SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

ROANOKE ELECTRIC STEEL CORP

CIK:**84278**| IRS No.: **540585263** | State of Incorp.:**VA** | Fiscal Year End: **1031**
Type: **10-K** | Act: **34** | File No.: **000-02389** | Film No.: **06533243**
SIC: **3312** Steel works, blast furnaces & rolling mills (coke ovens)

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

FORM 10-K

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

For the fiscal year ended October 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	**54-0585263**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
P.O. Box 13948, Roanoke, Virginia	**24038-3948**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, No Par Value
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act) Yes ☐ No ☒

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Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of December 31, 2005, the aggregate market value, based on the last sales price for that day, of the voting stock held by non-affiliates of Roanoke Electric Steel Corporation was $242,875,412.

As of December 31, 2005, 12,512,765 shares of Roanoke Electric Steel Corporation common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The portions of the Annual Report to Shareholders for the year ended October 31, 2005 referred to in Parts I, II, III, and IV are incorporated by reference into such parts. Except for those portions of the 2005 Annual Report to Shareholders expressly incorporated herein by reference, such report is not to be deemed filed with the Securities and Exchange Commission.

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PART I

FORWARD-LOOKING STATEMENTS

From time to time, Roanoke Electric Steel Corporation (the “Company” or “Roanoke Electric Steel”) 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, domestic and foreign competition, foreign trade policies affecting imports and exports, governmental regulations, interest rates, inflation, labor relations, environmental concerns and compliance issues, the Company’ s safety performance, the cyclical nature of the domestic steel industry, and others.

ITEM 1. BUSINESS

(a) General Development of Business.

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 joists. Each subsidiary is either a supplier to the parent company or a purchaser of its finished product and billets. The Company sells products through its sales force to its customers, which include service centers, original equipment manufacturers, and fabricators. During the fiscal year ended October 31, 2005, the Company and its subsidiaries continued to operate their business as they had the past four years, with no material changes in operations or in the mode of conducting their business, except as described below.

On October 18, 2005, the Company and Steel Dynamics, Inc. (“SDI”) announced the execution of a definitive agreement of merger (the “Merger Agreement”) pursuant to which SDI will acquire Roanoke and all of its subsidiaries. Pursuant to the Merger Agreement, which has been unanimously approved by the Roanoke Board of Directors, Roanoke shareholders will receive a fixed consideration equal to 0.4 shares of SDI common stock and $9.75 in cash for each share of Roanoke stock outstanding at the effective time of the merger. Completion of the merger is subject to approval by Roanoke’ s shareholders, regulatory approval, including antitrust approval, and the satisfaction or waiver of customary conditions. The Merger Agreement contains certain termination rights for both parties and further provides for a termination fee to SDI of $7.5 million plus expenses if the transaction is terminated under certain circumstances.

On January 27, 2005, RESCO Steel Products Corporation (“RESCO Steel Products”), 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 agreed upon price for the assets sold by RESCO Steel Products was $4.2 million. In connection with the close of operations of RESCO Steel Products, 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, 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 the loss from discontinued operations in the accompanying statement of earnings for the year ended October 31, 2005. The results of RESCO Steel Products are presented as discontinued operations in the accompanying consolidated statements of earnings and include a pre-tax loss on the sale and discontinued operations of RESCO Steel Products of $1,340,685.

(b) Financial Information and Classes of Products or Services.

The Company’ s business consists of one industry segment or line of business, 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.

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FINANCIAL INFORMATION RELATING TO
CLASSES OF PRODUCTS

	2005	2004	2003
Sales to Unaffiliated Customers:			
Merchant Steel and Specialty Steel Sections	$386,780,959	$343,604,922	$211,209,483
Fabricated Bar Joists	115,731,962	95,969,128	66,927,348
Billets	44,099,242	26,012,379	25,432,380
Total Consolidated Sales	$546,612,163	$465,586,429	$303,569,211
Earnings (Loss) from Continuing Operations	$41,245,394	$30,620,387	$(2,521,834)
Cumulative effect of accounting change	–	–	(228,410)
Loss on Discontinued Operations	(925,961)	(174,139)	(474,709)
Net Earning (Loss)	$40,319,433	$30,446,248	$(3,224,953)
Total Assets	$333,410,067	$318,971,033	$270,867,486

(c) Narrative Description of Business.

(i) Roanoke Electric Steel Corporation, the parent company, has 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 markets its products to steel service centers and fabricators. The products are distributed directly to customers from orders solicited by an in-house paid sales staff.

Shredded Products Corp. (“Shredded Products”), 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 Roanoke Electric with a substantial amount of its raw materials. Nonferrous metals generated in the process are sold to unrelated customers.

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John W. Hancock, Jr., Incorporated (“Hancock”), and Socar, Inc. and Socar of Ohio, Inc. (collectively “Socar”), 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. Joists are cheaper and lighter than structural steel or reinforced concrete. The joists and rack are distributed by these subsidiaries to their customers from orders solicited by manufacturer’ s representatives and pursuant to successful bids placed directly by the subsidiaries.

RESCO Steel Products Corporation (“RESCO Steel Products”), a Salem, Virginia based subsidiary, fabricated concrete reinforcing steel by cutting and bending it to contractor specifications, until its sale on January 27, 2005. The rebars were distributed to contractors from orders solicited by an in-house sales staff and pursuant to successful bids placed directly by the subsidiary.

Steel of West Virginia, Inc. (“Steel”), through its subsidiary, SWVA, Inc. (“SWVA”), has a steel mini-mill and steel fabricating facility operating in Huntington, West Virginia. A steel fabricating subsidiary, Marshall Steel, Inc. (“Marshall”), is located in Memphis, Tennessee. These locations produce or fabricate specialty steel sections and custom-finished products, which are placed directly into customers’ assembly lines. The niche markets supplied with these products include truck trailers, industrial lift trucks, guardrail posts, manufactured housing, off-highway construction equipment, and mining equipment. These products are marketed by senior management and an in-house paid sales staff, whose sales efforts cover all of North America and, to a small degree, certain foreign markets.

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The Roanoke and Huntington facilities both utilize electricity and natural gas as their 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.

(ii) During fiscal year 2005 the Company did not introduce a new product or begin to do business in a new industry segment that will require the investment of a material amount of assets or that otherwise is material.

(iii) Roanoke Electric Steel' s main raw material, scrap steel, is supplied for the most part by scrap dealers within a 300 mile radius of the mill. The majority of this raw material is purchased through two independent scrap brokers. Shredded Products supplies 10,000 to 15,000 tons of scrap per month. Although scrap is generally available to the Company, the price of scrap steel is highly responsive to changes in demand, including demand in foreign countries as well as in the United States. The ability to maintain satisfactory profit margins in times when scrap is relatively high priced is dependent upon the levels of steel prices, which are determined by market forces. Alloys and other materials needed for the melting process are provided by various domestic and foreign companies.

Shredded Products sometimes experiences difficulty in purchasing scrap automobiles at a satisfactory level. Competition from a number of other shredding operations and reluctance by dealers to sell scrap automobiles due to market conditions are the main causes. High offering prices generally increase the supply; however, the increased cost to produce sometimes is very comparable to the price of similar scrap that can be purchased on the outside.

Substantially all of Hancock' s steel components are purchased from the parent company' s Roanoke facility, which is located conveniently nearby and, therefore, such components are generally available to the subsidiary as needed.

RESCO Steel Products, before its January 27, 2005 sale, purchased most of its steel components from suppliers within its market area, determined mainly by freight cost. Such components were generally available to the subsidiary, since the parent company could have produced and supplied this raw material as needed from its Roanoke facility.

Socar receives most of its raw steel material from the parent company and other nearby suppliers, the determinant usually being freight cost. The availability of raw materials is not of major concern to the subsidiary, since the parent company could supply most of its needs from the Roanoke facility.

Steel, like Roanoke Electric Steel, uses scrap steel as its main raw material. Even though the purchase of steel scrap is subject to market conditions largely beyond its control, Steel is located in a scrap surplus region and, therefore, typically maintains less than a one month supply of scrap, which keeps inventory costs to a minimum. Although one scrap dealer supplies 20% to 25% of SWVA' s requirements, the Company believes that a number of adequate sources of scrap and other raw materials that it uses are readily available. SWVA has historically been successful in passing on scrap cost increases through price increases; however, the effect of market price competition could limit the ability to increase prices.

(iv) The Company currently holds no patents, trademarks, licenses, franchises or concessions that are material to its business operations.

(v) The business of the Company is not seasonal, except that certain weather conditions restrict delivery schedules at various times.

(vi) The Company does not offer extended payment terms to its customers, nor is it normally required to carry significant amounts of inventory to meet rapid delivery requirements of customers; although, at times market conditions have required the stockpiling of popular bar products for rapid delivery. Working capital practices generally remain constant during the course of business except when the Company determines it to be advantageous to stockpile raw materials due to price considerations.

(vii) During fiscal year 2005, inter-company sales (tons) to Steel, Hancock, and Socar, were approximately 8%, 4%, and 3% of the Company' s total sales (tons), respectively. During fiscal years 2005, 2004 and 2003, respectively, the largest nonaffiliated customer purchased approximately 3%, 3% and 4% of total sales (tons) - 4%, 4% and 3% of total sales (dollars). The 2005, 2004 and 2003 customers purchased merchant bar and specialty products. Under normal market conditions, we would not expect the loss of any of these customers to have a materially adverse effect on the Company and its subsidiaries taken as a whole.

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(viii) The Company believes that the amount of its backlog is not generally material to an understanding of the business. All backlog is shipped within a twelve-month period.

(ix) The business of the Company is not subject to renegotiation of profits or termination of contracts or subcontracts at the election of the Government.

(x) The Company competes with steel-producing mills of similar size operative within its market region and also larger mills producing similar products. The market region in which the Company sells its products mainly consists of the majority of states east of the Mississippi River. Price, including transportation cost, is the major determinant in securing business. Average price per ton for merchant bar and specialty products increased as a result of both product mix and higher selling prices. The volatile scrap market once again prompted industry-wide price increases due to the rising cost of scrap. Shipment levels in 2004 were again higher as a result of continued improvements in market conditions. Sales in 2005, again, increased as a result of improved average selling prices for bar and specialty products. Merchant bar prices were higher as a direct result of increased scrap costs, while improved product mix and mostly favorable competitive conditions brought increased specialty steel prices. Shipment levels were flat for specialty steel sections, as an improvement in demand within several market segments offset a softening in demand within another single segment. More cautious buying patterns and excess inventory levels at steel service centers caused temporary reductions in tons shipped of bar products, although market conditions remained strong.

The joist business is highly competitive. Due to similarity of product, relatively small price differences are often the determining factor in placing business. Ability to meet the customer' s time requirements for delivery also is important in securing business. Competing successfully becomes more difficult with the distance to point of delivery due to transportation costs. Competitive conditions within the nonresidential construction industry generally impact selling prices and shipment levels of fabricated products and were relatively favorable during 2004 as reflected in the higher selling prices. Higher raw material costs also prompted increased fabricated product prices. The improved shipments of fabricated products resulted from increased business activity. Fabricated product sales in 2005 increased resulting from improved selling prices which were influenced mainly by higher raw material costs. Shipment levels of fabricated products declined, though, with reduced activity and increased competitive conditions within the nonresidential construction segment.

Billets are semi-finished products used by the Company in its rolling mill process to manufacture various merchant bar products and specialty steel sections. Excess billet production is sold to nonaffiliated customers who further fabricate the billets for various end uses. In 2004, a spike in scrap steel costs pushed billet prices higher. Billet shipments declined due to a greater demand for internal consumption, thus reducing the tons available for shipment to outside customers. Billet sales in 2005 increased, mainly, due to improved selling prices, triggered by increased scrap prices, and improved demand and lower excess billet availability in the market resulting in higher billet shipments.

(xi) During the last three fiscal years, the Company was not involved in material research and development activities.

(xii) The Company is subject to federal, state and local environmental laws and regulations concerning, among other matters, wastewater discharge, air emissions, furnace dust disposal and disposal of auto fluff and other wastes. As with similar mills in the industry, the Roanoke and Huntington furnaces are classified as generating hazardous waste because they produce certain types of dust containing lead, zinc and cadmium. At the Roanoke furnaces, the Company treats between 60% and 80% of its electric arc furnace dust, a hazardous substance, utilizing its own approved stabilization process, and disposes of the non-hazardous resulting solid waste in an approved solid waste landfill. The remaining electric arc furnace dust is disposed through a contract with an approved waste disposal firm. At the Huntington furnace, SWVA collects and handles furnace waste through contracts with a company, which reclaims, from the waste dust, certain materials and recycles or disposes of the remainder. Shredded Products operates an approved landfill for use in disposal of its waste products associated with its auto shredding operations. The Company believes it is in substantial compliance with applicable federal, state and local regulations. However, future changes in regulations may require expenditures which could adversely affect earnings in subsequent years.

The Company has constructed over the years pollution control equipment at a net aggregate cost of over $10,400,000. Annual operating expenses and depreciation of all pollution control equipment and waste disposal costs are in excess of $3,500,000 in the aggregate. Additional future capital expenditures for pollution control and waste disposal equipment for use at the Company' s Roanoke facility are planned in connection with future expansion of the facility and the cost of this additional equipment is presently estimated to be less than $17,000,000. This expansion and, thus, the expenditures have been delayed for both economic and financial reasons, and will be completed and funded as the

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Company' s financial resources permit. Implementation of the Clean Air Act Amendments of 1990, or any other environmental concerns, is not anticipated to have a materially adverse effect on the Company' s operations, capital resources or liquidity, nor should any incremental increase in capital expenditures occur due to the Act.

The Company from time to time receives requests for information and less frequently, notices from regulatory authorities asserting that it is not in compliance with such laws and regulations. In response, and in some instances on our own initiative, we engage in discussions with regulatory agencies to satisfy the agency that we are operating in material compliance with applicable environmental regulations. The Company considers these discussions to be in the ordinary course of business, a necessity of the highly regulated industry in which it operates. The Company works cooperatively to address any concerns raised by regulatory agencies, and will continue to work with federal and state agencies to ensure that they are satisfied that operations are in material compliance with applicable regulations.

(xiii) At October 31, 2005, the Company employed 528 persons at its Roanoke plant. The Company' s subsidiaries, Steel, Hancock, Socar, and Shredded Products employed 520, 265, 241, and 47 persons, respectively.

(d) Financial Information about Foreign and Domestic Operations and Export Sales.

When billet production exceeds required needs, the semi-finished product is offered for sale to unaffiliated companies. During past years, a portion of the excess billets has been sold to brokers who represent foreign purchasers. In 2003, export (billet) sales to China amounted to $4,276,000. During fiscal years 2005 and 2004, Roanoke Electric did not make any foreign sales of excess billets. However, SWVA sold a small percentage of its rolled products to foreign markets during these years. The information required by this paragraph by geographical area, as to foreign and domestic operations, is not provided since it is identical to the table in paragraph (b) with virtually all information pertaining to the United States.

ITEM 1A. RISK FACTORS

Not Applicable

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company owns 82 acres situated in the City of Roanoke, Virginia, which comprises its main plant, of which 25 acres are used to provide 364,500 square feet of manufacturing space with an annual billet capacity of approximately 650,000 tons and rolling mill capacity of 400,000 tons. A 30 acre site is owned in Salem, Virginia, of which 10 acres were used to provide 51,355 square feet of manufacturing space, until March 1991, when the plant was idled. The Company acquired in 1991 a 447 acre tract of land in Franklin County, Virginia, 100 acres of which were transferred to Shredded Products in a move of shredding operations from its Montvale location. Part of this new Shredded Products property is being used as an approved industrial landfill. The remaining 347 acres of this land, 206 acres of which were sold between 1995 and 2004, is being marketed as an industrial park for Franklin County.

Shredded Products operates in both Montvale and Rocky Mount, Virginia. The Montvale plant is situated on a 75 acre site owned by the Company, approximately 20 acres of which are regularly used in its scrap processing operation, with an annual production capacity of approximately 24,000 tons. The Rocky Mount facility is located on a 100 acre site owned by Shredded Products, partially consisting of a 25 acre industrial landfill used for the disposal of its auto fluff, and another 25 acres of which are regularly used in its shredding operation, with an annual production capacity of approximately 150,000 tons.

Hancock is located in Roanoke County near Salem, Virginia. The plant is situated on a 37 acre site owned by Hancock, 17 acres of which are regularly used in its operations, with an annual production capacity of approximately 62,000 tons. Buildings on the site contain 160,904 square feet of floor space.

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Socar is located in Florence, South Carolina, and in Continental, Ohio. The Florence facility is located on a 28 acre site owned by Socar, 16 acres of which are regularly used in its operations. Buildings on the site contain 93,359 square feet of floor space. The plant located on a 32 acre site in Continental, Ohio, owned by Socar, has 94,400 square feet of floor space in manufacturing buildings, situated on 8 acres regularly used in its operations. Both operations have a combined annual production capacity of approximately 50,000 tons.

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RESCO Steel Products, until its January 27, 2005 sale, operated from a building containing 43,340 square feet of floor space, with an annual production capacity of approximately 25,000 tons. The plant was located in Salem, Virginia, on a 7 acre site owned by RESCO Steel Products.

Steel and its subsidiaries are located in Huntington, West Virginia and Memphis, Tennessee. The Huntington facility is located on a 46 acre site owned by SWVA, most of which are regularly used in its operations. Buildings on the site contain 705,003 square feet of manufacturing space with an annual billet capacity of approximately 280,000 tons and rolling mill capacity of 300,000 tons. The plant located in Memphis, Tennessee and owned by Marshall operates in 42,900 square feet of manufacturing space on approximately 4 acres.

The following information relates to the productive capacity utilization, based on estimated full production, for the facilities operated by the Company and each of its subsidiaries for the year ended October 31, 2005:

Roanoke Electric Steel Corporation

Melt Shop (Percentage of Utilization 89%)
Rolling Mill (99%)

Shredded Products Corp.

Montvale (69%)
Rocky Mount (58%)

John W. Hancock, Jr., Incorporated (71%)

Socar, Inc. - SC & OH (76%)

SWVA, Inc.

Melt Shop (99%)
Rolling Mill (91%)

The various buildings are of modern design, well maintained, and suitable and adequate for the requirements of the business. The Registrant believes that its facilities are being adequately used, that it does not have any excess capacity and that it has no excess or obsolete facilities.

ITEM 3. LEGAL PROCEEDINGS

There were no material pending legal proceedings against the Company, other than ordinary routine litigation incidental to the Company' s business.

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

None

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PART II

ITEM 5. MARKET FOR THE REGISTRANT' S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The table below contains certain information regarding the Company' s equity compensation plans as of October 31, 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	217,500	9.64	1,562,402
Equity compensation plans not approved by security holders (2)	19,500	14.81	1,000
Total	237,000		1,563,402

(1) The 217,500 shares set forth in column (a) represent outstanding stock options granted under the Company' s Employees' Stock Option Plan which expired with the grants made in February of 2004. The 1,562,402 shares set forth in column (c), represent the shares available for grant under the Company' s 2005 Stock Incentive Plan after the distribution of 21,088 shares as a result of the vesting of performance share grants on October 31, 2005, and assuming the vesting of 100%, or 69,140 and 88,370, of the performance share grants on October 31, 2006 and October 31, 2007, respectively. Under the terms of the award, the actual number of performance share grants that vest depends upon the Company' s average return on invested capital relative to the average return on invested capital of peer companies, with the potential ranging from 0% to 200% of each award; provided, however, that upon the occurrence of a change in control involving the Company 100% of the performance share grants vest and are settled in cash rather than shares of the Company' s common stock. The consummation of the merger of the Company with SDI will constitute a change in control with respect to the performance share grants that vest on October 31, 2006 and October 31, 2007.

(2) Represents the outstanding stock options granted to non-employee directors under the Company' s Non-Employee Director Stock Option Plan, which was adopted in 1997. The plan provided that a participating director was eligible to receive a maximum award covering 3,000 shares. As of October 31, 2005, options covering 24,000 shares had been granted under the plan and four of the Company' s current non-employee directors had received options to purchase 3,000 shares of the Company' s common stock. The options each have an exercise price equal to the fair market value of the Company' s common stock on the date of grant, were fully vested and exercisable on the date of grant, and have a term of 10 years.

The other information required by this item is incorporated by reference to the information under the heading "Stock Activity" in the 2005 Annual Report to Shareholders. The Company did not, during fiscal year 2005, make any sale of securities not registered under the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is incorporated by reference to the information under the heading "Selected Financial Data" in the 2005 Annual Report to Shareholders.

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ITEM 7. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is incorporated by reference to the information under the heading "Management' s Discussion and Analysis of Financial Condition and Results of Operations" in the 2005 Annual Report to Shareholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had no material outstanding derivative financial instruments, other financial instruments or derivative commodity instruments at October 31, 2005, although the Company does engage in transactions involving derivative instruments from time to time as appropriate, and as of October 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 6 - Derivative Instruments" to the "Notes to Consolidated Financial Statements" in the 2005 Annual Report to Shareholders, which information is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to the information under the headings "Reports of Independent Registered Public Accounting Firms", "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements" in the 2005 Annual Report to Shareholders.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Information relating to a change in the Company' s independent registered public accounting firm is incorporated by reference to the information set forth under the heading "Changes in the Company' s Certifying Accountant in Item 14 of Part III of this Form 10-K. The Company has had no disagreements with its independent registered public accounting firm during the Company' s two most recent fiscal years or any subsequent interim period.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Management, including the Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the Company' s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of October 31, 2005, the end of the period covered by this annual report on Form 10-K. Based on that evaluation, the Company' s Chief Executive Officer and Chief Financial Officer have concluded that the Company' s disclosure controls and procedures were effective as of October 31, 2005.

Management' s Report on Internal Controls over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Management including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company' s internal controls over financial reporting, as of October 31, 2005, the end of the period covered by this annual report on Form 10-K, based on the framework in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that the Company' s internal control over financial reporting was effective as of October 31, 2005. Management' s report on internal control over financial reporting is set forth on page 35 of the 2005 Annual Report to Shareholders and is incorporated by reference herein. Management' s assessment of the effectiveness of the Company' s internal control over financial reporting has been audited by KPMG LLP, an independent, registered public accounting firm, as stated in its report, which is set forth on page 36 of the Annual Report to Shareholders and is incorporated by reference herein.

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Changes in Internal Controls over Financial Reporting.

No changes in the Company' s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during the fourth quarter that has materially affected, or is reasonably likely to materially affect, the Company' s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information Concerning Directors

Identification of Directors. The following information, including the principal occupation during the past five years, is given with respect to the Directors. Except for Messrs. Smith, Crawford and Duke, who are executive officers of the Company, each of the Company' s current directors is "independent" under the requirements of The Nasdaq Stock Market, Inc. ("Nasdaq").

Name, Age, Principal Occupation and Certain Other Directorships	Director Since
CLASS A (Serving until 2006 Annual Meeting)	
GEORGE B. CARTLEDGE, JR. (64). Chairman, Grand Home Furnishings, Inc., a retailer of home and office furniture.	1991
THOMAS L. ROBERTSON (62). Retired since January 2005; prior thereto Chairman, Carilion Foundation, a non-profit foundation for Carilion Health System, a regional health care provider, since January 2001; prior thereto, President and Chief Executive Officer, Carilion Health System.	1992
DONALD G. SMITH (70) (1). Chairman of the Board, Treasurer and Chief Executive Officer of the Company; prior to June 2004, also President. Mr. Smith is also a director of American Electric Power Company, Inc.	1984
CLASS B (Serving until 2007 Annual Meeting)	
TIMOTHY R. DUKE (54). President and Chief Executive Officer, Steel of West Virginia, Inc., SWVA Inc., Marshall Steel, Inc., and Steel Ventures, Inc., wholly-owned subsidiaries of the Company.	1999
GEORGE W. LOGAN (59). Chairman, Valley Financial Corporation, a holding company for Valley Bank, N.A., a general commercial and retail banking business, and Manager of Pine Street Partners, LLC, a private equity investment company. Mr. Logan is also a director of Valley Financial Corporation and RGC Resources, Inc.	1997

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2004

JOSEPH H. VIPPERMAN (64). Retired since August 2002; prior thereto, Executive Vice President – Corporate Services, American Electric Power Company, Inc.

