

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2004

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-2389

ROANOKE ELECTRIC STEEL CORPORATION

(Exact name of Registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-0585263
(I.R.S. Employer
Identification No.)

102 Westside Blvd., N.W., Roanoke, Virginia
(Address of principal executive offices)

24017
(Zip Code)

(540) 342-1831
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of April 30, 2004.

10,947,813 Shares outstanding

Table of Contents

ROANOKE ELECTRIC STEEL CORPORATION

FORM 10-Q

CONTENTS

| | <u>Page</u> |
|--|-------------|
| 1. <u>Part I – Financial Information</u> | 3 – 20 |
| Item 1. <u>Financial Statements</u> | |
| a. <u>Consolidated Balance Sheets</u> | 3 |
| b. <u>Consolidated Statements of Earnings (Loss)</u> | 4 |
| c. <u>Consolidated Statements of Cash Flows</u> | 5 |
| d. <u>Notes to Consolidated Financial Statements</u> | 6 – 12 |
| e. <u>Report of Independent Registered Public Accounting Firm</u> | 13 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 14 – 18 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 19 |
| Item 4. <u>Controls and Procedures</u> | 20 |
| 2. <u>Part II – Other Information</u> | 21 – 22 |
| Item 1. <u>Legal Proceedings</u> | 21 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 21 – 22 |
| Item 6. <u>Exhibits and Reports on Form 8-K</u> | 22 |
| 3. <u>Signatures</u> | 23 |
| 4. <u>Exhibit Index pursuant to Regulation S-K</u> | 24 – 25 |
| 5. <u>Exhibits</u> | 26 – 36 |

[Table of Contents](#)PART I – FINANCIAL INFORMATION
ITEM 1 – FINANCIAL STATEMENTS
ROANOKE ELECTRIC STEEL CORPORATION

Consolidated Balance Sheets

| | (Unaudited) April 30, 2004 | October 31, 2003 |
|---|----------------------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 10,819,810 | \$ 13,422,044 |
| Investments | 3,117,820 | 3,778,392 |
| Accounts receivable, net of allowances of \$4,572,689 in 2004 and \$3,430,029 in 2003 | 58,160,071 | 46,469,280 |
| Refundable income taxes | 0 | 608,244 |
| Inventories | 76,937,051 | 59,565,245 |
| Prepaid expenses | 1,643,417 | 1,466,176 |
| Deferred income taxes | 5,478,717 | 5,525,279 |
| Total current assets | <u>156,156,886</u> | <u>130,834,660</u> |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 7,734,589 | 7,734,589 |
| Buildings | 45,295,153 | 45,099,325 |
| Manufacturing machinery and equipment | 136,740,747 | 136,053,175 |
| Trucks and forklifts | 7,308,981 | 7,242,124 |
| Fabricating plant equipment | 20,110,190 | 19,693,180 |
| Land improvements | 9,107,040 | 8,993,364 |
| Office equipment | 2,678,510 | 2,537,117 |
| Assets under construction | 1,377,142 | 1,375,707 |
| Total | <u>230,352,352</u> | <u>228,728,581</u> |
| Less—accumulated depreciation | <u>112,557,936</u> | <u>105,323,406</u> |
| Property, plant and equipment, net | <u>117,794,416</u> | <u>123,405,175</u> |
| GOODWILL | <u>13,868,647</u> | <u>13,868,647</u> |
| OTHER ASSETS | <u>2,319,959</u> | <u>2,759,004</u> |
| TOTAL ASSETS | <u>\$ 290,139,908</u> | <u>\$ 270,867,486</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt and capital lease obligation | \$ 15,038,687 | \$ 7,560,884 |
| Accounts payable | 31,421,127 | 24,540,814 |
| Dividends payable | 1,094,781 | 546,641 |
| Employees' taxes withheld | 472,388 | 275,112 |
| Accrued profit sharing contribution | 4,047,852 | 1,339,642 |
| Accrued wages and expenses | 12,889,893 | 11,289,678 |
| Accrued income taxes | 3,272,614 | 0 |
| Total current liabilities | <u>68,237,342</u> | <u>45,552,771</u> |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION | | |
| Notes and capital lease payable | 71,487,963 | 71,519,832 |
| Less—current portion | <u>15,038,687</u> | <u>7,560,884</u> |
| Total long-term debt and capital lease obligation | <u>56,449,276</u> | <u>63,958,948</u> |
| DEFERRED INCOME TAXES | <u>29,068,846</u> | <u>29,908,754</u> |
| OTHER LIABILITIES | <u>4,752,660</u> | <u>5,381,389</u> |
| STOCKHOLDERS' EQUITY | | |
| Common stock—no par value—authorized 20,000,000 shares, issued 12,220,927 shares in 2004 and 12,205,927 in 2003 | 4,556,259 | 4,394,889 |
| Retained earnings | 128,351,214 | 123,236,904 |
| Accumulated other comprehensive loss | <u>-457,821</u> | <u>-748,301</u> |
| Total | <u>132,449,652</u> | <u>126,883,492</u> |
| Less—treasury stock, 1,273,114 shares — at cost | <u>817,868</u> | <u>817,868</u> |
| Total stockholders' equity | <u>131,631,784</u> | <u>126,065,624</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 290,139,908</u> | <u>\$ 270,867,486</u> |

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

[Table of Contents](#)

ROANOKE ELECTRIC STEEL CORPORATION

Consolidated Statements of Earnings (Loss)

| | (Unaudited) Three Months Ended April 30, | | (Unaudited) Six Months Ended April 30, | |
|---|--|---------------|--|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| SALES | \$ 118,949,522 | \$ 77,075,724 | \$ 206,205,032 | \$ 138,205,678 |
| COST OF SALES | 99,581,309 | 72,799,345 | 177,984,962 | 130,856,140 |
| GROSS EARNINGS | 19,368,213 | 4,276,379 | 28,220,070 | 7,349,538 |
| OTHER OPERATING EXPENSES (INCOME) | | | | |
| Administrative | 7,177,242 | 5,622,294 | 14,537,101 | 10,847,312 |
| Interest, net | 752,216 | 1,043,202 | 1,799,898 | 2,506,186 |
| Profit sharing | 2,738,597 | 75,000 | 3,695,085 | 155,400 |
| Antitrust litigation settlement | 0 | 0 | -3,061,820 | -520,960 |
| Total | 10,668,055 | 6,740,496 | 16,970,264 | 12,987,938 |
| EARNINGS (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | 8,700,158 | -2,464,117 | 11,249,806 | -5,638,400 |
| INCOME TAX EXPENSE (BENEFIT) | 3,478,102 | -987,870 | 4,494,074 | -2,260,691 |
| EARNINGS (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | 5,222,056 | -1,476,247 | 6,755,732 | -3,377,709 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | 0 | 0 | 0 | -228,410 |
| NET EARNINGS (LOSS) | \$ 5,222,056 | \$ -1,476,247 | \$ 6,755,732 | \$ -3,606,119 |
| Earnings (loss) per share of common stock: | | | | |
| Earnings (loss) before cumulative effect of change in accounting principle: | | | | |
| Basic | \$ 0.48 | \$ -0.13 | \$ 0.62 | \$ -0.31 |
| Diluted | \$ 0.47 | \$ -0.13 | \$ 0.61 | \$ -0.31 |
| Cumulative effect of change in accounting principle: | | | | |
| Basic | 0.00 | 0.00 | 0.00 | -0.02 |
| Diluted | 0.00 | 0.00 | 0.00 | -0.02 |
| Net earnings (loss) per share of common stock: | | | | |
| Basic | \$ 0.48 | \$ -0.13 | \$ 0.62 | \$ -0.33 |
| Diluted | \$ 0.47 | \$ -0.13 | \$ 0.61 | \$ -0.33 |
| Cash dividends per share of common stock | \$ 0.10 | \$ 0.05 | \$ 0.15 | \$ 0.10 |
| Weighted average number of common shares outstanding : | | | | |
| Basic | 10,938,880 | 10,942,813 | 10,935,813 | 10,942,813 |
| Diluted | 11,040,420 | 10,947,957 | 11,007,791 | 10,952,580 |

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

[Table of Contents](#)

