equipment. The Company accrues in advance for these expenses (see “Critical Accounting Policies and Estimates”), and the Company expects to spend

approximately \$3 million during that plant turnaround. As of December 31, 2005, there were no significant commitments remaining to complete authorized projects under construction.

Operating Cash Flow

For the quarter ended December 31, 2005, \$10.6 million in net cash was provided by operations. Approximately \$3.2 was provided by net income for the quarter. Changes in working capital in the first quarter of fiscal 2006 provided \$5.0 million in cash; there were several significant changes in working capital items. Receivables generated \$4.4 million in cash due to a decrease in shipments in the first quarter of fiscal 2006 as compared to the fourth quarter of fiscal 2005 of 31,000 tons, along with an overall decrease in the average days outstanding. Inventories used \$3.7 million. The growth in finished goods inventories represented the majority of the increase while scrap inventory levels rose modestly and billet inventories declined. The Company expects to increase finished goods inventory during fiscal 2006 in response to customer demand. Accounts payable provided \$5.1 million due to the timing of payments. Lastly, income taxes payable were reduced by \$4.1 million.

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 February 17, 2004, the date of the Company's reorganization (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 NOLs under a change of control would be subject to the limitations. 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, the Old Notes, were acquired during the period extending from eighteen months prior to the petition date (January 22, 2003) and held through the Effective Date. Based on current information, management believes that no change of control (within the meaning of IRC Section 382) occurred leading up to and through the Effective Date.

Should a change of control occur subsequent to the Effective Date and through February 17, 2007, there is a risk that, from that point forward, the Company's ability to utilize any then remaining NOLs attributable to the Company's operations prior to the Effective Date could be either fully impaired or significantly limited. The Company's shareholders, subsequent to February 2005, ratified a Charter Amendment (the "Amendment"), the purpose of which was to restrict certain shareholders from disposing of their interest in the Company's stock for a certain period of time to reduce the risk that future changes in the ownership of the Company's stock would result in a change of control, thus causing a potential impairment to the available NOLs. The Company filed a ruling request with the Internal Revenue Service ("IRS") relating to its ability to identify a method to efficiently test changes in ownership to determine if there has been, after the Effective Date, a subsequent change in control (within the meaning of IRC Section 382). No such method existed for a non-SEC filing company whose stock is publicly traded except to track each and every change in ownership. In January 2006, the Company received a favorable ruling request from the Internal Revenue Service ("IRS") that provides the Company with a more efficient method to periodically test changes in ownership to determine if there has been, after the Effective Date, a subsequent change in control. The Company last performed this test through January 31, 2005 and concluded that no change of control had occurred through that testing date. The Company is in

the process of conducting another test to determine if there was a change of control subsequent to January 31, 2005. As of December 31, 2005, the Company has prepared its financial statements utilizing the full benefit of the Predecessor Company tax attributes through January 31, 2005, including the NOLs and tax depreciation. As a result certain reclassifications were made with respect to the Company's balance sheet increasing additional paid-in-capital and reducing income taxes payable by \$4.1 million. There was no impact on the statement of operations. For the period subsequent to January 31, 2005 the Company has prepared its financial statements as if certain tax benefits were limited (as would be the case under a change of control scenario) pending the completion of the Company's updated ownership change test procedures currently underway. Once the Company has completed the procedures to test for potential ownership changes in the second quarter of fiscal 2006, if the results of this test indicate that no change of control occurred through such date, additional reclassifications would be recorded between the balance sheet accounts of income taxes payable and additional paid-in-capital. Since its reorganization, the Company has fully reserved for any future benefits that might be derived from its NOLs and other tax assets.

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, industry consolidation 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. 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

The Company's Common Stock is not traded on an Exchange and there is no established public trading market for the Company's Common Stock. However, the 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, 2005, the low bid was \$24.00 per share and the high bid was \$36.00 per share. The closing share price on the Company's Common Stock at December 31, 2005 was \$33.50.

The Company believes that, except for 30,284 shares of restricted stock issued to senior management and members of the Board of Directors in April 2005, all of the shares of its common stock were issued pursuant to an exemption from registration under the Bankruptcy Code and Securities Act and that none of such shares are restricted securities within the meaning of Rule 144 under the Securities Act. Upon vesting of such restricted shares in accordance with their terms, these shares will no longer be restricted securities.

ITEM 6. EXHIBITS

There have been no new exhibits since the issuance of the Company's September 30, 2005 annual report.