CLASS C
(Serving until 2008 Annual Meeting)

2004

T. JOE CRAWFORD (50). President and Chief Operating Officer of the Company since June 2004; prior thereto, Vice President – Administration and Secretary.

1978

CHARLES I. LUNSFORD, II (65). Retired. Before January 1998, Chairman, Chas. Lunsford Sons & Associates, a general insurance brokerage firm and agency.

2002

CHARLES W. STEGER (57). President, Virginia Polytechnic Institute and State University since January 2000; prior thereto, Vice President for Development and University Relations. Mr. Steger is also a director of FNB Corporation.

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(1) Pursuant to the Company's director retirement policy, Mr. Smith will retire from the Board of Directors at the next annual meeting of shareholders of the Company.

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Meetings of the Board. The Board of Directors held 11 meetings during 2005. All directors attended 75% or more of the total number of meetings of the Board and the committees of the Board on which they served.

At each regular meeting of the Board of Directors, the non-management Directors were provided the opportunity to meet in executive session (with no members of management who are also members of the Board being present). The Chairman of the Audit Committee presided at the executive sessions.

Annual Meeting Policy. Directors are expected to attend annual meetings of shareholders. In 2005, all Directors attended the annual meeting of shareholders.

Communications with Directors. Shareholders may communicate with Directors individually or as a group. Any shareholder who desires to communicate with one or more Directors may send a letter to the following address:

Board of Directors (or name of one or more individual directors)
c/o Corporate Secretary
PO Box 13948
Roanoke, VA 24038-3948

All communications will be forwarded to the appropriate Director or Directors specified in the communication as soon as practicable. Communications addressed to the Board generally will be considered to have been addressed to all Directors.

In addition, as provided on the Company' s website at *www.roanokesteel.com* under the tab "Corporate Governance" and then under the heading "Code of Ethics", any shareholder who has any concerns or complaints relating to accounting, internal controls or auditing matters may contact the Audit Committee by writing to the following address:

Chairman, Audit Committee
Roanoke Electric Steel Corporation
PO Box 1934
Roanoke, VA 24008

Director Compensation. Effective as of February 1, 2005, the Company changed the compensation paid to Directors. Prior to the change, all Directors were eligible to receive cash compensation and participate in the Company' s retirement plan for Directors. Effective with the change, only non-employee Directors were eligible to receive compensation for service on the Board of Directors.

For the first three months of the year, each Director received a monthly cash retainer of $1,000 (or $12,000 per year) plus a cash fee of $1,000 for each Board meeting attended. In addition, each non-employee Director received a cash fee for each committee meeting attended. The committee meeting fee was equal to $1,000 for the Audit Committee, and $750 for all other committees. Directors not residing in Roanoke, Virginia, were also reimbursed for reasonable travel expenses to attend Board and committee meetings.

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Effective as of February 1, 2005, the Company changed the monthly retainer to an annual retainer, payable quarterly, and increased the amount of the retainer to $15,000 per year (or the equivalent of $1,250 per month). In addition, the Company began paying a supplemental annual retainer of $3,000 to each non-employee committee chairman. No changes were made in the fees payable for attendance at meetings of the Board of Directors or Board committees.

Pursuant to the terms of the 2005 Stock Incentive Plan approved by the Company' s shareholders at the 2005 annual meeting, each non-employee Director received an automatic award of 1,500 shares of restricted stock on January 28, 2005. The shares of restricted stock become fully vested and transferable if the Director remains in continuous service on the Board of Directors until January 28, 2006. The shares of restricted stock will become fully vested and transferable prior to that date if the Director dies or becomes disabled, or if the Company experiences a change-of-control.

Non-employee Directors have received awards of stock options under the Company' s Non-Employee Director Stock Option Plan that was adopted in February, 1997. A total of 25,000 shares of the Company' s common stock were authorized for issuance under the plan, and a participating Director was eligible to receive a maximum award covering 3,000 shares. Each current non-employee Director, other than Dr. Steger and Mr. Vipperman, has received options to purchase 3,000 shares of the Company' s common stock. All options issued under the plan have an exercise price equal to the fair market value of the Company' s common stock on date of grant, were fully vested and exercisable when granted, and have a term of ten years. As of December 31, 2005, outstanding and unexercised stock options are held as follows: 3,000 by Mr. Logan, 3,000 by Mr. Lunsford, 3,000 by Mr. Robertson, and 4,500 by retired directors.

Directors' Retirement Plan. The Company maintained an unfunded directors' retirement plan for Directors. Under the plan, a Director who has completed five years of service was eligible to receive a monthly retirement benefit equal to one-twelfth of the retainer being paid to then current members of the Board. The monthly benefit was payable for a period equal to the Directors' months of service as a director of the Company. The payment of benefits ceased upon a Director' s death. On January 28, 2005, the Company froze the number of months taken into account in determining the period over which retirement benefits would be paid following a Director' s retirement from the Board. With these changes, the accumulated service under the plan with respect to the Company' s current directors was as follows: 169 months for Mr. Cartledge, 7 months for Mr. Crawford, 73 months for Mr. Duke, 94 months for Mr. Logan, 323 months for Mr. Lunsford, 157 months for Mr. Robertson, 250 months for Mr. Smith, 36 months for Dr. Steger, and 12 months for Mr. Vipperman. Effective as of December 1, 2005, the Board of Directors terminated the plan, fully vested all Directors in their plan benefits and directed that the present value of each Director' s benefits, as adjusted to reflect mortality and other assumptions, be distributed on or before December 31, 2005. The required payments were distributed in a single lump sum. In connection with these actions, the following lump sum payments were made to the Company' s current Directors: $80,742 to Mr. Cartledge, $2,118 to Mr. Crawford, $26,300 to Mr. Duke, $44,748 to Mr. Logan, $99,035 to Mr. Lunsford, $68,714 to Mr. Robertson, $18,105 to Mr. Steger, $135,882 to Mr. Smith, and $9,402 to Mr. Vipperman.

Committees of the Board. The Board of Directors of the Company has standing Executive, Audit, Profit Sharing, Nominating and Corporate Governance, and Compensation Committees. The respective membership on and functions of such committees are set forth below.

The Executive Committee of the Board is composed of Messrs. Smith (Chairman), Cartledge, Logan and Robertson. This Committee is authorized to act, between meetings of the Board, in the place and stead of the Board, except with respect to matters reserved for the Board by Virginia law or by resolution of the Board. The Executive Committee met 14 times in 2005.

The Audit Committee of the Board is composed of Messrs. Robertson (Chairman), Logan, and Steger. Each member of the Committee is "independent" under the applicable rules of Nasdaq. In addition, each member of the Committee is able to read and understand fundamental financial statements, including the Company' s balance sheet, income statement, and cash flow statement and none of the members of the committee have participated in the preparation of the financial statements of the Company or any subsidiary during the past three years. Each member of the Committee is financially sophisticated as defined by Nasdaq, and both Mr. Robertson and Mr. Logan have been designated as an "audit committee financial expert" as defined by the Securities and Exchange Commission. The functions of the Committee include overseeing the accounting and financial reporting processes of the Company and the audits of the Company' s financial statements, selecting and overseeing the work performed by the Company' s independent registered public accounting firm, reviewing annual and interim reports of the Company and the independent registered public accounting firm of the Company, reviewing significant financial information, reviewing the Company' s system of internal controls and reviewing and approving all related party transactions. The Audit Committee met 11 times in 2005.

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The Profit Sharing Committee of the Board is composed of Messrs. Lunsford (Chairman) and Smith. The Committee meets quarterly to administer the Employees' Profit Sharing Plan of the Company, including making amendments thereto and issuing rulings or interpretations under the plan. The Profit Sharing Plan Committee met 4 times in 2005.

The Nominating and Corporate Governance Committee is composed of Messrs. Lunsford (Chairman), Cartledge and Steger. A copy of the charter of the Nominating and Corporate Governance Committee is available on the Company' s website, *www.roanokesteel.com*, under the tab "Corporate Governance." Each member of the Committee is "independent" under the applicable rules of Nasdaq. The Committee is responsible for considering and recommending nominees for the Board of Directors, assessing the performance of the Board of Directors, evaluating issues of corporate governance, and recommending the process through which the Board of Directors conducts its business. The Nominating and Corporate Governance Committee met 4 times in 2005.

The Compensation Committee of the Board is composed of Messrs. Cartledge (Chairman), Lunsford and Vipperman. Each member of the Committee is "independent" under the applicable rules of Nasdaq. The Committee meets as necessary to oversee the Company' s compensation and benefit practices, recommend to the full Board the compensation arrangements for the Company' s senior officers, administer the Company' s executive compensation plans and administer and consider awards under the Company' s stock option plan. The Compensation Committee met 9 times in 2005.

Information Concerning Executive Officers

The executive officers of the Company are set forth below. All officers are elected annually to serve at the discretion of the Board of Directors. Except as noted below, each of the executive officers has worked with the Company or its subsidiaries for at least five years. There are no family relationships among the Company' s executive officers, nor any agreement or understanding between any officer and any other person pursuant to which the officer was selected.

T. Joe Crawford, 50, is President and Chief Operating Officer of the Company. Prior to June 22, 2004, Mr. Crawford was Vice President – Administration and Secretary. Mr. Crawford has 28 years of service with the Company.

Timothy R. Duke, 54, is Chief Executive Officer of Steel of West Virginia, Inc., SWVA, Inc., Marshall Steel, Inc., and Steel Ventures, Inc., wholly-owned subsidiaries of the Company. Mr. Duke has 18 years of service with the Company.

Donald R. Higgins, 60, is Vice President – Sales. Mr. Higgins has 40 years of service with the Company.

Mark G. Meikle, 41, is Vice President – Finance, Assistant Treasurer, and Chief Financial Officer of the Company. Mr. Meikle re-joined the Company in September 2003. Prior to re-joining the Company, Mr. Meikle was Vice President and Chief Financial Officer of Belton Industries, a specialty fabric weaver from September 2000 to September 2003, Vice President of Container Management, Inc., a container leasing company for the textile industry, from March 1999 to September 2000, Vice President, Treasurer and Chief Financial Officer of Steel of West Virginia, Inc. from October 1996 to March 1999. Mr. Meikle has 12 years of service with the Company.

Donald G. Smith, 70, is Chairman of the Board, Chief Executive Officer, and Treasurer of the Company. Prior to June 22, 2004, Mr. Smith was also President. Mr. Smith has 48 years of service with the Company.

William M. Watson, Jr., 50, is General Counsel and Secretary of the Company. Mr. Watson joined the Company in August 2004. Prior to joining the Company, Mr. Watson was of counsel to Woods Rogers, PLC, the Company' s outside counsel, from January 2002 to July 2004, and Senior Vice President and Secretary of Wachovia Corporation and Wachovia Bank, National Association from October 1998 to January 2002. Mr. Watson has 2 years of service with the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company' s directors and designated executive officers, and any person who beneficially owns more than 10% of the Company' s outstanding common stock, to file with the Securities and Exchange Commission reports disclosing their initial ownership of the Company' s common stock, as well as subsequent reports disclosing changes in

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such ownership. To the Company’ s knowledge, based solely on a review of copies of such reports furnished to the Company, the Company’ s directors and designated executive officers timely complied with their respective Section 16(a) filing requirements except as noted below.

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During November 2004, Timothy R. Duke, a director and one of the Company' s executive officers, exercised an option to acquire 7,000 shares of the Company' s common stock. A Form 4 for this transaction was filed with the Securities and Exchange Commission on January 14, 2005.

Code of Ethics

The Company has adopted a code of conduct which applies to all directors, officers and employees, including the principal executive officer, principal financial officer, principal accounting officer or controller and other officers who perform similar functions (the "Designated Officers"). A copy of the code of conduct is posted on the Company' s website, *www.roanokesteel.com*, under the tab "Corporate Governance." The Company intends to disclose any changes in or waivers from its code of conduct applicable to directors, executive officers, and any Designated Officer on its website or by filing a current report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following table provides, for the years ended October 31, 2005, 2004 and 2003 information concerning the compensation of the Company' s Chief Executive Officer and the five other most highly compensated executive officers of the Company.

Summary Compensation Table

				Long-Term Compensation		
		Annual Compensation (1)		Awards	Payouts	
Name and Principal Position	Year	Salary($)	Bonus($)(3)	Securities Underlying Options (#)	LTIP Payouts ($)(4)	All Other Compensation(5)
Donald G. Smith (2)	2005	477,250	902,358	–	204,146	33,766
Chairman, Treasurer and CEO	2004	438,667	1,506,516	24,000		34,284
	2003	402,000	85,563	24,000		10,999
T Joe Crawford (2)	2005	339,750	417,257	–	107,894	29,706
President and COO	2004	191,500	444,062	6,000		30,210
	2003	153,000	21,641	6,000		5,597
Donald R. Higgins	2005	237,000	289,757	–	36,439	30,648
Vice President-Sales	2004	188,000	453,928	6,000		31,159
	2003	168,000	27,051	6,000		7,218
Timothy R. Duke (2)	2005	318,750	244,107	–	73,766	10,453
President and CEO,	2004	312,000	373,918	7,000		3,659
Steel of West Virginia, Inc.	2003	282,000	17,382	7,000		1,353
Mark G. Meikle	2005	228,750	187,586	–	53,325	29,061
Vice President and CFO	2004	210,000	154,598	6,000		10,004
	2003	–	–	–		–
William M. Watson, Jr.	2005	172,500	131,293	–	40,794	22,399
General Counsel and Secretary	2004	37,500	30,983	–	–	–
	2003	–	–	–	–	–

(1) None of the Company' s executive officers received perquisites or other personal benefits in excess of the lesser of $50,000 or 10% of the total of his salary and bonus reported in the above table.

(2) Includes amounts paid for service as Directors. For 2005, Messrs. Smith, Crawford and Duke were each paid $6,000.

(3) Represents amounts paid under the Company' s annual incentive compensation program, which is described in the section captioned "Compensation Committee Report on Executive Compensation."

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(4) Represents the value of the Company' s common stock to which the executive became entitled as a result of the vesting performance shares on October 31, 2005, as further described in the table captioned "Long-Term Incentive Plans-Awards in Last Fiscal Year."

(5) Includes (i) vested contributions to the tax-qualified profit sharing plans sponsored by the Company and its subsidiaries, and (ii) employer paid life insurance premiums. For 2005, the amounts contributed to tax-qualified profit sharing plans, for Messrs. Smith, Crawford, Higgins, Duke Meikle and Watson were $28,699; $28,425; $28,589; $9,901; $28,069; and $20,970, respectively; and the employer paid life insurance premiums for Messrs Smith, Crawford, Higgins, Duke, Meikle and Watson were $5,067; $1,280 $2,058; $552; $992 and $1,429, respectively.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth information regarding stock options exercised by each executive officer during the year ended October 31, 2005 and the value of unexercised options held by such persons on October 31, 2005.

Name	Shares Acquired on Exercise (#)	Value Realized ($) (1)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#) Exercisable/Unexercisable	Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End ($) (2) Exercisable/Unexercisable
Donald G. Smith	12,000	42,600	48,000/0	286,200/0
	12,000	64,800		
T. Joe Crawford	6,000	21,300	12,000/0	150,120/0
Donald R. Higgins	6,000	20,440	16,000/0	199,320/0
	6,000	32,340		
Timothy R. Duke	7,000	54,390	7,000/0	80,850/0
	7,000	24,850		
Mark G. Meikle	–	–	6,000/0	69,300/0
William M. Watson, Jr.	–	–	0/0	0/0

(1) Based on the difference between the closing price on the date of exercise and the option exercise price.

(2) Based on the difference between $21.91, the closing price of the Company' s common stock on October 31, 2005, and the option exercise price.

Long-Term Incentive Plans – Awards in Last Fiscal Year

The following table sets forth information regarding each award made to each executive officer during the year ended October 31, 2005:

Name	Number of Performance Shares (#)	Performance Period Until Payout (1)	Estimate Future Payouts Under Non-Stock Price-Based Plan (2) Threshold ($ or #)	Target ($ or #)	Maximum ($ or #)
Donald G. Smith	11,485	1 year ending on October 31, 2005	2,871.25	11,485	22,970
	22,970	2 years ending on October 31, 2006	5,742.50	22,970	45,940
	15,545	3 years ending on October 31, 2007	3,886.25	15,545	31,090
T Joe Crawford	6,070	1 year ending on October 31, 2005	1,517.50	6,070	12,140
	12,140	2 years ending on October 31, 2006	3,035.00	12,140	24,280
	18,210	3 years ending on October 31, 2007	4,552.50	18,210	36,420

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Name	Number of Performance Shares (#)	Performance Period Until Payout (1)	Estimate Future Payouts Under Non-Stock Price-Based Plan (2) Threshold ($ or #)	Target ($ or #)	Maximum ($ or #)
Donald R. Higgins	2,050	1 year ending on October 31, 2005	512.50	2,505	4,100
	4,100	2 years ending on October 31, 2006	1,025.00	4,100	8,200
	6,150	3 years ending on October 31, 2007	1,537.50	6,150	12,300
Timothy R. Duke	4,150	1 year ending on October 31, 2005	1,037.50	4,150	9,300
	8,300	2 years ending on October 31, 2006	2,075.00	8,300	16,600
	12,450	3 years ending on October 31, 2007	3,112.50	12,450	24,900
Mark G. Meikle	3,000	1 year ending on October 31, 2005	750	3,000	6,000
	6,000	2 years ending on October 31, 2006	1,500	6,000	12,000
	9,000	3 years ending on October 31, 2007	2,250	9,000	18,000
William M. Watson, Jr.	2,295	1 year ending on October 31, 2006	573	2,295	4,590
	4,590	2 years ending on October 31, 2007	1,147	4,590	9,180
	6,885	3 years ending on October 31, 2008	1,721	6,885	13,770

(1) The performance period for each award was based on the commencement date of November 1, 2004.

(2) A participant is entitled to receive one share of the Company' s common stock for each performance share that vests, with vesting determined based on the Company' s average return on invested capital relative to the average return on invested capital of peer companies for the performance period. The percentage of the performance shares that vest for a performance period is determined according to the following table:

Company' s relative average return on invested capital (expressed as a percentile of that of the peer group)	Percentage of performance shares that vest
95th	200 %
90th	175 %
85th	150 %
80th	125 %
75th	100 %
70th	90 %
65th	80 %
60th	70 %
55th	60 %
50th	50 %
45th	25 %
Below 45th	0 %

The peer group of companies consists primarily of US publicly traded companies with a Standard & Poors Global Industry Classification System code of 15104050 (which code applies to companies in the steel industry). Notwithstanding this schedule, if the Company' s average return on invested capital is negative for a performance period, no more than 25% of the number of performance shares for that period may vest. In addition, if a participant dies or becomes disabled prior to the end of a performance period, the participant will be deemed to have continued in employment through the end of the relevant performance period and will vest in the same number of performance shares in which the participant would have vested had the participant actually remained in continuous employment until the end of the performance period. Participants who retire prior to the end of a performance period will vest in a prorated portion of the total performance shares in which they

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would have vested had they remained in continuous employment until the end of the performance period. The pro-ration will be based on the number of days during the performance period which elapsed prior to the participant' s retirement. A participant is eligible to retire after having attained age 62 or, if earlier, after having attained age 55 and completed 10 years of service. In the event of a change in control of the Company, 100% of a participant' s performance shares will vest. The Company will settle such vested performance shares in cash, instead of in shares of the Company' s common stock, in an amount equal to the aggregate fair market value of shares of the Company' s common stock equal in number to the participant' s vested performance shares. The consummation of the merger of the Company with SDI will constitute a change in control for any outstanding performance grants.

Contracts with Executive Officers

Executive Employment Continuity Agreements. In February, 2005, the Company entered into executive employment continuity agreements with Messrs. Smith, Crawford, Higgins, Duke, Meikle, and Watson. The continuity agreements replaced change in control agreements that the Company previously had in place for each of these executives. The new continuity agreements provided that, in the event of a "change in control," the Company would continue to employ each executive for a period of twenty-four (24) months (the "employment period"). "Change in control" is defined generally as the acquisition by any person of 20% or more of the voting power of the Company (subject to certain exceptions); the replacement of a majority of the current directors of the Company by other persons whose election was not approved by the current directors or their approved successors; or the reorganization, merger, consolidation or sale of all or substantially all of the assets of the Company which results in a specified change in the percentage of voting power held by shareholders who were shareholders of the Company immediately before the reorganization, merger, consolidation, or sale of assets. Because Mr. Duke is employed by a subsidiary of the Company, his agreement provided that a change in control also includes the reorganization, merger, consolidation or sale of all or substantially all of the assets of Steel of West Virginia, Inc. or SWVA, Inc. that results in a specified change in the percentage of voting power held by shareholders who were shareholders of either company immediately before such a transaction.

During the employment period, each executive will continue to receive (i) an annual base salary equal to at least the executive' s base salary before the change in control (which may be increased annually); (ii) an annual bonus opportunity equivalent to that available to the executive under the Company' s annual incentive plan in effect during the twelve-month period immediately preceding a change in control; and (iii) continued participation in all incentive, savings, retirement, welfare benefit and fringe benefit plans generally available to other peer executives of the Company on terms no less favorable than those in effect during the 90-day period immediately preceding a change in control.

The continuity agreements also specified the payments and benefits to which an executive would be entitled upon the termination of employment during the employment period for specified reasons, including death, disability, termination for cause or constructive termination (as those terms are defined in the agreements), or if the executive voluntarily terminates employment within 30 days after the first anniversary of a change in control. If an executive' s employment were terminated by the Company for any reason other than cause or disability, or by an executive for a constructive termination or during the 30 day period described above, the Company would pay to the executive a lump sum cash payment equal to his unpaid salary through the date of termination, any unpaid deferred compensation, and any amounts payable under the Company' s annual incentive plan, to the extent not yet paid. In addition, the Company would pay to the executive a lump sum cash payment equal to 2.99 multiplied by the sum of (i) the executive' s highest annual base salary for the 60-month period preceding termination of his employment, and (ii) the greater of 100% of the executive' s target bonus under the Company' s annual incentive plan for the year in which the change in control occurs or 100% of the executive' s annual bonus opportunity for the year in which the executive terminates employment (subject to pro-ration to the extent the executive is within three years of his mandatory retirement date). The executive would also be entitled to continued participation in the Company' s welfare benefit plans for two years following his termination of employment, receive a cash payment equal to the estimated employer contribution that he would have received under the Company' s tax-qualified retirement plan for the plan year in which his employment terminates, and payment of up to $25,000 of costs for out-placement services (unless he is within 36 months of his mandatory retirement date).

If an executive terminated employment by reason of disability or death, he would receive the same benefits as above (other than outplacement services). However, the lump sum severance payment based on the 2.99 multiplier and the lump sum payment based on the Company' s estimated contribution to any tax-qualified retirement plan will be prorated so that the executive will receive only a portion of each payment based on the number of months remaining in the employment period. If an executive' s employment terminates for any other reason, the agreement will terminate without further obligation of the Company other than the payment of any accrued obligations and any

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other amounts or benefits to which an executive would be entitled under any of the Company' s plans, policies, practices, or contracts then in effect.

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The Company is required to determine if the payments and benefits to an executive under the agreement, combined with any other payments or benefits to which the executive may be entitled to from the Company, would result in imposition of the excise tax under Section 4999 of the Internal Revenue Code. Payments and benefits that would result in imposition of the excise tax ("change in control payments") will be reduced to a level which would not result in imposition of the excise tax (the "capped amount") if the capped amount is equal to at least 90% of the total amount of the change in control payments. No reduction will be required if the capped amount is less than 90% of the total change in control payments, and the Company shall be required to pay to the executive an additional payment to compensate the executive for the amount of the excise tax payable with respect to the change in control payments and for additional taxes on that payment

Changes Made in Connection with the SDI Transaction. In connection with execution of the Merger Agreement with SDI, the Company entered into amendments to the continuity agreements with Messrs. Smith, Higgins, Meikle and Watson. The amendments become effective at the effective time of the merger, and become null and void if the Merger Agreement is terminated. The Compensation Committee of the Company' s Board of Directors determined that the amendments were appropriate to facilitate the merger.

