



**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 quarter ended January 31, 2005

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.)

**P.O. Box 13948, Roanoke, Virginia**  
(Address of principal executive offices)

**24038-3948**  
(Zip Code)

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

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

As of January 31, 2005, 11,110,313 shares of Roanoke Electric Steel Corporation common stock were issued and outstanding.



ROANOKE ELECTRIC STEEL CORPORATION  
FORM 10-Q  
CONTENTS

	<u>Page</u>
Part I	
<u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Earnings</u>	2
<u>Consolidated Statements of Cash Flows</u>	3
<u>Notes to Consolidated Financial Statements</u>	4
<u>Report of Independent Registered Public Accounting Firm</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4. <u>Controls and Procedures</u>	18
Part II	
<u>Other Information</u>	
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	19
Item 6. <u>Exhibits and Reports on Form 8-K</u>	19
<u>Signatures</u>	20



**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Roanoke Electric Steel Corporation  
Consolidated Balance Sheets  
ASSETS

	(Unaudited) January 31, 2005	October 31, 2004
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,992,551	\$ 869,000
Accounts receivable, net of allowances of \$5,466,715 in 2005 and \$5,338,719 in 2004	66,924,924	75,558,674
Inventories	117,231,981	102,099,659
Prepaid and other expenses	1,927,067	1,898,841
Deferred income taxes	8,165,648	8,011,122
<b>Total current assets</b>	<b>197,242,171</b>	<b>188,437,296</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	7,589,353	7,734,589
Buildings	44,226,998	44,811,189
Manufacturing machinery and equipment	136,863,690	136,230,189
Trucks and forklifts	7,358,038	7,673,533
Fabricating plant equipment	19,858,731	20,238,613
Land improvements	8,776,886	8,800,131
Office equipment	2,555,734	2,648,100
Assets under construction	2,492,427	2,205,425
<b>Total</b>	<b>229,721,857</b>	<b>230,341,769</b>
Less—accumulated depreciation	119,969,228	117,318,369
<b>Property, plant and equipment, net</b>	<b>109,752,629</b>	<b>113,023,400</b>
<b>GOODWILL</b>	<b>13,868,647</b>	<b>13,868,647</b>
<b>OTHER ASSETS</b>	<b>3,609,603</b>	<b>3,641,690</b>
<b>TOTAL ASSETS</b>	<b>\$324,473,050</b>	<b>\$318,971,033</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt and capital lease obligation	\$ 6,019,853	\$ 6,019,598
Bank overdraft	—	4,777,540
Accounts payable	35,535,832	31,286,346
Dividends payable	1,222,189	1,211,740
Employees' taxes withheld	323,755	248,408
Accrued profit sharing contribution	4,616,458	7,281,552
Accrued wages and expenses	10,899,989	11,964,585
Accrued income taxes	8,403,729	10,146,773
<b>Total current liabilities</b>	<b>67,021,805</b>	<b>72,936,542</b>
<b>LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION</b>		
Notes and capital lease payable	68,247,287	64,960,960
Less—current portion	6,019,853	6,019,598
<b>Total long-term debt and capital lease obligation</b>	<b>62,227,434</b>	<b>58,941,362</b>



DEFERRED INCOME TAXES	27,474,620	28,152,620
OTHER LIABILITIES	3,348,459	3,545,148
<b>STOCKHOLDERS' EQUITY</b>		
Common stock—no par value—authorized 20,000,000 shares, issued 12,383,927 shares in 2005 and 12,288,927 in 2004	6,648,915	5,333,829
Additional paid-in capital	885,427	885,427
Retained earnings	157,695,394	149,731,709
Accumulated other comprehensive income (loss)	(11,136)	262,264
Total	165,218,600	156,213,229
Less—treasury stock, 1,273,114 shares — at cost	817,868	817,868
Total stockholders' equity	164,400,732	155,395,361
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$324,473,050</b>	<b>\$318,971,033</b>

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



Roanoke Electric Steel Corporation  
Consolidated Statements of Earnings

	(Unaudited) Three Months Ended January 31,	
	2005	2004
SALES	\$131,309,983	\$85,173,685
COST OF SALES	102,714,466	76,501,378
GROSS EARNINGS	28,595,517	8,672,307
OTHER OPERATING EXPENSES (INCOME)		
Administrative	7,844,436	6,965,793
Interest expense	851,203	1,122,938
Profit sharing	3,551,807	999,391
Interest income	(21,982)	(75,256)
Antitrust litigation settlement	—	(3,061,820)
Total	12,225,464	5,951,046
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	16,370,053	2,721,261
INCOME TAX EXPENSE	6,506,538	1,084,617
EARNINGS FROM CONTINUING OPERATIONS	9,863,515	1,636,644
DISCONTINUED OPERATIONS (NOTE 1)		
LOSS FROM OPERATIONS OF DISCONTINUED OPERATIONS (INCLUDING LOSS ON SALE)	(1,118,263)	(171,613)
INCOME TAX BENEFIT	(440,622)	(68,645)
LOSS ON DISCONTINUED OPERATIONS	(677,641)	(102,968)
NET EARNINGS	\$ 9,185,874	\$ 1,533,676
Earnings (loss) per share of common stock:		
Earnings from continuing operations:		
Basic	\$ 0.89	\$ 0.15
Diluted	\$ 0.88	\$ 0.15
Loss on discontinued operations:		
Basic	(0.06)	(0.01)
Diluted	(0.06)	(0.01)
Net earnings per share of common stock:		
Basic	\$ 0.83	\$ 0.14
Diluted	\$ 0.82	\$ 0.14
Cash dividends per share of common stock	\$ 0.11	\$ 0.05
Weighted average number of common shares outstanding :		
Basic	11,038,710	10,932,813
Diluted	11,177,438	10,970,133

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



**ROANOKE ELECTRIC STE**  
**FORM 10-Q**

RR Donnelley ProFile  
START PAGE

CHWFBU-MWS-CX  
8.8  
BAR meenm0dc  
RVA

05-Mar-2005 19:28 EST

**16918 TX 2** 1\*  
HTM IFV 0C

Page 2 of 2



Roanoke Electric Steel Corporation  
Consolidated Statements of Cash Flows

(Unaudited)  
Three Months Ended  
January 31,

2005 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net earnings	\$ 9,185,874	\$ 1,533,676
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Deferred compensation liability	(4,257)	51,239
Postretirement liabilities	(201,448)	(38,212)
Landfill closure obligation	9,016	8,409
Depreciation and amortization	3,629,753	3,931,937
Gain on sale of investments and property, plant and equipment	(1,226)	(854)
Deferred income taxes	(678,000)	(511,000)
Loss on sale of subsidiary	790,685	—
Changes in assets and liabilities which provided (used) cash, exclusive of changes shown separately	(12,269,083)	(3,235,822)
Net cash provided by operating activities	461,314	1,739,373

CASH FLOWS FROM INVESTING ACTIVITIES

Expenditures for property, plant and equipment	(1,174,508)	(664,478)
Proceeds from sale of property, plant and equipment	17,783	660
Sale of investments	—	143,013
Proceeds from sale of subsidiary	4,206,829	—
Net cash provided by (used in) investing activities	3,050,104	(520,805)

CASH FLOWS FROM FINANCING ACTIVITIES

Cash dividends	(1,222,189)	(546,641)
Increase in dividends payable	10,449	—
Payment of long-term debt	(15,708,868)	(11,231)
Proceeds from long-term debt	19,000,000	—
Proceeds from exercise of common stock options	1,315,086	—
Repayment of bank overdraft	(4,777,540)	—
Interest rate swap termination fee	—	(195,869)
Payment of capital lease principal	(4,805)	(4,561)
Net cash used in financing activities	(1,387,867)	(758,302)

NET INCREASE IN CASH AND CASH EQUIVALENTS

2,123,551 460,266

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

869,000 13,422,044

CASH AND CASH EQUIVALENTS, END OF PERIOD

\$ 2,992,551 \$13,882,310

CHANGES IN ASSETS AND LIABILITIES WHICH PROVIDED (USED) CASH, EXCLUSIVE OF CHANGES SHOWN SEPARATELY

(Increase) decrease in accounts receivable	\$ 6,288,172	\$(1,654,075)
(Increase) decrease in refundable income taxes	—	608,244
(Increase) decrease in inventories	(16,946,676)	(6,723,367)
(Increase) decrease in prepaid and other expenses	(416,055)	(408,138)
(Increase) decrease in other assets	(48,063)	(73,700)
Increase (decrease) in accounts payable	4,269,486	3,888,848
Increase (decrease) in employees' taxes withheld	75,347	85,871
Increase (decrease) in accrued profit sharing contribution	(2,665,094)	(16,827)
Increase (decrease) in accrued wages and expenses	(1,083,156)	970,688
Increase (decrease) in accrued income taxes	(1,743,044)	86,634



Total		<u>\$ (12,269,083)</u>	<u>\$ (3,235,822)</u>
-------	--	------------------------	-----------------------

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



ROANOKE ELECTRIC STEEL CORPORATION  
Notes to Consolidated Financial Statements  
January 31, 2005

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, 2004, as filed with the Securities and Exchange Commission. For purposes of this Form 10-Q, the defined term "Company" 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 Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position as of January 31, 2005 and the results of operations and cash flows for the three months ended January 31, 2005 and 2004.

