

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

 X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 1999
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 33-22603

BAYOU STEEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

72-1125783
(I.R.S. Employer
Identification No.)

138 Highway 3217, P.O. Box 5000, LaPlace, Louisiana 70069

(Address of principal executive offices)
(Zip Code)

(504) 652-4900
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

<u>Class</u>	<u>Shares Outstanding at December 31, 1999</u>
Class A Common Stock, \$.01 par value	10,619,380
Class B Common Stock, \$.01 par value	2,271,127
Class C Common Stock, \$.01 par value	<u>100</u>
	<u>12,890,607</u>

BAYOU STEEL CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. **FINANCIAL STATEMENTS**

BAYOU STEEL CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	(Unaudited) December 31, 1999	(Audited) September 30, 1999
CURRENT ASSETS:		
Cash	\$ 26,876,323	\$ 31,091,309
Receivables, net of allowance for doubtful accounts	24,179,328	23,650,668
Inventories	71,905,396	72,567,304
Deferred income taxes and other	<u>5,844,866</u>	<u>5,131,454</u>
Total current assets	<u>128,805,913</u>	<u>132,440,735</u>
 PROPERTY, PLANT AND EQUIPMENT:		
Land	3,790,399	3,790,399
Machinery and equipment	148,235,818	146,321,994
Plant and office building	<u>23,632,571</u>	<u>23,372,143</u>
	175,658,788	173,484,536
Less-Accumulated depreciation	<u>(65,899,935)</u>	<u>(63,739,731)</u>
Net property, plant and equipment	<u>109,758,853</u>	<u>109,744,805</u>
DEFERRED INCOME TAXES	3,238,012	3,466,541
OTHER ASSETS	<u>2,806,794</u>	<u>2,897,888</u>
Total assets	<u>\$ 244,609,572</u>	<u>\$ 248,549,969</u>

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) December 31, 1999	(Audited) September 30, 1999
CURRENT LIABILITIES:		
Accounts payable	\$ 14,955,956	\$ 16,618,555
Interest payable	1,425,000	4,275,000
Accrued liabilities	<u>5,061,458</u>	<u>5,226,617</u>
Total current liabilities	<u>21,442,414</u>	<u>26,120,172</u>
LONG-TERM DEBT	<u>119,041,653</u>	<u>119,013,093</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value -		
Class A: 24,271,127 authorized and 10,619,380 outstanding shares	106,194	106,194
Class B: 4,302,347 authorized and 2,271,127 outstanding shares	22,711	22,711
Class C: 100 authorized and outstanding shares	<u>1</u>	<u>1</u>
Total common stock	128,906	128,906
Paid-in capital	47,795,224	47,795,224
Retained earnings	<u>56,201,375</u>	<u>55,492,574</u>
Total common stockholders' equity	<u>104,125,505</u>	<u>103,416,704</u>
Total liabilities and common stockholders' equity	<u>\$ 244,609,572</u>	<u>\$ 248,549,969</u>

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,	
	1999	1998
NET SALES	\$ 52,386,622	\$ 47,414,662
COST OF SALES	<u>47,051,929</u>	<u>39,398,675</u>
GROSS MARGIN	5,334,693	8,015,987
SELLING, GENERAL AND ADMINISTRATIVE	<u>1,815,594</u>	<u>1,637,902</u>
OPERATING PROFIT	<u>3,519,099</u>	<u>6,378,085</u>
OTHER INCOME (EXPENSE):		
Interest expense	(2,850,000)	(2,794,270)
Interest income	356,710	390,133
Miscellaneous	<u>64,654</u>	<u>10,875</u>
	<u>(2,428,636)</u>	<u>(2,393,262)</u>
INCOME BEFORE INCOME TAX	1,090,463	3,984,823
PROVISION FOR INCOME TAX	<u>381,662</u>	<u>1,394,425</u>
NET INCOME	<u>\$ 708,801</u>	<u>\$ 2,590,398</u>
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	12,890,607	12,890,607
Diluted	13,713,029	13,713,029
BASIC NET INCOME PER SHARE	<u>\$.05</u>	<u>\$.20</u>
DILUTED NET INCOME PER SHARE	<u>\$.05</u>	<u>\$.19</u>