The amendments require that certain payments and benefits be provided to the executives at the time the merger occurs. These payments and benefits are in lieu of the payments and benefits that the executives would be entitled to under the original continuity agreements if the executive' s employment terminated under the circumstances described above during the two-year period following the merger. Each of the four executives will receive a lump sum cash payment equal to any unpaid salary through the date of the merger, any unpaid deferred compensation and any amounts payable under the Company' s Management Incentive Plan to the extent not yet paid. In addition, each executive' s outstanding stock incentive awards will become fully vested and exercisable on the merger date, and the period for exercise of their Company stock options will be extended for a specified period.

In addition, Messrs. Higgins, Meikle and Watson (but not Mr. Smith) will receive a lump sum cash payment equal to 2.5 times the sum of (i) the highest base salary paid or payable to the executive during the twelve-month period immediately preceding the merger and (ii) the greater of the total cash award that would have been paid to the executive under the Company' s Management Incentive Plan for the performance year ended October 31, 2005 if the performance objectives had been achieved at 100%, or the total cash award paid or payable under the Company' s Management Incentive Plan in a subsequent performance period. Messrs. Higgins, Meikle and Watson (but not Mr. Smith) also will receive lump sum cash payments at the time of the merger equal to $78,000, $75,000, and $75,000, respectively. These lump sum payments are in lieu of coverage under Company welfare benefit plans and other reimbursements and payments that these executives would have been entitled to if their employment terminated under certain circumstances during the two-year period following the merger.

The continuity agreements for Messrs. Crawford and Duke were not amended. However, in connection with the execution of the Merger Agreement, Messrs. Crawford and Duke entered into employment agreements with SDI setting forth the material terms of each executive' s employment with SDI following the merger and which provide that their continuity agreements will be superseded and cancelled at the time of the Company' s merger with SDI. If the Merger Agreement is terminated, Messrs. Crawford' s and Duke' s employment agreements with SDI will become null and void and their continuity agreements with the Company will remain effective and binding.

Compensation Committee and Report on Executive Compensation

Compensation Committee Interlocks and Insider Participation. The Company' s executive compensation program is administered by the Compensation Committee (the "Committee") of the Board of Directors. The Committee is responsible for the establishment, approval and oversight of the total compensation and benefit policies, plans, programs and agreements for senior management, and consists of non-employee directors, none of whom are eligible to participate in any of the management compensation programs.

During 2005, the following individuals served on the Committee: George B. Cartledge, Jr., Charles I. Lunsford, II, and Joseph H. Vipperman. None of these members is, or has been, an officer or employee of the Company, and each member meets the independence requirements under applicable Nasdaq rules.

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Overall Compensation Program. Executive compensation has, to date, consisted primarily of base salary, an award under the Company' s stock based incentive plan, and participation in the Company' s incentive compensation program. Executives also participate in benefit programs that are generally available to other Company employees, including tax-qualified retirement plans. Total compensation is designed to attract and retain qualified senior executives, to support a long-standing culture of loyalty and dedication among senior executives to the interests of the Company and its shareholders and to reward executives for both short and long-term operating results and individual contributions which enhance the overall value of the Company to its shareholders.

In prior years, salaries had been set at levels which, in general, were less than amounts paid by the Company' s principal competitors, with the expectation that the Company' s cash bonus arrangements would provide an opportunity for executives to earn incentives which could bring their overall annual compensation to levels more consistent with those of principal competitors. During the fourth quarter of the 2004 fiscal year, the Committee engaged a national compensation consulting firm to review the Company' s compensation program and recommend changes to the Committee. The consulting firm concluded that the Company' s compensation program was too heavily focused on short-term incentives, and did not sufficiently address competitive base salary and long-term incentives. The consulting firm concluded that this approach tended to reward short-term performance and lead to grater volatility in annual compensation. The consulting firm recommended that the Company revise its compensation program to place less emphasis on short-term performance and to provide a more balanced mix of base salary, annual incentives, and long-term incentives to achieve market competitiveness and a stronger correlation between performance and compensation. The Committee generally agreed with the consulting firm' s analysis and recommendations, and the Committee implemented revisions to the Company' s compensation program. These revisions resulted in the adoption of the Management Incentive Plan and the 2005 Stock Incentive Plan, both of which were approved by shareholders in 2005.

Base Salary. In setting bases salaries for executive officers, other than the Chief Executive Officer, the Committee met with the Chief Executive Officer to discuss each executive' s personal performance and a variety of additional factors, including personal competencies, job responsibilities, tenure with the Company, contributions to the Company' s financial results, historical salary levels at the Company, and current and projected economic conditions. The Committee met without the Chief Executive Officer to consider his base salary. In considering the Chief Executive Officer' s base salary, the Committee considered the same factors as were considered with respect to the other executive officers. In addition, the Committee considered overall Company performance in setting the Chief Executive Officer' s base salary, taking into account the Company' s record earnings in 2004, and his retirement scheduled to coincide with the 2006 annual meeting of shareholders.

With the changes made in the Company' s compensation program beginning in 2005, base salaries for executive officers are targeted to be set at levels generally equal to the 50th percentile of a group of thirteen steel companies selected and confirmed by the Company and its consultant. In setting salaries for 2005, the Committee determined not to reduce the salary for an executive officer below the level established for 2004, as long as the executive had satisfactory personal performance. The Committee determined that this group of steel companies was an appropriate group to measure competitive base salaries for the Company' s executive officers because this group most closely represents the firms with which the Company directly competes for executive talent.

Annual Incentives. The Committee uses annual incentives to link a meaningful portion of executive compensation directly to Company profitability, with the goal of motivating executives to increase profitability and rewarding executives with respect to the Company' s success. The emphasis on incentive compensation for executives is consistent with a performance-based policy applied throughout the Company.

For 2005, the annual incentive component of an executive' s overall compensation included for the first three months the Company' s then existing incentive arrangement, which had been established in 1958, and for the next nine months the Management Incentive Plan approved by shareholders at the 2005 annual meeting. The Committee determined that each of these plans helped insure that a portion of the cash compensation of the executive officers was appropriately at risk with respect to the profitability of the Company.

Under the program in place for the first three months of the year, annual incentives for executives were based on a percentage of the consolidated monthly gross profits, before profit sharing and taxes, of the Company or, in the case of Mr. Duke, of Steel of West Virginia, Inc. ("SWVA"). During the first three months of 2005, the incentive percentage paid to Messrs. Smith, Crawford, Higgins, Meikle and Watson equaled 2.5%, 0.75%, 0.75%, 0.25%, and 0.125%, respectively, of the Company' s consolidated gross profits. During this same period, the incentive percentage paid to Mr. Duke equaled 2.0% of SWVA' s monthly gross profits.

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Under the Management Incentive Plan, the Committee selected "earnings before interest, taxes, depreciation, and amortization" ("EBITDA") as the appropriate performance measure for determining whether any bonuses were earned. In making this selection, the Committee conferred with management and the consulting firm the Committee had retained. The Committee then considered several factors, including that EBITDA had been used as the basis for bonuses under the Company' s previous plan, that EBITDA was a generally accepted method for determining successful operations of capital intensive businesses, and that EBITDA was readily determinable.

For 2005, the Committee granted target awards (expressed as a percentage of base salary) equal to 60% to Mr. Smith, 50% to Mr. Crawford, and 40% to each of Messrs. Higgins, Duke Meikle, and Watson, with the maximum award equal to 200% of the target, and the threshold award equal to 25% of the target. For Mr. Messrs Smith, Crawford, Higgins, Meikle and Watson, the Company' s consolidated EBITDA was the applicable performance measure, and for Mr. Duke SWVA' s consolidated EBITDA was the applicable performance measure. The level of EBITDA necessary to earn the threshold, target, and maximum bonus amounts was based on the Company' s and SWVA' s historical EBITDA for each of the years in the ten-year period from 1995 to 2004. The level of EBITDA necessary to earn 25%, 100% and 200% of the target percentage was set at levels with a probability of achievement of 90%, 50%, and 20%, respectively. Bonus amounts between the threshold and target, and the target and the maximum is based on interpolated performance levels. To ensure that participants did not receive bonuses under both the Management Incentive Plan and the prior incentive program, the Committee pro-rated the bonuses payable under the Management Incentive Plan. For 2005, the Committee certified, with respect to the awards for the Company' s executive officers, that the Company and SWVA, as applicable, had achieved EBITDA necessary for the payment of the maximum bonus.

Stock Based Incentives. The Committee intends for stock based incentive awards to be a larger component of the Company' s compensation program and to link a meaningful portion of executive compensation to enhancements in shareholder value. For 2005, the Committee decided to grant full-value performance share awards under which vesting and payment are directly linked to the Company' s performance relative to that of a broad group of peer companies. The Committee decided to use full-value awards because it believes that these types of awards allow for more precise targeting of compensation to the achievement of specific corporate performance measures. In addition, the Committee selected "return on invested capital" as the appropriate measure because of the direct correlation between a return on investment and shareholder value. Further, the Committee decided that Company performance should be measured against that of a peer group different from, and larger than, the peer group used to set base salaries for the year. The Committee selected this larger peer group for the performance share awards because it believed that this group provided for a more meaningful comparison when evaluating the Company' s financial performance. In making its determinations, the Committee considered comments from management and recommendations from the compensation consulting firm that the Committee had retained.

In 2005, the Committee approved performance share grants equal to a base number of shares of the Company' s common stock. A total of 155,390 performance share grants were made to the Company' s executive officers, with 29,050 of the grants having a one-year performance period ending on October 31, 2005, 58,100 of the grants having a two-year performance period ending on October 31, 2006,and 68,240 of the grants having a three-year performance period ending on October 31, 2007. The awards made to each executive officer are described in the table captioned "Long-Term Incentive Plans-Awards in Last Fiscal Year". For 2005, the Committee certified, with respect to the awards for the Company' s executive officers, that the Company had achieved a relative average return on invested capital equal to the 70th percentile, which resulted in the vesting of 90% of each executive' s target award.

Other Arrangements for Senior Officers. In February, 2005, following a comprehensive review of the Company' s compensation program for senior officers, the Company entered into new executive employment continuity agreements (the "continuity agreements") with Messrs. Smith, Crawford, Higgins, Duke, Meikle, and Watson, as described above in the section captioned "Contracts with Executive Officers" included in the portion of this Item 11 titled "Executive Compensation." The continuity agreements were implemented to insure that the shareholders' interests were protected during negotiations relating to possible business combination transactions by placing the executives responsible for such negotiations in an objective, impartial position, and to encourage key managers to remain with the Company through the occurrence of a possible business combination transaction.

Section 162(m) of the Internal Revenue Code. The Company is subject to Section 162(m) of the Internal Revenue Code which limits to $1 million per year the tax deduction available to public companies for certain compensation paid to its chief executive officer or to any of its four other most highly compensated executive officers. Performance-based compensation is not subject to the deduction limitation if certain requirements are met. To qualify as performance-based

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compensation, the compensation payments must be based on achieving objective performance criteria and the material terms of the performance criteria must have been approved by shareholders. The awards made under the Management Incentive Plan and the 2005 Stock Incentive Plan were designed to meet the requirements for performance based compensation.

The Committee, with the assistance of the Company' s legal counsel, has reviewed the impact of Section 162(m) on the Company and believes that it is unlikely that any of the compensation paid to any executive officer during the 2005 fiscal year will exceed the limit. The Committee will continue to monitor the impact of Section 162(m) and to assess alternatives for avoiding any loss of tax deductions.

George B. Cartledge, Jr., Chairman

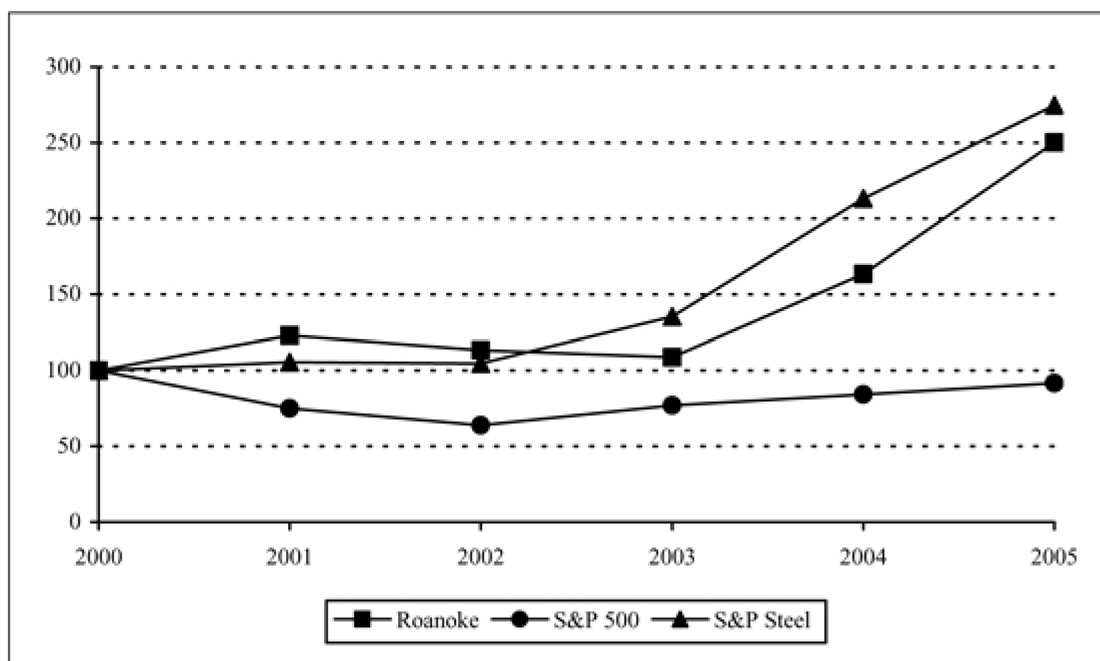
Charles I. Lunsford, II

Joseph H. Vipperman

Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder return on the Company' s common stock with the cumulative total returns on the Standard & Poor' s 500 Composite Stock Index (the "S&P 500") and the Standard & Poor' s Steel Index (the "S&P Steel") for the five year period commencing on October 31, 2000 and ending on October 31, 2005. These comparisons assume the investment of $100 in the Company' s common stock and each of the indices on October 31, 2000 and the reinvestment of dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Roanoke Electric Steel Corporation, the S&P 500 Index, and the S&P Steel Index



	Base Period 2000	2001	2002	2003	2004	2005
Roanoke	100	122.78	113.33	108.64	163.40	250.07
S&P 500	100	75.10	63.75	77.01	84.27	91.62

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S&P Steel	100	105.39	104.41	135.31	213.13	274.64

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth as of December 31, 2005, information with respect to the known beneficial owners of more than five percent of the outstanding common stock of the Company. To the Company' s knowledge, no other person owned more than 5% of the Company' s outstanding common stock as of December 31, 2005.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class (1)
FMR Corp Edward C. Johnson, III and Abigail P. Johnson 82 Devonshire Street Boston, MA 02019	1,127,557(2)	10.03 %
Strong Capital Management, Inc. 100 Heritage Reserve Menomonee Falls, WI 53051	718,131 (3)	6.39 %
Wesley Guylay Capital Management , L.P. Wesley Guylay Capital Management III, L.P. Wesley Richard Gulay 30 Rockefeller Plaza, Suite 4535 New York, NY 10112	626,711 (4)	5.58 %
Sarah Hancock McClain 299 Redbud Lane, Rte. 951 Moneta, VA 24121	933,954	8.31 %

(1) Based on the number of shares outstanding at December 31, 2005, excluding shares held by the Company' s subsidiaries.

(2) FMR Corp. is the parent holding company of Fidelity Management & Research Company, a registered investment advisor. Fidelity Management & Research Company by acting as the investment advisor to various registered investment companies is the beneficial owner of shares of the Company' s common stock. Mr. and Mrs. Johnson and their family members are the principal shareholders of FMR Corp. The information in the table is based on a Schedule 13G filed on February 14, 2005.

(3) Strong Capital Management, Inc. is a registered investment advisor and holds shares of the Company' s common stock on behalf of its investment advisory clients. Mr. Strong is the principal shareholder of Strong Capital Management. The information in the table is based on a Schedule 13G filed on February 11, 2005.

(4) The information in the table is based on a Schedule 13G filed on February 11, 2005.

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The following table sets forth as of December 31, 2005, certain information regarding the beneficial ownership of the common stock of the Company by each director and nominee, each executive officer, and directors, nominees and executive officers as a group. Unless otherwise noted in the footnotes to the table, the named persons have sole voting and investment power with respect to all outstanding shares of common stock shown as beneficially owned by them.

Name of Beneficial Owner and Number of Persons in Group	Shares of Common Stock Beneficially Owned[1]	Percent of Class[2]
George B. Cartledge, Jr.[3] [4]	180,264	1.60 %
T. Joe Crawford	52,025	*
Timothy R. Duke	34,532	*
Donald R. Higgins[3]	56,455	*
George W. Logan[3]	388,100	3.45 %
Charles I. Lunsford, II[3] [5]	22,395	*
Mark G. Meikle	7,830	*
Thomas L. Robertson	34,725	*
Donald G. Smith[3]	234,744	2.08 %
Charles W. Steger	2,150	*
Joseph H. Vipperman	2,700	*
William M. Watson, Jr.	1,400	*
All directors, and executive officers as a group (12 persons)	1,017,320	9.00 %

* Less than one percent

(1) Includes the following number of shares of common stock that may be acquired within 60 days of the Record Date through the exercise of stock options under one or more of the Company' s stock plans: Mr. Crawford, 12,000; Mr. Logan, 3,000; Mr. Lunsford, 3,000; Mr. Robertson, 3,000; Mr. Smith, 48,000; and all directors and executive officers as a group, 69,000.

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(2) Based on the number of shares outstanding at, or acquirable within 60 days of, December 31, 2005, excluding shares held by the Company' s subsidiaries.
(3) Includes the following number of shares of common stock owned by or for the benefit of family members of the following directors and executive officers: Mr. Cartledge, 1,264; Mr. Higgins, 1,450; Mr. Logan, 610; Mr. Lunsford, 17,245; and Mr. Smith, 38,384.
(4) Includes 50,000 shares held by Grand Home Furnishings, Inc., of which Mr. Cartledge is Chairman, and 67,500 shares held in a trust, of which Mr. Cartledge is co-trustee, for the benefit of his children.
(5) Includes 650 shares held by a charitable trust in which Mr. Lunsford is a co-trustee and shares investment power.

The equity compensation plan information required by this item is incorporated by reference to the information set forth under Item 5 of Part II of this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Edward M. Smith, the son of Donald G. Smith, the Chairman and Chief Executive Officer of the Company, is Vice President of Rutherfoord, an insurance brokerage and risk management firm, in Roanoke Virginia. During the fiscal year ending on October 31, 2005, the Company purchased one or more of its business insurance policies (including, general liability, automobile liability, workers' compensation, environmental liability, umbrella liability, and wharfinger' s liability) through Rutherford. The Company paid, or will pay, premiums totaling $3,696,640 to Rutherfoord for the insurance purchased or renewed through Rutherfoord during fiscal 2005. Mr. Edward Smith is compensated by his firm based upon the fees or commissions the firm receives on business that he generates, and Mr. Edward Smith will earn approximately $62,000 as a result of the insurance purchased or renewed by the Company through Rutherfoord during fiscal 2005.

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Barry E. Wirt, the son-in-law of Donald G. Smith, the Chairman and Chief Executive Officer of the Company, is an owner of Claytor/ Wirt Associates, an insurance agency and brokerage firm, in Roanoke, Virginia. During the fiscal year ending on October 31, 2005, the Company renewed disability insurance, group life insurance, and Company owned life insurance originally purchased in prior years. In addition, the Company purchased company owned life insurance policies on two senior officers through Claytor/Wirt Associates, which policies are in addition to those purchased by the Company in prior years. The Company paid, or will pay, premiums totaling $116,824 to Claytor/Wirt for the insurance purchased or renewed through Claytor/Wirt during fiscal 2005. Mr. Wirt is compensated by his firm based on the fees or commission the firm receives on the business he generates, and Mr. Wirt will earn approximately $6,400 as a result of the insurance purchased or renewed by the Company through Claytor/Wirt during fiscal 2005.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Report of the Audit Committee. The Audit Committee operates pursuant to a written charter adopted by the Board of Directors. The Committee is responsible for overseeing the Company' s accounting and financial reporting processes and audits of the Company' s consolidated financial statements. As set forth in its charter, the Committee acts in an oversight capacity and relies on the work and assurances of both management, which has primary responsibilities for the Company' s financial statements and reports, as well as the independent registered public accounting firm responsible for expressing an opinion on the conformity of the Company' s audited consolidated financial statements to U.S. generally accepted accounting principles.

The Committee met 11 times during 2005. In the course of its meetings, the Committee met with the Company' s independent registered public accounting firm, both with and without management, and reviewed the results of their audit examinations, evaluations of the Company' s internal controls and the overall quality of the Company' s financial reporting. The Committee also discussed with the Company' s independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, by the Sarbanes-Oxley Act of 2002, and by the charter of the Committee, and it received and discussed with the independent registered public accounting firm their written report required by Independence Standards Board Standard No. 1.

The Committee has reviewed with management and KPMG LLP the Company' s audited consolidated financial statements for 2005, and discussed, among other things, the quality and acceptability of the financial reporting, the reasonableness and consistency of significant accounting judgments and estimates, and the quality of disclosures in the consolidated financial statements. Management has represented, and KPMG LLP has issued an opinion that the consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles.

The Committee reviewed and discussed the requirements of, and the Company' s compliance with, Section 404 of Sarbanes-Oxley, including the Public Company Accounting Oversight Board' s Auditing Standard No. 2 regarding the audit of internal control over financial accounting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the Company' s audited consolidated financial statements be included in the Annual Report on Form 10-K.

Thomas L. Robertson, Chairman

George W. Logan

Charles W. Steger

Changes in the Company' s Certifying Accountant. On May 11, 2005, the Audit Committee dismissed Deloitte & Touche LLP as the Company' s independent registered public accounting firm. Also on May 11, 2005, the Committee approved the engagement of KPMG LLP as the Company' s independent registered public accounting firm to replace Deloitte &Touche for the Company' s 2005 fiscal year.

The reports of Deloitte & Touche LLP on the consolidated financial statements of the Company for the two fiscal years ended October 31, 2004 and October 31, 2003, did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

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In connection with the audits of the Company’ s financial statements for each of the two fiscal years ended October 31, 2004 and October 31, 2003, and in subsequent interim periods, there were no disagreements between the Company and its auditors, Deloitte & Touche LLP on any matter of accounting principles or practices, consolidated financial statement disclosure, or auditing scope or procedures, which, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused Deloitte & Touche LLP to make reference to the matters in its reports.

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The Company did not consult with KPMG LLP during the two fiscal years ended October 31, 2004 and October 31, 2003, or during the subsequent interim periods on either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company' s consolidated financial statements.

The Company provided Deloitte & Touche LLP with a copy of the disclosure and requested Deloitte & Touche LLP to furnish the Company with a letter addressed to the Securities and Exchange Commission stating whether Deloitte & Touche LLP agreed with the statements made by the Company. The letter was attached to the Company' s Form 8-K filed May 17, 2005, as Exhibit 16 thereto.

Audit and Non-Audit Fees. The following table sets forth fees paid to KPMG LLP for services provided during 2005:

	2005
Audit Fees	$785,000
Audit Related Fees	–
Tax Fees	10,000
All Other Fees	–
TOTAL	$795,000

Fees for audit services include fees associated with the annual audit, the reviews of the Company' s quarterly reports on Form 10-Q, internal control audit required by Sarbanes-Oxley Section 404 regulation, and procedures associated with filings with the Securities and Exchange Commission. Tax fees include tax compliance.

The following table sets forth fees paid to Deloitte & Touche LLP for services provided during 2004 and 2005 prior to its dismissal by the Committee:

	2005	2004
Audit Fees (1)	$31,853	$603,733
Audit Related Fees (2)	13,140	124,941
Tax Fees (3)	0	18,500
All Other Fees	62,282	–

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TOTAL		$107,275	$747,174

(1) Represents fees for professional services provided in connection with the audit of annual consolidated financial statements and review of quarterly consolidated financial statements, advice on accounting matters that arose during the audit and audit services provided in connection with other statutory or regulatory filings.

(2) Represents fees for assurance services related to the audit of the Company' s financial statements and for services in connection with audits of the Company' s benefit plans.

(3) Represents fees for services provided in connection with tax compliance, tax advice and tax planning, including services provided in connection with assistance in the preparation and filing of tax returns.