Revenue is primarily recognized when title transfers upon shipment. Additionally, revenue is recognized on certain fabricated products sold pursuant to construction contracts utilizing the percentage-of-completion method. Percentage of completion is measured principally based on steel consumed on finished product as a percentage of the estimated steel required for each contract. We recognize profit at the time revenue is recognized, based on our estimates as to the project status and the costs remaining to complete a particular project. Costs and estimated earnings on uncompleted contracts were \$5,659,951 as of January 31, 2005 and \$3,367,434 as of October 31, 2004, and are included in accounts receivable. Such fabricated products accounted for approximately 18% and 14% of the Company's consolidated sales for the three-month periods ended January 31, 2005 and 2004, respectively.

The Company 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 2005 Stock Plan**

On January 28, 2005, the shareholders of the Company approved the "Roanoke Electric Steel Corporation 2005 Stock Incentive Plan" (the "2005 Stock Plan"). The 2005 Stock Plan is integral to the Company's compensation strategy and programs and is intended to help the Company recruit, motivate and retain the caliber of employees and outside directors essential to the Company's success, and will further align the interests of those employees and outside directors with the interests of the Company's shareholders.

A maximum of 1,750,000 shares of the Company's common stock is available for issuance under the 2005 Stock Plan, subject to adjustment upon the occurrence of any stock dividend or other distribution, stock split, merger, consolidation, combination, share repurchase or exchange or other similar transaction or event. No more than 1,500,000 shares of the Company's common stock may be issued under incentive awards to employees of the Company or its subsidiaries, and no more than 250,000 shares of the Company's common stock may be issued to outside directors.

The 2005 Stock Plan provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, performance grants, and deferred shares and is administered by the Compensation Committee of the Company's Board of Directors. The 2005 Stock Plan does not amend the Employees' Stock Option Plan or the Non-Employee Director Stock Option Plan. There are 0 and 1,000 shares available for future issuance under these existing plans. As of January 31, 2005, awards covering 243,500 and 22,000 shares of the Company's common stock were outstanding under the Employee's Stock Option Plan and Non-Employee Director Stock Option Plan, respectively.



On January 28, 2005, the Compensation Committee approved, and the Board of Directors ratified, an aggregate of 192,080 performance grants under the 2005 Stock Plan. A performance grant is an award of a base number of performance shares. Of these awards, 34,570 performance shares have a one-year performance period ending on October 31, 2005, 69,140 have a two-year performance period ending on October 31, 2006, and 88,370 have a three-year performance period ending on October 31, 2007. An employee is entitled to receive one share of the Company's common stock for each performance share that vests at the end of a specified performance period. For any performance shares to vest, an employee must remain in continuous employment (subject to certain exceptions for death, disability, or retirement) until the end of the specified performance period. The number of performance shares that vest will be determined based on the Company's average return on invested capital relative to the average return on invested capital of peer companies, with none of the base number of shares vesting if the Company's relative average return on invested capital is less than the 45<sup>th</sup> percentile, and 25%, 100%, and 200% of the base number of shares vesting if the Company's relative average return on invested capital equals the 45<sup>th</sup>, 75<sup>th</sup> and 95<sup>th</sup> percentile, respectively. Notwithstanding the vesting schedule, if the Company's average return on invested capital is negative for a performance period, no more than 25% of the base number of performance shares will vest. In the event of a change of control, 100% of the base number of performance shares will vest.

Also on January 28, 2005, each of the Company's outside directors received an automatic award of 1,500 shares of restricted stock of the Company pursuant to the terms of the 2005 Stock Plan. The shares of restricted stock will become fully vested and transferable if the outside director remains in continuous service on the Board of Directors until January 28, 2006.

#### **Accounting for Stock-Based Compensation**

Prior to November 1, 2004, the Company accounted for share-based payments under the intrinsic value method recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. In accordance with APB No. 25, compensation cost was recognized over the applicable service period for the difference between the exercise price of the award and the fair value of the stock price on the grant date. The service period applicable to options granted prior to the first quarter of 2004 expired prior to the first quarter of 2004 and no options were issued during the first quarter of 2004. Accordingly, no compensation cost was recognized during the first quarter of 2004 under APB No. 25 and no compensation would have been recognized had compensation cost been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation".

On November 1, 2004, the Company early adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123 R"). SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized as an operating expense in the income statement. The cost of such share-based payments is to be recognized over the requisite service period based on fair values measured on the grant date of the award. The Company adopted SFAS No. 123R using the modified prospective method. Under this method, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after October 31, 2004. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of October 31, 2004 is recognized as the requisite service is rendered. The adoption of SFAS No. 123R had no effect on the Company's financial statements for the first quarter of 2005 since the requisite service had been rendered for all awards outstanding as of October 31, 2004.

Under SFAS No. 123R, the fair value of each performance grant and each share of restricted stock issued on January 28, 2005, is equal to the market price of the Company's common stock on that date. Compensation cost of \$3,723,073 related to the performance shares will be recognized over the requisite service period of one to three years and may be adjusted based on management's estimate of the amount of performance shares that will vest based on the Company's performance relative to its peers. No compensation cost was recognized as relates to the restricted stock plan for the Company's outside directors, due to management's decision not to grant shares under this plan at the present time. The effect of the performance grants issued on January 28, 2005 was not material to the first quarter 2005 financial statements.



Cash flow from the exercise of common stock options was \$1,315,086 during the first quarter of 2005. The Company does not expect to repurchase a significant number of shares on the open market to satisfy stock award issuances or stock option exercises during the year ending October 31, 2005.

**Discontinued Operations**

On January 27, 2005, RESCO Steel Products Corporation (“RESCO”), a wholly-owned subsidiary of the Company sold its reinforcing bar fabrication assets, which represented substantially all of its assets, to Rockingham Steel, Inc. (“Rockingham Steel”), a reinforcing bar fabricator located in Harrisonburg, Virginia. The original agreed upon price for the assets sold by RESCO was \$4.85 million. After adjustments for changes in inventory, accounts receivable and accounts payable, from November 30, 2004 through January 27, 2005, the final purchase price was \$4.2 million. The Company is currently in the process of winding up the operations and affairs of RESCO. In connection with these actions, the Company incurred one-time charges of \$550,000 associated with the sale, representing (1) \$330,000 for costs associated with termination of employees, including severance, accrued vacation, insurance and other miscellaneous benefits and (2) \$220,000 for transaction costs, including legal, investment banking, accounting and other professional fees, and other miscellaneous costs of the transaction. Such costs are included in either the loss from discontinued operations or the Company’s administrative expenses in the accompanying statement of earnings for the first quarter of 2005 and are expected to be paid during the quarters ended January 31, 2005 and April 30, 2005. The results of RESCO, are presented as discontinued operations in the accompanying consolidated statement of earnings as required by SFAS No. 144, “Impairments of Long-Lived Assets and Discontinued Operations” and include a pre-tax loss on the sale and discontinued operations of RESCO of \$790,685.

Revenues of \$4,045,515 and pre-tax loss of \$1,118,263 related to RESCO are included in discontinued operations for the first quarter of 2005. Revenues of \$2,081,825 and pre-tax loss of \$171,613 related to RESCO are included in discontinued operations for the first quarter of 2004. The carrying amounts as of October 31, 2004 of the major classes of assets and liabilities disposed were as follows: accounts receivable of \$2,589,211, inventories of \$1,891,114, and net property, plant and equipment of \$864,090.

Note 2. Inventories of the Company are valued at the lower of cost or market. Cost is determined principally using either the first-in, first-out (“FIFO”) or cost averaging 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) January 31, 2005	October 31, 2004
Scrap steel	\$ 14,008,341	\$ 13,839,442
Melt supplies	4,468,267	4,216,074
Billets	16,632,006	12,226,288
Mill supplies	5,066,826	4,840,071
Work-in-process	14,042,267	14,568,837
Finished steel	63,014,274	52,408,947
<b>Total inventories</b>	<b>\$117,231,981</b>	<b>\$102,099,659</b>

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 per share and diluted earnings per share calculated in accordance with SFAS No. 128, “Earnings per Share”, are presented in the consolidated statements of earnings. No options were antidilutive at January 31, 2005. Options to purchase 206,500 shares of common stock were outstanding at January 31, 2005 but were not included in the computation of diluted earnings per share because the effect would be antidilutive.