ROANOKE ELECTRIC STEEL CORPORATION

Consolidated Statements of Cash Flows

| | (Unaudited) Six Months Ended April 30, | |
|--|--|---------------|
| | 2004 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings (loss) | \$ 6,755,732 | \$ -3,606,119 |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities: | | |
| Cumulative effect of change in accounting principle, net of tax | 0 | 228,410 |
| Deferred compensation liability | 6,948 | -10,060 |
| Postretirement liabilities | -76,425 | 205,337 |
| Landfill closure obligation | 16,817 | 0 |
| Depreciation and amortization | 7,644,672 | 7,855,188 |
| Loss on sale of investments and property, plant and equipment | 3,674 | 77,385 |
| Deferred income taxes | -987,000 | -648,000 |
| Changes in assets and liabilities which provided (used) cash, exclusive of changes shown separately | -13,856,561 | 6,178,551 |
| Net cash provided by (used in) operating activities | -492,143 | 10,280,692 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Expenditures for property, plant and equipment | -1,710,831 | -1,351,219 |
| Proceeds from sale of property, plant and equipment | 29,360 | 2,830 |
| Sale of investments | 645,549 | 10,884,123 |
| Other | 265,681 | -700,069 |
| Net cash provided by (used in) investing activities | -770,241 | 8,835,665 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash dividends | -1,641,422 | -1,094,282 |
| Increase in dividends payable | 548,140 | 0 |
| Payment of long-term debt | -22,687 | -18,770,953 |
| Proceeds from exercise of common stock options | 161,370 | 0 |
| Loan costs | 0 | -285,000 |
| Interest rate swap termination fee | -376,069 | -449,697 |
| Payment of capital lease principal | -9,182 | 0 |
| Net cash used in financing activities | -1,339,850 | -20,599,932 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | -2,602,234 | -1,483,575 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 13,422,044 | 12,051,362 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 10,819,810 | \$ 10,567,787 |
| CHANGES IN ASSETS AND LIABILITIES WHICH PROVIDED (USED) CASH, EXCLUSIVE OF CHANGES SHOWN SEPARATELY | | |
| (Increase) decrease in accounts receivable | \$ -11,690,791 | \$ -15,558 |
| (Increase) decrease in refundable income taxes | 608,244 | 2,122,524 |
| (Increase) decrease in inventories | -17,371,806 | 1,161,121 |
| (Increase) decrease in prepaid expenses | -177,241 | -706,523 |
| Increase (decrease) in accounts payable | 6,880,313 | 3,804,024 |
| Increase (decrease) in employees' taxes withheld | 197,276 | 5,307 |
| Increase (decrease) in accrued profit sharing contribution | 2,708,210 | -417,735 |
| Increase (decrease) in accrued wages and expenses | 1,716,620 | 225,391 |
| Increase (decrease) in accrued income taxes | 3,272,614 | 0 |
| Total | \$ -13,856,561 | \$ 6,178,551 |

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

ROANOKE ELECTRIC STEEL CORPORATION

Notes to Consolidated Financial Statements

April 30, 2004

Note 1. Roanoke Electric Steel Corporation is both an operating company and a holding company with both direct and indirect subsidiaries. A complete list of Roanoke Electric Steel's subsidiaries is incorporated by reference to the previously filed Form 10-K (Exhibit No. 21) for October 31, 2003, as filed with the Securities and Exchange Commission. For purposes of this Form 10-Q, the defined term "Registrant" will, depending on the context, refer to Roanoke Electric Steel Corporation and its subsidiaries on a combined basis or refer to Roanoke Electric Steel Corporation as an operating company.

In the opinion of the Registrant, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position as of April 30, 2004 and the results of operations for the three months and six months ended April 30, 2004 and 2003 and cash flows for the six months ended April 30, 2004 and 2003.

Revenue is recognized upon the shipment of finished goods. Additionally, revenue is recognized on certain products manufactured utilizing the percentage of completion method. For these products, the Registrant establishes detailed estimates of product shipments and their related estimated costs. As product is shipped, revenue is recognized based on the quantity shipped in comparison to estimated production. For the year ended October 31, 2003, approximately 80% of revenue recognized was for finished goods shipments, while the remaining 20% related to revenue recognized based on percentage of completion. For the second quarter and the first half of 2004, no material changes existed in the revenue percentage allocation.

The Registrant records shipping and handling expenses in accordance with Emerging Issues Task Force Issue ("EITF") No. 00-10, "Accounting for Shipping and Handling Fees and Cost". Shipping and handling charges, billed to the customer, are included in sales revenues and costs associated with such shipments are included in cost of sales.

Certain amounts included in this Form 10-Q filing for prior years have been reclassified from their original presentation to conform with the current year presentation.

Stock-Based Compensation

The Registrant's stock option plans are described more fully in Note 12 of its 2003 Annual Report to Stockholders. In December 2002, Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of SFAS No. 123, Accounting for Stock-Based Compensation", was issued. This statement was issued to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS 123 in paragraphs 2 (a)–2 (e) of this statement were effective for financial statements for fiscal years ending after December 15, 2002.

The Registrant accounts for stock options under the intrinsic value method recognition and measurement principles of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Under the intrinsic-value method, no compensation expense is recorded if the exercise price of the Registrant's stock options is equal to or greater than the market price of the underlying stock on the date of grant. Compensation cost of approximately \$69,000 for each of the three and six months ended in April 30, 2004, and \$46,000 and \$76,000 for the three and six months ended April 30, 2003, respectively, was recognized where the exercise price was less than the market price of the stock on the date of grant. The following

Table of Contents

table illustrates the effect on net earnings (loss) and earnings (loss) per share if the Registrant had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

| | (Unaudited) Three Months Ended April 30, | | (Unaudited) Six Months Ended April 30, | |
|---|--|----------------|--|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net earnings (loss), as reported | \$ 5,222,056 | \$ (1,476,247) | \$ 6,755,732 | \$ (3,606,119) |
| Deduct total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effects | (49,210) | (33,296) | (98,420) | (66,592) |
| Pro forma net earnings (loss) | \$ 5,172,846 | \$ (1,509,543) | \$ 6,657,312 | \$ (3,672,711) |
| Net earnings (loss) per share: | | | | |
| As reported: | | | | |
| Basic | \$ 0.48 | \$ (0.13) | \$ 0.62 | \$ (0.33) |
| Diluted | \$ 0.47 | \$ (0.13) | \$ 0.61 | \$ (0.33) |
| Pro forma: | | | | |
| Basic | \$ 0.47 | \$ (0.14) | \$ 0.61 | \$ (0.34) |
| Diluted | \$ 0.47 | \$ (0.14) | \$ 0.60 | \$ (0.34) |

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | (Unaudited) Three Months Ended April 30, | | (Unaudited) Six Months Ended April 30, | |
|--|--|---------|--|---------|
| | 2004 | 2003 | 2004 | 2003 |
| Weighted-average grant date fair value | \$ 4.72 | \$ 4.40 | \$ 4.72 | \$ 4.40 |
| Weighted-average expected lives (years) | 5.00 | 5.00 | 5.00 | 5.00 |
| Weighted-average grant date fair value-exercise price less than market price | \$ 4.72 | \$ 4.40 | \$ 4.72 | \$ 4.40 |
| Risk-free interest rate | 3.62% | 3.00% | 3.62% | 3.00% |
| Expected volatility | 41.00% | 50.00% | 41.00% | 50.00% |
| Dividend yield | 2.50% | 2.50% | 2.50% | 2.50% |

Due to the factors (assumptions) described above, the above pro forma disclosures are not necessarily representative of pro forma effects on reported net income for future years.

Table of Contents

Note 2. Inventories are stated at the lower of cost or market. Cost is determined principally using the first-in, first-out (“FIFO”) method of accounting and includes materials, costs of production and manufacturing overhead. The determination of market includes such factors as utility of goods, the ability to dispose of the goods in the ordinary course of business, physical obsolescence and changes in price levels.

Inventories include the following major classifications:

| | (Unaudited) April 30, 2004 | October 31, 2003 |
|--------------------------|----------------------------------|----------------------|
| Scrap steel | \$ 12,191,543 | \$ 5,668,835 |
| Melt supplies | 4,058,262 | 2,554,662 |
| Billets | 4,810,768 | 4,066,909 |
| Mill supplies | 3,423,977 | 3,712,415 |
| Work-in-process | 11,265,591 | 6,832,299 |
| Finished steel | 41,186,910 | 36,730,125 |
| Total inventories | \$ 76,937,051 | \$ 59,565,245 |

Note 3. Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average shares of outstanding common stock. The calculation of diluted earnings per share is similar to basic earnings per share except that the denominator includes dilutive common stock equivalents such as stock options. Basic earnings (loss) per share and diluted earnings (loss) per share calculated in accordance with SFAS No. 128, “Earnings per Share”, are presented in the consolidated statements of earnings (loss). Options to purchase 206,500 and 443,300 shares of common stock were outstanding at April 30, 2004 and 2003, respectively, but were not included in the six month computation of diluted earnings (loss) per share because the effect would be antidilutive. Options to purchase 121,500 and 443,300 shares of common stock were outstanding at April 30, 2004 and 2003, respectively, but were not included in the three month computation of diluted earnings (loss) per share because the effect would be antidilutive.