The Audit Committee has determined that the provision of audit and non-audit services by the Company' s independent registered public accounting firms was compatible with maintaining such firms' independence. In accordance with its charter, the Audit Committee approves in advance all audit and non-audit services to be provided by the Company' s independent registered public accounting firms. In other cases, the Chairman of the Audit Committee has the delegated authority from the Committee to pre-approve certain additional services, and such pre-approvals are communicated to the full Committee at its next meeting. During 2005, all of the services performed by either Deloitte & Touche LLP or KPMG LLP were approved by the Audit Committee in accordance with this policy.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report:

1. Financial Statements. The following financial statements are incorporated by reference to pages 14 through 36 of the 2005 Annual Report:

   (a) Consolidated Balance Sheets
   (b) Consolidated Statements of Stockholders' Equity and Comprehensive Earnings (Loss)
   (c) Consolidated Statements of Earnings (Loss)
   (d) Consolidated Statements of Cash Flows
   (e) Notes to Consolidated Financial Statements
   (f) Management's Report on Internal Control Over Financial Reporting
   (g) Reports of Independent Registered Public Accounting Firms

   Individual financial statements of the Company are not being filed because the Company is primarily an operating company and its subsidiaries do not have minority equity interests and/or long-term indebtedness (including current portions) to any person outside the consolidated group (excluding long-term indebtedness which is collateralized by the Company by guarantee, pledge, assignment or otherwise), in amounts which together exceed 5 percent of the total consolidated assets.

2. Financial Statement Schedules. See Item 15(c).

3. Exhibits. The exhibits listed on the accompanying Index to Exhibits immediately following the signature page are filed as part of, and incorporated into, this report.

(b) See Index to Exhibits and Item 15(a)(3).

(c) The following consolidated financial statement schedule, Schedule II – Valuation and Qualifying Accounts", should be read in conjunction with the consolidated financial statements. The opinion of KPMG LLP with respect to this schedule as of October 31, 2005, and for the year then ended, is included within the consent of KPMG LLP attached as Exhibit 23.1 to this Form 10-K and incorporated herein by reference. The opinion of Deloitte & Touche LLP with respect to this schedule as of October 31, 2004 and October 31, 2003, and for the years then ended, is set forth on the next page.

The financial statement schedules not included in this report on Form 10-K have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or included in the notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Roanoke Electric Steel Corporation and subsidiaries (the "Company") as of October 31, 2004, and for the years ended October 31, 2004 and 2003, and have issued our report thereon dated December 8, 2004, except for Note 1 - Discontinued Operations, as to which the date is January 11, 2006 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, on November 1, 2002); such consolidated financial statements and report are included in your 2005 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of the Company for the years ended October 31, 2004 and 2003, listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company' s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule for the years ended October 31, 2004 and 2003, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
December 8, 2004

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Set forth below is “Schedule II - Valuation and Qualifying Accounts” for the Registrant as required by Rule 5-04 of Regulation S-X:

Description	Beginning Balance	Charged to Cost & Expenses (1)	Charged to Other Accounts	(A/R Charged Against Allowance) Deductions	Ending Balance
Y/E 10/31/03:					
Allowance for:					
Bad debts	$1,180,815	$3,328,465	$ –	$1,680,687	$2,828,593
Sales returns	682,931	742,544	–	824,039	601,436
	1,863,746	4,071,009	–	2,504,726	3,430,029
Y/E 10/31/04:					
Allowance for:					
Bad debts	2,828,593	2,079,166	–	595,308	4,312,451
Sales returns	601,436	1,887,679	–	1,462,847	1,026,268
	3,430,029	3,966,845	–	2,058,155	5,338,719
Y/E 10/31/05:					
Allowance for:					
Bad debts	4,312,451	431,817	–	2,930,768	1,813,500
Sales returns	1,026,268	1,542,613	–	1,071,242	1,497,639
	$5,338,719	$1,974,430	$ –	$4,002,010	$3,311,139

(1) The Company sells to a large customer base of steel fabricators, steel service centers, original equipment manufacturers and construction contractors, most all of which deal primarily on 30-day credit terms. The Company believes its concentration of credit risk to be minimal

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in any one geographic area or market segment. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. 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 actual losses 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 11, 2006

ROANOKE ELECTRIC STEEL CORPORATION

By: /s/ Donald G. Smith

Donald G. Smith, Chairman, Treasurer and

Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Donald G. Smith Donald G. Smith	Chairman of the Board, Chief Executive Officer, Treasurer (Principal Executive Officer)	January 11, 2006
/s/ Mark G. Meikle Mark G. Meikle	Vice President - Finance, Assistant Treasurer, Chief Financial Officer (Principal Financial Officer)	January 11, 2006
/s/ T. Joe Crawford T. Joe Crawford	President and Director	January 11, 2006
* George B. Cartledge, Jr.	Director	January 11, 2006
* Timothy R. Duke	Director	January 11, 2006
* George W. Logan	Director	January 11, 2006
* Charles I. Lunsford, II	Director	January 11, 2006
* Thomas L. Robertson	Director	January 11, 2006
* Charles W. Steger	Director	January 11, 2006
* Joseph H. Vipperman	Director	January 11, 2006

/s/ William M. Watson, Jr.

* By:

William M. Watson, Jr.,
Attorney-in-fact

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EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement of Merger and Reorganization, dated October 17, 2005, by and among Steel Dynamics, Inc., RS Acquisition Corporation and Roanoke Electric Steel Corporation (incorporated by reference to Exhibit 2.1 to the Current Report filed October 24, 2005 (file number 0-2389))
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	Amended and Restated Bylaws of Roanoke Electric Steel Corporation (incorporated by reference to Exhibit 3(ii).1 to the Current Report on Form 8-K filed November 21, 2005 (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 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))
10.2*	SWVA, Inc. Supplemental Executive Retirement Plan (FILED HEREWITH)
10.3*	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))
10.4*	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))
10.5*	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))
10.6*	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 (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2005 (file number 0-2389))
10.7*	Form of Restricted Stock Agreement for outside directors under the Roanoke Electric Steel Corporation 2005 Stock Incentive Plan dated January 28, 2005 (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended January 31, 2005 (file number 0-2389))

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10.8*	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))
10.9*	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))
10.10*	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))
10.11*	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 0-2389))
10.12*	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 0-2389))
10.13*	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 0-2389))
10.14*	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 0-2389))
10.15*	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 0-2389))
10.16*	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 0-2389))
10.17*	Amendment to Executive Employment Continuity Agreement dated as of October 17, 2005, with Donald G. Smith (incorporated by reference to Exhibit 10.1 to the Current Report filed October 24, 2005 (file number 0-2389))
10.18*	Amendment to Executive Employment Continuity Agreement dated as of October 17, 2005, with Donald R. Higgins (incorporated by reference to Exhibit 10.2 to the Current Report filed October 24, 2005 (file number 0-2389))
10.19*	Amendment to Executive Employment Continuity Agreement dated as of October 17, 2005, with Mark G. Meikle (incorporated by reference to Exhibit 10.3 to the Current Report filed October 24, 2005, and amended January 11, 2006 (file number 0-2389))
10.20*	Amendment to Executive Employment Continuity Agreement dated as of October 17, 2005, with William M. Watson, Jr. (incorporated by reference to Exhibit 10.4 to the Current Report filed October 24, 2005 (file number 0-2389))
10.21*	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))

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13	2005 Annual Report to Shareholders (FILED HEREWITH)
21	Subsidiaries of Roanoke Electric Steel Corporation (FILED HEREWITH)
23.1	Consent of KPMG LLP (FILED HEREWITH)
23.2	Consent of Deloitte & Touche LLP (FILED HEREWITH)
24	Power of Attorney (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)

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* Management contract or compensatory plan or arrangement of the Company required to be filed as an exhibit.

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Exhibit 10.2

SWVA, INC.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Effective as of September 1, 1997

This Plan has been established by SWVA, Inc. (the "Company"), effective as of September 1, 1997 (the "Effective Date"), for the purpose of providing supplemental retirement benefits to a select group of its management and highly compensated employees who are participants in the SWVA, Inc. Management Retirement Plan, as amended (the "Retirement Plan"). Participants in this Plan are provided Supplemental Contributions (as defined herein) to replace the portion of Discretionary Employer Contributions (also defined herein) that would have been allocated to their accounts under the Retirement Plan in the absence of the limitations imposed by Sections 401(a)(17) and 415 of the Code.

1. **Definitions.**

For purposes of this Plan, the following definitions apply:

(a) "**Account**" means the unfunded bookkeeping account established and maintained for each Participant pursuant to Section 3 hereof.

(b) "**Affiliate**" means any entity affiliated with the Company within the meaning of Code Sections 414(b) with respect to a controlled group of corporations, 414(c) with respect to trades of businesses under common control with the Company, 414(m) with respect to affiliated service groups and any other entity required to be aggregated with the Company under Section 414(o) of the Code. No entity shall be treated as an Affiliate for a period during which it is not part of the controlled group, under common control otherwise required to be aggregated under Code Section 414.

(c) "**Board**" means the Board of Directors of the Company.

(d) "**Change of Control**" means the occurrence of any of the following events:

(i) Steel or the Company is party to a merger of combination under the terms of which any person or group as the term is used in Rule 13d-5 under the Securities Exchange Act of 1934 own 20% or more of the shares in the resulting company; or

(ii) at least 50% in fair market value of Steel or the Company' s assets are sold; or

(iii) at least 20% in voting power in election of directors of Steel' s or the Company' s capital stock is acquired by any one person or group as that term is used in Rule 13d-5 under the Securities Exchange Act of 1934; or

(iv) the individuals comprising the Board of Directors of Steel on the Effective Date cease to comprise a majority of the Board of Directors of Steel; or

(v) the individuals comprising the Board of Directors of the Company on the Effective Date cease to comprise a majority of the Board.

(e) "**Code**" means the Internal Revenue Code of 1986, as amended.

(f) "**Committee**" means the committee, if any, appointed by the Board to administer this Plan on its behalf. If no committee is appointed, the Board shall be deemed to be the Committee.

(g) "**Company**" means SWVA, Inc. or any successor thereto as a result of a merger or consolidation.

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(h) “**Discretionary Employer Contribution**” means a profit sharing contribution made by the Company to the Retirement Plan pursuant to Section 4.06 of the Retirement Plan.

(i) “**Employee**” means any person employed by the Company or an Affiliate.

(j) “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

(k) “**Participant**” means any Employee whose Discretionary Employer Contribution which would be allocated to the Employee’ s account under the Retirement Plan is limited by the annual compensation limitation imposed by Section 401(a)(17) of the Code and the limitation on “annual additions” impose by Section 415 of the Code and with regard to periods prior to the Effective Date, the individuals set forth on Exhibit A hereto.

(l) “**Plan**” means this SWVA, Inc. Supplemental Executive Retirement Plan, as amended from time to time.

(m) “**Steel**” means Steel of West Virginia, Inc., or any successor thereto as a result of a merger of consolidation.

(n) “**Supplemental Contribution**” means the amounts credited to a Participant’ s Account pursuant to Section 2 hereof.

(o) “**Termination of Employment**” means a termination of employment as an Employee of the Company or any Affiliate for any reason whatsoever, including, without limitation, death, retirement, resignation or dismissal (with or without cause).

(p) “**Valuation Date**” means: (i) in the event of Termination of Employment for any reason, the last day of the month during which the Participants incurs a Termination of Employment and (ii) in the event of a Change of Control prior to a Termination of Employment, the last day of the month during which the Change of Control occurs.

2. **Supplemental Contributions**.

(a) On the same day that a Discretionary Employer Contribution is allocated to the Participant’ s account maintained under the Retirement Plan, the Company shall credit to each Participant’ s Account an amount equal to the difference, if any, between:

(i) that portion of the Discretionary Employer Contribution which would have been allocated to the Participant’ s account under the Retirement Plan had such amount been calculated without regard to (i) the annual compensation limitation imposed by Section 401(a)(17) of the Code, and (ii) the limitation of “annual additions” imposed by Section 415 of the Code; and

(ii) that portion of the Discretionary Employer Contribution which actually was allocated to the Participants’ account under the Retirement Plan.

(b) The determination of the amount of any Supplemental Contribution shall be made by the Committee in its sole discretion.

3. **Accounts and Earnings Factors**.

(a) The Company shall establish an Account for each Participant which shall be credited with Supplemental Contributions and, thereafter, be adjusted to reflect earnings, losses, expenses and distributions at least annually or more frequently as determined by the Committee in its sole and absolute discretion. The Company shall issue a report to each Participant on a quarterly basis reflecting the Participant’ s Account activity (including total account value, contributions made during the applicable quarter and earnings and losses) in a manner determined by the Company in its sole discretion.

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(b) Amounts credited to a Participant' s Account shall be deemed to be invested in accordance with the Participant' s investment election under the Retirement Plan. Notwithstanding the foregoing, the Company, the Board and the Committee shall have no obligation to actually invest any assets in the investment vehicles selected by the Participants or in any other investment vehicle.

4. **Vesting**.

Each Participant shall at all times be one hundred percent (100%) vested in his Account balance.

5. **Payment and Form of Benefits**.

(a) In the event of Participant' s Termination of Employment other than due to death, the Participant' s Account balance, valued as of the Valuation Date, shall be paid in the form of a lump sum to the Participant as soon as administratively practicable following the Valuation Date (but in no event later than thirty days following the Valuation Date). Notwithstanding the foregoing, in the event of a Participant' s Termination of Employment other than death prior to the Effective Date, the Participant' s Account balance shall be valued as of the last day of the month preceding payment and shall be paid in the form of a lump sum to the Participant as soon as administratively practicable.

(b) In the event of a Change prior to Participant' s receipt of his Account balance, the Participant' s Account balance, valued as of the Valuation Date, shall be paid in the form of lump sum to the Participant as soon as administratively practicable following the Valuation Date (but in no event later than thirty days following the Valuation Date).

(c) Notwithstanding the foregoing, the Company shall have the right, in its sole and absolute discretion, to accelerate the payment of any and all benefits payable hereunder.

6. **Death of Participant**.

(a) In the event of a Participant' s death prior to his receipt of payment of his Account balance, the Participant' s Account balance, valued as of the date of the Valuation Date, shall be paid in the form of a lump sum to the participant' beneficiary, as determined in accordance with Section 6(b) below, as soon as administratively practicable following the Valuation Date (but in no event later than thirty days following the Valuation Date).

(b) Each Participant may designate a beneficiary to receive any benefits payable as a result of such Participant' s death. The beneficiary designation shall be effective only if it is made on a beneficiary designation form prescribed by the Committee. A beneficiary designation may be revoked or changed by the Participant at any time by filing a new beneficiary designation form with the Committee. Absent a valid beneficiary designation hereunder, the Participant' s beneficiary hereunder shall be his or her beneficiary under Retirement Plan.

7. **Reemployment**.

If a Participant who has incurred a Termination of Employment is reemployed by the Company of an Affiliate prior to the payment of is Account balance, unpaid benefits accrued hereunder prior to his Termination of Employment shall again be governed by the terms of the Plan.

8. **Claims Procedure**.

(a) The Committee shall be responsible for determining all claims for benefits under this Plan by the Participants or their beneficiaries. Within ninety (90) days after receiving a claim (or within up to one hundred eighty (180) days, if the claimant is so notified, including notification of the reason for the delay), the Committee shall notify the Participant or beneficiary of its decision in writing, giving the reasons for its decision if adverse to the claim. If the decision is adverse to the claimant, the Committee shall advise him of the Plan provisions involved, of any additional information which he must provide to perfect his claim and why, and of his right to request a review of the decision.

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(b) A claimant may request a review of an adverse decision by written request to the Committee made within sixty (60) days after receipt of the decision. The claimant, or his duly authorized representative, may review pertinent documents and submit written issues and comments.

(c) Within sixty (60) days after receiving a request for review, the Committee shall notify the claimant in writing of (i) its decision, (ii) the reasons therefore, and (iii) the Plan provisions upon which it is based.

(d) The Committee may at any time alter the claims procedure set forth above, so long as the revised claims procedure complies with ERISA, and the regulations issued thereunder.

(e) The Committee shall have the full power and authority to interpret, construe and administer this Plan in its sole discretion based on the provisions of the Plan and to decide any questions and settle all controversies that may arise in connection with the Plan. Both the Committee' s and the Board' s interpretations and construction thereof, and actions thereunder, made in the sole discretion of the Committee and the Board, including any Account valuation, any determination under this Section 8, or the amount of the payment to be made hereunder, shall be final, binding and conclusive on all persons for all persons. No member of the Board or Committee shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan.

(f) The Committee shall determine, subject to the provisions of this Plan: (i) the additional Employees who shall participate in this Plan from time to time; and (ii) when an Employee shall cease to be a Participant.

9. **Construction of Plan.**

Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create to be construed to create a trust of any kind, or a fiduciary relationship between the Company and the Participants, their beneficiaries of any other person. The Company is not required to and shall not, for federal income tax purposes or otherwise, fund this Plan. Any contributions credited to an Account and deemed invested under this Plan shall continue for all purposes to be part of the general assets of the Company and person other than Company shall by virtue of the provisions of this Plan have any interest in such amounts. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

10. **Top Hat Plan.**

It is the Company' s intention that this Plan be construed as an unfunded, non-qualified deferred compensation plan maintained for a select group of management of highly compensated employees within the meaning of Section 201(2) of ERISA.

11. **Payment Not Salary.**

The benefits payment hereunder shall not be deemed salary or other compensation to the Participants for purposes of computing benefits to which he may be entitled under the Retirement Plan or any other retirement or welfare plan or arrangement of the Company.

12. **Withholdings.**

The Company shall have the right to make such provisions as it deems necessary or appropriate to satisfy any obligations it may have to withhold federal, state, local income or other taxes incurred by reason of this Plan.

13. **Assignment.**

This Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns and the Participants and their heirs, executors, administrators and legal representatives. In the event that the Company sells all or substantially all of the assets of its business and the acquirer of such assets assumes in writing the obligations hereunder, the Company shall be released from any liability imposed herein and shall have no obligation to provide any benefits payable hereunder.

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14. **Non-Alienation of Benefits**.

The benefits payable under this Plan shall not be subject to alienation, transfer, assignment, garnishment, execution or levy of any kind, and any attempt to cause any benefits to be so subjected shall not be permitted.

15. **Amendment or Termination of Plan**.

The Board or the Committee may amend (retroactively or otherwise) this Plan from time to time in any respect, and may at any time terminate this Plan in its entirety. In addition, at any time, the Board or the Committee may exclude any Participant from further participation in this Plan. In the event of any amendment, termination of exclusion, the Participant shall have a vested right to a benefit from this Plan equal to his total Account balance as of the date such termination, amendment or exclusion or the first date thereafter on which the Participant' s Account can be valued. In the event of termination of this Plan or exclusion of a Participant, the Company may distribute to each Participant, as it deems appropriate, such Participant' s Account balance as of such date or the first date thereafter on which the Participant' s Account can be valued (as if a Termination of Employment had occurred) and have no further obligation hereunder. Any such action by the Board or the Committee with respect to this Plan shall be final, binding and conclusive on all parties.

16. **Minors and Incompetents**.

If the Committee finds that any person to whom payment is payable under this Plan is unable to care for his affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefore shall have been made by a duly appointed guardian, committee or other legal representative) may be paid in the form of lump sum distribution to one of the following: (i) the spouse, (ii) a child, (iii) a parent, (iv) a brother or sister, or (v) to any person deemed by the Committee to have incurred expense for the person otherwise entitled to payment, as determined by the Committee in its sole discretion. Notwithstanding the foregoing, the Committee may, in its sole discretion, divide the lump sum distribution payable hereunder between or among the individuals described in subsections (i) through (v) of the previous sentence in the proportions determined by the Committee in its sole discretion. Any payment under this Section 16 of the value of a lump sum distribution payable hereunder shall be a complete discharge of the liabilities of the Company under this Plan.

17. **Limitation of Rights**.

Nothing contained herein shall be construed as conferring upon any Employee or Participant the right to continue in the employ of the Company as an executive or in any other capacity or to interfere with the Company' s right to discharge him at any time for any reason whatsoever.

18. **Non-Exclusivity**.

The adoption of this Plan by the Company shall not be construed as creating any limitations on the power of the Company to adopt such other supplemental retirement income arrangements as it deems desirable, and such arrangements may be either generally applicable or limited in application.

19. **Gender and Number**.

Wherever used in this Plan, the masculine shall be deemed to include the feminine and the singular shall be deemed to include the plural, unless the context clearly indicates otherwise.

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20. **Severability.**

In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision never existed.

21. **Headings and Captions.**

The headings and captions herein are provided for reference and convenience only. They shall not be considered part of this Plan and shall not be employed in the construction of this Plan.

22. **Governing Law.**

To the extent legally required, the Code and ERISA shall govern this Plan and, if any provision hereof is in violation of any applicable requirement thereof, the Company reserves the right to retroactively amend this Plan to comply therewith. To the extent not governed by the Code and ERISA, this Plan shall be governed by the laws of the State of West Virginia, without regard to conflict of law provisions.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed the date first set forth above.

SWVA, INC.

By: /s/ Mark G. Meikle
Title: Vice President & CFO

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EXHIBIT A

Participant	Effective Date of Participation
1. Robert Bunting	June, 1994
2. Timothy Duke	October, 1996

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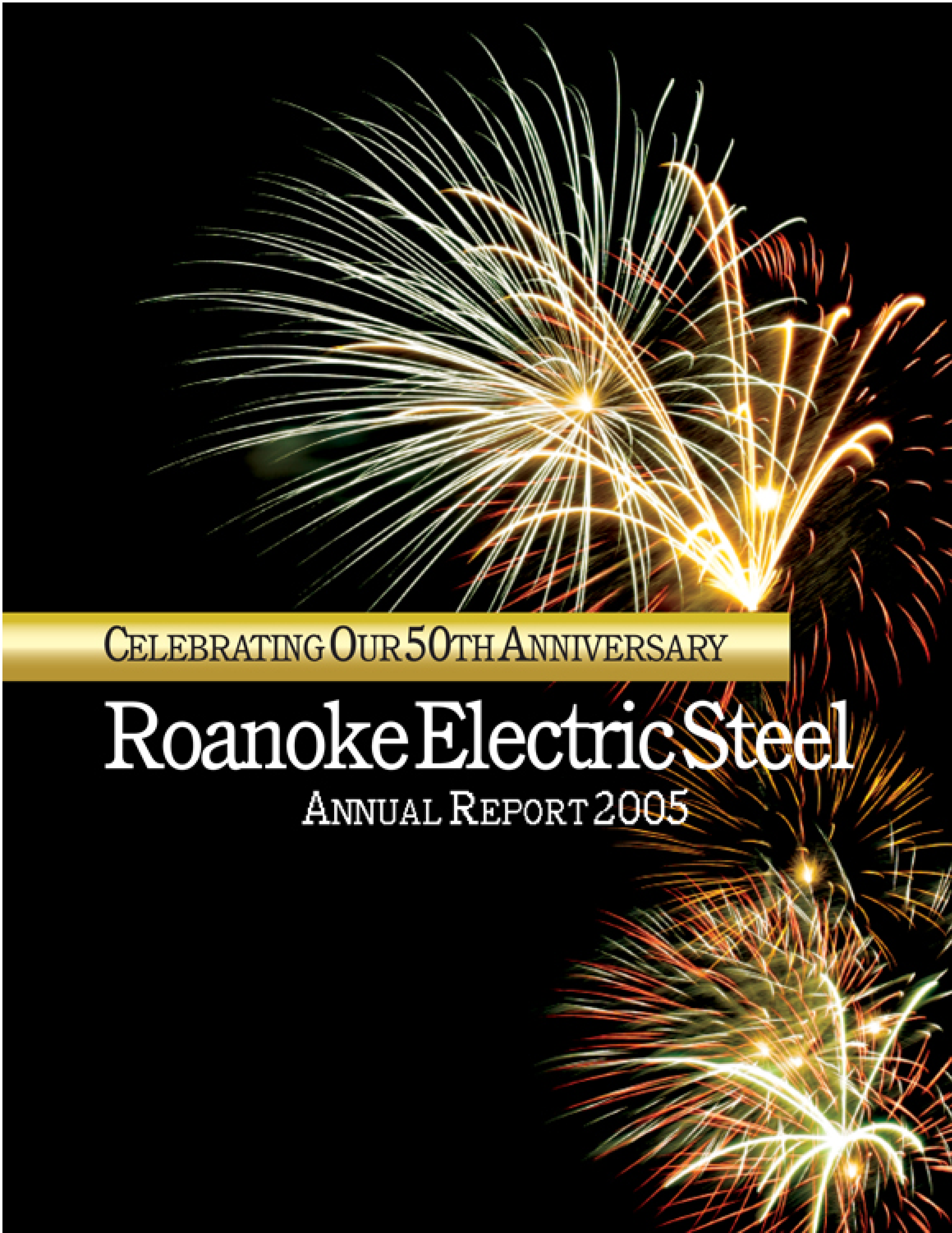

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Golden Anniversary, Golden Year.