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

	(Unaudited) Three Months Ended January 31,	
	2005	2004
Net earnings	\$9,185,874	\$1,533,676
Other comprehensive earnings (loss):		
Unrealized gains (losses) on qualifying cash flow hedges:		
Unrealized gains (losses) arising during period (net of tax)	(309,319)	60,541
Reclassification adjustments for gains realized in net earnings (net of tax)	77,530	12,515
Net unrealized gains (losses)	(231,789)	73,056
Unrealized losses on securities:		
Unrealized holding losses arising during period (net of tax)	(41,611)	(116)
Reclassification adjustments for gains realized in net earnings (net of tax)	—	116
Net unrealized losses	(41,611)	—
Accretion of past hedging relationships	—	114,387
Other comprehensive earnings (loss)	(273,400)	187,443
Total comprehensive earnings	\$8,912,474	\$1,721,119

The components of accumulated other comprehensive loss are as follows:

	January 31,	
	2005	2004
Unrealized gains on securities, net of taxes of \$0 and \$27,075	—	\$ 67,688
Unrealized gains (losses) on qualifying cash flow hedges, net of taxes of (\$4,454) and \$21,812	\$(11,136)	54,531
Past hedging relationships, net of taxes of \$0 and (\$273,231)	—	(683,077)
Accumulated other comprehensive loss	\$(11,136)	\$(560,858)

Note 5. The Company'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, 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 billets. Due to the January 27, 2005 sale of RESCO Steel Products Corporation, a wholly-owned reinforcing bar subsidiary, rebar sales have been excluded from the fabricated products class, as a result of discontinued operations.



Financial Information Relating to Classes of Products

	(Unaudited) Three Months Ended January 31,	
	2005	2004
Sales to unaffiliated customers:		
Merchant steel and specialty steel sections	\$ 91,921,603	\$64,088,682
Fabricated bar joists	29,804,299	15,873,568
Billets	9,584,081	5,211,435
<b>Total consolidated sales</b>	<b>\$131,309,983</b>	<b>\$85,173,685</b>

Note 6. Supplemental cash flow information:

	(Unaudited) Three Months Ended January 31,	
	2005	2004
Cash paid during the period for:		
Interest	\$ 905,697	\$1,106,541
<b>Income taxes (net of cash received)</b>	<b>\$8,486,960</b>	<b>\$ 832,094</b>

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 Company adopted the policy of accounting and reporting the fair value of derivatives used as cash flow hedging activities, as referred to in SFAS No. 133, through other comprehensive income.

Historically, the Company utilized interest rate swaps to manage its exposure to movements in interest rates paid on corporate debt and that qualified as cash flow hedges. On June 25, 1999, the Company entered into a reverse swap, converting \$40,000,000 of existing term debt to a variable interest rate from a fixed rate. A fee of \$1,300,000 was received and being recorded in income ratable over the 6 1/2 years which remained to maturity of the term loan.

Effective November 1, 2000, the Company adopted SFAS No. 133 and, in accordance with the transition provisions, recorded a cumulative effect adjustment of \$1,663,516 in other comprehensive income to recognize the fair value of the swap as a cash flow hedging instrument. On April 1, 2002, the Company effected an early termination, or unwind, of its interest rate swap agreement and incurred a \$3,000,179 termination fee payable to the counterparty over the term of the existing debt.

In connection with the Company's debt refinancing on October 4, 2004, the remaining unamortized fee earned, \$200,000, and unrecognized amounts included in other comprehensive loss related to these past hedges, \$680,491 (\$408,295 net of taxes), were recorded as adjustments to interest expense in the statement of earnings.

During fiscal year 2004, the Company 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 at its West Virginia facility. The contracts used to mitigate the price risk related to natural gas purchases are 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 income (loss) and included in the stockholders' equity section



of the balance sheet as part of accumulated comprehensive income (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. There were no ineffective hedges as of January 31, 2005 and 2004.

Note 8. The Company has adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", which requires allocating goodwill to each reporting unit and testing for impairment using a two-step approach. Based on the Company's current reporting structure, it has determined that it operates as three reporting units and, therefore, has assigned goodwill at the operating division level. Fair value is measured using a valuation based on market multiples, comparable transactions and discounted cash flow methodologies. The goodwill impairment test is performed annually or whenever an event has occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount

At fiscal year-end October 31, 2001, the Company had goodwill of \$13,868,647, net of accumulated amortization of \$2,328,313. The Company early adopted SFAS No. 142 on November 1, 2001 and, subsequently, discontinued goodwill amortization. Based on the Company'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 Company completed the first step of the transitional goodwill impairment test, which indicated that the Company's goodwill was not impaired as of October 31, 2001. On an ongoing basis, the Company will perform an annual impairment test on May 31. The Company performed annual goodwill impairment testing in each of 2002, 2003 and 2004, which indicated that the Company's goodwill was not impaired. At least quarterly, the Company will analyze whether an event has occurred that more likely than not will reduce the reporting unit's fair value below its carrying amount and, if necessary, a goodwill impairment test will be performed between the annual dates. Impairment adjustments recognized after adoption, if any, will be recognized as operating expenses.

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 No. 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 part of the carrying amount of the long-lived asset.

The Company adopted SFAS No. 143 on November 1, 2002. Application of the statement encompasses an industrial landfill located on the site of the Company's subsidiary, Shredded Products Corporation, which will operate for approximately thirty-four more years before closing.

At January 31, 2005 and 2004, the asset retirement obligation totaled \$507,919 and \$473,678, respectively, and is included in other non-current liabilities. Accretion expense was \$9,016 and \$8,409 for the three months ended January 31, 2005 and 2004, respectively.

Note 10. 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 after January 31, 2003, however certain provisions of the interpretation were deferred until the period ending after March 15, 2004. The Company does not have any variable interest entities, and the adoption of this interpretation did not have an affect on the Company's results of operations or financial condition.



Note 11. In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits". Revised Statement No. 132 requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. As required, the Company adopted the disclosure requirements of this statement on October 31, 2004. The following table sets forth components of net periodic postretirement benefit cost for the three-month periods ended January 31, 2005 and 2004:

Components of net periodic postretirement benefit cost:

	Other Benefits	
	2005	2004
Service cost	—	—
Interest cost	\$ 22,104	\$ 26,053
Expected return on plan assets	—	—
Amortization of prior service cost	(32,074)	(32,074)
Amortization of net loss	(2,920)	(5,873)
<b>Net periodic benefit cost</b>	<b>\$(12,890)</b>	<b>\$(11,894)</b>

Employer Contributions:

Total expected cash benefit payments (net of retiree contributions) for the three-month periods ended January 31, 2005 and 2004 were \$37,471 and \$26,318, respectively.

Note 12. In May 2004, the FASB issued FASB Staff Position ("FSP") No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP No. 106-2 supersedes FSP No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which was issued in January 2004 and permitted a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act until more authoritative guidance on the accounting for the federal subsidy was issued, which the Company elected. FSP No. 106-2 requires the Company to assess the impact of the federal subsidy on the accumulated postretirement benefit obligation and net periodic postretirement benefit cost. The Company adopted FSP No. 106-2, and based on its evaluating the effects of this Position, has determined there to be no material impact on the Company's results of operations or financial condition.

Note 13. In December 2004, the FASB issued SFAS No. 153, "Exchange of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 replaces the exception from fair value measurement included in APB Opinion No. 29 for nonmonetary exchanges of similar productive assets with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement will be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe adoption of this statement will have a material impact on the Company's results of operations or financial condition.

Note 14. At January 31, 2005, the Company was committed for \$3,403,779 for purchases of equipment and production facilities. The Company 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 Company's consolidated financial position, results of operations, or cash flows. The Company reassesses these matters as new facts and cases are brought to management's attention.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
 Roanoke Electric Steel Corporation  
 Roanoke, Virginia

We have reviewed the accompanying consolidated balance sheet of Roanoke Electric Steel Corporation and subsidiaries (the "Company") as of January 31, 2005, and the related consolidated statements of earnings and cash flows for the three-month periods ended January 31, 2005 and 2004. These interim financial statements are the responsibility of the Company'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, 2004, and the related consolidated statements of earnings, stockholders' equity and comprehensive earnings, and of cash flows for the year then ended (not presented herein); and in our report dated December 8, 2004, 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, 2004 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  
 March 7, 2005



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**FORWARD-LOOKING STATEMENTS**

From time to time, the Company 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 Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include economic and industry conditions, 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**

During our 2004 fiscal year and continuing through the 2005 first quarter, the Company reported net earnings of \$30,446,248 and \$9,185,874, respectively. The steel industry as a whole has experienced a very robust period in terms of earnings. The Company was able to increase its profit margins in a period of rapidly rising costs and pricing environment, as discussed more fully below.

The Company is a domestic steel manufacturing company. The Company, directly and through its subsidiaries, is engaged in the manufacturing, fabricating and marketing of merchant steel products, specialty steel sections, billets and open-web steel joists. Each subsidiary is either a supplier to the parent company or a purchaser of its finished product and billets. The Company sells its products through its sales force to our customers, which include service centers, original equipment manufacturers, and fabricators.