Note 4. The components of comprehensive earnings (loss), net of taxes, were as follows:

| | (Unaudited) Three Months Ended April 30, | | (Unaudited) Six Months Ended April 30, | |
|--|--|-----------------------|--|-----------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net earnings (loss) | \$ 5,222,056 | \$ (1,476,247) | \$ 6,755,732 | \$ (3,606,119) |
| Other comprehensive earnings: | | | | |
| Change in derivative financial instruments | (3,213) | — | 69,843 | — |
| Accretion of past hedging relationships | 106,250 | 127,240 | 220,637 | 264,565 |
| Other comprehensive earnings | 103,037 | 127,240 | 290,480 | 264,565 |
| Total comprehensive earnings (loss) | \$ 5,325,093 | \$ (1,349,007) | \$ 7,046,212 | \$ (3,341,554) |

Table of Contents

Note 5. The Registrant's business consists of one industry segment, which is the extracting of scrap metal from discarded automobiles and the manufacturing, fabricating and marketing of merchant steel bar products and specialty steel sections, reinforcing bars, open-web steel joists and billets. The industry segment consists of three classes of products – merchant steel products and specialty steel sections, fabricated bar joists and reinforcing bars, and billets.

| | Financial Information Relating to Classes of Products | | | |
|---|---|----------------------|--|-----------------------|
| | (Unaudited) Three Months Ended April 30, | | (Unaudited) Six Months Ended April 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Sales to unaffiliated customers: | | | | |
| Merchant steel and specialty steel sections | \$ 88,613,865 | \$ 50,368,673 | \$ 152,702,547 | \$ 93,110,433 |
| Fabricated bar joists and reinforcing bars | 23,857,444 | 17,822,886 | 41,812,837 | 33,549,749 |
| Billets | 6,478,213 | 8,884,165 | 11,689,648 | 11,545,496 |
| Total consolidated sales | \$ 118,949,522 | \$ 77,075,724 | \$ 206,205,032 | \$ 138,205,678 |

Note 6. Supplemental cash flow information:

| | (Unaudited) Six Months Ended April 30, | |
|--|--|-------------------|
| | 2004 | 2003 |
| Cash paid during the period for: | | |
| Interest | \$ 1,832,200 | \$ 2,754,616 |
| Income taxes (net of cash received) | \$ 1,600,216 | \$(3,735,215) |
| Non cash items: | | |
| Accretion of past hedging relationships | \$ 220,637 | \$ 264,565 |
| Change in derivative financial instruments | 69,843 | — |
| Total non cash items | \$ 290,480 | \$ 264,565 |

Note 7. In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued, establishing standards for accounting and reporting derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives), and for hedging activities. Effective November 1, 2000, the Registrant adopted the policy of accounting and reporting the fair value of derivatives used as cash flow hedging activities, as referred to in SFAS 133, through other comprehensive earnings.

The Registrant has traditionally entered into interest rate swap and similar instruments to manage its exposure to movements in interest rates paid on corporate debt. Such instruments are matched with underlying borrowings. Pursuant to SFAS 133, to the extent the instruments are considered to be effective, changes in fair value are recorded as a component of other comprehensive earnings (loss). To the extent the instruments are considered ineffective, any changes in fair value relating to the ineffective portion are immediately recognized in earnings

[Table of Contents](#)

(interest expense). When it is determined that a derivative ceases to be a highly effective hedge, the Registrant discontinues hedge accounting, and subsequent changes in fair value of the hedge instrument are recognized in earnings. Historically, the Registrant's interest rate swap agreements have been 100% effective and, therefore, changes in fair value have been recorded as a component of other comprehensive earnings (loss). As of April 1, 2002, the Registrant effected an early termination, or unwind, of its interest rate swap agreements, resulting in the conversion of fixed-rate debt into variable-rate borrowings. This swap unwind created a termination fee of \$3,000,179 due the Lender, to be paid over the remaining term of the debt. For the six months ended April 30, 2004 and 2003, the reclassification, and subsequent amortization/accretion, of these past hedging relationships resulted in the Registrant recording an after-tax earnings adjustment of \$220,637 and \$264,565, respectively, through other comprehensive earnings (loss). For the quarters ended April 30, 2004 and 2003, these after-tax earnings adjustments totaled \$106,250 and \$127,240, respectively. Due to fluctuations in interest rates and volatility in market expectations, the fair market value of interest rate swap instruments can be expected to appreciate or depreciate over time. The Registrant plans to continue its practice of economically hedging various components of its debt. However, as a result of SFAS 133, such swap instruments may now create volatility in future reported earnings or other comprehensive earnings (loss).

In the second half of 2003, the Registrant entered into multiple, one-year or less, derivative commodity instruments to minimize the exposure of price risk related to certain natural gas purchases used in the manufacturing process. The contracts used to mitigate the price risk related to natural gas purchases were designated as effective cash flow hedges for a portion of the natural gas usage over the periods in the agreements. Unrealized gains and losses associated with marking the contracts to market are recorded as a component of other comprehensive earnings (loss) and included in the stockholders' equity section of the balance sheet as part of accumulated comprehensive earnings (loss). These gains and losses are recognized in earnings in the month in which the related natural gas is used, or in the month a hedge is determined to be ineffective. For the quarter and six months ended April 30, 2004, the Registrant recorded an after-tax loss adjustment of \$(3,213) and an after-tax earnings adjustment of \$69,843, respectively, through other comprehensive earnings (loss), related to future transactions, which are expected to be recognized in earnings within the respective contract term. Certain of these cash flow hedges became ineffective during the current quarter with the maturity, and termination, of both the gas and associated commodity derivative contracts. As of April 30, 2004, several of these contracts are still in existence, all of which contracts, and the associated derivative instruments, are fully effective.

Note 8.

At fiscal year-end October 31, 2001, the Registrant had goodwill of \$13,868,647, net of accumulated amortization of \$2,328,313. The Registrant early adopted SFAS No. 142, "Goodwill and Other Intangible Assets", on November 1, 2001 and, subsequently, discontinued goodwill amortization. Based on the Registrant's current reporting structure, it has determined that it operates as three reporting units and, therefore, has assigned goodwill at the operating division level. The Registrant completed the first step of the initial transitional goodwill impairment test, which indicated that the Registrant's goodwill was not impaired as of October 31, 2001. In addition, the Registrant performed annual goodwill impairment testing as of July 31, 2002 and 2003, which indicated that the Registrant's goodwill was not impaired. The carrying value of goodwill is periodically reviewed based upon an assessment of operations of the acquired entity. Such a review was performed as of April 30, 2004, with findings of no impairment loss.

Note 9.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations", was issued, addressing financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated costs. SFAS 143 requires that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as a part of the carrying amount of the long-lived asset. The provisions of SFAS 143 became effective with the Registrant's adoption of the statement on November 1, 2002. Application of the statement encompasses an industrial landfill located on the site of the Registrant's subsidiary, Shredded Products Corporation, which will operate for another thirty to thirty-five years before closing.

Table of Contents

The effect of adopting a new accounting principle on net earnings and the related per share amounts is required to be shown on the face of the statement of earnings for all periods presented under APB No. 20, "Accounting Changes".

On November 1, 2002, the date of adoption, an asset retirement obligation for landfill closure and post closure costs of \$433,902 was recorded, compared to the associated long-lived asset, net of accumulated depreciation of \$205,492. This resulted in a cumulative effect of adopting this statement of \$228,410.

At April 30, 2004, the asset retirement obligation totaled \$482,086 and is included in other non-current liabilities. The current period change in the obligation consisted of both liabilities incurred and accretion expense of \$16,817 and \$8,408 for the six months and three months, respectively.