Record Earnings
Record Sales
Record Shareholder Equity

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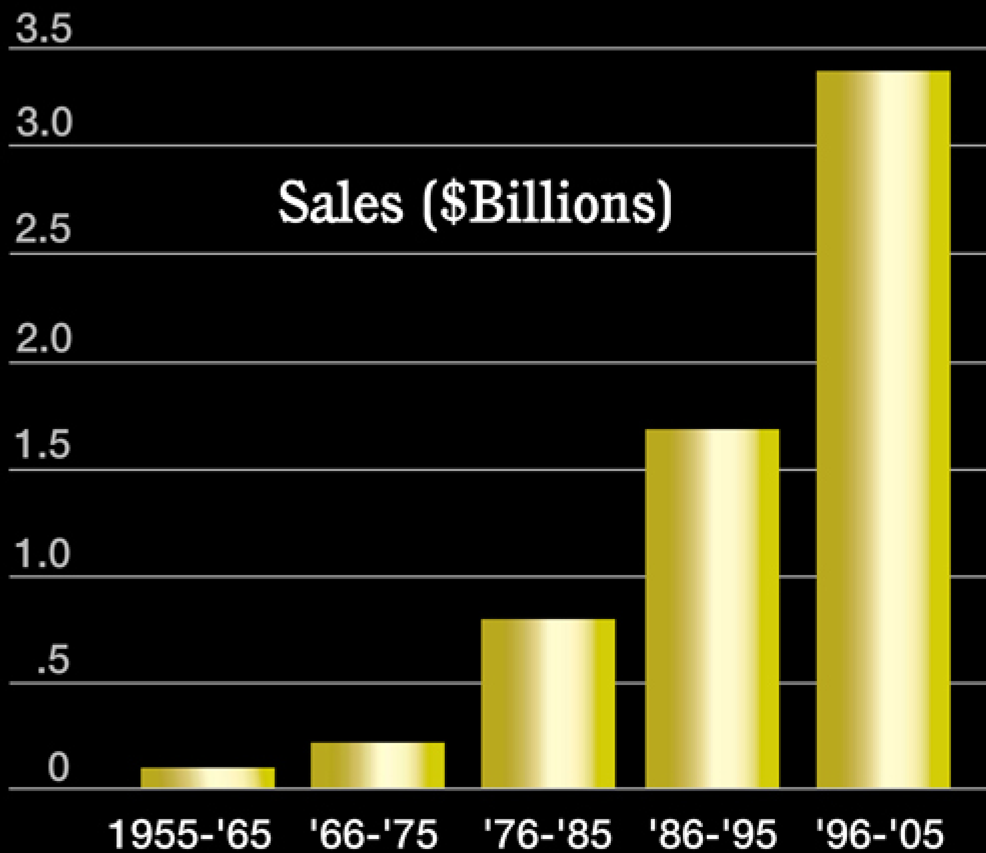

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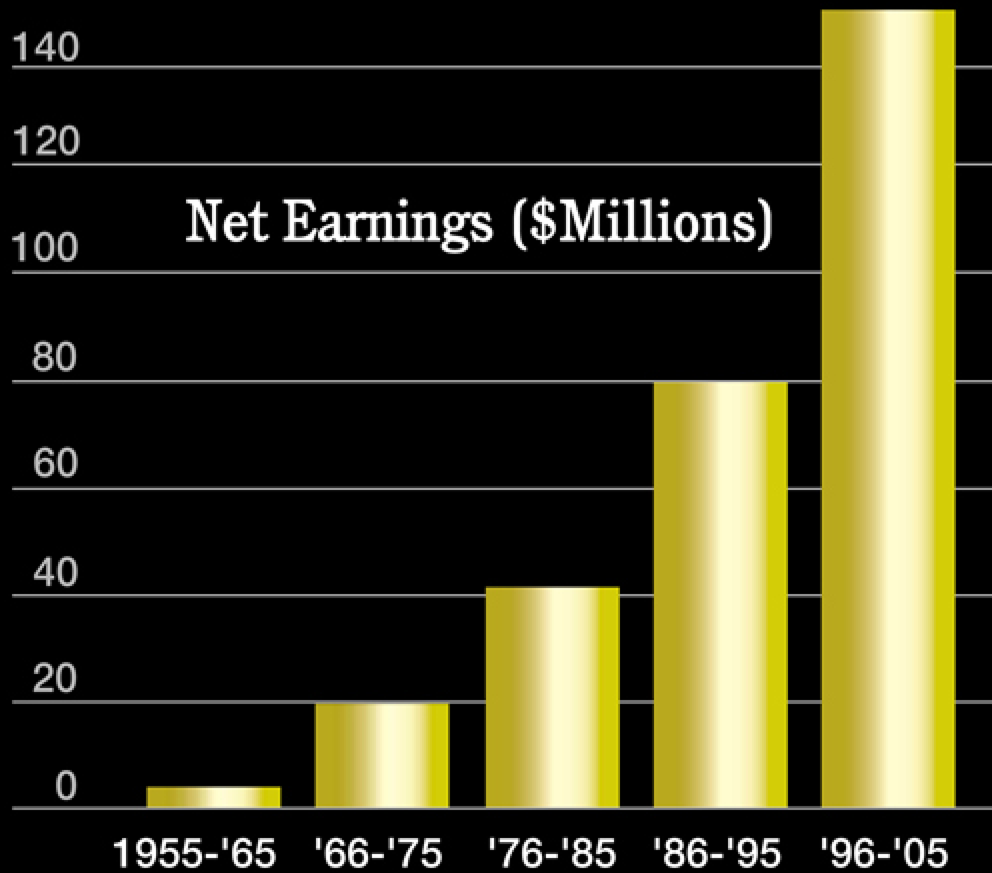
Five Decades of Record Earnings



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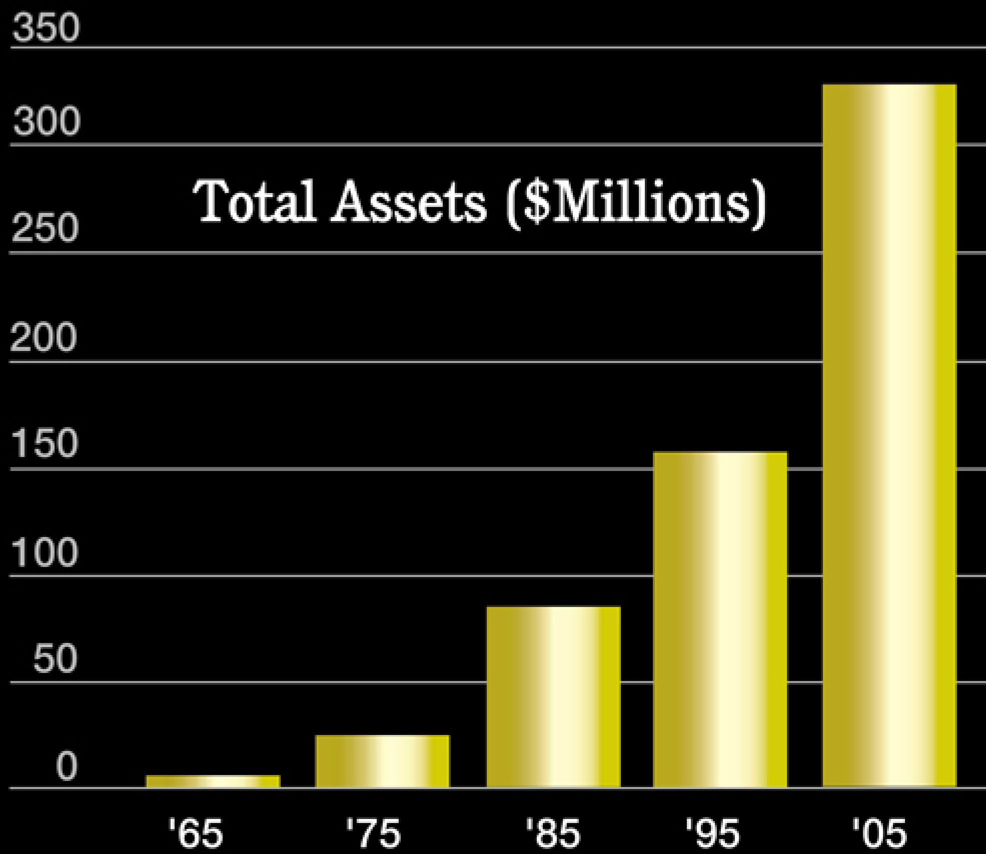
Celebrating Five Decades of Asset and



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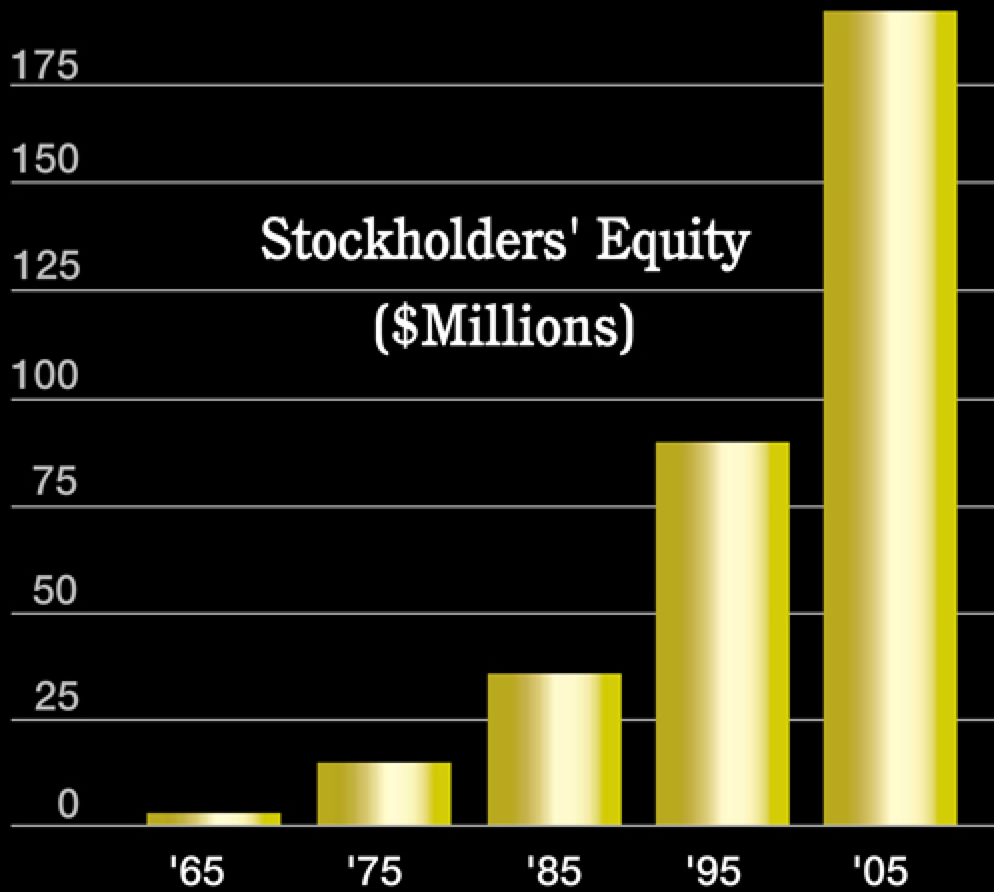
Equity Growth



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1955 to 1965

On April 6, 1955, Roanoke Electric Steel Corporation (RESCO) was organized, under the laws of Virginia, by John W. Hancock, Jr.

Initial capitalization consisted of 2,165 shares of common stock issued for $216,500; $433,000 borrowed on second mortgage bonds; and $350,500 borrowed on first mortgage bonds.

Operations began in 1956 with less than 100 company employees and a 6 ton electric furnace. Our first full year of operations produced earnings of $94,000 on sales of $2,663,000.

Steady growth ensued. In only five years, RESCO was operating at peak production. To grow, new facilities were needed. So, in 1960, we purchased a 10 ton furnace. With two furnaces in operation, production in 1961 was nearly triple our initial 1957 level.

In 1962, RESCO became the first commercial continuous steel casting plant in the United States. Our conversion eliminated the inefficiencies of producing ingots by pouring molten metal into molds.

RESCO began operating the Bowie Steel Division, in Bowie, Maryland, in 1964. A reinforcing bar fabricating plant, the Bowie Steel Division gave us greater diversification while at the same time provided an outlet for some of RESCO's products.

We also acquired the land, building, and equipment of Donalson Steel Corporation in Salem, Virginia. This facility produced merchant steel products from billets produced at the Roanoke Plant.

By 1965, the end of our first decade, sales exceeded $12 million, earnings were $700 thousand, assets were $6 million and stockholders' equity exceeded $3 million.

October 1965, RESCO declares its 28th consecutive quarterly dividend.

Celebrating 188 Consecutive Quarters of Cash

1966 to 1975

Roanoke Electric Steel Corporation's third electric furnace, another 10 ton model, went into operation in 1966. This same year, a new pollution control system was installed.

Major modernization of plant facilities began in 1969 to expand our rolling mill capacity.

In 1974, RESCO purchased the common stock of Shredded Productions Corporation in Montvale, Virginia. This acquisition, which recycles junked automobiles, guaranteed a supply of up to 8,000 tons a month of scrap steel to our Roanoke plant.

Another substantial mill modernization program was undertaken. A larger and more efficient reheat furnace was constructed and a new tandem breakdown mill was installed. The mill building was extended to accommodate these improvements.

In 1975, John W. Hancock, Jr., Inc., a major customer of RESCO engaged in the manufacture of open web steel joists, was merged into Roanoke Electric Steel Corporation. Acquiring this Hancock subsidiary gave RESCO additional diversification.

Soon we were ready to expand again. This time, we installed a 20 ton electric furnace, double the size of our largest furnaces. Our first electric furnace was retired after 20 years of service.

By 1975, the end of our second decade, sales reached $39 million, earnings were $3 million, assets grew to $25 million and stockholders' equity was $15 million.

October 1975, RESCO declares its 68th consecutive quarterly dividend.

1976 to 1985

Production by 1977 had increased more than 7 times over RESCO's first year..

With one 20 ton and two 10 ton electric furnaces, our melt shop capacity was greatly increased. Again, we needed to expand. Along with needed mill improvements, we added a new straightener and storage building, and a second finishing mill.

By 1980, after twenty-five years in business, Roanoke Electric Steel Corporation's total assets exceeded $40 million. Owners' equity was in excess of $25 million. Payroll exceeded $15 million. From fewer than 100 employees in 1957, total employment grew to over 850.

In the early 80's a major melt shop expansion program was completed. Included were a new 40 ton furnace and 4-strand continuous casting machine. This doubled production capacity.

In 1985 RESCO acquired Socar, Inc., a bar joist manufacturer who was a major customer prior to the acquisition and operated plants in Florence, S.C. and Continental, Ohio.

At the end of our third decade, 1985 sales were $119 million, earnings were $6 million, assets grew to $86 million and stockholders' equity was $36 million.

October 1985, RESCO declares its 108th consecutive quarterly dividend.

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1986 to 1995

To increase capacity and lower cost of production, a major rolling mill expansion and modernization program was completed in the mid 80's. The project included a larger, more efficient reheat furnace, automatic in-line straightening, shearing and bundling equipment, additional mill stands and an extension of the cooling bed.

The new reheat furnace dramatically reduced energy costs with natural gas consumption substantially decreased. Labor costs were substantially reduced due to automation. Increased rolling mill capacity and higher gross margins, due to lower production cost per ton, would benefit RESCO for years to come.

By the early-90's the nation and the steel industry were experiencing an economic downtown. The cost efficiencies generated by the modernization program allowed RESCO to weather this downturn.

By 1995, the end of our fourth decade, RESCO exceeded all previous performance records with sales of $260 million, earnings of $20 million, assets totalling $159 million and stockholders' equity of $91 million.

From 1985 to 1995, capital expenditures totaled $97 million and acquisitions amounted to $21 million. The record results of the mid-90's could not have been attained without these outlays.

October 1995, RESCO declares its 148th consecutive quarterly dividend.

Dividends to Shareholders

1996 to 2005

In 1996, RESCO experienced its second-best year on record. Fabricating subsidiaries attained record earnings and RESCO installed a new ladle furnace and upgraded an electric arc furnace.

Through the late 90's, RESCO announced four consecutive years of record sales and earnings.

Forbes Magazine named RESCO "One of the 200 Best Small Companies in America". RESCO was "Ranked #1 in Customer Satisfaction" by Jacobson & Associates, a steel industry consultant.

In 1999, RESCO acquired Steel of West Virginia, Inc. ("SWVA") at a cost of approximately $117 million. The acquisition of SWVA, a producer of steel beams, channels and special sections, provided RESCO a greater range of products, excellent growth opportunities, market expansion, and a captive outlet for excess billet capacity.

Soon after the turn of the century, business conditions began to deteriorate. Slow construction activity, lower selling prices and increased foreign competition took its toll on the U.S. steel industry with many producers filing for bankruptcy.

Due, in large part, to its mid-80's investment in plant modernization and cost efficiencies, along with its history of customer satisfaction, RESCO survived the worst downturn in its history. And by 2004, RESCO was again announcing record earnings, record sales and record shareholders' equity.

By 2005, the end of our fifth decade, RESCO again exceeded previous performance records and celebrates its 50th anniversary with sales of $547 million, earnings of $40 million, total assets of $333 million and stockholders' equity of $192 million.

October 2005, RESCO declares its 188th consecutive quarterly dividend.

John W. Hancock, Jr.
President 1955 to 1967

William M. Meador
President 1967 to 1985

Donald G. Smith
President 1985 to 2004

T. Joe Crawford
President 2004 to present

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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 products through its sales force to its 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 Corporation, a subsidiary with operations in Rocky Mount and Montvale, Virginia, extracts scrap steel and other metals from junked automobiles and other waste materials. These facilities supply the 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., Inc. and Socar, Inc. are steel fabrication subsidiaries located in Salem, Virginia, Florence, South Carolina and Continental, Ohio. All three operations purchase rounds and angles from the 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).

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To Our Shareholders

2005 Results

Fiscal 2005, our 50th year in business, was the best year in the history of our company. We are especially pleased because this marks the second year in a row of record sales and earnings. We are also proud to report the achievement of a number of financial records during the year:

Record sales of $546,612,163

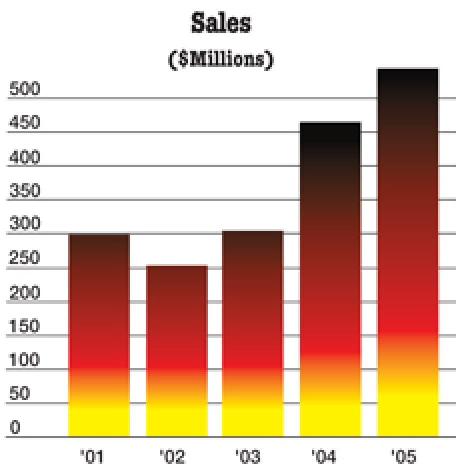
Record earnings of $40,319,433

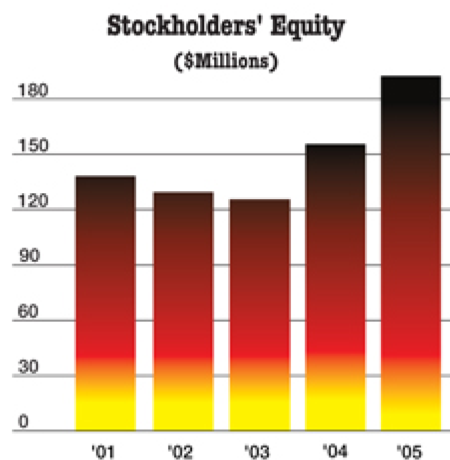
Record earnings per share of $3.63

Record shareholders' equity of $192,449,434

In 2005, the company had earnings of $40,319,433, an increase of 32.4% over the previous record earnings of $30,446,248 achieved last year. Basic earnings per share were $3.63 in 2005, compared to basic earnings per share of $2.78 in 2004.

The upward momentum experienced by our company in 2004 continued in 2005. Sales for 2005 of $546,612,163 increased 17.4% from the previous record level set in 2004, due to improved average selling prices for most of our products. The improvement in average selling prices was principally due to the continued volatile scrap market, which prompted industry-wide price increases due to the rising cost of scrap steel. In fact, average selling prices increased during the year by 12.6% for merchant bar products, by 18.4% for specialty steel products, by 34.0% for fabricated products and by 11.7% for billets. Our gross margins also improved during the year, as increases in average selling prices exceeded the increases in average scrap costs.





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Financial Condition

Our financial condition continued to improve during the year. In October 2004, the company finalized a new 5-year loan facility with its banking syndicate, providing a revolving credit line and less restrictive covenants than the prior agreement. In addition, at year-end the company reported:

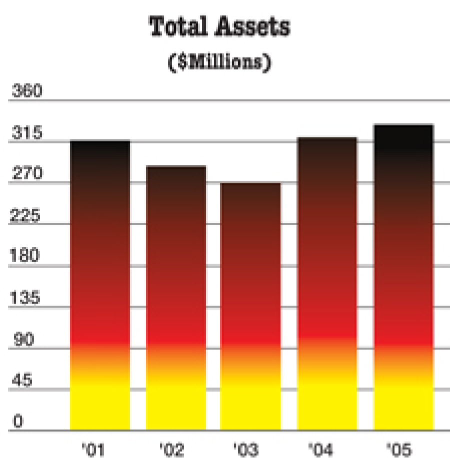
Working capital of $111,181,959

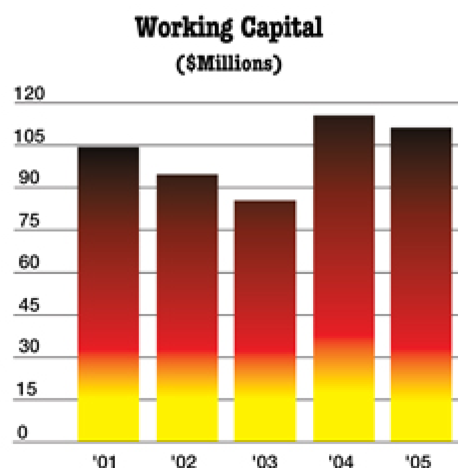
A current ratio of 2.1 to 1, and a quick ratio of .9 to 1

A reduction in net debt (funded debt less cash and cash equivalents) of $51,336,687

Long-term debt as a percentage of total capital at 6.6%, down from 27.5% last year

Throughout our history, a hallmark of our company has been continued investment in equipment, processes and technology. However, capital expenditures were limited during the last few years, due to one of the most prolonged and difficult downturns ever experienced in the steel industry. During 2005, we were able to address needed capital expenditures due to our improved financial position and increased free cash flows resulting from the company’ s improved results, ensuring our position as a low-cost producer and further enhancing shareholder value.