Roanoke Electric Steel Corporation, the parent company, 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 and channels of various lengths and sizes. Excess steel billet production is sold to mills without sufficient melting capacities or facilities. Roanoke Electric Steel Corporation markets its products to steel service centers and fabricators. Steel of West Virginia, Inc., through its subsidiary, SWVA, Inc., is a steel mini-mill and steel fabricating facility operating in Huntington, West Virginia. A steel fabricating subsidiary, Marshall Steel, Inc., is located in Memphis, Tennessee. These locations produce or fabricate specialty steel sections and custom-finished products and serve niche markets. Shredded Products Corp., 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 parent company with a substantial amount of its raw materials. Nonferrous metals generated in the process are sold to unrelated customers. John W. Hancock, Jr., Incorporated 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 parent company 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. The Hancock facility also manufactures structural pallet rack and structural cantilever rack. This rack is used for heavy storage in retail, warehouses and distribution centers. RESCO Steel Products Corporation, a Salem, Virginia based subsidiary, fabricated concrete reinforcing steel by cutting and bending it to contractor specifications, until its sale on January 27, 2005 (see Note 1 - Discontinued Operations).

**ECONOMIC FACTORS AND STEEL INDUSTRY TRENDS AFFECTING OPERATING RESULTS**

The Company'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. The Company has limited pricing power and in general price will rise or fall based on market forces. The cost of the Company's main raw material, scrap steel, is also based on market forces.

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. The steel industry initiated a number of scrap surcharges and base-price increases during the past year due to the increased cost of scrap steel. Labor costs are influenced mainly by production and shipment levels. Energy costs are associated with the Company'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 Company determine energy pricing.

INCOME STATEMENT CLASSIFICATIONS

Sales

The Company's sales are a factor of net tons shipped, product mix and related pricing. Sales are determined by subtracting product returns, sales discounts, return allowances and claims from total sales.

Cost of Sales

The Company's cost of sales represent all direct and indirect costs associated with the manufacture of our products. The principal elements of these costs are steel scrap, alloys, electrodes, labor, energy, depreciation, and freight.

Other Operating Expenses (Income)

The Company's other operating expenses are composed of four main areas. Administrative expenses consist of costs associated with our sales, finance and accounting, and administrative departments. These costs include labor and benefits, professional services, certain insurance expenses and various property taxes. Interest expense consists of interest and financing cost amortization associated with our credit facilities as described in the notes to our financial statements contained elsewhere in this report. Profit sharing expenses are related to the Company's various plans' contributions which represent a percentage of earnings or agency limitations. Other income includes both the 2004 antitrust litigation settlement, which is due to partial settlements received in conjunction with a class action suit for antitrust violations against the Company's graphite electrode suppliers, together with interest income.

The following table sets forth amounts from the consolidated statements of earnings along with the dollar and percentage change for the three-month periods ended January 31, 2005 compared with January 31, 2004.:

	Three Months Ended January 31,			
	2005	2004	\$ Inc (Dec)	% Inc (Dec)
Sales	\$131,309,983	\$85,173,685	\$46,136,298	54.2%
Cost of sales	102,714,466	76,501,378	26,213,088	34.3%
Gross earnings	28,595,517	8,672,307	19,923,210	229.7%
Other operating expenses (income):				
Administrative expenses	7,844,436	6,965,793	878,643	12.6%
Interest expense	851,203	1,122,938	(271,735)	-24.2%
Profit sharing	3,551,807	999,391	2,552,416	255.4%
Interest income	(21,982)	(75,256)	53,274	70.8%
Antitrust settlement income	—	(3,061,820)	3,061,820	100.0%
Total other operating expenses	12,225,464	5,951,046	6,274,418	105.4%
Earnings from continuing operations before income taxes	16,370,053	2,721,261	13,648,792	501.6%
Income tax expense	6,506,538	1,084,617	5,421,921	499.9%
Earnings from continuing operations	9,863,515	1,636,644	8,226,871	502.7%
Discontinued operations:				
Loss from operations before income taxes	(1,118,263)	(171,613)	(946,650)	-551.6%
Income tax benefit	(440,622)	(68,645)	(371,977)	-541.9%
Loss on discontinued operations	(677,641)	(102,968)	(574,673)	-558.1%
Net earnings	\$ 9,185,874	\$ 1,533,676	\$ 7,652,198	498.9%



**ROANOKE ELECTRIC STE**  
**FORM 10-Q**

RR Donnelley ProFile

CHWFBU-MWS-CX  
8.8

BAR meenm0dc  
RVA

05-Mar-2005 19:28 EST

**16918 TX 13** 1\*  
HTM IFV 0C

Page 2 of 2



## RESULTS OF OPERATIONS

### Sales

Sales for the quarter increased by 54.2%, mainly, as a result of improvements in product mix and average selling prices per ton for merchant bar products of 45.8%, specialty steel sections of 43.6%, fabricated products of 47.4% and billets of 51.2%. Increased tons shipped for specialty and fabricated products and billets also contributed to the sales improvement for the quarter. Improved product mix and favorable competitive conditions within several market segments, brought higher average selling prices for specialty steel sections during the period. Better economic conditions, within certain niche markets, created improved demand, sending average shipment levels higher for specialty steel products by 8.1% for the quarter. Fabricated product selling prices increased for the quarter, influenced mainly by higher raw material costs and demand. Fabricated product shipment levels improved by 31.7% during the 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. The improvement in merchant bar product selling prices was due, mainly to a 57.7% rise in scrap steel, our main raw material, which prompted several industry-wide price increases. More cautious buying patterns and excess inventory levels at steel service centers caused temporary reductions of 5.9% in tons shipped of bar products during the quarter, although market conditions and demand continued to be strong. Billet selling prices increased, as sharp rises in scrap prices triggered changes in billet prices. Improved demand and lower excess billet availability in the market resulted in the 21.6% increased billet shipments for the period.

### Cost of Sales and Gross Margins

Cost of sales increased by 34.3%, mainly, as a result of the increased tons shipped for each product class mentioned above, together with the higher cost of scrap steel, in spite of reduced bar product shipments. Repairs and maintenance expense increased from \$5,452,901 to \$7,595,745 for the first quarter of 2004 and 2005, respectively, due to required equipment repair needs per period. The Company has no significant deferred maintenance and believes its facilities are operating within reasonable productive capacities. Gross earnings as a percentage of sales increased from 10.2% in 2004 to 21.8% in 2005, primarily, as a result of the higher selling prices for all product classes, coupled with the effects of increased raw steel production levels on fixed costs, which more than offset higher scrap costs, together with lower margins for billets.

### Administrative Expenses

Administrative expenses increased 12.6%, mainly, due to increased executive and other management compensation of \$1,202,419, and higher expenses for directors' fees of \$71,000 and charitable contributions of \$92,276, which more than offset declines in professional fees of \$318,557 (most in relation to the timing of work associated with the Sarbanes-Oxley Act) and bad debt expense of \$351,274. Administrative expenses as a percentage of sales dropped from 8.2% in 2004 to 6.0% in 2005, as a result of the improvement in sales.

### Interest Expense

Interest expense decreased 24.2%, primarily, due to reduced average borrowings and lower average interest rates. In October 2004 the Company entered into a new five-year loan agreement with its banking syndicate. The new facility provides for a long-term revolving loan of up to \$55,000,000 and a term loan of \$30,000,000.

The loans bear interest at the Company's option at (i) one, two, three, six or, if available, nine or twelve month LIBOR as selected by the Company, or (ii) the greater of (A) the prime rate publicly announced from time to time by the loans administrative agent, or (B) the effective federal funds rate quoted by the Federal Reserve Bank of New York plus 1/2 of 1%. The term loan requires quarterly payments of principal in the amount of \$1,500,000 plus interest, and the revolving loan requires quarterly payments of interest until the fifth anniversary of the credit facility at which time the outstanding principal balance of the revolving loan must be paid in full.

### Profit Sharing Expense and Income Taxes

Contributions to various profit sharing plans are determined as a proportion of earnings before income taxes and should normally increase or decrease with earnings. During the 2005 quarter, each of the sponsoring companies accrued benefits under their respective plans as a result of current earnings, an increase from the 2004 levels as a result of improved profitability.



The effective income tax rate was relatively constant for the quarter, as compared to last year.

### Interest Income

Interest income decreased during the period as a result of both reduced interest rates and investments.

### Antitrust Litigation Settlement

Other operating expenses were reduced in 2004 by \$3,061,820 as a result of partial settlements received in conjunction with a class action suit for antitrust litigation against the Company's graphite electrode suppliers.

### Discontinued Operations

The January 27, 2005 sale and liquidation of RESCO Steel Products Corporation, a wholly-owned rebar subsidiary, resulted in the discontinued operations for the three-months period compared. The periods ended January 31, 2005 and 2004 reflect a loss from discontinued operations of \$327,578 and \$171,613, respectively. The 2005 period also includes a loss of \$790,685, representing the loss on the disposition of the subsidiary.

The effective tax benefit rate was relatively constant for the periods compared.

## FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Working capital as of January 31, 2005 was \$130,220,366, an increase of \$14,719,612 from October 31, 2004, as working capital provided from operations exceeded capital expenditures, dividends and changes to long-term debt. The current ratio of 2.9 to 1 and the quick ratio of 1.0 to 1 both indicate ample liquidity and a healthy financial condition.