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended December 31,	
	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 708,801	\$ 2,590,398
Depreciation	2,254,832	2,032,807
Amortization	119,654	102,424
Provision for losses on accounts receivable	44,937	47,904
Deferred income taxes	285,662	1,030,980
Changes in working capital:		
(Increase) decrease in receivables	(573,597)	5,731,763
Decrease (increase) in inventories	661,908	(8,972,645)
(Increase) in prepaid expenses	(770,545)	(613,961)
(Decrease) in accounts payable	(1,662,599)	(3,679,188)
(Decrease) in interest payable and accrued liabilities	<u>(3,015,159)</u>	<u>(1,475,923)</u>
Net cash (used in) operations	<u>(1,946,106)</u>	<u>(3,205,441)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	<u>(2,268,880)</u>	<u>(4,952,095)</u>
NET DECREASE IN CASH	(4,214,986)	(8,157,536)
CASH, beginning balance	<u>31,091,309</u>	<u>34,028,855</u>
CASH, ending balance	<u>\$ 26,876,323</u>	<u>\$ 25,871,319</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 5,700,000	\$ 5,419,718
Income taxes	\$ 96,000	\$ 363,445

The accompanying notes are an integral part of these consolidated statements.

BAYOU STEEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1999
(Unaudited)

1) **BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. However, all adjustments, which, in the opinion of management, are necessary for fair presentation have been included except adjustments related to inventory. The inventory valuations as of December 31, 1999 are based on last-in, first-out ("LIFO") estimates of year-end levels and prices. The actual LIFO inventories will not be known until year-end quantities and indices are determined. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC as of and for the year ended September 30, 1999.

The accompanying consolidated financial statements include the accounts of Bayou Steel Corporation and its wholly-owned subsidiaries (the "Company") after elimination of all significant intercompany accounts and transactions. The results for the three months ended December 31, 1999 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2000.

Certain reclassifications have been made in the prior period financial statements to conform to current period classifications.

2) **INVENTORIES**

Inventories consist of the following:

	(Unaudited) December 31, 1999	(Audited) September 30, 1999
Scrap steel	\$ 2,964,835	\$ 4,738,110
Billets	9,739,063	7,923,519
Finished product	44,639,990	43,063,027
LIFO adjustments	<u>2,982,686</u>	<u>5,689,596</u>
	60,326,574	61,414,252
Operating supplies and other	<u>11,578,822</u>	<u>11,153,052</u>
	<u>\$ 71,905,396</u>	<u>\$ 72,567,304</u>

3) **LONG-TERM DEBT**

The Company has \$120 million of 9.5% first mortgage notes bearing interest at 9.5% (9.65% effective rate) due 2008 with semi-annual interest payments due May 15 and November 15 of each year. The notes were issued at a discount which is being amortized over the life of the notes using the straight line method which does not materially differ from the interest method. The notes are a senior obligation of the Company, secured by a first priority lien, subject to certain exceptions, on certain existing and future real property, plant and equipment.

Bayou Steel Corporation (Tennessee) and River Road Realty Corporation (collectively the “guarantor subsidiaries”), which are wholly-owned by and which comprise all of the direct and indirect subsidiaries of the Company, fully and unconditionally guarantee the notes on a joint and several basis. The following is summarized combined financial information of the guarantor subsidiaries. Separate full financial statements and other disclosures concerning each guarantor subsidiary have not been presented because, in the opinion of management, such information is not deemed material to investors. The indenture governing the notes provide certain restrictions on the ability of the guarantor subsidiaries to make distributions to the Company.

	(Unaudited) December 31, 1999	(Audited) September 30, 1999
Current assets	\$ 30,945,000	\$ 30,832,000
Noncurrent assets	21,845,000	21,153,000
Current liabilities	27,106,000	26,075,000
Noncurrent liabilities	34,972,000	34,973,000

	(Unaudited) Three Months Ended December 31,	
	1999	1998
Net sales	\$ 11,291,000	\$ 10,378,000
Gross margin	235,000	934,000
Net income (loss)	(225,000)	324,000

4) **INCOME TAXES**

As of December 31, 1999, for tax purposes, the Company had net operating loss carryforwards (“NOLs”) of approximately \$170 million available to utilize against regular taxable income. The NOLs will expire in varying amounts through fiscal 2011. A substantial portion of the available NOLs, approximately \$74 million, expire by fiscal 2001. The Company maintains a valuation allowance on a portion of its NOLs. Deferred income tax expense of \$0.4 million and \$1.4 million was recognized in the first fiscal quarter of 2000 and 1999, respectively, reflecting the utilization of a portion of the Company’s available NOLs to cover estimated taxable income.