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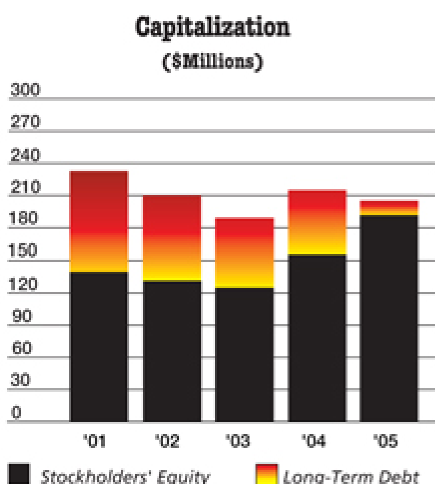
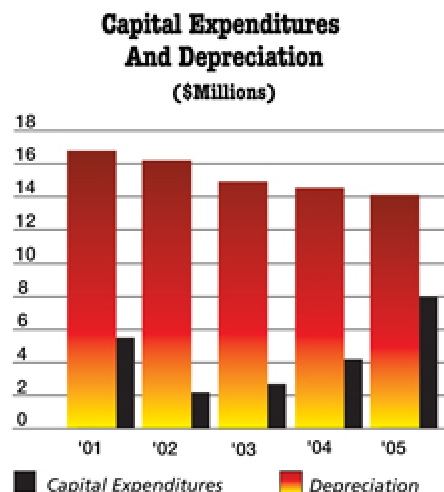
Shareholder Value

Continuing the trend from 2004, when our share price increased by 47%, the company continued to create value for our shareholders in 2005, as our share price increased by 50% during the year. In addition, the cash dividends for our shareholders increased from $.36 in 2004 to $.44 in 2005, more than a 22% increase. The company also declared its 188th consecutive quarterly dividend in the amount of 11 cents per share, payable November 25, 2005. Based on the share price at year-end, the annual yield on our common stock was approximately 2%.

Looking Forward

As we look to fiscal 2006, we sadly see the 50-year history of Roanoke Electric Steel Corporation as an independent company coming to a close. But, we are equally excited and looking forward with anticipation to the beginning of our next 50 years with Steel Dynamics, Inc. The merger will place our company in a much better position to undertake necessary capital projects, meet increasing competitive pressures and serve customers more efficiently. The financial strength and resources of Steel Dynamics will present greater opportunities for the company to grow and prosper in the future.





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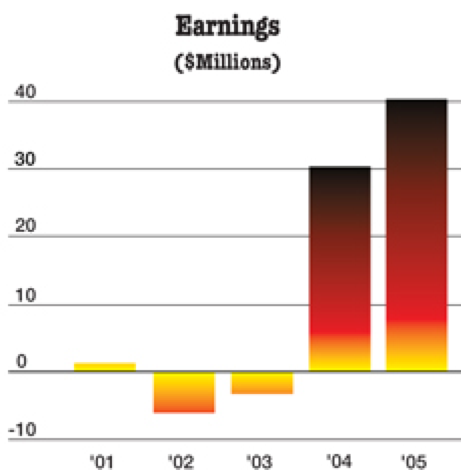
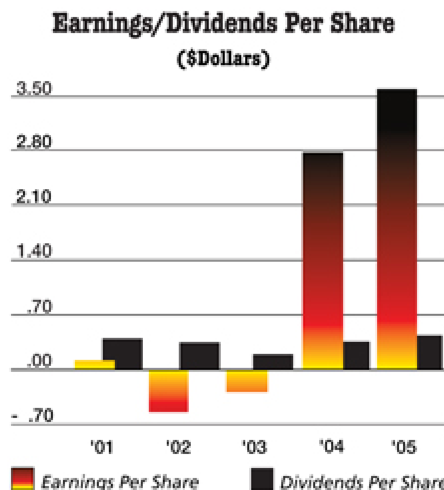
It has been our pleasure to report the progress made by our company over the last 50 years. Traveling the road of success, from our beginning in 1955 to the close of our 50th year, culminating in sales of over one half billion dollars and earnings of over $40 million, has been a remarkable and wonderful journey. None of this would have been possible without the dedication of our past and present employees, and we thank them for their years of loyalty, hard work and commitment to excellence. We would also like to thank our many valued customers for their contribution to our success over the years. To you, our shareholders, we greatly appreciate your interest, confidence and investment in Roanoke Electric Steel Corporation.

Finally, we all owe a special debt of gratitude to the one individual who, 50 years ago, took a vision to reality by creating a company, which throughout its history, has achieved almost unprecedented results in the steel industry - Mr. John W. "Jack" Hancock, Jr. His dream, his perseverance and unending drive, his dedication and many years of stewardship, his loyalty to those around him and, especially, his honesty, integrity and keen business sense all combined to mold this company into what it has become today. We know that he would be proud of what our company has accomplished in our first 50 years and that he would be fully behind the direction we have chosen for our next 50 years. Thank you, Jack, for what has been a great ride and for paving the road to what promises to be an exciting and prosperous future.

T. Joe Crawford
President Chief Operating Officer

Donald G. Smith
Chairman of the Board Chief Executive Officer





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Selected Financial Data

Year Ended October 31,	2005	2004*	2003*	2002*	2001*
Operations					
Sales	**$546,612,163**	$465,586,429	$303,569,211	$253,471,036	$298,387,071
Gross earnings	**102,505,950**	81,836,414	22,206,273	15,639,384	33,028,819
Interest expense	**3,412,641**	4,480,195	5,435,464	6,552,936	8,670,337
Income tax expense (benefit)	**24,675,957**	18,317,681	(1,706,927)	(4,420,665)	1,013,926
Earnings (loss) from continuing operations before cumulative effect of change in accounting principle	**41,245,394**	30,620,387	(2,521,834)	(5,944,794)	1,528,200
Earnings (loss) from continuing operations	**41,245,394**	30,620,387	(2,750,244)	(5,944,794)	1,528,200
Loss on discontinued operations (see Note 1)	**(925,961)**	(174,139)	(474,709)	(64,103)	(180,178)
Net earnings (loss)	**40,319,433**	30,446,248	(3,224,953)	(6,008,897)	1,348,022
Financial Position					
Working capital	**$111,181,959**	$115,500,754	$85,281,889	$94,675,819	$104,919,632
Total assets	**333,410,067**	318,971,033	270,867,486	289,717,573	316,886,778
Long-term debt and capital lease obligation, excluding current portion	**13,625,213**	58,941,362	63,958,948	78,792,278	93,835,033
Stockholders' equity	**192,449,434**	155,395,361	126,065,624	130,988,698	138,606,184
Selected Ratios					

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Gross profit margin	**18.8 %**	17.6 %	7.3 %	6.2 %	11.1 %
Operating income (loss) margin	**7.5 %**	6.6 %	(0.9 %)	(2.3 %)	0.5 %
Effective tax (benefit) rate	**37.4 %**	37.4 %	(40.4 %)	(42.6 %)	39.9 %
Current ratio	**2.1**	2.6	2.9	3.2	3.2
Quick ratio	**0.9**	1.0	1.4	1.6	1.8
Funded debt as a percentage of total capital	**15.5 %**	29.5 %	36.2 %	41.7 %	44.0 %
Return on average stockholders' equity	**23.2 %**	21.6 %	(2.5 %)	(4.5 %)	1.0 %
Per Share Data					
Earnings (loss) from continuing operations before cumulative effect of accounting change:					
Basic	**$3.71**	$2.79	$(0.23)	$(0.54)	$0.14
Diluted	**3.67**	2.77	(0.23)	(0.54)	0.14
Loss on discontinued operations:					
Basic	**(0.08)**	(0.02)	(0.04)	(0.01)	(0.02)
Diluted	**(0.08)**	(0.02)	(0.04)	(0.01)	(0.02)
Net earnings (loss):					
Basic	**3.63**	2.78	(0.29)	(0.55)	0.12

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Diluted	**3.59**	2.76	(0.29)	(0.55)	0.12
Cash dividends	**0.44**	0.36	0.20	0.35	0.40
Stockholders' equity	**17.26**	14.11	11.53	11.97	12.70
Weighted average common shares outstanding:					
Basic	**11,118,490**	10,957,586	10,938,999	10,934,380	10,908,584
Diluted	**11,243,655**	11,034,445	10,945,346	10,967,904	10,950,723

* Certain profit sharing costs relating to production employees have been reclassified from their original presentation to conform with the current year presentation.

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Consolidated Financial Statements

Consolidated Statements Of Earnings (Loss)

	Year Ended October 31,		
	2005	**2004**	**2003**
SALES	$546,612,163	$465,586,429	$303,569,211
COSTS			
Cost of sales	435,660,134	376,017,112	280,304,764
Profit sharing	8,446,079	7,732,903	1,058,174
Total	444,106,213	383,750,015	281,362,938
GROSS EARNINGS	102,505,950	81,836,414	22,206,273
OTHER OPERATING EXPENSES (INCOME)			
Administrative	31,526,927	30,026,395	21,735,226
Interest expense	3,412,641	4,480,195	5,435,464
Profit sharing	1,958,434	1,661,270	218,862
Interest income	(215,501)	(207,694)	(433,558)
Antitrust litigation settlement	(97,902)	(3,061,820)	(520,960)
Total	36,584,599	32,898,346	26,435,034

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EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	65,921,351	48,938,068	(4,228,761)
INCOME TAX EXPENSE (BENEFIT)	24,675,957	18,317,681	(1,706,927)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	41,245,394	30,620,387	(2,521,834)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	–	–	(228,410)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	41,245,394	30,620,387	(2,750,244)
DISCONTINUED OPERATIONS (NOTE 1):			
LOSS ON DISCONTINUED OPERATIONS BEFORE INCOME TAXES (INCLUDING LOSS ON SALE)	(1,518,263)	(271,974)	(756,458)
INCOME TAX BENEFIT	(592,302)	(97,835)	(281,749)
LOSS ON DISCONTINUED OPERATIONS	(925,961)	(174,139)	(474,709)
NET EARNINGS (LOSS)	$40,319,433	$30,446,248	$(3,224,953)
EARNINGS (LOSS) PER SHARE OF COMMON STOCK:			
BASIC:			
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$3.71	$2.79	$(0.23)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	–	–	(0.02)

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EARNINGS (LOSS) FROM CONTINUING OPERATIONS	3.71	2.79	(0.25)
LOSS ON DISCONTINUED OPERATIONS	(0.08)	(0.02)	(0.04)
NET EARNINGS (LOSS) PER SHARE OF COMMON STOCK	$3.63	$2.78	$(0.29)
DILUTED:			
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$3.67	$2.77	$(0.23)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	–	–	(0.02)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	3.67	2.77	(0.25)
LOSS ON DISCONTINUED OPERATIONS	(0.08)	(0.02)	(0.04)
NET EARNINGS (LOSS) PER SHARE OF COMMON STOCK	$3.59	$2.76	$(0.29)
CASH DIVIDENDS PER SHARE OF COMMON STOCK	$0.44	$0.36	$0.20

See notes to consolidated financial statements.

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Consolidated Balance Sheets

	October 31,	
	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$17,699,681	$869,000
Accounts receivable, net of allowances of $1,813,500 in 2005 and $4,312,451 in 2004	69,832,819	75,558,674
Inventories	111,148,498	102,099,659
Prepaid expenses and other current assets	2,745,513	1,898,841
Deferred income taxes	9,259,363	8,011,122
Total current assets	210,685,874	188,437,296
PROPERTY, PLANT AND EQUIPMENT		
Land	7,589,354	7,734,589
Land improvements	8,659,969	8,800,131
Buildings	39,979,492	44,811,189
Manufacturing machinery and equipment	120,985,300	136,230,189
Other property and equipment	26,503,800	30,560,246
Assets under construction	3,695,866	2,205,425

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Total	207,413,781	230,341,769
Less-accumulated depreciation	101,557,193	117,318,369
Property, plant and equipment, net	105,856,588	113,023,400
GOODWILL	13,868,647	13,868,647
OTHER ASSETS	2,998,958	3,641,690
TOTAL	$333,410,067	$318,971,033
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt and capital lease obligation	$21,607,281	$6,019,598
Bank overdraft	–	4,777,540
Accounts payable and other accrued expenses	38,287,878	27,874,916
Dividends payable	1,226,315	1,211,740
Employees' taxes withheld	232,503	248,408
Accrued profit sharing contribution	7,302,741	7,281,552
Accrued wages and related expenses	21,182,355	15,376,015
Accrued income taxes	9,664,842	10,146,773

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Total current liabilities	99,503,915	72,936,542
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION	13,625,213	58,941,362
DEFERRED INCOME TAXES	24,710,596	28,152,620
OTHER LIABILITIES	3,120,909	3,545,148
COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 7)		
STOCKHOLDERS' EQUITY		
Common stock-no par value-authorized 20,000,000 shares, issued 12,421,427 shares in 2005 and 12,288,927 in 2004	6,967,686	5,333,829
Additional paid-in capital	1,063,177	885,427
Retained earnings	185,146,709	149,731,709
Accumulated other comprehensive income	89,730	262,264
Total	193,267,302	156,213,229
Less-treasury stock, 1,273,114 shares at cost	817,868	817,868
Total stockholders' equity	192,449,434	155,395,361
TOTAL	$333,410,067	$318,971,033

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Consolidated Statements Of Stockholders' Equity And Comprehensive Earnings (Loss)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock (At Cost)		Comprehensive Earnings (Loss)
	Shares	Amount				Shares	Amount	
BALANCE, NOVEMBER 1, 2002	12,215,927	$4,394,889	–	$128,719,560	$(1,307,883)	1,273,114	$817,868	
Comprehensive loss:								
Net loss	–	–	–	(3,224,953)	–	–	–	$(3,224,953)
Other comprehensive earnings, net of tax:								
Unrealized gain on "available for sale" securities	–	–	–	–	67,688	–	–	67,688
Accretion of past hedging relationships	–	–	–	–	510,419	–	–	510,419
Change in derivative financial instruments	–	–	–	–	(18,525)	–	–	(18,525)
Other comprehensive earnings	–	–	–	–	–	–	–	559,582
Comprehensive loss	–	–	–	–	–	–	–	$(2,665,371)
Repurchase and retirement of common stock	(10,000)	–	–	(70,140)	–	–	–	

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Cash dividends	–	–	–	(2,187,563)	–	–	–	
BALANCE, OCTOBER 31, 2003	12,205,927	4,394,889	–	123,236,904	(748,301)	1,273,114	817,868	
Comprehensive earnings:								
Net earnings	–	–	–	30,446,248	–	–	–	$30,446,248
Other comprehensive earnings, net of tax:								
Unrealized loss on “available for sale” securities	–	–	–	–	(26,077)	–	–	(26,077)
Accretion of past hedging relationships	–	–	–	–	797,464	–	–	797,464
Change in derivative financial instruments	–	–	–	–	239,178	–	–	239,178
Other comprehensive earnings	–	–	–	–	–	–	–	1,010,565
Comprehensive earnings	–	–	–	–	–	–	–	$31,456,813
Stock options exercised or expired	83,000	938,940	$885,427	–	–	–	–	
Cash dividends	–	–	–	(3,951,443)	–	–	–	

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BALANCE, OCTOBER 31, 2004	12,288,927	5,333,829	885,427	149,731,709	262,264	1,273,114	817,868	
Comprehensive earnings:								
Net earnings	–	–	–	40,319,433	–	–	–	$40,319,433
Other comprehensive loss, net of tax:								
Unrealized loss on “available for sale” securities	–	–	–	–	(41,611)	–	–	(41,611)
Change in derivative financial instruments	–	–	–	–	(130,923)	–	–	(130,923)
Other comprehensive loss	–	–	–	–	–	–	–	(172,534)
Comprehensive earnings	–	–	–	–	–	–	–	$40,146,899
Stock options exercised	123,500	1,633,857	–	–	–	–	–	
Restricted stock awards granted	9,000	–	177,750	–	–	–	–	
Cash dividends	–	–	–	(4,904,433)	–	–	–	
BALANCE, OCTOBER 31, 2005	12,421,427	$6,967,686	$1,063,177	$185,146,709	$89,730	1,273,114	$817,868	

See notes to consolidated financial statements.

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Consolidated Statements Of Cash Flows

	Year Ended October 31,		
	2005	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings (loss)	$40,319,433	$30,446,248	$(3,224,953)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Stock-based compensation expense	1,747,324	–	–
Cumulative effect of change in accounting principle	–	–	228,410
Directors' retirement plan liability	874,776	–	–
Postretirement liabilities	(386,696)	(152,849)	229,274
Landfill closure obligation	36,066	33,634	31,367
Depreciation and amortization	14,304,297	15,851,231	15,897,881
Write-off of deferred financing cost	–	375,624	–
(Gain) loss on sale of investments	–	(34,953)	86,811
(Gain) loss on sale of property, plant and equipment	78,026	(10,771)	38,852
Deferred income tax benefit	(4,602,983)	(4,933,072)	(2,095,404)
Workers' compensation insurance deposit	–	(1,000,000)	(676,000)
Loss on sale of subsidiary	790,685	–	–

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Changes in assets and liabilities which provided (used) cash, exclusive of changes shown separately	5,123,797	(46,686,288)	9,031,743
Net cash provided by (used in) operating activities	58,284,725	(6,111,196)	19,547,981
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property plant and equipment	(8,026,478)	(4,216,791)	(2,694,137)
Proceeds from sale of property plant and equipment	127,612	54,981	7,440
Purchases of investments	–	(1,143,794)	(2,743,053)
Proceeds from sales of investments	–	5,146,030	12,974,436
Proceeds from sale of subsidiary	4,206,829	–	–
Net cash provided by (used in) investing activities	(3,692,037)	(159,574)	7,544,686
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends	(4,904,433)	(3,951,443)	(2,187,563)
Increase (decrease) in dividends payable	14,575	665,099	(500)
Proceeds from exercise of common stock options	1,633,857	938,940	–
Payments of long-term debt	(64,208,868)	(71,792,278)	(22,542,755)
Proceeds from long-term debt	34,500,000	65,252,012	–
Repurchase of common stock	–	–	(70,140)

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Financing costs paid	–	(770,758)	(285,000)
Interest rate swap termination fee	–	(1,382,780)	(863,581)
Proceeds from (repayment of) bank overdraft	(4,777,540)	4,777,540	–
Capital lease obligation	–	–	234,557
Payment of capital lease principal	(19,598)	(18,606)	(7,003)
Net cash used in financing activities	(37,762,007)	(6,282,274)	(25,721,985)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,830,681	(12,553,044)	1,370,682
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	869,000	13,422,044	12,051,362
CASH AND CASH EQUIVALENTS, END OF YEAR	$17,699,681	$869,000	$13,422,044
CHANGES IN ASSETS AND LIABILITIES WHICH PROVIDED (USED) CASH, EXCLUSIVE OF CHANGES SHOWN SEPARATELY			
(Increase) decrease in accounts receivable	$3,380,277	$(29,089,394)	$(6,167,956)
(Increase) decrease in refundable income taxes	–	608,244	3,570,174
(Increase) decrease in inventories	(10,863,193)	(42,534,414)	2,797,357
(Increase) decrease in prepaid expenses and other current assets	(584,951)	(64,910)	(347,484)
(Increase) decrease in other assets	(53,032)	(81,905)	(120,064)
Increase (decrease) in accounts payable and other accured expenses	10,432,962	5,798,052	6,889,798

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Increase (decrease) in accrued profit sharing contribution	21,189	5,941,910	734,919
Increase (decrease) in accrued income taxes	(481,931)	10,146,773	−
Increase (decrease) in other liabilities	3,272,476	2,589,356	1,674,999
Total	$5,123,797	$(46,686,288)	$9,031,743

See notes to consolidated financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - Roanoke Electric Steel Corporation is both an operating company and a holding company with both direct and indirect subsidiaries. The consolidated financial statements include the accounts of Roanoke Electric Steel Corporation and its wholly-owned subsidiaries, Shredded Products Corporation, John W. Hancock, Jr., Inc., Socar, Inc., RESCO Steel Products Corporation, Roanoke Technical Treatment & Services, Inc. and Steel of West Virginia, Inc. (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated. The Company operates in a single business segment. For purposes of this annual report, the defined term "Company" will, depending on the context, refer to Roanoke Electric Steel Corporation and its subsidiaries on a consolidated basis or refer to Roanoke Electric Steel Corporation as an operating company.

Cash and Cash Equivalents - Cash in excess of operating requirements is invested in short-term instruments which are carried at fair value, which approximates cost. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents were approximately $17,984,000 and $3,953,000 at October 31, 2005 and 2004, respectively.

Investments - During 2004, the Company sold substantially all of its investments. Historically, investments consisted primarily of debt securities which were classified as "available for sale". "Available for sale" securities were reported at fair value with unrealized gains and losses reported as other comprehensive income.

Inventories - 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 (see Note 2).

Property, Plant and Equipment - These assets are stated at cost. Depreciation expense is computed by straight-line and declining-balance methods. Maintenance and repairs are charged against operations as incurred. Major items of renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon retirement or other disposition of plant and equipment, the cost and related accumulated depreciation are removed from the balance sheet, and the resulting gain or loss is reflected in earnings (see Note 3).

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.

Goodwill - The Company applies the provisions of Statement of Financial Accounting Standards ("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 as of May 31 or whenever an event has occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount (see Note 12).

Deferred Financing Costs - Deferred financing costs are included in other long-term assets and represent costs related to issuing the Company's long-term debt. Such amounts are being amortized over the remaining term of the related financing, using the effective interest method, and are included in interest expense (see Note 5).

Income Taxes - Deferred income taxes are provided by the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities (see Note 4).

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Revenue Recognition - Revenue is 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

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measured principally based on steel consumed on finished product as a percentage of the estimated steel required for each contract. The Company recognizes profit at the time revenue is recognized, based on its estimates as to the project status and the remaining steel to be consumed to complete a particular project. If actual consumption exceeds estimated consumption, then the percentage of completion method is adjusted to prorate revenue up to the amount allowed by the contract in the period determined. Costs and estimated earnings on uncompleted contracts were $6,668,645 as of October 31, 2005 and $3,367,434 as of October 31, 2004, and are included in accounts receivable. Such fabricated products accounted for 17%, 16%, and 18% of the Company' s consolidated sales for the years ending October 31, 2005, 2004 and 2003, respectively.

The Company records shipping and handling expenses in accordance with Emerging Issues Task Force ("EITF") Issue 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 the costs associated with such shipments are included in cost of sales. There were no sales to an unaffiliated customer in excess of 10% of consolidated sales for 2005, 2004 or 2003.

Concentration of Credit Risk - The Company sells to a large customer base of steel fabricators, steel service centers, original equipment manufacturers and construction contractors, most all of which deal primarily on 30-day credit terms. The Company believes its concentration of credit risk to be minimal in any one geographic area or market segment. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses are generally within management' s expectations.

Fair Value of Financial Instruments - At October 31, 2005, the fair value of the Company' s cash and cash equivalents, accounts receivable, and long-term debt approximated amounts recorded in the accompanying consolidated financial statements.

Stock-Based Compensation - 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 October 31, 2005, options covering 217,500 and 19,500 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 to certain executives 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 45th 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 45th, 75th and 95th 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 (see Note 19).

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Also on January 28, 2005, each of the Company’ s six outside directors received an 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.

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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. No options were granted in fiscal 2005. During 2004 and 2003, options were granted for 112,500 shares in each year. There was full recognition of the compensation cost of $205,875 and $167,625 during the years ended October 31, 2004 and 2003, respectively, which represented the excess of the fair market value over the exercise price of the common stock.

The following table illustrates the effect on net earnings (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation:

	Year Ended October 31,	
	2004	**2003**
Net earnings (loss):		
As reported	$30,446,248	$(3,224,953)
Deduct total stock-based compensation expense determined under fair value method for all awards, net of tax	(88,313)	(206,177)
Pro forma	$30,357,935	$(3,431,130)
Basic net earnings (loss) per share:		
As reported	$2.78	$(0.29)
Pro forma	$2.77	$(0.31)
Diluted net earnings (loss) per share:		
As reported	$2.76	$(0.29)
Pro forma	$2.75	$(0.31)

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The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2004 and 2003, respectively: dividend yield of 2.70% and 1.58%; expected volatility of 37.94% and 67.24%; risk-free interest rates of 3.18% and 3.25%; and an expected life of 5 years.

The Company' s stock option plans are described more fully in Note 10.

On November 1, 2004, the Company early adopted SFAS No. 123R, "Share-Based Payment". 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 at the date of adoption, 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. Unamortized compensation cost of $3,414,222 related to 172,872 performance shares will be recognized over the weighted average requisite service period of 1.63 years and may be adjusted based on management' s future estimates of the amount of performance shares that will vest based on the Company' s performance relative to its peers. Compensation expense of $1,569,574 is reflected in the consolidated statement of earnings for the year ended October 31, 2005. The total fair value of 9,000 restricted fully vested shares awarded to directors of $177,750 was recognized during the year ended October 31, 2005. Under the terms of the award, the actual number of performance grants that vest depends upon the Company' s average return on invested capital relative to the average return on invested capital of peer companies, with the potential ranging from 0% to 200% of each award. However, upon the occurrence of a change of control involving the Company, 100% of the performance grants vest and are settled in cash rather than shares of the Company' s common stock. Accordingly, these awards have been classified in current liabilities (see Note 19).