Net cash provided by operations was \$461,314 for the three month period ended January 31, 2005 as compared to \$1,739,373 for the three month period ended January 31, 2004. Net cash used related to operating assets and liabilities increased \$9,033,261 (2005 - (\$12,269,083); 2004 - (\$3,235,822)), which was primarily attributable to the increase in inventories consistent with the 54.2% growth in the Company's sales. Earnings from operations improved \$7,652,198 (2005 - \$9,185,874; 2004 - \$1,533,676)). Earnings for the three month period ended January 31, 2004 included a \$3,061,820 payment received from graphite electrode plaintiffs in conjunction with a class action suit for antitrust violations. No amounts were received in 2005 related to this matter. The Company incurred a loss of \$790,685 on the sale of a subsidiary, reflected in the 2005 quarter.

Net cash provided by (used in) investing activities was \$3,050,104 for the three month period ended January 31, 2005 as compared to (\$520,805) for the three month period ended January 31, 2004. Expenditures for property, plant and equipment amounted to \$1,174,508 and \$664,478 for the three month periods ended January 31, 2005 and 2004, respectively. For the three month periods ended January 31, 2005 and 2004, net cash provided by (used in) investing activities included net proceeds of \$4,206,829 and \$143,013, respectively, from the sale of a subsidiary and other investments, respectively. These proceeds were primarily used to curtail funded or other debt.

Net cash used in financing activities was (\$1,387,867) for the three month period ended January 31, 2005 as compared to (\$758,302) for the three month period ended January 31, 2004. Cash dividends of \$1,222,189 were paid in 2005 as compared to \$546,641 paid in 2004, as the Company increased its dividend rate. For the three month periods ended January 31, 2005 and 2004, net cash used in financing activities included payments of long-term debt of \$15,708,868 and \$11,231, respectively, with borrowings of \$19,000,000 providing cash in 2005. The 2005 debt activity related to the Company's revolving debt facility. With this new credit facility, the loans are secured by a pledge of the outstanding stock in each of the Company's direct and indirect subsidiaries and by a lien on the tangible and intangible personal property of the Company and each of its subsidiaries. The Company may prepay the loans at any time at its option, and is required to make mandatory prepayments based on certain circumstances. The loans are subject to various representations and warranties and affirmative and negative covenants, including the Company obligation to maintain a leverage ratio of less than or equal to 3:1, to maintain fixed charge coverage ratio greater than or equal to 1.10:1, and to limit capital expenditures on a consolidated basis to no more than \$75,000,000 over the term of the credit facility. The revolving loan requires quarterly payments of interest until the fifth anniversary date of the credit facility at which time the outstanding principle balance must be paid in full.



The Company'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 Company believes that cash flow from operations (improving with better market conditions and corporate earnings), together with availability on the new revolving credit facility, should provide the liquidity and capital resources necessary to remain competitive, fund operations, and meet required debt retirement for at least the next twelve months.

The Company was in compliance with its loan agreement as of January 31, 2005.

At January 31, 2005, there were commitments for the purchase of property, plant and equipment of \$3,403,779. These commitments, together with current debt maturities, will affect future earnings, working capital and liquidity, and will be financed from available cash reserves, internally generated funds and the revolving credit facility.

During the period, the ratio of debt to equity dropped to 1.0 to 1, while the percentage of long-term debt to total capitalization remained at 27.5%, as current changes of \$3,286,327 increased long-term debt and capital lease obligation to \$62,227,434. Stockholders' equity increased to \$164,400,732, mainly as a result of net earnings of \$9,185,874 exceeding dividends of \$1,222,189.

Management is of the opinion that adoption of the Clean Air Act Amendments or any other environmental concerns will not have a materially adverse effect on the Company's operations, capital resources or liquidity. Applicable additional future capital expenditures are presently estimated to be less than \$10,000,000 and will be completed and funded, as the Company's financial resources permit.

The following table sets forth the Company's contractual obligations, excluding interest charges, at January 31, 2005, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 -3 years	3 -5 years	More than 5 years
Long-Term Debt	\$68,043,144	\$ 6,000,000	\$12,000,000	\$50,043,144	—
Capital Lease Obligations	204,143	19,853	42,935	47,630	\$ 93,725
Operating Leases	7,283,435	1,749,069	3,098,029	2,436,337	—
Purchase Obligations	3,403,779	3,403,779	—	—	—
Other Long-Term Liabilities	3,348,459	352,532	500,000	500,000	1,995,927
<b>Total</b>	<b>\$82,282,960</b>	<b>\$11,525,233</b>	<b>\$15,640,964</b>	<b>\$53,027,111</b>	<b>\$2,089,652</b>

**OFF-BALANCE SHEET FINANCING ARRANGEMENTS**

The Company has no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company'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 Company'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 Company evaluates its estimates, including those related to contracts, warranties (if any), taxes, insurance and environment. Under different assumptions and conditions, actual costs may vary from these estimates.



The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

**Allowance for Doubtful Accounts** - Allowances for doubtful accounts are maintained to provide for estimated losses resulting from the inability of the Company's customers to make required payments. Such allowances are estimated based on historical loss experience (relative to aging of accounts receivable) and current market economic conditions affecting our customers (i.e., bankruptcy filing). If the amount of allowances exceeds our estimates, or if the financial condition of the Company's customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

**Impairments of Long-Lived Assets** - In accordance SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated during the life of those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount.

**Self-Retained Insurance Risks** - The Company has self-retained insurance risks associated with coverage for workers' compensation and insurance plans. Accrued liabilities have been recorded based on estimates of the ultimate costs to settle incurred and incurred but not reported claims. The Company's estimates are based on judgments and actuarial assumptions regarding the frequency and severity of claims, historical claims loss data, economic conditions and claim management and settlement practices. If actual claims loss experience exceed our estimates, additional accruals may be required.

**Contingencies** - Compliance with environmental laws and regulations established by federal, state and local authorities may subject the Company to additional costs. The Company believes it is in compliance with such laws and regulations based on currently available facts and present laws and regulations.

#### Recently Adopted and Recently Issued Accounting Pronouncements

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 after January 31, 2003, however certain provisions of the interpretation were deferred until the period ending after March 15, 2004. The company does not have any variable interest entities, and the adoption of this interpretation did not have an effect on the Company's results of operations or financial condition.

In December 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits". Revised Statement No. 132 requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. As required, the Company adopted the disclosure requirements of this statement on October 31, 2004.

In May 2004, the FASB issued FASB Staff Position ("FSP") No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." When adopted, FSP No. 106-2 will supersede FSP No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which was issued in January 2004 and permitted a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act until more authoritative guidance on the accounting for the federal subsidy was issued, which the Company elected. FSP No. 106-2 requires the Company to assess the impact of the federal subsidy on the accumulated postretirement benefit obligation and net periodic postretirement benefit cost. The Company adopted FSP No. 106-2, and based on its evaluating the effects of this Position, has determined there to be no material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchange of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 replaces the exception from fair value measurement included in APB Opinion No. 29 for nonmonetary exchanges of similar productive assets with a general exception from fair value measurement for exchanges



of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement will be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe adoption of this statement will have a material impact on the Company's results of operations or financial condition.

On November 1, 2004, the Company early adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123 R"). SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized as an operating expense in the income statement. The cost of such share-based payments is to be recognized over the requisite service period based on fair values measured on the grant date of the award. The Company adopted SFAS No. 123R using the modified prospective method. Under this method, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after October 31, 2004. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of October 31, 2004 is recognized as the requisite service is rendered. The adoption of SFAS No. 123R had no effect on the Company's financial statements for the first quarter of 2005 since the requisite service had been rendered for all awards outstanding as of October 31, 2004.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company had no material outstanding derivative financial instruments, other financial instruments or derivative commodity instruments at January 31, 2005, although the Company does engage in transactions involving derivative instruments from time to time as appropriate, and as of January 31, 2005, did have in place several short-term derivative commodity instruments to minimize the Company's exposure to natural gas purchases used in the manufacturing process at the Huntington, West Virginia facility. A further discussion of the Company's use of derivative instruments is described in Note 7 to the Notes to Consolidated Financial Statements included in this 10-Q filing.

### **Item 4. Controls and Procedures**

#### Evaluation of Disclosure Controls and Procedures.

Management, including the Company's Principal Executive Officer and Principal Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) as of January 31, 2005. Based on this evaluation, the Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures were effective.

#### Changes in Internal Controls Over Financial Reporting.

The Company 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 Company discovers, or that are brought to the Company's attention. During the quarter ended January 31, 2005, there were no significant changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(e)) which have materially affected, or are reasonably likely to affect, such controls.



**PART II  
OTHER INFORMATION**

**Item 4. Submission of Matters to a Vote of Security Holders**

On January 28, 2005, the Company held its annual meeting of shareholders, to elect three Class C Directors, to approve the Company's 2005 Stock Incentive Plan, and to approve the Company's Management Incentive Plan..

At the annual meeting, the shareholders elected the individuals shown in the following table as Class C Directors for three-year terms expiring at the 2008 annual meeting.