5) **PREFERRED STOCK AND WARRANTS**

The Company issued 15,000 shares of redeemable preferred stock and warrants to purchase six percent of its Class A Common Stock (or 822,422 shares) at a nominal amount. In connection with a refinancing transaction in the third quarter of fiscal 1998, the preferred stock was redeemed but the warrants remain outstanding, and such warrants are considered as outstanding common stock equivalents for purposes of computing diluted net income per share.

6) **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, the Company could be potentially responsible for the remediation of contamination associated with such a release.

Tennessee Valley Steel Corporation (“TVSC”) , the prior owners of the assets of Bayou Steel Corporation (Tennessee), entered into a Consent Agreement and Order (the “TVSC Consent Order”) with the Tennessee Department of Environment and Conservation under its voluntary clean up program. The Company, in acquiring the assets of TVSC,

entered into a Consent Agreement and Order (the "Bayou Steel Consent Order") with the Tennessee Department of Environment and Conservation. The Bayou Steel Consent Order is supplemental to the previous TVSC Consent Order and does not affect the continuing validity of the TVSC Consent Order. The ultimate remedy and clean up goals will be dictated by the results of human health and ecological risk assessments which are components of a required, structured investigative, remedial, and assessment process. As of December 31, 1999, investigative, remedial, and risk assessment activities resulted in expenditures of approximately \$1.3 million and a liability of approximately \$0.6 million is recorded as of December 31, 1999 to complete the remediation. At this time, the Company does not expect the cost or resolution of the TVSC Consent Order to exceed its recorded obligation.

As of December 31, 1999, the Company believes that it is in compliance, in all material respects, with applicable environmental requirements and that the cost of such continuing compliance is not expected to have a material adverse effect on the Company's competitive position, or results of operations, and financial condition, or cause a material increase in currently anticipated capital expenditures. As of December 31, 1999, the Company has accrued management's best estimate with respect to loss contingencies for certain environmental matters.

There are various claims and legal proceedings arising in the ordinary course of business pending against or involving the Company wherein monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect its financial position or results of operations.

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 on Form 10-K as of and for the year ended September 30, 1999.

RESULTS OF OPERATIONS

The Company reported consolidated pretax income of \$1.1 million in the first quarter of fiscal 2000 compared to \$4.0 million in the comparable period of fiscal 1999. The \$2.9 million change in earnings was due to a decrease in the metal margin (the difference between the average selling price and the net scrap cost) and to a lesser extent an increase in conversion cost. These changes were partially offset by increased shipments and the proceeds from a lawsuit settlement with a supplier of materials utilized in our melting operations.

The following table sets forth shipment and sales data.

	Three Months Ended	
	December 31,	
	1999	1998
Net Sales (in thousands)	\$ 52,387	\$ 47,415
Shipment Tons	161,554	135,543
Average Selling Price Per Ton	\$ 318	\$ 342

A. **Sales**

Net sales for the quarter increased by 10% on a 19% increase in shipments and a 7% decrease in the average selling price. During the current quarter, shipment volumes began to recover from the adverse effects of imports in the prior year while the average selling price has not responded as quickly. Shipments were adversely affected by the eighteen-day outage at our Tennessee rolling mill during the quarter. It is estimated that the Company lost 12,000 tons of sales and that the average selling price was reduced because of the limited mix of product available. Price increases have been announced throughout the first fiscal quarter and subsequently that have various effective dates extending

into the second fiscal quarter. These price increases impact substantially all of the Company's product lines.

B. Cost of Goods Sold

Cost of goods sold was 90% of sales for the quarter compared to 83% of sales for the prior year period due largely to the selling price decrease and the increase in the cost of scrap steel. The increase in cost of goods sold as a percentage of sales was partially offset by the proceeds from the lawsuit settlement previously noted which reduced cost of goods sold in the current quarter by approximately 3%.

Scrap is used in the operation of the Company's melt shop in Louisiana and is a significant component of the cost of billets utilized by the Company's rolling mills. Scrap cost during the first quarter increased 17% compared to the same period of last year as scrap prices have been trending upward over the past quarters. This trend may level off in the second quarter; however, any future increases will adversely impact metal margin and may minimize potential favorable impacts of future selling price improvements.

The Company has been able to control the availability and the cost of scrap to some degree by producing its own shredded and cut grade scrap through its scrap processing division. This division, coupled with its local scrap purchasing program, supplied almost 50% of the Company's scrap requirements during the quarter.