- Note 10. On November 1, 2002, the Registrant adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and APB No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and how the results of a discontinued operation are to be measured and presented. The adoption of SFAS 144 did not have a material impact on the Registrant's results of operations or financial condition.
- Note 11. In April 2002, SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002", was issued, rescinding SFAS 4 which required that all gains and losses from extinguishment of debt be aggregated, and if material, classified as an extraordinary item. As a result, gains and losses from debt extinguishment are to be classified as extraordinary only if they meet the criteria set forth in APB No. 30. SFAS 145 also requires that sale-leaseback accounting be used for capital lease modifications with economic effects similar to sale-leaseback transactions. The Registrant's November 1, 2002 adoption and implementation of SFAS 145 had no significant effect on its results of operations or financial condition.
- Note 12. In July 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", was issued, requiring companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 replaces EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Registrant has seen no material impact on its results of operations or financial condition since the adoption of SFAS 146 on November 1, 2002.
- Note 13. In November 2002, the FASB issued FASB Interpretation ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others". It clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of the liability is the fair value of the guarantee at its inception. The initial recognition and initial measurement provisions of FIN 45 are effective on a prospective basis to guarantees issued or amended after December 31, 2002. The Registrant will record the fair value of future material guarantees, if any. The adoption of FIN 45 had no significant impact on the Registrant's financial condition or results of operations.
- Note 14. In January 2003, FIN 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51", was issued (revised December 2003). This interpretation provides guidance related to identifying variable interest entities (previously known as special purpose entities or SPEs) and determining whether such entities should be consolidated. This interpretation must be applied immediately to variable interest entities created or obtained

Table of Contents

after January 31, 2003, however certain provisions of the interpretation were deferred until the period ending after March 15, 2004. The Registrant does not have any variable interest entities, and the adoption of this interpretation did not have an affect on the Registrant's consolidated financial statements.

Note 15. In May 2003, SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", was issued. SFAS 150 is effective for the Registrant's financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The new rules establish standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that financial instruments within its scope be classified as liabilities. The adoption of SFAS 150 did not have a material impact on the Registrant's financial position or results of operations.

Note 16. At April 30, 2004, the Registrant was committed for \$1,020,000 for purchases of equipment and production facilities.

The Registrant is not involved in any legal proceedings or environmental matters outside the ordinary course of business. In the opinion of management, amounts accrued for potential awards or assessments in connection with these matters at this time are adequate, and the outcome of such environmental and legal concerns currently pending will not have a material effect on the Registrant's consolidated financial position, results of operations, or cash flows. The Registrant reassesses these matters as new facts and cases are brought to management's attention.

[Table of Contents](#)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Roanoke Electric Steel Corporation:

We have reviewed the accompanying consolidated balance sheet of Roanoke Electric Steel Corporation and subsidiaries (the "Corporation") as of April 30, 2004, and the related consolidated statements of earnings (loss) for the three-month and six-month periods ended April 30, 2004 and 2003, and of cash flows for the six-month periods ending April 30, 2004 and 2003. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Roanoke Electric Steel Corporation and subsidiaries as of October 31, 2003, and the related consolidated statements of earnings (loss), stockholders' equity and comprehensive loss, and cash flows for the year then ended (not presented herein); and in our report dated December 8, 2003, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations", on November 1, 2002. In our opinion, the information set forth in the accompanying consolidated balance sheet as of October 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP

Raleigh, North Carolina
June 7, 2004

PART I – ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected the Registrant's earnings during the periods included in the accompanying consolidated statements of earnings (loss).

A summary of the period to period changes in the principal items included in the consolidated statements of earnings (loss) is shown below:

| | Comparison of Increases (Decreases) | | | |
|---|--|---------|--|---------|
| | Three Months Ended April 30, 2004 and 2003 | | Six Months Ended April 30, 2004 and 2003 | |
| | Amount | Percent | Amount | Percent |
| Sales | 41,873,798 | 54.3 | 67,999,354 | 49.2 |
| Cost of sales | 26,781,964 | 36.8 | 47,128,822 | 36.0 |
| Administrative expenses | 1,554,948 | 27.7 | 3,689,789 | 34.0 |
| Interest expense | (290,986) | (27.9) | (706,288) | (28.2) |
| Profit sharing expense | 2,663,597 | 3,551.5 | 3,539,685 | 2,277.8 |
| Antitrust settlement income | — | — | 2,540,860 | 487.7 |
| Earnings (loss) before income taxes and cumulative effect of change in accounting principle | 11,164,275 | 453.1 | 16,888,206 | 299.5 |
| Income tax expense (benefit) | 4,465,972 | 452.1 | 6,754,765 | 298.8 |
| Earnings (loss) before cumulative effect of change in accounting principle | 6,698,303 | 453.7 | 10,133,441 | 300.0 |
| Cumulative effect of change in accounting principle | — | — | 228,410 | 100.0 |
| Net earnings (loss) | 6,698,303 | 453.7 | 10,361,851 | 287.3 |

FORWARD-LOOKING STATEMENTS

From time to time, the Registrant may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Registrant notes that a variety of factors could cause the Registrant's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Registrant's forward-looking statements. The risks and uncertainties that may affect the operations, performance,

Table of Contents

development and results of the Registrant's business include economic and industry conditions, timing of the recovery within our steel markets, availability and prices of utilities, supplies and raw materials, prices of steel products, foreign and domestic competition, foreign trade policies affecting imports and exports, governmental regulations, interest rates, inflation, labor relations, environmental concerns and compliance issues, and others.

OVERVIEW

The Registrant, directly and through its subsidiaries, is engaged in the manufacturing, fabricating and marketing of merchant steel products, specialty steel sections, billets, open-web steel joists and reinforcing bars. Each subsidiary is either a supplier to the parent company or a purchaser of its finished product and billets. The main plant of Roanoke Electric Steel Corporation is a state-of-the-art steel mini-mill located in Roanoke, Virginia. This facility melts scrap steel in electric furnaces and continuously casts the molten steel into billets. These billets are rolled into merchant steel products consisting of angles, plain rounds, flats, channels and reinforcing bars of various lengths and sizes. Excess steel billet production is sold to mills without melting facilities. Roanoke Electric Steel Corporation markets its products to steel service centers and fabricators in 22 states east of the Mississippi River. Like the main plant, Steel of West Virginia, Inc., is a steel mini-mill operating in Huntington, West Virginia. A steel fabricating subsidiary, Marshall Steel, Inc., is located in Memphis, Tennessee. These locations produce specialty steel sections and custom-finished products and serve niche markets. Shredded Products Corporation, a subsidiary with operations in Rocky Mount and Montvale, Virginia, extracts scrap steel and other metals from junked automobiles and other waste materials. These facilities supply the main plant with a substantial amount of its raw materials. Nonferrous metals generated in the process are sold to unrelated customers. John W. Hancock, Jr., Inc. and Socar, Inc. are steel fabrication subsidiaries located in Salem, Virginia, Florence, South Carolina and Continental, Ohio. All three operations purchase rounds and angles from the main plant to fabricate steel joists and joist girders. These joists and joist girders are used as horizontal supports for floors and roofs in commercial and industrial buildings. RESCO Steel Products Corporation, a Salem, Virginia based subsidiary, fabricates concrete reinforcing steel by cutting and bending it to contractor specifications.

ECONOMIC FACTORS AND STEEL INDUSTRY TRENDS AFFECTING OPERATING RESULTS

The Registrant's sales are predominantly affected by the volume of products shipped to customers, the corresponding mix of products shipped and the associated sales prices of each product. These factors can be significantly impacted by general economic conditions, industry trends and competitive pressures.

All direct and indirect manufacturing costs are included in cost of sales. The principle elements of cost of sales are raw materials, labor and energy. The primary components of raw materials include scrap and other additives, the costs of which are demand driven, and can be affected by available supply and inflationary pressures. Labor costs are influenced mainly by production and shipment levels. Energy costs are associated with the Registrant's utilization of both electricity and natural gas as its power sources, with electric arc furnaces using electricity and with reheat furnaces using natural gas. The arc furnaces are used in the actual melting of scrap steel (to produce billets), while the reheat furnaces are used to reheat the billets which are then rolled into a finished product. The availability of this power supply and the peak demands by the Registrant determine energy pricing.