	<u>For</u>	<u>Withhold Authority</u>
T. Joe Crawford	9,807,609	836,115
Charles I. Lunsford, II	9,807,609	836,115
Charles W. Steger	9,604,828	1,038,896

George B. Cartledge, Jr., Thomas L. Robertson, and Donald G. Smith continue as Class A Directors until the 2006 annual meeting, and Timothy R. Duke, George W. Logan, and Joseph H. Vipperman continue as Class B Directors until the 2007 annual meeting.

At the annual meeting, the shareholders approved the Company's 2005 Stock Incentive Plan. The proposal was approved with the following votes:

Shares Voted in Favor	6,306,377
Shares Voted Against	2,744,059
Abstentions	120,392
Broker Non-Votes	1,472,896

At the annual meeting, the shareholders approved the Company's Management Incentive Plan. The proposal was approved with the following votes:

Shares Voted in Favor	8,399,188
Shares Voted Against	658,186
Abstentions	113,455
Broker Non-Votes	1,472,895

**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 and filed December 9, 2004, furnishing under Items 2.02 and 9.01 a news release announcing financial results for the quarter and fiscal year ended October 31, 2004.

Items 1, 2, 3 and 5 are omitted because the information required by these items is not applicable.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 7, 2005

ROANOKE ELECTRIC STEEL CORPORATION

By: /s/ Donald G. Smith

---

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

By: /s/ Mark G. Meikle

---

Mark G. Meikle, Vice President – Finance and  
Chief Financial Officer  
(Principal Financial Officer)



EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</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 3.2 to the Quarterly Report on Form 10-Q for the quarter ended July 31, 2004 (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 October 4, 2004 among Roanoke Electric Steel Corporation, the lender parties thereto, and Wachovia Bank, National Association (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K for the fiscal year ended October 31, 2004 (file number 0-2389))
10.1	Roanoke Electric Steel Corporation Employees' Stock Option Plan (incorporated by reference to Exhibit 10(b) to the Annual Report on Form 10-K for the fiscal year ended October 31, 1998 (file number 0-2389))
10.2	Amendment No. 4 to the Roanoke Electric Steel Corporation Employees' Stock Option Plan (incorporated by reference to Exhibit 10(c) to the Annual Report on Form 10-K for the fiscal year ended October 31, 2003 (file number 0-2389))
10.3	Roanoke Electric Steel Corporation 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 3, 2005 (file number 0-2389))
10.4	Form of Performance Grant Agreement for one, two, and three-year performance grants under the Roanoke Electric Steel Corporation 2005 Stock Incentive Plan and dated January 28, 2005 (FILED HEREWITH)
10.5	Form of Restricted Stock Agreement for outside directors under the Roanoke Electric Steel Corporation 2005 Stock Incentive Plan dated January 28, 2005 (FILED HEREWITH)
10.6	Roanoke Electric Steel Corporation Non-Employee Directors' Stock Option Plan (incorporated by reference to Exhibit 10(d) to the Annual Report on Form 10-K for the fiscal year ended October 31, 2003 (file number 0-2389))
10.7	Roanoke Electric Steel Corporation Amended and Restated Directors' Retirement Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed February 3, 2005 (file number 0-2389))
10.8	Form of Executive Officer Incentive Arrangement (incorporated by reference to Exhibit 10(a) to the Annual Report on Form 10-K for the fiscal year ended October 31, 1999 (file number 0-2389))
10.9	Roanoke Electric Steel Corporation Management Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 3, 2005 (file number 0-2389))
10.10	Executive Employment Continuity Agreement dated February 18, 2005 with Donald G. Smith (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 18, 2005 (file number 2389))



- 10.11 Executive Employment Continuity Agreement dated February 18, 2005 with T. Joe Crawford (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 18, 2005 (file number 2389))
- 10.12 Executive Employment Continuity Agreement dated February 18, 2005 with Timothy R. Duke (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed February 18, 2005 (file number 2389))
- 10.13 Executive Employment Continuity Agreement dated February 18, 2005 with Donald R. Higgins (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed February 18, 2005 (file number 2389))
- 10.14 Executive Employment Continuity Agreement dated February 18, 2005 with Mark G. Meikle (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed February 18, 2005 (file number 2389))
- 10.15 Executive Employment Continuity Agreement dated February 18, 2005 with William M. Watson, Jr. (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed February 18, 2005 (file number 2389))
- 10.16 Collective Bargaining Agreement dated June 10, 2002 by and between SWVA, Inc. and the United Steelworkers of America, AFL-CIO (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the quarter ended July 31, 2002 (file number 0-2389))
- 15 Consent of Independent Registered Public Accounting Firm (FILED HEREWITH)
- 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)
- 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)
- 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)
- 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)



**Exhibit 10.4**

**ROANOKE ELECTRIC STEEL CORPORATION  
 2005 STOCK INCENTIVE PLAN**

**PERFORMANCE GRANT  
 AGREEMENT**

**AWARDED TO**

**AWARD DATE**

**PERFORMANCE SHARES**

January 28, 2005

**SOCIAL SECURITY NUMBER**

**PERFORMANCE PERIOD**

The Compensation Committee of the Board of Directors of Roanoke Electric Steel Corporation (the "Company") grants to you ("the Participant") pursuant to the Company's 2005 Stock Incentive Plan (the "Plan") a Performance Grant of Performance Shares pursuant to Section 10 of the Plan. Each Performance Share that becomes vested under the terms of this Performance Grant shall entitle you to receive one share of common stock of the Company ("Company Stock"), except as otherwise provided below. The Performance Shares granted under this Performance Agreement ("Agreement") are subject to the performance conditions and other restrictions set forth below.

This Agreement incorporates the terms of the Plan, and in the case of any conflict between the Plan and this Agreement, the terms of the Plan shall control. All terms not otherwise defined in this Agreement shall have the meaning assigned to them in the Plan. The terms of the Performance Grant are as follows:

1. Vesting and Amount of Performance Shares. If the Participant remains in continuous employment with the Company or any of its subsidiaries from the Award Date to last day of the Performance Period, a percentage of the Performance Shares specified above (the "Base Number") shall become vested as follows:
  - (a) The number of Performance Shares which shall become vested Performance Shares shall be determined under the following schedule by multiplying the Base Number by the percentage that corresponds to the Company's Relative Average Return on Invested Capital for the Performance Period, and rounding to the nearest whole share:

Company's Relative Average Return on Invested Capital (expressed as a percentile of that of the Comparison Group)	Percentage of Base Number of Performance Shares that Become Vested
95 <sup>th</sup>	200%
90 <sup>th</sup>	175%
85 <sup>th</sup>	150%
80 <sup>th</sup>	125%
75 <sup>th</sup>	100%
70 <sup>th</sup>	90%
65 <sup>th</sup>	80%
60 <sup>th</sup>	70%
55 <sup>th</sup>	60%
50 <sup>th</sup>	50%
45 <sup>th</sup>	25%
Below 45 <sup>th</sup>	0%



- (b) If the Participant dies, becomes Disabled or Retires while employed with the Company or any of its subsidiaries, but prior to the end of the Performance Period, the Participant shall be deemed to have continued in employment with the Company and its subsidiaries through the end of the Performance Period. In the case of death or Disability, the Participant shall be vested in the same number of Performance Shares in which the Participant would have become vested had the Participant actually remained in continuous employment until the end of the Performance Period. Where the Participant Retires, the Participant shall be vested in Performance Shares equal to the product of:
    - (1) the number of Performance Shares in which the Participant would have become vested had the Participant actually remained in continuous employment until the end of the Performance Period, and
    - (2) a fraction, the numerator of which is the number of days which the Participant had worked during the Performance Period and the denominator of which is the total number of days in the Performance Period.For purposes of this Paragraph 1, "Retires" means the Participant's termination of employment after (A) having attained age 55 and completing 10 years of service or (B) having attained age 62.
  - (c) Notwithstanding the foregoing, no more than 25% of the Participant's Base Number shall become vested Performance Shares if the Company's Average Return on Invested Capital for the Performance Period is less than zero.
  - (d) The target award payment shall be shares of Company Stock equal to 100% of the Participant's Base Number and the maximum award payment shall be shares of Company Stock equal to 200% of the Participant's Base Number.
2. Forfeiture of Performance Shares. Any Performance Shares that do not become vested pursuant to Paragraph 1 will be forfeited.
  3. Settlement of Performance Shares. Vested Performance Shares will be settled as soon as practicable after the Compensation Committee has determined and certified in writing the Company's Relative Average Return on Invested Capital for the Performance Period, but in no event later than the date that is two and one-half (2 1/2) months following the last day of the Performance Period. Subject to Paragraph 8 (pertaining to the withholding of taxes), for each vested Performance Share settled pursuant to this Paragraph 3, the Company shall issue one share of Company Stock and cause to be delivered to the Participant one or more unlegended, freely-transferable stock certificates in respect of such shares issued upon settlement of the vested Performance Shares.
  4. Nontransferability of the Performance Shares. The Performance Shares shall not be transferable by the Participant by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise. Company Stock issued in settlement of the Participant's vested Performance Shares shall be freely-transferable.
  5. Rights as a Shareholder. The Participant shall not be entitled to any rights of a shareholder with respect to the Performance Shares. No adjustment to the Participant's Performance Shares shall be made nor shall any credit be provided to reflect any cash dividends declared or paid with respect to Company Stock during the Performance Period.
  6. Adjustment in the Event of Change in Stock; Change in Control. In the event of any change in corporate capitalization, such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Internal Revenue Code of 1986 (the "Code")) or any partial or complete liquidation of the Company, the number of Performance Shares shall be equitably adjusted by the Committee as it may deem appropriate in its sole discretion. The determination of the Committee regarding any such adjustment will be final and conclusive.