Conversion cost includes labor, energy, maintenance materials, and supplies used to convert raw materials into billets and billets into shapes. Conversion cost per ton for the Company's Louisiana operations increased by 4% in the first quarter of fiscal 2000 compared to the same period of last year as a result of two factors. First, the Company is working through a learning curve associated with capital installed in the melt shop last fiscal year. Additionally, the cost of power has increased as the utility that services its Louisiana operations has not been as competitive on pricing as it has in years past. Second, the rolling mill in Louisiana continues operating in a reduced mode only working six and a half days per week. The Company expects to resume full capacity during the second quarter. Subsequent to quarter end, the melt shop experienced a mechanical problem with its main furnace requiring a twelve day shutdown. During that period the Company operated its less efficient back-up furnace which may result in higher per ton costs and less production in the second fiscal quarter.

The Tennessee rolling mill experienced a 13% reduction in conversion cost and a 12% increase in production despite taking an eighteen-day shutdown for major repairs in the roughing mill. Although conversion costs improved and the mill is back at full production, the capital required to replace the roughing mill will not be installed until the end of the year. It is estimated that the outage cost in excess of \$0.5 million after netting expected insurance proceeds.

C. Selling, General and Administrative Expense

Selling, general and administrative expense in the first quarter increased by \$0.2 million compared to the same period of last year. The change is primarily due to a recently resolved legal matter in the current year.

D. Income Taxes

In fiscal 1998, the Company recorded an adjustment to its net deferred tax asset valuation allowance and subsequently has provided for income taxes at the 35% statutory tax rate, although its cash tax requirement was limited to the 2% alternative minimum tax because of its net operating loss position. As of December 31, 1999, the Company has \$7.8 million of recorded net deferred tax assets. For financial reporting purposes, the Company periodically assesses the carrying value of its net deferred tax assets. Such an assessment includes many factors, including changing market conditions, that could impact this assessment over time and may result in positive or negative adjustments to the deferred tax asset valuation allowance in the future that would ultimately affect net income.

E. **Net Income**

Net income decreased \$1.9 million in the first quarter compared to the first quarter of last year due primarily to a reduced metal margin and increased conversion cost that were somewhat offset by increased shipments and the proceeds from a lawsuit settlement with a supplier of materials.

LIQUIDITY AND CAPITAL RESOURCES

A. **Cash and Working Capital**

The Company ended the first fiscal quarter with \$26.9 million in cash and temporary cash investments. In the first quarter, cash used in operations was \$1.9 million compared to \$3.2 million in the first quarter of last year. At December 31, 1999, current assets exceeded current liabilities by a ratio of 6.01 to 1.00. Working capital increased by \$1.1 million to \$107.4 million during the three month period. The Company has an unused \$50 million line of credit which is also available for general corporate purposes.

B. **Capital Expenditures**

Capital expenditures totaled \$2.3 million in the first quarter of fiscal 2000 compared to \$5.0 million in the same period last year. The spending is directed towards cost reduction, productivity enhancements, plant maintenance and safety and environmental programs. Depending on market conditions, the Company expects to spend approximately \$20 million on various capital projects during the next twelve months. Included in this amount is \$3 million of a \$7 million project to increase melting capacity by 20% to 30%. The Company is also considering spending an additional \$15 to \$20 million over several years to increase its Louisiana finished goods capacity by 20% to 30%.

C. **Impact of Year 2000 Compliance**

To date, the Company's systems have continued to operate without disruption related to year 2000 issues. The Company will continue to closely monitor areas of particular risk.

OTHER COMMENTS

Forward-Looking Information, Inflation and Other

This document contains various "forward-looking" statements which represent the Company's expectation or belief concerning future events. 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 including, without limitation, the following: changes in the price of supplies, power, natural gas, or purchased billets; changes in the selling price of the Company's finished products or the purchase price of steel scrap; changes in demand due to imports or a general economic downturn; cost overruns or start-up problems with capital expenditures; weather conditions in the market area of the finished product distribution; unplanned equipment outages; and changing laws affecting labor, employee benefit costs and environmental and other governmental regulations.

The Company is subject to increases in the cost of energy, supplies, salaries and benefits, additives, alloys and steel scrap due to inflation. Shape prices are influenced by supply, which varies with steel mill capacity 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 or results of operations.

PART II - OTHER INFORMATION

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

(a) Exhibits

The following is an index of the exhibits included in this report on Form 10-Q.

3.1 - Amended and Restated By-Laws.

(b) Reports on Form 8-K

None were filed during the first quarter of fiscal year 2000.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BAYOU STEEL CORPORATION

By /s/ Richard J. Gonzalez
Richard J. Gonzalez
Vice President, Chief Financial Officer,
Treasurer, and Secretary

Date: January 27, 2000