RESULTS OF OPERATIONS

Sales for the six months increased by 49.2%, mainly, as a result of improvements in selling prices for merchant bar products of 40.5%, specialty steel sections by an average of 9.9%, fabricated products of 15.1% and billets of 36.3%. Sales for the three months, a record high for the Registrant, increased by 54.3%, primarily, due to higher selling prices for billets and for bar, specialty and fabricated products of 49.0%, 33.9%, 18.0% and 19.8%, respectively. Both periods experienced increased tons shipped for merchant bar, specialty sections and fabricated products, each contributing to the sales improvements for the respective periods, while a drop in billet shipments negatively impacted the periods' sales. The improvement in merchant bar product selling prices during both periods compared was due, mainly, to a 74.7% six month and an 85.8% three month spike in scrap steel, our main raw material, which prompted several industry-wide price increases. Business conditions continued to improve within the steel industry which created higher demand for bar

Table of Contents

products, bolstering order rates and backlogs, and resulting in increased merchant bar shipments of 25.2% and 32.5% during the first half and quarter, respectively. Improved product mix and favorable competitive conditions, within several market segments, brought higher average selling prices for specialty steel sections during both periods compared. Better economic conditions, within certain niche markets, created improved demand, sending shipment levels higher for specialty steel products by 37.1% for the six month period and 47.8% during the three months. Fabricated product selling prices increased for both periods compared, influenced mainly by higher raw material costs. Fabricated product shipment levels improved 13.9% during the six months compared and 20.9% for the second quarter, primarily due to better average delivery times during the current year, together with increasing activity and an easing of competitive conditions within the nonresidential construction segment. Billet selling prices increased for both the quarter and six months, as sharp rises in scrap prices triggered changes in billet prices. Strong demand for finished steel in the 2004 second quarter and first half required a higher utilization of billets internally. This additional internal consumption resulted in a 51.1% decrease in billet shipments for the three months and a 25.7% decrease for the six month period. Cost of sales increased by 36.0% during the first half and by 36.8% for the quarter, mainly, as a result of the increased tons shipped of bar, specialty and fabricated products, together with higher costs of energy and scrap steel, in spite of reduced billet shipments. Repairs and maintenance of \$11,751,667 and \$6,298,766 for the 2004 six month and three month periods, respectively, increased from \$8,668,997 and \$3,751,821 for the 2003 six month and three month periods, respectively, due to required equipment repair needs per period. The Registrant has no significant deferred maintenance and believes its facilities are operating within reasonable productive capacities. Gross profit as a percentage of sales increased from 5.3% to 13.7% and from 5.5% to 16.3% for the six month and three month periods, respectively. The increased margins for both periods compared resulted, primarily, from the higher selling prices for all products classes, coupled with the effects of increased raw steel and bar production levels on fixed costs, and improved margins for billets and fabricated products, which more than offset higher scrap and energy costs. Administrative expenses increased in both periods compared, mainly, as a result of increased executive and other management compensation of \$922,248 and \$667,671, and higher expenses for insurance of \$746,791 and \$220,554, professional fees of \$1,125,662 and \$246,827 (most in relation to the Sarbanes-Oxley Act) and bad debt reserves of \$525,744 and \$186,744 for the six months and three months, respectively. Administrative expenses, as a percentage of sales, dropped from 7.9% to 7.1% for the six month period and from 7.3% to 6.0% for the three month period, as a result of the improvements in sales. Interest expense decreased in both periods compared due to reduced average borrowings and lower average interest rates, which more than offset lower interest income. Profit sharing expense is based on earnings before income taxes in accordance with provisions of the Registrant's various retirement plans. During both current periods, two plans accrued benefits as a result of incurred earnings, while a third plan provided no benefits due to adjusted losses. Other operating expenses were reduced by \$3,061,820 and \$520,960, respectively, in the 2004 and 2003 first quarters, and reflected in each six month period, as a result of partial settlements received in conjunction with a class action suit for antitrust violations against the Registrant's graphite electrode suppliers. The effective income tax rate was relatively constant for both periods compared. The cumulative effect of a change in accounting principle was a 2003 first quarter charge of \$228,410, resulting from the adoption on November 1, 2002 of SFAS No. 143, "Accounting for Asset Retirement Obligations"—see Note 9.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Working capital as of April 30, 2004 was \$87,919,544, an increase of \$2,637,655 from October 31, 2003, as working capital provided from operations exceeded capital expenditures, dividends and changes to long-term debt. The current ratio of 2.3 to 1 and the quick ratio of 1.1 to 1 both indicate ample liquidity and a healthy financial condition.

Net cash provided by (used in) operations was \$(492,143) for the six month period ended April 30, 2004 as compared to \$10,280,692 for the six month period ended April 30, 2003. Net cash used related to operating assets and liabilities increased \$20,035,112 (2004 - \$(13,856,561); 2003 - \$6,178,551), which was primarily attributable to the 49.2% growth in the Registrant's sales. Earnings (loss) from operations improved \$10,361,851 (2004 - \$6,755,732; 2003 - \$(3,606,119)). Earnings for the six month period ended April 30, 2004 included a \$3,061,820 payment received from graphite electrode plaintiffs in conjunction with a class action suit for antitrust violations. Amounts received related to this matter were \$520,960 in the six month period ended April 30, 2003.

Table of Contents

Net cash provided by (used in) investing activities was \$(770,241) for the six month period ended April 30, 2004 as compared to \$8,835,665 for the six month period ended April 30, 2003. Expenditures for property, plant and equipment amounted to \$1,710,831 and \$1,351,219 for the six month periods ended April 30, 2004 and 2003, respectively. For the six month period ended April 30, 2003, net cash provided by investing activities included net proceeds of \$10,884,123 from the sale of investments. A portion of the proceeds were primarily used to fund a \$15,000,000 loan prepayment pursuant to an amendment to the Registrant's term loan in January 2003. The amendment also revised certain financial covenants to be less restrictive and lowered total funded debt to \$71,269,591, as of April 30, 2004.

Net cash used in financing activities was \$(1,339,850) for the six month period ended April 30, 2004 as compared to \$(20,599,932) for the six month period ended April 30, 2003. Cash dividends of \$1,641,422 were paid in 2004 as compared to \$1,094,282 paid in 2003, as the Registrant increased its dividend rate. For the six month period ended April 30, 2003, net cash used in financing activities included payments of long-term debt of \$18,770,953, which included the \$15,000,000 prepayment referred to above. As to debt maturities, refer to contractual obligations below.

The Registrant's ability to meet its debt service obligations and reduce its total debt will depend upon its future performance, which in turn, will depend upon general economic, financial and business conditions, along with competition, legislation and regulations that are largely beyond its control. The Registrant believes that cash flow from operations, together with other available sources of funds including cash and investments, will be adequate for at least the next twelve months for making required payments of principal and interest on its indebtedness and for funding anticipated capital expenditures and working capital requirements.

The Registrant was in compliance with its loan agreement, as amended, as of April 30, 2004.

At April 30, 2004, there were commitments for the purchase of property, plant and equipment of approximately \$1,020,000. In addition, during the 2002 second quarter, the Registrant unwound the balance of its interest rate swap and was obligated to pay, over the remaining term of the debt, a termination fee of \$3,000,179, of which there was a remaining balance to be paid of \$1,018,328 at April 30, 2004. These commitments, together with current debt maturities, will affect future earnings, working capital and liquidity, and will be financed from internally generated funds and existing cash reserves.

The termination of the interest rate swap, that was accounted for as a hedge, effectively converted \$75,000,000 of fixed-rate debt into variable-rate borrowings, placing the Registrant at risk for future increases in market interest rates. However, the conversion to currently lower variable rates has resulted in interest savings of \$4,241,646 to date.

During the period, the ratio of debt to equity rose to 1.2 to 1, while the percentage of long-term debt to total capitalization declined to 30.0%, due to current changes of \$7,509,672 reducing long-term debt and capital lease obligation to \$56,449,276. Stockholders' equity increased to \$131,631,784 as net earnings of \$6,755,732 and the recognition of unrealized net gains on current and past hedging relationships of \$290,480 exceeded dividends of \$1,641,422.