In addition, in the event of a Change in Control, 100% of the Participant's Base Number of Performance Shares shall become vested Performance Shares. The Company shall settle such vested Performance Shares by making a single lump sum cash payment to the Participant equal to the aggregate Fair Market Value (determined as of the last trading day immediately preceding the Change in Control date) of shares of Company Stock equal in number to the Participant's vested Performance Shares. Such payment will be made within 15 days following the Change in Control date (the "Change in Control Payment Date"). However, if Section 409A of the Code applies to this Agreement and payment would not be permitted under Section 409A of the Code at the Change in Control Payment Date, the payment will be made (i) within 15 days following the Participant's separation from service with the Company or its subsidiaries (or in accordance with the six month delay in payment rule for key employees of Section 409A of the Code, to the extent that rule is applicable), or (ii) within 15 days following the end of the Performance Period if the Participant has not separated from service with the Company or its subsidiaries..

If during the Performance Period the Participant's primary employment is with a subsidiary of the Company, the term Change of Control shall include an event described in Section 2(d)(iii) or Section 2(d)(iv) of the Plan which occurs with respect to such subsidiary while the subsidiary is the Participant's primary employer.

6. Payment of Transfer Taxes, Fees and Other Expenses.

(a) The Company will pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares of Company Stock received by the Participant in connection with settlement of the Participant's vested Performance Shares, together with any and all other fees and expenses necessarily incurred by the Company in connection therewith.

7. Other Restrictions.

(a) The Performance Shares shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Company Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the grant of Performance Shares shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The Participant acknowledges that the Participant is subject to the Company's policies regarding compliance with securities laws, including but not limited to its Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Participant is on the Company's insider list, the Participant shall be required to obtain pre-clearance from the Company's General Counsel prior to purchasing or selling any of the Company's securities, including any shares issued upon settlement of vested Performance Shares, and may be prohibited from selling such shares other than during an open trading window. The Participant further acknowledges that, in its discretion, the Company may prohibit the Participant from selling such shares even during an open trading window if the Company has concerns over the potential for insider trading.

8. Taxes and Withholding. No later than the date as of which an amount first becomes includible in the gross income of the Participant for federal, state, local or foreign income tax purposes with respect to any Performance Shares, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, all federal, state, local and foreign taxes that are required by applicable laws and regulations to be withheld with respect to such amount. The obligations of the Company under this Agreement shall be conditioned on compliance by the Participant with this Paragraph 8, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant, including deducting such amount from the delivery of shares of Company Stock issued upon settlement of the Performance Shares that gives rise to the withholding requirement.



9. Notices. All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Participant:

If to the Company:

Roanoke Electric Steel Corporation  
PO Box 13948  
Roanoke, VA 24038  
Attention: General Counsel  
/Corporate Secretary  
Facsimile: (540) 983-7284

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Paragraph 9. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Participant consents to electronic delivery of documents required to be delivered by the Company under the securities laws.

- 10. Effect of Agreement. Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Company, and the term "Company" shall include any successor company.
- 11. Laws Applicable to Construction. The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the Commonwealth of Virginia without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the Commonwealth of Virginia. In addition to the terms and conditions set forth in this Agreement, the Performance Shares are subject to the terms and conditions of the Plan, which is hereby incorporated by reference.
- 12. Severability. The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.
- 13. Conflicts and Interpretation. In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.
- 14. Amendment. Except as otherwise provided in Section 16 of the Plan, this Agreement may not be modified, amended or waived except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.
- 15. Headings. The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.
- 16. Counterparts. This Agreement may be executed in counterparts, which together shall constitute one and the same original.
- 17. No Right to Continued Employment. Neither the Plan nor this Agreement confers upon you any right to continue as an employee of the Company or of any subsidiary of the Company, or limits in any respect the right of the Company or any subsidiary of the Company to terminate your employment, or modify the terms of such employment. This Agreement does not guarantee your employment with the Company or with any subsidiary of the Company during the period in which it is in effect





SCHEDULE A  
ROANOKE ELECTRIC STEEL CORPORATION  
2005 STOCK INCENTIVE PLAN  
PERFORMANCE GRANT AGREEMENT  
CUSTOM PEER GROUP  
(S&P GICS, Sub-Industry Steel, US Companies, US Primary Issue)  
(GICS Code 15104050)\*

Company	Ticker Symbol	Last Day of Fiscal Year	Performance Year
1 ACME METALS INC	AMIIQ	December 31	October 1 – September 30
2 AK STEEL HOLDING CORP	AKS	December 31	October 1 – September 30
3 ALLEGHENY TECHNOLOGIES INC	ATI	December 31	October 1 – September 30
4 ATCHISON CASTING CORP	AHNCQ	June 30	October 1 – September 30
5 BAYOU STEEL CORP -CL A	BYUA	September 30	October 1 – September 30
6 CARPENTER TECHNOLOGY CORP	CRS	June 30	October 1 – September 30
7 CASTLE (A M) & CO	CAS	December 31	October 1 – September 30
8 CENTRAL STEEL & WIRE CO	CSTW	December 31	October 1 – September 30
9 CLEVELAND-CLIFFS INC	CLF	December 31	October 1 – September 30
10 COLD METAL PRODUCTS INC	CMPI	March 31	October 1 – September 30
11 COMMERCIAL METALS	CMC	August 31	September 1 – August 31
12 FRIEDMAN INDUSTRIES	FRD	March 31	October 1 – September 30
13 GENEVA STEEL HLDGS CORP	GNVHQ	September 30	October 1 – September 30
14 GERDAU AMERISTEEL CORP	GNA	December 31	October 1 – September 30
15 GIBRALTAR INDUSTRIES INC	ROCK	December 31	October 1 – September 30
16 GRAFTECH INTERNATIONAL LTD	GTI	December 31	October 1 – September 30
17 GREAT NORTHERN IRON ORE PPTY	GNI	December 31	October 1 – September 30
18 HAYNES INTERNATIONAL INC	HYNI	September 30	October 1 – September 30
19 HUNTCO INC -CL A	3HCOIQ	December 31	October 1 – September 30
20 INTERNATIONAL STEEL GRP INC	ISG	December 31	October 1 – September 30
21 KENTUCKY ELECTRIC STEEL INC	KESIQ	September 29**	October 1 – September 30**
22 KEYSTONE CONS INDUSTRIES INC	KESNQ	December 31	October 1 – September 30
23 LTV CORP	3LTVCQ	December 31	October 1 – September 30
24 MARK HOLDINGS INC	MHDG	June 30	October 1 – September 30
25 MESABI TRUST	MSB	January 31	November 1 – October 31
26 METAL MANAGEMENT INC	MTLM	March 31	October 1 – September 30
27 METALS USA INC	MUSA	December 31	October 1 – September 30
28 MMI PRODUCTS INC	9701B	January 3**	October 1 – September 30**
29 MORTON INDUSTRIAL GRP INC	3MGRP	December 31	October 1 – September 30
30 NATIONAL STEEL CORP -CL B	3NSTLQ	December 31	October 1 – September 30
31 NEENAH FOUNDRY CO	0271B	September 30	October 1 – September 30
32 NIAGARA CORP	NGCD	December 31	October 1 – September 30
33 NN INC	NNBR	December 31	October 1 – September 30
34 NORTHWEST PIPE CO	NWPX	December 31	October 1 – September 30
35 NUCOR CORP	NUE	December 31	October 1 – September 30
36 OLYMPIC STEEL INC	ZEUS	December 31	October 1 – September 30
37 OREGON STEEL MILLS INC	OS	December 31	October 1 – September 30
38 PAV REPUBLIC INC-REDH	RSBQ	December 31	October 1 – September 30
39 QUANEX CORP	NX	October 31	November 1 – October 31



Company	Ticker Symbol	Last Day of Fiscal Year	Performance Year
40 ROUGE INDUSTRIES INC	RGIDQ	December 31	October 1 – September 30
41 RYERSON TULL INC	RT	December 31	October 1 – September 30
42 SCHNITZER STEEL INDS -CL A	SCHN	August 31	September 1 – August 31
43 STEEL DYNAMICS INC	STLD	December 31	October 1 – September 30
44 STEEL TECHNOLOGIES	STTX	September 30	October 1 – September 30
45 SYNALLOY CORP	SYNL	January 3**	October 1 – September 30**
46 THERMODYNETICS INC	3TDYN	March 31	October 1 – September 30
47 UNITED STATES STEEL CORP	X	December 31	October 1 – September 30
48 UNVL STAINLESS & ALLOY PRODS	USAP	December 31	October 1 – September 30
49 WEBCO INDUSTRIES INC	WEBO	July 31	November 1 – October 31
50 WEIRTON STEEL CORP	WRTLQ	December 31	October 1 – September 30
51 WHEELING PITTSBURGH CORP	WPSC	December 31	October 1 – September 30
52 WHX CORP	WHX	December 31	October 1 – September 30
53 WILLIAMS INDUSTRIES INC	WMSI	July 31	November 1 – October 31
54 WORTHINGTON INDUSTRIES	WOR	May 31	September 1 – August 31

\* As of January 27, 2005, with the exception of Gerdau Ameristeel Corp., which as of such date is not included in this index.