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The total income tax benefit recognized in the statements of earnings for share-based compensation arrangements was $653,499, $76,997 and $67,721 for the years ended October 31, 2005, 2004 and 2003, respectively.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Instruments - The fair value of derivatives used as cash flow hedging activities is recorded on the balance sheets, and the change in fair value is recorded through other comprehensive income (see Note 6).

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 agreed upon price for the assets sold by RESCO was $4.2 million. In connection with the close of operations of RESCO, 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 the loss from discontinued operations in the accompanying statement of earnings for the year ended October 31, 2005. The results of RESCO are presented as discontinued operations in the accompanying consolidated statements of earnings and include a pre-tax loss on the sale of RESCO of $1,340,685.

Revenues of $4,045,515 and pre-tax loss of $1,518,263 (which includes the $1,340,685 loss on sale) related to RESCO are included in discontinued operations for the year ended October 31, 2005. Revenues of $13,790,759 and $8,521,745 and pre-tax losses of $271,974 and $756,458 related to RESCO are included in discontinued operations for the years ended October 31, 2004 and 2003, respectively. 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.

Recently Adopted and Recently Issued Accounting Pronouncements - On November 1, 2004, the Company early adopted SFAS No. 123R, “Share-Based Payment”. 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. During 2005, the Company began to recognize compensation cost for awards issued on January 28, 2005, reflected in the 2005 statement of earnings, related to its stock plans in accordance with the provisions of SFAS No. 123R.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs - an amendment of ARB No. 43, Chapter 4”. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires these costs be treated as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe that the adoption of SFAS No. 151 will have a material impact on its results of operations or financial condition.

In December 2004, the FASB issued SFAS No. 153, “Exchanges 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

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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.

In December 2004, the FASB issued FASB Staff Position ("FSP") No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the Act)". FSP No. FAS 109-1 clarifies that the tax deduction for manufacturers provided for in the Act should be accounted for as a special

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deduction rather than as a tax rate reduction. The manufacturers' deduction is not available to the company until fiscal year 2006. The company is evaluating the effect the manufacturers' deduction will have in future fiscal years.

In March 2005, FASB Interpretation No. ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of SFAS No. 143", was issued. This Interpretation clarifies that the term "conditional asset retirement obligation", as used in SFAS No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but is not required. The Company has not determined whether adoption of this Interpretation will have a material impact on the Company's results of operations or financial condition.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections- a replacement of APB Opinion No. 20 and FASB Statement No. 3". This Statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. It also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS No. 154 will have a material impact on its results of operations or financial condition.

Reclassifications - Certain amounts included in the consolidated financial statements for prior years have been reclassified from their original presentation to conform with the current year presentation.

NOTE 2 - INVENTORIES

Inventories include the following major classifications:

	October 31,	
	2005	2004
Scrap Steel	$11,791,963	$13,839,442
Melt supplies	4,173,109	4,216,074
Billets	15,282,590	12,226,288
Mill supplies	5,912,424	4,840,071
Work-in-process	13,112,126	14,568,837
Finished steel	60,876,286	52,408,947

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Total inventories	$111,148,498	$102,099,659

NOTE 3 - PROPERTIES AND DEPRECIATION

Depreciation expense for the years ended October 31, 2005, 2004 and 2003 amounted to $14,150,145, $14,554,355 and $14,896,157, respectively. Asset useful lives are from 30 to 40 years for buildings and land improvements, 10 to 15 years for manufacturing machinery and equipment, up to 10 years for other property and equipment, and 3 years for software. Property additions included no capitalized interest for 2005, 2004 and 2003.

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NOTE 4 - INCOME TAXES

The Company files a consolidated federal income tax return.

The following is a reconciliation of income tax expense (benefit) before discontinued operations per the consolidated statements of earnings (loss) to that computed by using the federal statutory tax rate of 35%:

	Year Ended October 31,		
	2005	2004	2003
Federal tax at the statutory rate	$23,072,473	$17,128,324	$(1,480,067)
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax benefit	1,460,001	876,646	(159,570)
Executive compensation	–	270,431	–
Other items, net	143,483	42,280	(67,290)
Income taxes per consolidated statements of earnings (loss)	$24,675,957	$18,317,681	$(1,706,927)

The components of income tax expense (benefit) before discontinued operations are as follows:

	Year Ended October 31,		
	2005	2004	2003
Current income taxes:			
Federal	$25,779,352	$19,657,690	$(15,113)
State	3,543,495	2,935,214	415,543
Total current income taxes	29,322,847	22,592,904	400,430
Deferred income taxes:			

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Federal	(3,349,551)	(3,482,627)	(1,556,113)
State	(1,297,339)	(792,596)	(551,244)
Total deferred income taxes	(4,646,890)	(4,275,223)	(2,107,357)
Total income taxes	$24,675,957	$18,317,681	$(1,706,927)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. There are no valuation allowances. The deferred tax liabilities and assets are as follows:

	October 31,	
	2005	**2004**
Deferred tax liabilities:		
Depreciation	$24,710,596	$28,152,620
Deferred tax assets:		
Accruals and allowances	4,262,159	3,347,955
Accrued self-insurance expenses	2,932,065	2,884,111
Postretirement costs	761,153	904,896
Inventories	550,702	466,230
Executive compensation	721,875	303,418
Other	31,409	104,512

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Total deferred tax assets	9,259,363	8,011,122
Net deferred tax liabilities	$15,451,233	$20,141,498

Realization of certain deferred assets is dependent upon generating sufficient taxable income in the appropriate jurisdiction. The Company believes it is more likely than not the deferred net assets will be realized.

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NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following:

	October 31,	
	2005	2004
Syndicated term loan	$24,000,000	$30,000,000
Revolving credit agreement	11,043,144	34,752,012
Total	35,043,144	64,752,012
Less - current portion	21,586,640	6,000,000
Long-term debt	$13,456,504	$58,752,012

On October 4, 2004, the Company entered into an $85,000,000, five-year credit arrangement with a group of banks. The credit facility consists of a $30,000,000 term loan and a $55,000,000 long-term revolving loan. The credit facility permits the Company, upon request, to increase the aggregate amount by an additional $10,000,000, and establishes two sub-facilities pursuant to which one of the banks in the syndicate will issue letters of credit in the aggregate amount of up to $5,000,000 and will make swing-line loans in the aggregate amount of up to $5,000,000, with any such amounts to be applied to and reduce the amount available for borrowing under the revolving loan.

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%. Under the term loan agreement and a portion of the revolver, interest was payable at October 31, 2005 and 2004, at the one-month LIBOR rate of 4.09% plus 2.00% and 1.87% plus 2.00%, respectively. Under the remainder of the revolver, interest was payable at October 31, 2005 and 2004, at the bank' s base rate option of 7.75% and 5.75%, respectively. 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. The credit facility also requires quarterly payments of unused commitment fees of 1/2 of 1% on unused balances of the revolver. These unused commitment fees may be withdrawn under certain conditions such as default, and amounted to $117,154 and $7,510, for the years ended October 31, 2005 and 2004, respectively, and are included in interest expense in the respective consolidated statements of earnings.

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. Since such circumstances existed at October 31, 2005, and during the year then ended, $15,586,640 of the long-term revolver has been classified in current portion of long-term debt at October 31, 2005, and must be prepaid by January 31, 2006.

The loans are subject to various representations and warranties and affirmative and negative covenants, including the Company' s obligation to maintain a leverage ratio of less than or equal to 3:1, to maintain a fixed charge coverage ratio greater than or equal to 1.10:1, and to limit

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capital expenditures on a consolidated basis to no more than $75,000,000 over the term of the credit facility. The Company was in compliance with the covenants of its loan agreements as of October 31, 2005 and 2004.

Annual aggregate long-term debt maturities are approximately $21,586,640 for 2006, $6,000,000 for each of 2007 and 2008, and $1,456,504 for 2009.

On October 4, 2004, the Company' s previous syndicated term loan was repaid with proceeds from the new credit arrangement. In connection with the extinguishment, the Company wrote off remaining, unamortized deferred financing costs of $375,624, which is included in interest expense for the year ended October 31, 2004 in the consolidated statements of earnings.

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NOTE 6 - DERIVATIVE INSTRUMENTS

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 years 2005, 2004 and 2003, the Company entered into derivative commodity instruments of one-year or less 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 are used to mitigate the price risk related to natural gas purchases and 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 at October 31, 2005.

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The components of other comprehensive income (loss) are as follows:

	Year Ended October 31,								
	2005			2004			2003		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:									
Unrealized holding gains (losses) arising during period	$(66,446)	$24,835	$(41,611)	$(26,677)	$10,834	$(15,843)	$200,142	$(80,273)	$119,869
Reclassification adjustments for gains (losses) realized in net income	–	–	–	(17,233)	6,999	(10,234)	(86,811)	34,630	(52,181)
Net unrealized gains (losses)	(66,446)	24,835	(41,611)	(43,910)	17,833	(26,077)	113,331	(45,643)	67,688
Unrealized losses on qualifying cash flow hedges:									
Unrealized gains (losses) arising during period	(305,336)	114,123	(191,213)	196,749	(84,076)	112,673	(32,567)	14,042	(18,525)
Reclassification adjustments for gains (losses) realized in net income	96,273	(35,983)	60,290	220,902	(94,397)	126,505	–	–	–
Net unrealized gains (losses)	(209,063)	78,140	(130,923)	417,651	(178,473)	239,178	(32,567)	14,042	(18,525)
Accretion of past hedging relationships	–	–	–	1,327,919	(530,455)	797,464	849,163	(338,744)	510,419
Other comprehensive income (loss)	$(275,509)	$102,975	$(172,534)	$1,701,660	$(691,095)	$1,010,565	$929,927	$(370,345)	$559,582

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The components of accumulated other comprehensive income are as follows:

	October 31,	
	2005	2004
Unrealized gains on securities, net of taxes of $27,741	–	$41,611
Unrealized gains (losses) on qualifying cash flow hedges, net of taxes of $59,820 and $147,102	$89,730	220,653
Accumulated other comprehensive income	$89,730	$262,264

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES

At October 31, 2005, the Company was committed to approximately $3,500,000 for purchases of equipment and production facilities. Partial settlements have been received in conjunction with a class action suit for antitrust litigation against the Company' s graphite electrode supplies. No further payments are expected under this settlement. 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.

NOTE 8 - COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net income available to common stockholders 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 and performance grants. Earnings per share calculations do not include treasury shares, which are shares held by subsidiaries. Basic earnings (loss) per share have been computed based on the weighted average number of shares outstanding of 11,118,490 for 2005, 10,957,586 for 2004 and 10,938,999 for 2003. The average

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number of shares outstanding was weighted after giving effect to stock options exercised, performance and restricted shares awarded, and/or repurchased common stock during 2005, 2004, and 2003. Diluted earnings (loss) per share have been computed based on the weighted average number of shares outstanding (including outstanding and exercisable stock options) of 11,243,655 for 2005, 11,034,445 for 2004 and 10,945,346 for 2003. No options were antidilutive at October 31, 2005. Options to purchase 107,000 and 323,000 shares of common stock were outstanding at October 31, 2004 and 2003, respectively, but were not included in the computation of diluted earnings (loss) per share because the effect would be antidilutive. Performance grants for 172,872 shares of common stock were outstanding at October 31, 2005, but were not included in the computation of diluted earnings per share because the effect would be antidilutive.

NOTE 9 - PROFIT SHARING PLANS

The Company, including Shredded Products Corporation, Socar, Inc. and Steel of West Virginia, Inc. ("SWVA"), has qualified profit sharing plans which cover substantially all employees. John W. Hancock, Jr., Inc. has an unqualified plan. Socar, Inc.' s annual contribution is discretionary while the other plans' , except SWVA, annual contribution cannot exceed 20% of their combined earnings before income taxes. SWVA' s annual contribution cannot exceed 17% of its pretax profit for bargaining unit employees, with comparable amounts contributed ratably to the nonbargaining group. Total retirement contributions of all Companies shall not exceed the maximum amount deductible for such year under the Internal Revenue Code and amounted to $10,652,245 for 2005, $9,622,733 for 2004, and $1,309,091 for 2003.

NOTE 10 - STOCK OPTIONS

Under a nonqualified stock option plan which expired during 2004, the Company could issue 112,500 shares of unissued common stock to employees of the Company each plan year. Under a non-statutory stock option plan which expired during 2004, the Company could issue 25,000 shares of unissued common stock to directors of the Company over the life of the plan. No stock options were granted in 2005. There were 112,500 stock options granted in 2004 and in 2003.

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These options are exercisable for a term of 5 years for employees and 10 years for directors from the date of grant, and a summary follows:

	Weighted Average Exercise Price Per Share	Shares
Balance, November 1, 2002	$ 13.16	443,300
Granted	8 .44	112,500
Exercised	–	–
Expired or terminated	14.19	(126,300)
Balance, October 31, 2003	11.62	429,500
Granted	10.36	112,500
Exercised	9.61	(83,000)
Expired or terminated	13.78	(92,500)
Balance, October 31, 2004	11.14	366,500
Granted	–	–
Exercised	13.23	(123,500)
Expired or terminated	10.80	(6,000)
Balance, October 31, 2005	10.06	237,000

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Shares available for grant at year-end	0

As discussed in Note 1, effective November 1, 2004, the Company applies the provisions of SFAS No. 123R in accounting for the nonqualified stock option plans. Prior to November 1, 2004, the Company applied APB No. 25, and compensation cost of $205,875 and $167,625 for the years ended October 31, 2004 and 2003, respectively, was recognized for the difference between the exercise price and the fair value of the stock price at the grant date.

The fair value of options granted during the years ended October 31, 2004 and 2003 was $4.18 and $5.53, respectively. The total intrinsic value of options exercised during the years ended October 31, 2005, 2004 and 2003 was $771,848, $377,550 and $0, respectively. The tax benefit realized for the tax deductions from these exercises was $288,671, $141,204 and $0 for the years ended October 31, 2005, 2004 and 2003, respectively. The following table summarizes information about stock options outstanding and exercisable at October 31, 2005:

Exercise Prices	Number Outstanding and Exercisable	Remaining Contractual Life in Years	Aggregate Intrinsic Value
$8.44	54,500	2.09	$734,115
9.61	70,500	0.25	867,150
10.36	92,500	3.25	1,068,375
10.50	7,500	1.33	85,575
17.50	12,000	2.25	52,920
	237,000		$2,808,135

A summary of the status of the Company' s performance shares (see Note 1) as of October 31, 2005, and changes during the year then ended, is presented below:

	Shares	Grant Date Fair Value Per share
Nonvested at November 1, 2004	–	
Granted	172,872	$ 19.75
Vested	(31,113)	19.75
Forfeited	–	
Nonvested at October 31, 2005	141,759	

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NOTE 11 - HEALTH BENEFITS AND POSTRETIREMENT COSTS

Prior to July 1, 2003, the Company provided certain health care benefits for terminated employees who have completed 10 years of continuous service after age 45. On July 1, 2003 the Company amended the policy to discontinue coverage of employees that were not already qualified at the time. Those qualified were employees who were age 55 or more and had 10 years of service on July 1, 2003.

SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits", requires disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit postretirement plans. The Company adopted the disclosure requirements of this statement at October 31, 2004.

Required disclosures under SFAS No. 132R as of, and for the years ended October 31, are as follows:

	2005	2004	2003
Change in benefit obligation:			
Benefit obligation at beginning of year	$1,612,643	$1,720,021	$2,979,320
Service cost	–	–	179,032
Interest cost	88,418	104,212	167,882
Expected participant contributions	53,576	71,938	96,073
Expected benefits paid	(237,624)	(328,297)	(216,947)
Plan amendments	–	–	(1,355,485)
Actuarial (gain)/loss	107,637	44,769	(129,854)
Benefit obligation at end of year	$1,624,650	$1,612,643	$1,720,021
Change in plan assets:			
Employer contribution	$184,048	$256,359	$120,874
Participant contributions	53,576	71,938	96,073

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Benefits paid	(237,624)	(328,297)	(216,947)
Fair value of plan assets at end of year	$–	$–	$–
Funded status	$(1,624,650)	$(1,612,643)	$(1,720,021)
Unrecognized prior service cost	(342,125)	(470,422)	(598,719)
Unrecognized net actuarial gain	(78,392)	(197,710)	(265,972)
Accrued benefit cost	$(2,045,167)	$(2,280,775)	$(2,584,712)
Accrued benefit cost account:			
Accrued benefit cost at beginning of year	$(1,624,650)	$(1,612,643)	$(1,720,021)
Annual expense	(342,125)	(470,422)	(598,719)
Net benefit payments	(78,392)	(197,710)	(265,972)
Accrued benefit cost at end of year (per balance sheet)	$(2,045,167)	$(2,280,775)	$(2,584,712)
Weighted average discount rate assumption	5.50 %	5.75 %	6.25 %
Components of net periodic postretirement benefit cost:			
Service cost	–	–	$179,032
Interest cost	$88,418	$104,212	167,882

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Amortization of gain	(11,681)	(23,493)	–
Amortization of prior service cost	(128,297)	(128,297)	(42,766)
Amortization of transition obligation	–	–	46,000
Net periodic postretirement benefit cost	$(51,560)	$(47,578)	$350,148
Expected net benefit payments (upcoming fiscal year)	$170,935	$149,885	$105,271

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The following table reflects total expected cash benefit payments (net of retiree contributions):

Year ended October 31,	Estimated Benefit Payments
2006	$ 170,935
2007	198,052
2008	215,109
2009	245,637
2010	282,470
2011-2015	934,243

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation at October 31, 2005 was 11.0% for 2005, decreasing by one-percentage-point per year until it reaches 5.0% in 2011. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the October 31, 2005 accumulated postretirement benefit obligation by $60,161 and the aggregate service and interest cost by $4,519.

NOTE 12 - GOODWILL

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. On an ongoing basis, the Company performs annual goodwill impairment testing as of May 31. The Company performed annual goodwill impairment testing in each of 2003, 2004 and 2005, which indicated that the Company' s goodwill was not impaired. At least quarterly, the Company analyzes 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 13 - SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended October 31,		
	2005	2004	2003
Cash paid during the year for:			
Interest	$3,354,316	$3,959,443	$5,266,028
Income taxes (net of cash received)	$29,804,778	$11,706,806	$(3,791,376)

NOTE 14 - DEFERRED COMPENSATION PLAN

The Company maintains a nonqualified deferred compensation plan (the "Executive Deferred Compensation Plan"). The purpose of the Executive Deferred Compensation Plan is to provide to certain eligible employees of the Company the opportunity to: (1) defer elements of their compensation (including any investment income thereon) which might not otherwise be deferrable under the current plans; and (2) receive the benefit of additions to their deferral comparable to those obtainable under the current plans in the absence of certain restrictions and limitations in the Internal Revenue Code. Amounts deferred are paid into a trust owned by the Company and are included in other assets. The Company' s liability and trust asset under the Executive Deferred Compensation Plan as of October 31, 2005 and 2004 was $540,773 and $614,382, respectively, and are included in other assets and other liabilities on the accompaning consolidated balance sheets.

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NOTE 15 - ENTERPRISE-WIDE INFORMATION

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.

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	Financial Information Relating to Classes of Products		
	2005	2004	2003
Sales to unaffiliated customers:			
Merchant steel and specialty steel sections	$386,780,959	$343,604,922	$211,209,483
Fabricated bar joists	115,731,962	95,969,128	66,927,348
Billets	44,099,242	26,012,379	25,432,380
Total consolidated sales	$546,612,163	$465,586,429	$303,569,211

Information relating to geographic areas indicates that significantly all of the consolidated sales are domestic, as foreign revenues are not material. Additionally, the company has no foreign assets.

NOTE 16 - ASSET RETIREMENT OBLIGATIONS

SFAS No. 143, "Accounting for Asset Retirement Obligations", 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.

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-three more years before closing.

On November 1, 2002, the date of adoption, an asset retirement obligation for landfill closure and post closure costs of $433,902 was recorded, compared to the associated long-lived asset, net of accumulated depreciation of $205,492. This resulted in a cumulative effect of adopting this statement of $228,410. The effect of this statement had it been applied during prior years would not have been material to the amounts presented or to the reported earnings per share.

At October 31, 2005 and 2004, the asset retirement obligation totaled $534,969 and $498,903, respectively, and is included in other non-current liabilities. Accretion expense was $36,066 in 2005 and $33,634 in 2004.

NOTE 17 - LEASES

The Company has non-cancelable operating leases for trucks and trailers used in hauling products and supplies, various manufacturing and office equipment, land used for storage and access purposes, and buildings used both as office and plant facilities and for product and supplies storage. Rental expense under operating leases was $1,897,645, $2,063,318, and $1,767,433 in 2005, 2004 and 2003, respectively.

The Company has a capital lease for land, with a carrying value of $234,557, used in the manufacturing process. The liability associated with the capital lease amounted to $189,350 and $208,948 at October 31, 2005 and 2004, respectively.

The future minimum lease payments under non-cancelable operating and capital leases as of October 31, 2005 are as follows:

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	Operating Leases	Capital Leases
2006	$1,837,951	$30,000
2007	1,240,130	30,000
2008	1,061,018	30,000
2009	959,673	30,000
2010	541,088	30,000
Thereafter	–	80,000
Total minimum lease payments	$5,639,860	230,000
Less amounts representing interest		40,650
Present value of net minimum lease payments		189,350
Less current portion under capital lease		20,641
Long-term obligation under capital lease		$168,709

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NOTE 18 - UNAUDITED QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly financial data for 2005 follows:

	Three Months Ended			
	January 31	April 30	July 31	October 31
Sales	$131,309,983	$137,868,454	$136,398,926	$141,034,800
Gross earnings	$25,738,135	$20,358,722	$19,119,887	$37,289,206
Net earnings	$8,937,554	$6,582,181	$7,311,280	$17,488,418
Net earnings per share:				
Basic	$0.81	$0.59	$0.66	$1.57
Diluted	$0.80	$0.58	$0.65	$1.55

Summarized unaudited quarterly financial data for 2004 follows:

	Three Months Ended			
	January 31	April 30	July 31	October 31
Sales	$85,173,685	$116,012,871	$125,262,181	$139,137,692
Gross earnings	$7,862,801	$16,744,115	$22,120,071	$35,109,427
Net earnings	$1,533,676	$5,222,056	$7,757,545	$15,932,971
Net earnings per share:				
Basic	$0.14	$0.48	$0.71	$1.45

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Diluted	$0.14	$0.47	$0.70	$1.44

NOTE 19 - DEFINITIVE AGREEMENT OF MERGER

On October 18, 2005, Roanoke Electric Steel Corporation (“Roanoke”) and Steel Dynamics, Inc. (“SDI”) announced the execution of a definitive agreement of merger (the “Merger Agreement”) pursuant to which SDI will acquire Roanoke and all of its subsidiaries. Pursuant to the Merger Agreement, which has been unanimously approved by the Roanoke Board of Directors, Roanoke stockholders will receive a fixed consideration equal to 0.4 shares of SDI common stock and $9.75 in cash for each share of Roanoke common stock outstanding at the effective time of the merger. Completion of the merger is subject to approval by Roanoke' s stockholders, regulatory approval, including antitrust approval, and the satisfaction or waiver of customary conditions. The Merger Agreement contains certain termination rights for both parties and further provides for a termination fee to SDI of $7.5 million plus expenses if the transaction is terminated under certain circumstances.

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Report Of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Roanoke Electric Steel Corporation:

We have audited the accompanying consolidated balance sheet of Roanoke Electric Steel Corporation (the Company), as of October 31, 2005, and the related consolidated statements of earnings, stockholders' equity and comprehensive earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company' s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of Roanoke Electric Steel Corporation as of October 31, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, effective November 1, 2004, the Company changed its method of accounting and reporting for share-based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company' s internal control over financial reporting as of October 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated January 11, 2006 expressed an unqualified opinion on management' s assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Roanoke, Virginia
January 11, 2006

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Report Of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Roanoke Electric Steel Corporation and subsidiaries (the "Company") as of October 31, 2004, and the related consolidated statements of earnings (loss), stockholders' equity and comprehensive earnings (loss), and of cash flows for the years ended October 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Roanoke Electric Steel Corporation and subsidiaries as of October 31, 2004, and the results of their operations and their cash flows for the years ended October 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the consolidated financial statements, effective November 1, 2002, the Company changed its method for accounting for asset retirement obligations in accordance with Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations.