Table of Contents

The following table sets forth the Registrant's contractual obligations at April 30, 2004, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

| <u>Contractual Obligations</u> | <u>Payments Due by Period</u> | | | | |
|--------------------------------|-------------------------------|-----------------------------|------------------------|------------------------|------------------------------|
| | <u>Total</u> | <u>Less than 1 year</u> | <u>1 – 3 years</u> | <u>3 – 5 years</u> | <u>More than 5 years</u> |
| Long-Term Debt | \$ 71,269,591 | \$ 15,019,591 | \$ 56,250,000 | — | — |
| Capital Lease Obligations | 218,372 | 19,096 | 41,296 | \$ 45,812 | \$ 112,168 |
| Operating Leases | 3,993,085 | 1,841,722 | 1,403,377 | 747,986 | — |
| Purchase Obligations | 1,020,000 | 1,020,000 | — | — | — |
| Other Long-Term Liabilities | 4,752,660 | 912,904 | 381,848 | 150,000 | 3,307,908 |
| Total | \$ 81,253,708 | \$ 18,813,313 | \$ 58,076,521 | \$ 943,798 | \$ 3,420,076 |

OFF-BALANCE SHEET FINANCING ARRANGEMENTS

The Registrant has no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Registrant's discussion and analysis of its financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Estimates and assumptions are made, during the preparation of these financial statements, that affect the amounts reported. Periodically, the Registrant evaluates its estimates, including those related to contracts, warranties, taxes, insurance and environment. Under different assumptions and conditions, actual costs may vary from these estimates.

The Registrant believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Allowances for doubtful accounts are maintained to provide for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of these customers became worse, resulting in their inability to make payments, additional allowances may be required. The Registrant periodically reviews for impairment of its long-lived assets, and whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable, records an impairment charge if necessary. Compliance issues, associated with environmental laws and regulations established by federal, state and local authorities, could subject the Registrant to various related costs. The Registrant makes provision for these costs, but if the environmental laws and regulations or the varying underlying assumptions change, adjustments to the reserves may be necessary. Provision is also made for estimated costs associated with coverages for workers' compensation insurance and self-insured health plans. These estimates and related reserves could require revision if circumstances and conditions warrant.

PART I – ITEM 3
QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

As of April 30, 2004, the Registrant had no material outstanding derivative financial instruments, other financial instruments, or derivative commodity instruments. As described in Note 7 to the Notes to Consolidated Financial Statements included in this Form 10-Q, the Registrant does engage in transactions involving derivative instruments from time to time when appropriate and, as of April 30, 2004, did have in place several pre-existing, one year or less, derivative commodity instruments to minimize the Registrant's exposure to certain natural gas purchases used in the manufacturing process. As of April 30, 2004, the Registrant's financial instruments were not exposed to significant market risk due to foreign currency exchange risk, commodity price risk, equity price risk, or interest rate risk. However, interest rates and various commodity prices could pose future risks in certain market conditions. As to interest rate risk, the Registrant performed a materiality assessment as of April 30, 2004, and assumed a 10% adverse change in interest rates applied to its floating rate debt. The analysis indicated that such a change would not have a material effect on the Registrant's consolidated results of operations or on the fair value of its risk-sensitive financial instruments. As to commodity price risk, a hypothetical 10% change in the market price of natural gas would not have a materially adverse effect on the Registrant's consolidated results of operations or on the fair value of its natural gas derivative contracts at April 30, 2004.

PART I – ITEM 4
CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Management, including the Registrant's Principal Executive Officer and Principal Financial Officer, have evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) as of April 30, 2004. Based on this evaluation, the Registrant's Principal Executive Officer and Principal Financial Officer have concluded that the Registrant's disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting.

During the 2004 first quarter, Deloitte & Touche informed the Registrant that they had identified a reportable condition in the design of the Registrant's internal controls. The condition, which was not a material weakness, related to a lack of segregation of duties between certain transaction recording functions and related asset accountability functions. Since being informed of this condition, the Registrant has taken various steps, including designing and instituting additional procedures, hiring additional staff, and separating and reorganizing functional responsibilities. Most of these changes have been implemented during the Registrant's second quarter ended April 30, 2004, with the remainder of changes anticipated to be completed during the third quarter ending July 31, 2004, and the Registrant believes that these changes will correct the condition noted by Deloitte & Touche. The Registrant regularly monitors and evaluates the design and effectiveness of its internal controls to improve its controls and procedures over time and to correct any matters that the Registrant discovers, or that are brought to the Registrant's attention. Other than noted herein, there were no significant changes in the Registrant's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(e)) that occurred during the second quarter which have materially affected, or are reasonably likely to affect, such controls.

ITEM 1. LEGAL PROCEEDINGS.

The Registrant is a participant with other steel producers in class action litigation against manufacturers of graphite electrodes, which are used in the melting phase of steel production. The suit alleges that the defendant manufacturers violated the antitrust laws by fixing prices during the period July 1, 1992 through June 30, 1998. The Registrant is not one of the lead plaintiffs or otherwise a representative of the class in this litigation. As a member of the class, the Registrant receives only that information forwarded to it by the class representatives or counsel.

Certain of the defendants have entered into court approved settlements, resulting in partial distributions received by the Registrant during the period 1999 through April 30, 2004 of \$7,312,908. The Registrant recognized the revenue upon realization.

The litigation remains unsettled and class counsel holds an unspecified amount of undistributed settlement funds. The Registrant expects to receive additional distributions, but does not anticipate the amounts to be material and does not know the precise timing of such future distributions. Because the Registrant does not expect any future amounts to be material, it does not believe that disclosure of the “gain contingency” is warranted. As under its existing policy, the Registrant will recognize the revenue upon realization. If the Registrant determines that future distributions might be material, it will disclose the “gain contingency” while exercising the caution provided in paragraph 17 of SFAS 5.

The Registrant is not involved in any legal proceedings or environmental matters outside the ordinary course of business. In the opinion of management, amounts accrued for potential awards or assessments in connection with these matters at this time are adequate, and the outcome of such environmental and legal concerns currently pending will not have a material effect on the Registrant’s consolidated financial position, results of operations, or cash flows. The Registrant reassesses these matters as new facts and cases are brought to management’s attention.

To the best of the Registrant’s information and belief no new legal proceedings were instituted against the Registrant or any of its wholly-owned subsidiaries during the period covered by this report and there was no material development in or termination of the legal proceedings reported earlier by the Registrant on Form 10-K for fiscal year ended October 31, 2003 and Form 10-Q for the quarter ended January 31, 2004, as previously filed with the Commission.

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

On February 17, 2004, the Annual Meeting of Shareholders was held and the following persons were elected as Class B directors of the Registrant, with terms expiring in 2007:

| <u>Director</u> | <u>For</u> | <u>Authority Withheld</u> | <u>Not Voted</u> |
|---------------------|------------|-------------------------------|----------------------|
| Timothy R. Duke | 10,262,556 | 114,186 | 556,071 |
| George W. Logan | 10,242,144 | 134,598 | 556,071 |
| Joseph H. Vipperman | 10,261,924 | 114,818 | 556,071 |

Table of Contents

The following persons continued to serve as Class C and Class A directors of the Registrant after the annual meeting:

Class C directors, with terms expiring in 2005

Charles I. Lunsford, II
Charles W. Steger

Class A directors, with terms expiring in 2006

George B. Cartledge, Jr.
Thomas L. Robertson
Donald G. Smith

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a. Exhibits.

The exhibits, listed on the accompanying Exhibit Index, following the signature page are filed as part of, and incorporated by reference into, this report.

b. Reports on Form 8-K.

Form 8-K dated March 9, 2004 and filed March 15, 2004, furnishing under Item 12 a news release announcing financial condition and results of operations for the quarter ended January 31, 2004.

Form 8-K dated April 22, 2004 and filed April 26, 2004, furnishing under Item 9 a news release announcing the declaration of its quarterly dividend and the restoration of the dividend level to \$.10 per share.

Items 2, 3 and 5 are omitted because the information required by these items is not applicable.

SIGNATURES

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.