\*\* These companies have 52/53 week fiscal years, so the actual beginning and ending date of each fiscal year, and, thus, each quarter may vary from year to year. The actual beginning and ending dates to be included in the column will be adjusted, as necessary from year-to-year.



Exhibit 10.5

ROANOKE ELECTRIC STEEL CORPORATION  
2005 STOCK INCENTIVE PLAN

OUTSIDE DIRECTOR  
RESTRICTED STOCK  
AGREEMENT

<b>AWARDED TO</b>	<b>ANNUAL GRANT DATE</b>	<b>NUMBER OF SHARES OF RESTRICTED STOCK</b>
	January 28, 2005	1,500

Pursuant to Section 13 of the Company's 2005 Stock Incentive Plan (the "Plan"), you (the "Participant") have been awarded one thousand five hundred (1,500) shares of restricted stock (the "Restricted Stock"). The Restricted Stock granted to you under this Restricted Stock Agreement (the "Agreement") is subject to the restrictions and conditions set forth below.

1. Issuance of Restricted Stock. The Company shall, as soon as administratively feasible after execution of this Agreement by the Participant, direct the Company's transfer agent for Company Stock to make a book entry record showing ownership for the Restricted Stock in the name of the Participant, subject to the terms and conditions of the Plan and this Agreement. As a condition to receipt of this Award, the Participant hereby authorizes the Company to issue such instructions to the transfer agent as the Company may deem necessary or proper to comply with the intent and purposes of this Agreement and the Plan, including their provisions regarding forfeiture.
2. Restrictions. The Restricted Stock may not be sold, assigned, transferred, pledged, hypothecated or otherwise encumbered or disposed of prior to the first anniversary of Annual Grant Date, (the "Vesting Date"). If the Participant ceases to be an Outside Director prior to the Vesting Date, the Restricted Stock shall be forfeited. Notwithstanding the foregoing, if the Participant dies while serving as an Outside Director but prior to the Vesting Date, the Restricted Stock shall become nonforfeitable and fully transferable.
3. Shareholder Rights. Subject to the restrictions imposed by this Agreement and the Plan, the Participant shall have, with respect to the Restricted Stock covered by this Agreement, all of the rights of a shareholder of the Company, including the right to vote the Restricted Stock and the right to receive any cash dividends payable with respect to the Restricted Stock.
4. Change in Control. In the event of a Change in Control, the restrictions applicable to Restricted Stock shall lapse and the Restricted Stock shall become nonforfeitable and fully transferable on the date of the Change in Control.
5. Delivery of Shares. As soon as practicable following the date on which the Restricted Stock becomes non-forfeitable and fully transferable pursuant to this Agreement, the Company will issue appropriate instructions to that effect to the transfer agent for Company Stock.
6. Adjustment in the Event of Change in Stock. In the event of any change in corporate capitalization, such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Internal Revenue Code of 1986 (the "Code")) or any partial or complete liquidation of the Company, the number of shares of Restricted Stock shall be equitably adjusted by the Committee as it may deem appropriate in its sole discretion. The determination of the Committee regarding any such adjustment will be final and conclusive.
7. Other Restrictions.
  - (a) The Restricted Stock shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Company Stock subject or related thereto upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any government regulatory body, then in any such event, the grant of Restricted Stock shall not be effective unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.



(b) The Participant acknowledges that the Participant is subject to the Company's policies regarding compliance with securities laws, including but not limited to its Trading Policy (as in effect from time to time and any successor policies), and, pursuant to these policies, if the Participant is on the Company's insider list, the Participant shall be required to obtain pre-clearance from the Company's General Counsel prior to purchasing or selling any of the Company's securities, including the Restricted Stock, and may be prohibited from selling such shares other than during an open trading window. The Participant further acknowledges that, in its discretion, the Company may prohibit the Participant from selling such shares even during an open trading window if the Company has concerns over the potential for insider trading.

- 8. Taxes and Withholding. If applicable, no later than the date as of which an amount first becomes includible in the gross income of the Participant for federal, state, local or foreign income tax purposes with respect to the Restricted Stock, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, all federal, state, local and foreign taxes that are required by applicable laws and regulations to be withheld with respect to such amount. The obligations of the Company under this Agreement shall be conditioned on compliance by the Participant with this Paragraph 8.
- 9. Notices. All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by facsimile, overnight courier, or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Participant:

If to the Company:

Roanoke Electric Steel Corporation  
PO Box 13948  
Roanoke, VA 24038  
Attention: General Counsel/Corporate Secretary  
Facsimile: (540) 983-7284

or to such other address or facsimile number as any party shall have furnished to the other in writing in accordance with this Paragraph 9. Notice and communications shall be effective when actually received by the addressee. Notwithstanding the foregoing, the Participant consents to electronic delivery of documents required to be delivered by the Company under the securities laws.

- 10. Terms of the Plan Shall Govern. The Award is made pursuant to and is subject to the Plan. In the case of any conflict between the Plan and this Agreement, the terms of the Plan shall control. Unless otherwise indicated, all capitalized terms contained in this Agreement shall have the meaning assigned to them in the Plan.
- 11. Effect of Agreement. Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Company, and the term "Company" shall include any successor company.
- 12. Laws Applicable to Construction. The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the Commonwealth of Virginia without reference to principles of conflict of laws, as applied to contracts executed in and performed wholly within the Commonwealth of Virginia. In addition to the terms and conditions set forth in this Agreement, the Restricted Stock is subject to the terms and conditions of the Plan, which is hereby incorporated by reference.
- 13. Severability. The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.
- 14. Conflicts and Interpretation. In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan.



- 15. Amendment. Except as otherwise provided in Section 16 of the Plan, this Agreement may not be modified, amended or waived except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.
- 16. Headings. The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.
- 17. Counterparts. This Agreement may be executed in counterparts, which together shall constitute one and the same original.
- 18. No Right to Continued Service. Neither the Plan nor this Agreement confers upon you any right to continue in service as an Outside Director of the Company. This Agreement does not guarantee your continued service as an Outside Director during the period in which it is in effect

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed, as of the Annual Grant Date shown above.

ROANOKE ELECTRIC STEEL CORPORATION

By: \_\_\_\_\_

I hereby acknowledge receipt of this Agreement, a copy of the 2005 Stock Incentive Plan and a copy of the Plan's prospectus.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

«Name»



**Exhibit 15**

March 7, 2005

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 "Company") for the three-month periods ended January 31, 2005 and 2004, as indicated in our report dated March 7, 2005; 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 January 31, 2005, is incorporated by reference in Registration Statement No.'s 333-49525, 333-25299, 33-35243, 33-27359, and 333-122726 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.

/s/ DELOITTE & TOUCHE LLP

Raleigh, North Carolina



**Exhibit 31.1**

**ROANOKE ELECTRIC STEEL CORPORATION**  
**SECTION 302**  
**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Donald G. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Roanoke Electric Steel Corporation (the "Company");

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company'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 Company 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 Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) not applicable

c) evaluated the effectiveness of the Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company 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 Company'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 Company's internal controls.

Date: March 7, 2005

/s/ Donald G. Smith

---

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



Exhibit 31.2

ROANOKE ELECTRIC STEEL CORPORATION  
SECTION 302  
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Mark G. Meikle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Roanoke Electric Steel Corporation (the "Company");

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company'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 Company 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 Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) not applicable

c) evaluated the effectiveness of the Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company 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 Company'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 Company's internal controls.

Date: March 7, 2005

/s/ Mark G. Meikle

---

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



**Exhibit 32.1**

**ROANOKE ELECTRIC STEEL CORPORATION**  
**SECTION 906**  
**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

The undersigned hereby certifies in his capacity as an officer of Roanoke Electric Steel Corporation (the "Company"), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-Q for the quarter ended January 31, 2005, 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 Company.

Date: March 7, 2005

/s/ Donald G. Smith

---

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



**Exhibit 32.2**

**ROANOKE ELECTRIC STEEL CORPORATION**  
**SECTION 906**  
**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

The undersigned hereby certifies in his capacity as an officer of Roanoke Electric Steel Corporation (the "Company"), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-Q for the quarter ended January 31, 2005, 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 Company.

Date: March 7, 2005

/s/ Mark G. Meikle

---

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