ROANOKE ELECTRIC STEEL CORPORATION
Registrant

Date June 7, 2004

/s/ Donald G. Smith

Donald G. Smith, Chairman, President,
Treasurer and Chief Executive Officer
(Principal Executive Officer)

Date June 7, 2004

/s/ Mark G. Meikle

Mark G. Meikle, Vice President–Finance,
Assistant Treasurer and Chief Financial Officer
(Principle Financial Officer and Chief Accounting Officer)

[Table of Contents](#)

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Exhibit (Description)</u> | <u>Page</u> |
|--------------------|---|-------------|
| 3.1 | Articles of Incorporation, as amended, of Roanoke Electric Steel Corporation (incorporated by reference to Exhibit 3(a) to the Annual Report on Form 10-K for the fiscal year ended October 31, 2002 (file number 0-2389)) | |
| 3.2 | Bylaws, as amended, of Roanoke Electric Steel Corporation (incorporated by reference to Exhibit 3(b) to the Annual Report on Form 10-K for the fiscal year ended October 31, 2001 (file number 0-2389)) | |
| 4.1 | Form of certificate representing common stock of Roanoke Electric Steel Corporation (incorporated by reference to Exhibit 4(a) to Registration Statement No. 333-25299, on Form S-8, filed with the Commission on April 16, 1997) | |
| 4.2 | Credit Agreement dated as of December 15, 1998 (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (file number 0-2389)) | |
| 4.3 | Amendment to Credit Agreement dated as of February, 1999 (incorporated by reference to Exhibit 4.2 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (file number 0-2389)) | |
| 4.4 | Second Amendment to Credit Agreement dated as of September, 2000 (incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (file number 0-2389)) | |
| 4.5 | Third Amendment to Credit Agreement dated as of April 23, 2001 (incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (file number 0-2389)) | |
| 4.6 | Fourth Amendment to Credit Agreement dated as of January 31, 2002 (incorporated by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (file number 0-2389)) | |
| 4.7 | Fifth Amendment to Credit Agreement dated as of January 29, 2003 (incorporated by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (file number 0-2389)) | |
| 10.1 | Severance Agreement dated as of October 29, 2003 Mark G. Meikle (FILED HEREWITH) | 26 – 31 |
| 15 | Letter re Unaudited Interim Financial Information (FILED HEREWITH) | 32 |
| 31.1 | Certification of the principal executive officer of Roanoke Electric Steel Corporation pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (FILED HEREWITH) | 33 |

Table of Contents

| | | |
|------|---|----|
| 31.2 | Certification of the principal financial officer of Roanoke Electric Steel Corporation pursuant to Section 302 of Sarbanes–Oxley Act of 2002 (FILED HEREWITH) | 34 |
| 32.1 | Certification of the principal executive officer of Roanoke Electric Steel Corporation pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes–Oxley Act of 2002 (FILED HEREWITH) | 35 |
| 32.2 | Certification of the principal financial officer of Roanoke Electric Steel Corporation pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes–Oxley Act of 2002 (FILED HEREWITH) | 36 |

THIS AGREEMENT ("Agreement") dated as of October 21, 2003, by and between Roanoke Electric Steel Corporation, 102 Westside Boulevard, N.W., Roanoke, Virginia 24017, a Virginia corporation (the "Company"), and Mark G. Meikle, 541 Frontier Way, Fincastle, VA 24090 (the "Executive").

(address)

WITNESSETH THAT:

WHEREAS, the Company considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interest of the Company and its shareholders; and

WHEREAS, the Company recognizes that the possibility of a change in control exists and may exist in the future, and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders; and

WHEREAS, the Board of Directors of the Company ("Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in the face of the circumstances arising from the possibility of a change in control.

NOW, THEREFORE, in consideration of the promises and mutual agreements herein contained, the Company and the Executive hereby agree as follows:

1. The capitalized terms in this Agreement shall have the meanings set forth in the "Definitions Addendum" attached hereto as Exhibit A and incorporated herein by reference.

2. In order to protect the Executive against the possible consequences of a Change in Control and thereby induce the Executive to continue to serve as Vice President – Finance & Assistant Treasurer of the Company and/or in such other office or position to which he may be elected, the Company agrees that if (a) a Change in Control occurs and (b) the Executive leaves the employment of the Company for whatever reason (except because of the Executive's death or Retirement, discharge by the Company for Cause or Disability, or voluntary termination by the Executive other than for Good Reason) within thirty-six (36) months after such Change in Control:

(A) The Company shall pay the Executive his full salary (whether such salary has been previously been paid by the Company or by any of its subsidiaries) through the Date of Termination at the rate in effect at the time Notice of Termination is given and all other unpaid amounts, if any, to which the Executive is entitled as of the Date of Termination under any Plan or other arrangement of the Company at the time such payments are due;

(B) The Company shall pay to the Executive an amount equal to 2.99 multiplied by the Executive's annualized includable compensation for the base period, as defined by Section 280G(d)(1) of the Internal Revenue Code of 1986, as amended, (the "Code") (hereinafter the "Severance Payment"), provided, however, that if any of such payment is or will be subject to the excise tax imposed by Section 4999 of the Code or any similar tax that may hereafter be imposed ("Excise Tax"), such payment shall be reduced to a smaller amount, even to zero, which shall be the largest amount payable under this paragraph that would not be subject, in whole or in part, to the Excise Tax after considering all other payments to the Executive required to be considered under Sections 4999 or 280G of the Code.

In the event that the Severance Payment is subsequently determined to be less than the amount actually paid hereunder, the Executive shall repay the excess to the Company at the time that the proper amount is finally determined, plus interest on the amount of such repayment at the Applicable Federal Rate. In the event that the Severance Payment is determined to exceed the amount actually paid hereunder, the Company shall pay the Executive such difference, plus interest on the amount of such additional payment at the Applicable Federal Rate at the time that the amount of such difference is finally determined.

(C) The Company shall also pay to the Executive all legal fees and related expenses incurred by the Executive in connection with this Agreement, including any dispute arising out of this Agreement, whether or not the Executive prevails (including, without limitation, all such fees and expenses, if any, incurred in contesting or disputing any termination or in seeking to obtain or enforce any right or benefit provided by this Agreement).

(D) The Company shall maintain in full force and effect, for the Executive's continued benefit until the earlier of (a) three years after the Date of Termination; or (b) the Executive's commencement of full-time employment with a new employer, all life insurance, medical, health and accident, and disability plans, programs or arrangements in which the Executive was entitled to participate immediately prior to the Date of Termination, provided that the Executive continued participation is possible under the general terms and provisions of such plans and programs. In the event that the Executive's participation in any such plan or program is barred, the Company shall arrange to provide the Executive with benefits substantially similar to those which the Executive is entitled to receive under such plans and programs.

3. The Executive's benefits hereunder shall be considered severance pay in consideration of his past service, and pay in consideration of his continued service from the date hereof, and his entitlement thereto shall not be governed by any duty to mitigate his damages by seeking further employment nor offset by any compensation which he may receive from future employment.

4. The Company shall require any Successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive, prior to the effectiveness of any such Change in Control, to expressly assent and agree to perform the Company's obligations under this Agreement.

5. This Agreement shall be binding upon and shall inure to the benefit of the respective successors, assigns, legal representatives and heirs to the parties hereto. If the Executive should die while any amount would still be payable to the Executive hereunder if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's beneficiary designated in writing and delivered to the Company, if any, and if none to the Executive's estate.

6. Any payment or delivery required under this Agreement shall be subject to all requirements of the law with regard to withholding, filing, making of reports and the like, and the Company shall use its best efforts to satisfy promptly all such requirements.

7. This Agreement shall commence on the date hereof.

Prior to a Change in Control, this Agreement shall terminate if the Executive shall resign voluntarily, Retire, become Disabled, voluntarily take another position requiring a substantial portion of his time, or die. This Agreement shall also terminate if the Executive's employment as an officer of the Company shall have been terminated for any reason by the Board as constituted prior to any Change in Control. Notwithstanding anything in this Agreement to the contrary, this Agreement shall continue in effect for at least a period of thirty-six (36) months beyond the date of a Change in Control, if one shall have occurred during the term of this Agreement.

8. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the President of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

9. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this agreement shall be governed by the law of the Commonwealth of Virginia without regard to the state's conflict of law rules.

10. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

11. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in the City of Roanoke, Virginia, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided however, that the Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company shall bear all costs and expenses arising in connection with any arbitration proceeding pursuant to this Paragraph.

IN WITNESS WHEREOF, this Agreement has been executed by the undersigned as of the date and year first above written.

ROANOKE ELECTRIC STEEL CORPORATION

By /s/ Donald G. Smith

Donald G. Smith
Its: Chairman, President, Treasurer & Chief Executive Officer

EXECUTIVE

/s/ Mark G. Meikle

Mark G. Meikle

Witness:

/s/ Thomas J. Crawford

Thomas J. Crawford
Print Name

EXHIBIT A
To
Agreement between Mark G. Meikle (the "Executive") and
Roanoke Electric Steel Corporation
Dated October 21, 2003

Definitions Addendum

As used in this Agreement, the following capitalized terms have the indicated meanings unless the context clearly requires otherwise:

- (A) "Applicable Federal Rate" has the meaning ascribed to that term in Section 1274(d)(1) of the Internal Revenue Code of 1986, as amended.
- (B) "Board" means Board of Directors of the Company.

(C) "Cause" means (i) the willful and continued failure by the Executive to substantially perform his duties hereunder (other than any such failure resulting from his incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by the Board (excluding the Executive), which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed his duties, or (ii) the willful engaging by the Executive in illegal conduct or any conduct which is demonstrably and materially injurious to the Company. Notwithstanding the foregoing, the Executive shall not be deemed to be terminated for Cause unless and until there has been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of not less than 75% of the membership of the Board (excluding the Executive) at a meeting of such Board called and held for such purpose (after a reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Executive was guilty of conduct set forth above and specifying the particulars thereof in detail.

(D) "Change in Control" means a change in control of a nature that would be required to be reported (assuming such event has not been "previously reported") in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"); provided that, without limitation, such a Change in Control shall be deemed to have occurred at such time as (i) any Person is or becomes the "beneficial owner" (as defined in Rule 13d-3 or Rule 13d-5 under the Exchange Act as in effect on January 1, 1996), directly or indirectly, of 20% or more of the combined voting power of the Company's voting securities; (ii) the Incumbent Board ceases for any reason to constitute at least the majority of the Board; provided, however, that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders was approved by a vote of at least 75% of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this clause (ii), considered as though such person were a member of the Incumbent Board; (iii) all or substantially all of the assets of the Company are sold, transferred or conveyed if the transferee is not controlled by the Company (control meaning the ownership of more than 50% of the combined voting power of such entity's voting securities); or (iv) the Company is merged or consolidated with another corporation or entity and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting corporation or entity shall be owned in the aggregate by the former shareholders of the Company. Notwithstanding anything in the foregoing to the contrary, no Change in Control shall be deemed to have occurred for purposes of this Agreement by virtue of any transaction (i) which results in the Executive or a group of Persons which includes the Executive, acquiring, directly or indirectly, 20% or more of the combined voting power of the Company's voting securities; or (ii) which results in the Company, any subsidiary of the Company or any profit-sharing plan, employee stock ownership plan or employee benefit plan of the Company or any of its subsidiaries (or any trustee of or fiduciary with respect to any such plan acting in such capacity) acquiring, directly or indirectly, 20% or more of the combined voting power of the Company's voting securities.

(E) "Date of Termination" means (i) if the Executive's employment is terminated by the Executive for other than Good Reason, ninety (90) days after Notice of Termination is given, (ii) if the Executive's employment is to be terminated for Disability, thirty (30) days after Notice of Termination is given (provided that in the case of Disability, the Executive shall not have returned to the performance of his duties on a full-time basis during such thirty (30) day period), (iii) if the Executive's employment is to be terminated for Cause or by the Executive for Good Reason, the date specified in the Notice of Termination, (iv) the date of the Executive's death, or (v) if the Executive's employment is to be terminated by the Company for any reason other than Cause, the date specified in the Notice of Termination, which in no event shall be a date earlier than ninety (90) days after the date on which such Notice of Termination is given.

(F) "Disability" means (i) as a result of the Executive's inability due to physical or mental illness, the Executive shall have been absent from the full-time performance of his duties with the Company for six (6) consecutive months, and (ii) within thirty (30) days after Notice of Termination is given the Executive shall not have returned to the full-time performance of his duties.

(G) "Company" includes any corporation or other entity which is the surviving or continuing entity in respect of any merger, consolidation or form of business combination in which the Company ceases to exist.

(H) "Federal Funds Rate" means a rate of interest equal to the average of (i) the near closing bid and (ii) offered as quoted in the Wall Street Journal for reserves traded among commercial banks for overnight use in amounts of \$1,000,000 or more. Should such rate of interest ever cease to exist, the parties shall mutually agree upon a comparable rate of interest.

(I) "Good Reason" means:

(i) In the event of a Change in Control of the Company, an adverse change in the Executive's status or position(s) with the Company including, without limitation, any material diminution of his duties or responsibilities or the assignment to the Executive of any duties or responsibilities which, in the Executive's reasonable judgment, are inconsistent with such status or position(s);

(ii) The failure by the Company to obtain from any Successor the assent to this Agreement;

(iii) In the event of a Change in Control, any purported termination by the Company of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of subparagraph (K) below (and, if applicable, subparagraph (B) above); and for purposes of this Agreement, no such purported termination shall be effective;

(iv) In the event of a Change in Control, the failure by the Company to continue in effect any Plan in which Executive participates at the time of the Change in Control (or Plans providing the Executive with at least substantially similar benefits) other than as a result of the normal expiration of any such Plan in accordance with its terms as in effect at the time of the Change in Control, or the taking of any action, or the failure to act, by the Company which would adversely affect the Executive's continued participation in any of such Plans on at least as favorable a basis as in the case on the date of the Change in Control or which would materially reduce the Executive's benefits in the future under any such Plans or deprive the Executive of any material benefit enjoyed by the Executive at the time of the Change in Control;

(v) In the event of a Change in Control, the failure by the Company to provide and credit the Executive with a number of paid vacation days to which the Executive would then be entitled in accordance with the Company's normal vacation policy as in effect immediately prior to the Change in Control; or

(vi) In the event of a Change in Control, the Company requiring the Executive to be based anywhere other than where his office is located immediately prior to the Change in Control.

(J) "Incumbent Board" means the Board as constituted on the date hereof.

(K) "Notice of Termination" means a written notice that indicates the specific termination provision of this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

(L) "Person" has the meaning ascribed to that term in Sections 3(d)(9) and 13(d)(3) of the Exchange Act.

(M) "Plan" means any compensation plan such as an incentive, bonus, stock option or restricted stock plan, any pension or profit sharing plan or any welfare benefit plan (including, but not limited to, health, life or disability insurance).

(N) "Retirement" and "Retire" means the Executive's voluntary termination of employment after the attainment of age sixty-five (65) or the attainment of age fifty-five (55) having worked full time for the Company for a period of ten (10) consecutive employment years.

(O) "Successor" means any Person that succeeds to, or has the practical ability to control (either immediately or with the passage of time) the Company's business directly, by merger or consolidation, or indirectly by purchase of the Company's voting securities, all or substantially all of its assets or otherwise.

ROANOKE ELECTRIC STEEL CORPORATION

By /s/ Donald G. Smith

Its: Donald G. Smith
Chairman, President, Treasurer
& Chief Executive Officer

EXECUTIVE

/s/ Mark G. Meikle

Mark G. Meikle

Witness:

/s/ Thomas J. Crawford

Thomas J. Crawford
Print Name

June 7, 2004

Roanoke Electric Steel Corporation
102 Westside Blvd.
Roanoke, VA 24038

We have made a review, in accordance with standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of Roanoke Electric Steel Corporation and subsidiaries (the "Corporation") for the periods ended April 30, 2004 and 2003, as indicated in our report dated June 7, 2004; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended April 30, 2004, is incorporated by reference in Registration Statement No.'s 333-49525, 333-25299, 33-35243 and 33-27359 on Forms S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

DELOITTE & TOUCHE LLP

Raleigh, North Carolina

CERTIFICATIONS (SECTION 302)

I, Donald G. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Roanoke Electric Steel Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) not applicable
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls.

Date: June 7, 2004

/s/ Donald G. Smith

Donald G. Smith,
Chairman, President,
Treasurer and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS (SECTION 302)

I, Mark G. Meikle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Roanoke Electric Steel Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) not applicable
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls.

Date: June 7, 2004

/s/ Mark G. Meikle

Mark G. Meikle,
Vice President-Finance,
Assistant Treasurer and Chief Financial Officer
(Principle Financial Officer and Chief Accounting Officer)

CERTIFICATIONS (SECTION 906)

The undersigned hereby certifies in his capacity as an officer of Roanoke Electric Steel Corporation (the "Registrant"), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of the Registrant on Form 10-Q for the quarter ended April 30, 2004, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: June 7, 2004

/s/ Donald G. Smith

Donald G. Smith,
Chairman, President,
Treasurer and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS (SECTION 906)

The undersigned hereby certifies in his capacity as an officer of Roanoke Electric Steel Corporation (the "Registrant"), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of the Registrant on Form 10-Q for the quarter ended April 30, 2004, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: June 7, 2004

/s/ Mark G. Meikle

Mark G. Meikle,
Vice President-Finance,
Assistant Treasurer and Chief Financial Officer
(Principle Financial Officer and Chief Accounting Officer)