Deloitte & Touche LLP

Raleigh, North Carolina
December 8, 2004, except for Note 1−Discontinued Operations,
as to which the date is January 11, 2006

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Management' s Report On Internal Control Over Financial Reporting

Management has responsibility for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company' s internal control over financial reporting as of October 31, 2005. In making its assessment, Management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control--Integrated Framework. Management concluded that based on its assessment, Roanoke Electric Steel Corporation' s internal control over financial reporting was effective as of October 31, 2005. Management' s assessment of the effectiveness of the Company' s internal control over financial reporting as of October 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which appears in this Annual Report to Stockholders.

Donald G. Smith
Chairman and Chief Executive Officer

Mark G. Meikle
Vice President-Finance and Chief Financial Officer

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Report Of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Roanoke Electric Steel Corporation:

We have audited management' s assessment, included in the accompanying Management' s Report on Internal Control over Financial Reporting, that Roanoke Electric Steel Corporation (the Company) maintained effective internal control over financial reporting as of October 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company' s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management' s assessment and an opinion on the effectiveness of the Company' s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management' s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company' s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company' s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company' s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management' s assessment that the Company maintained effective internal control over financial reporting as of October 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Roanoke Electric Steel Corporation as of October 31, 2005, and the related consolidated statements of earnings, stockholders' equity and comprehensive earnings, and cash flows for the year then ended, and our report dated January 11, 2006, expressed an unqualified opinion on those consolidated financial statements. Our report refers to a change in the method of accounting and reporting for share-based payments.

KPMG LLP

Roanoke, Virginia
January 11, 2006

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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, the Company' s safety performance, the cyclical nature of the domestic steel industry, and others.

OVERVIEW

During our 2005 and 2004 fiscal years, the Company reported net earnings of $40,319,433 and $30,446,248, respectively. The steel industry as a whole has experienced two consecutive very robust years 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 products through its sales force to its 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 Corporation, a subsidiary with operations in Rocky Mount and Montvale, Virginia, extracts scrap steel and other metals from junked automobiles and other waste materials. These facilities supply the 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., Inc. and Socar, Inc. are steel fabrication subsidiaries located in Salem, Virginia, Florence, South Carolina and Continental, Ohio. All three operations purchase rounds and angles from the 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, prices 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 relating to production are included in cost of sales. The principle elements of cost of sales are raw materials, labor and benefits (including profit sharing for production employees), 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.

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Labor and benefit costs are influenced mainly by production and shipment levels. Profit sharing expenses are related to the Company’s various plans’ contributions which represent a percentage of earnings or IRS limitations. Energy costs are

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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 production related direct and indirect costs associated with the manufacture of our products. The principal elements of these costs are steel scrap, alloys, electrodes, labor and benefits (including profit sharing for production employees), 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 consolidated financial statements contained elsewhere in this report. Profit sharing expenses are related to the Company' s various plans' contributions, for administrative employees, which represent a percentage of earnings or IRS limitations. Other income includes interest income and antitrust litigation settlements which are due to partial settlements received in conjunction with a class action suit for antitrust violations against the Company' s graphite electrode suppliers.

The following table sets forth amounts from our consolidated statements of earnings along with the dollar and percentage change for fiscal 2005 compared to fiscal 2004:

	2005	2004	$ Inc (Dec)	% Inc (Dec)
SALES	$546,612,163	$465,586,429	$81,025,734	17.4 %
COSTS				
Cost of sales	435,660,134	376,017,112	59,643,022	15.9 %
Profit sharing	8,446,079	7,732,903	713,176	9.2 %
Total	444,106,213	383,750,015	60,356,198	15.7 %
GROSS EARNINGS	102,505,950	81,836,414	20,669,536	25.3 %

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OTHER OPERATING EXPENSES (INCOME)				
Administrative	31,526,927	30,026,395	1,500,532	5.0 %
Interest expense	3,412,641	4,480,195	(1,067,554)	(23.8 %)
Profit sharing	1,958,434	1,661,270	297,164	17.9 %
Interest income	(215,501)	(207,694)	(7,807)	(3.8 %)
Antitrust litigation settlement	(97,902)	(3,061,820)	2,963,918	96.8 %
Total	36,584,599	32,898,346	3,686,253	11.2 %
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	65,921,351	48,938,068	16,983,283	34.7 %
INCOME TAX EXPENSE	24,675,957	18,317,681	6,358,276	34.7 %
EARNINGS FROM CONTINUING OPERATIONS	41,245,394	30,620,387	10,625,007	34.7 %
DISCONTINUED OPERATIONS:				
LOSS ON DISCONTINUED OPERATIONS BEFORE INCOME TAXES (INCLUDING LOSS ON SALE)	(1,518,263)	(271,974)	(1,246,289)	(458.2 %)
INCOME TAX BENEFIT	(592,302)	(97,835)	(494,467)	(505.4 %)
LOSS ON DISCONTINUED OPERATIONS	(925,961)	(174,139)	(751,822)	(431.7 %)

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NET EARNINGS	$40,319,433	$30,446,248	$9,873,185	32.4 %

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The following table sets forth amounts from our consolidated statements of earnings (loss) along with the dollar and percentage change for fiscal 2004 compared to fiscal 2003:

	2004	2003	$ Inc (Dec)	% Inc (Dec)
SALES	$465,586,429	$303,569,211	$162,017,218	53.4 %
COSTS				
Cost of sales	376,017,112	280,304,764	95,712,348	34.1 %
Profit sharing	7,732,903	1,058,174	6,674,729	630.8 %
Total	383,750,015	281,362,938	102,387,077	36.4 %
GROSS EARNINGS	81,836,414	22,206,273	59,630,141	268.5 %
OTHER OPERATING EXPENSES (INCOME)	30,026,395	21,735,226	8,291,169	38.1 %
Administrative	4,480,195	5,435,464	(955,269)	(17.6 %)
Interest expense				
Profit sharing	1,661,270	218,862	1,442,408	659.0 %
Interest income	(207,694)	(433,558)	225,864	52.1 %
Antitrust litigation settlement	(3,061,820)	(520,960)	(2,540,860)	(487.7 %)
Total	32,898,346	26,435,034	6,463,312	24.4 %

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EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	48,938,068	(4,228,761)	53,166,829	1,257.3 %
INCOME TAX EXPENSE (BENEFIT)	18,317,681	(1,706,927)	20,024,608	1,173.1 %
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	30,620,387	(2,521,834)	33,142,221	1,314.2 %
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	–	(228,410)	228,410	100.0 %
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	30,620,387	(2,750,244)	33,370,631	1,213.4 %
DISCONTINUED OPERATIONS:				
LOSS ON DISCONTINUED OPERATIONS BEFORE INCOME TAXES	(271,974)	(756,458)	484,484	64.0 %
INCOME TAX BENEFIT	(97,835)	(281,749)	183,914	65.3 %
LOSS ON DISCONTINUED OPERATIONS	(174,139)	(474,709)	300,570	63.3 %
NET EARNINGS (LOSS)	$30,446,248	$(3,224,953)	$33,671,201	1,044.1 %

RESULTS OF OPERATIONS

Sales

Sales increased 53.4% in 2004 to $465,586,429 compared to $303,569,211 in 2003. Average price per ton for merchant bar products, specialty steel sections, fabricated products and billets increased 49.8%, 25.2%, 28.6% and 48.1%, respectively, due to both product mix and higher selling prices. The volatile scrap market prompted industry-wide price increases due to the rising cost of scrap steel. Tons shipped of merchant bar products, specialty products and fabricated products increased 15.3%, 21.4% and 15.6%, respectively. Billet shipments declined due to a greater demand for internal consumption, thus reducing the tons available for shipment to outside customers.

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The momentum obtained in 2004 continued in 2005. Sales for 2005 increased 17.4% to $546,612,163 compared to $465,586,429 in 2004, mainly, due to improved average selling prices for merchant products, specialty products, fabricated products and billets of 12.6%, 18.4%, 34.0% and 11.7%, respectively. The improvement in average selling prices was principally due, again, to rising scrap steel costs, which kept prices for all product classes higher for the year, although bar product and billet prices began to trend lower near year-end. Tons shipped of billets increased 51.8%, while bar and fabricated product shipments dropped by 3.4% and 14.0%,

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respectively, as specialty products shipment levels were flat. The higher billet selling prices were triggered by increased scrap prices, while improved demand and lower excess billet availability in the market resulted in the higher billet shipments. Improved product mix and favorable competitive conditions, within several market segments, brought higher average selling prices for specialty steel sections. An improvement in demand within several market segments offset a softening in demand within another single segment, resulting in flat shipment levels for the comparable years. The higher merchant product selling prices were directly related to the increased scrap costs of 5.2%. More cautious buying patterns and excess inventory levels at steel service centers caused temporary reductions in tons shipped of bar products, although market conditions continued to be strong. The improved fabricated product selling prices were influenced mainly by higher raw material costs, while shipment levels of fabricated products declined, primarily due to reduced activity and increased competitive conditions within the nonresidential construction segment.

Cost of Sales and Gross Margins

Cost of sales increased by 36.4% in 2004, mainly, as a result of the increased bar, specialty and fabricated product tons shipped, together with the higher scrap steel costs of 72.6% and a 630.8% increase in profit sharing costs (see the discussion on profit sharing plans below), even though billet shipments declined. Cost of sales increased by 15.7% in 2005, primarily, due to the increased billet shipments, together with higher costs of scrap steel and other raw materials of 5.2% and 17.9%, respectively, and a 9.2% increase in profit sharing costs, in spite of reduced shipment levels for bar and fabricated products.

Gross earnings as a percentage of sales increased from 7.3% in 2003 to 17.6% in 2004, primarily, as a result of the higher selling prices for all product classes, which more than offset higher scrap costs. Gross earnings as a percentage of sales increased from 17.6% in 2004 to 18.8% in 2005, mainly, due to the higher selling prices for all product classes, in spite of the increased volume of lower margin billets (which historically have a margin well below finished steel margins), and the effects of reduced raw steel (-1.3%) and mill (-6.8%) production levels on fixed costs, and higher scrap steel costs. The Company experienced a widening of our gross margins during 2005 and 2004 as our average selling price per ton increased quicker than our average scrap cost.

Repairs and maintenance expense, included in cost of sales, for the years ended October 31, 2005, 2004 and 2003 amounted to $31,452,935, $26,372,867, and $19,585,305, respectively. Repairs and maintenance fluctuates depending upon the required needs during each of the periods mentioned. The Company has no significant deferred maintenance and believes its facilities are operating within reasonable productive capacities.

Administrative Expenses

Administrative expenses increased 38.1% from 2003 to 2004. Executive and other management compensation increased by $4,518,611, insurance expense increased by $3,172,778 (relating mainly to claims for workers' compensation and health benefits) and professional fees increased by $1,302,724 (most in relation to the Sarbanes-Oxley Act), more than offsetting the bad debt expense reduction of $ 1,254,059. Administrative expenses as a percentage of sales decreased from 7.2% to 6.4% due to the increase in sales.

Total administrative expenses increased in 2005, mainly, due to increases in executive and other management compensation of $2,656,668, professional fees of $1,370,904 (most in relation to the Sarbanes-Oxley Act), and directors' retirement costs and fees of $1,004,026. These expenses more than offset declines in administrative insurance (workers' compensation and health claims) expense of $2,663,075 and bad debt expense of $1,637,349. The above mentioned retirement costs relate to a directors' retirement plan. Administrative expenses as a percentage of sales decreased to 5.8% in 2005 due to the increase in sales.

Interest Expense

In 2004, interest expense declined due to reduced average borrowings and lower average interest rates. Interest expense declined again in 2005, also as a result of 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 revolving loan of up to $55,000,000 and a term loan of $30,000,000.

The new 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

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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

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 2004 profit sharing expense increased due to the improved profitability of the Company.

Again in 2005, each of the sponsoring companies accrued benefits under their respective plans as a result of current earnings, producing an increase from the 2004 levels resulting from higher profitability. Profit sharing expense included in

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cost of sales is applicable to plan participants who work within the production areas of the various plants.

Interest Income

Interest income decreased in 2004 as a result of both reduced interest rates and level of investments. During 2005, interest rates began to improve, with virtually no change in investments, resulting in increased interest income.

Antitrust Litigation Settlement

Other operating expenses were reduced by $97,902, $3,061,820 and $520,960 for the years ended October 31, 2005, 2004 and 2003, respectively, as a result of partial settlements received in conjunction with a class action suit for antitrust litigation against the Company' s graphite electrode suppliers. No further payments are expected under this settlement.

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 comparable years. The year ended October 31, 2003, 2004 and 2005 reflect losses, before tax benefits, from discontinued operations of $756,458, $271,974 and $177,578, respectively. The 2005 year also includes a loss of $1,340,685, representing the loss on the disposition of the subsidiary.

Income Taxes

In 2004, the effective income tax rate was lower compared to 2003, mainly, due to a significant increase in earnings before taxes and certain state income tax credits earned. The effective income tax rate was relatively constant in 2005 compared to 2004. The effective income tax rates for 2005, 2004 and 2003 were 37.4%, 37.4% and 40.4%, respectively.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

At October 31, 2005, working capital was $111,181,959, the current ratio was 2.1 to 1 and the quick ratio was 0.9 to 1. These are sound indicators of ample liquidity and a healthy financial condition, together with the repayment of the prior year' s overdraft position. Current debt maturities of $21,586,640 in 2006, $6,000,000 in 2007 and in 2008, and $1,456,504 in 2009 will affect future liquidity and working capital.

Net cash provided by operations was $58,284,725 for the year ended October 31, 2005. Net cash flows related to operating assets and liabilities increased $51,810,085 (2005 - $5,123,797; 2004 - ($46,686,288)), which was primarily attributable to decreases in accounts receivable and inventories, and an increase in accounts payable and other accrued expenses offsetting decreases in accrued profit sharing and accrued income taxes. Net earnings improved $9,873,185 (2005 - $40,319,433; 2004 - $30,446,248). Earnings for 2005 included a $97,902 payment received from graphite electrode plaintiffs in conjunction with a class action suit for antitrust violations. Amounts received related to this matter were $3,061,820 in 2004. The Company incurred a loss of $1,340,685 on the sale of a subsidiary, reflected in the 2005 year. With the continued favorable market conditions, the Company anticipates future positive cash flows, which should generate the cash needed to cover anticipated contractual obligations and various planned capital expenditures.

Net cash used in investing activities was ($3,692,037) for the year ended October 31, 2005. Expenditures for property, plant and equipment amounted to $8,026,478 for the year. During 2005 and 2004, net cash used in investing activities included net proceeds of $4,206,829 and $4,002,236, respectively, from the sale of a subsidiary and other investments, respectively, partially used to pay down debt.

Net cash used in financing activities was ($37,762,007) for the year ended October 31, 2005. Cash dividends of $4,904,433 were paid during 2005, compared to $3,951,443 in 2004, resulting from the Company' s increased dividend rate in late 2004. Net cash used in financing activities included payments on long-term debt of $64,208,868, with borrowings of $34,500,000 providing cash in 2005. The overdraft position of $4,777,540 at the 2004 year-end was repaid during 2005. Most of the 2005 debt activity related to the Company' s revolving credit facility. With this 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. Since such

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circumstances existed at October 31, 2005, and during the year then ended, $15,586,640 of the long-term revolver has been classified in current portion of long-term debt at October 31, 2005, and must be prepaid by January 31, 2006. 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 a 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. As to debt maturities, refer to contractual obligations below. 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

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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 the covenants of its loan agreement as of October 31, 2005 (see Note 5).

At October 31, 2005, there were commitments for the purchase of property, plant and equipment of approximately $3,500,000. 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 year, borrowings decreased to $35,232,494 from $64,960,960, and the ratio of debt to equity declined to .7 to 1. The percentage of long-term debt to total capitalization decreased from 27.5% to 6.6% at year-end. These improvements resulted from the pay down and 2004 refinancing of long-term debt.

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 (see Note 7). Applicable additional future capital expenditures are presently estimated to be less than $17,000,000 and will be completed and funded, as the Company' s financial resources permit.

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

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt	$35,043,144	$21,586,640	$12 000 000	$1,456,504	–
Interest on Long-Term Debt (1)	3,300,000	1,500,000	1,600,000	200,000	–
Capital Lease Obligations	189,350	20,641	44,638	49,520	$74,551
Operating Lease Obligations	5,639,860	1,837,951	2,301,148	1,500,761	–
Purchase Obligations	3,470,179	3,470,179	–	–	–
Payments Under Derivative Commodity Instruments (2)	100,000	100,000	–	–	–
Other Long-Term Liabilities	3,120,909	360,000	725,000	745,000	1,290,909
Total	$50,863,442	$28,875,411	$16,670,786	$3,951,785	$1,365,460

(1) Reflects estimated future interest payments through the scheduled maturity date based on average borrowing rates, outstanding debt balances, and scheduled principal payments as of October 31, 2005.

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(2) Reflects the maximum amount that the Company might incur under these instruments.

OFF- BALANCE SHEET FINANCING ARRANGEMENTS

The Company has no 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.

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 U.S. generally accepted accounting principles. 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' s senior management has reviewed these critical accounting policies and estimates with the audit committee.

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 actual losses 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 maybe required.

Impairments 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

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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.

Revenue Recognition - Revenue is 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. The Company recognizes profit at the time revenue is recognized, based on its estimates as to the project status and the costs remaining to complete a particular project. If actual consumption exceeds estimated consumption, then the percentage-of-completion method is adjusted to prorate revenue up to the amount allowed by the contract.

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

On November 1, 2004, the Company early adopted SFAS No. 123 (Revised 2004), "Share-Based Payment". 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. During 2005, the Company began to recognize compensation cost for awards issued on January 28, 2005, reflected in the 2005 statement of earnings, related to its stock plans in accordance with the provisions of SFAS No. 123R.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4". SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires these costs be treated as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS No. 151 will have a material impact on its financial position, results of operations and liquidity.

In December 2004, the FASB issued SFAS No. 153, "Exchanges 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.

In December 2004, the FASB issued FASB Staff Position ("FSP") No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the Act)". FSP

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No. FAS 109-1 clarifies that the tax deduction for manufacturers provided for in the Act should be accounted for as a special deduction rather than as a tax rate reduction. The manufacturers' deduction is not available to the company until fiscal year 2006. The company is evaluating the effect the manufacturers' deduction will have in future fiscal years.

In March 2005, FASB Interpretation No. ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of SFAS No. 143", was issued. This Interpretation clarifies that the term "conditional asset

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retirement obligation", as used in SFAS No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but is not required. The Company has not determined whether the adoption of this Interpretation will have a material impact on the Company' s results of operations or financial condition.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections- a replacement of APB Opinion No. 20 and FASB Statement No. 3". This Statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. It also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS No. 154 will have a material impact on its results of operations or financial condition.

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Stock Activity

The Common Stock of Roanoke Electric Steel Corporation is traded on the Nasdaq National Market using the symbol RESC. At year end, there were approximately 500 shareholders of record. All amounts below are per share.

	2005 Stock Prices		2004 Stock Prices		Cash Dividends	
	High	Low	High	Low	2005	2004
First Quarter	$21.90	$15.50	$13.26	$9.30	$0.11	$0.05
Second Quarter	27.68	19.04	14.83	12.10	0.11	0.10
Third Quarter	20.56	15.36	14.57	11.60	0.11	0.10
Fourth Quarter	21.96	16.89	16.88	13.35	0.11	0.11

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A tribute to our founder, John W. Hancock, Jr.

John William Hancock, Jr.

1904-1994

He was an original.

A visionary businessman who almost lost his business, then took it to spectacular success.

A generous benefactor who shunned recognition.

A powerful leader who gave credit for his accomplishments to others.

Jack Hancock shaped the thinking of many and bettered the lives of us all.

This is a tribute to Mr. Hancock. And a remembrance of the integrity, loyalty and generosity that are his legacy to us.

Jack Hancock was born in Roanoke, Virginia August 7, 1904. He studied mining engineering at Virginia Tech and attended the Wharton School of Finance at the University of Pennsylvania. Upon graduation, he was employed by a New York investment banking firm, where he built a successful career selling securities. Fifteen years later, World War II broke out, and Jack Hancock joined the Air Force, attaining the rank of lieutenant colonel.

While overseas, he was intrigued by the acres and acres of Quonset huts. Learning how cheaply and quickly they could be built sparked an idea. The war had slowed down building in the United States. The postwar demand for office and storage space wouldn' t be met with conventional methods. This could be an opportunity. Returning to Roanoke in 1945, he set up a shop and began selling Quonset huts. Some of these "temporary" buildings still exist today.

By 1949, the building boom was going strong. Mr. Hancock knew there would be a need for steel joists to use as roof and floor supports, so he started manufacturing them. But he was increasingly frustrated by the erratic shipments of steel he got from Pittsburgh. How could you meet your own delivery commitments if you weren' t able to depend on your supplier? He decided what he needed was his own steel mill.

He studied, researched and even went to Germany. He learned that by firing furnaces with electricity instead of traditional coke ovens, a mini-mill could be built in a smaller space, for less capital, with fewer employees.

In 1955, Jack Hancock borrowed every dollar he could and sold stock for $100 per share to build Roanoke

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Electric Steel, the first mini-mill in the Southeast.

A lot of people told him he made a mistake – the big mills would squeeze him out. It wasn' t long before doomsday predictions looked smart.

Within just a couple of weeks after starting production, the secondhand motor he' d bought broke down. He had all these employees, all this equipment, and no money to pay for having the motor rewound. On a somber Friday afternoon, he decided the plant would have to close. He kept the bad news to himself over the weekend.

Early Monday morning he answered a phone call from Irvin Bettman of the David J. Joseph Company, a Cincinnati scrap dealer he' d been negotiating with. "Can' t pay for scrap we ordered," said Mr. Hancock. "I' m out of money, and we' re gonna close down." Mr. Bettman quickly replied, "We' ll give you more time." Shortly thereafter, Louis Zinn, president of Port Everglades Steel Corporation in Florida, dropped by. Upon hearing of the financial predicament, he told Mr. Hancock, "What you need is some business. I' m going to order 1,000 tons of steel today and I' ll give you some blanket orders to produce steel for my customers. Use them as you need them."

Because of these two men, and with some additional money committed by Jack Hancock, the plant stayed open. Their generosity was never forgotten. From that day to this, Roanoke Electric Steel is still doing business with David J. Joseph Company and Port Everglades Steel Corporation.

But for some years, the tough times continued and the future of the young company looked tenuous. Mr. Hancock kept on seeking ways to expedite the steelmaking process.

The answer, he decided, was a continuous casting machine that would eliminate the waste of casting ingots in individual molds. The fact that there was no such machine in this country didn' t deter him a bit. In short order, he commissioned Babcock & Wilcox to build a casting machine as a joint venture with his company. If it failed, each would lose half a million dollars.

It worked. And in 1962, Roanoke Electric Steel became the nation' s first continuous casting plant. Today, 60 percent of steel companies in the United States and 90 percent of those in Japan use continuous casting.

The growth and success of Roanoke Electric Steel is a direct result of the creative thinking and tenacity of our founder. But he is remembered even more for the way he did business. With loyalty, truthfulness and respect.

His high principles were never merely words. He lived them every day.

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Officers

Donald G. Smith, 70
Chairman, Treasurer and Chief Executive Officer
48 years of service

T. Joe Crawford, 50
President and Chief Operating Officer
28 years of service

Timothy R. Duke, 54
President and Chief Executive Officer,
Steel of West Virginia, Inc.
18 years of service

W. Rivers Claytor, Jr., 59
President, John W. Hancock, Jr., Inc.
34 years of service

J. Kenneth Charles, III, 52
President, Socar, Inc.
28 years of service

H. James Akers, Jr., 66
Vice President, Melt Operations
49 years of service

Daniel L. Board, 68
Vice President, Purchasing
45 years of service

Donald R. Higgins, 60
Vice President-Sales
40 years of service

Mark G. Meikle, 41
Vice President-Finance,
Assistant Treasurer and Chief Financial Officer
12 years of service

William M. Watson, Jr., 50
General Counsel and Secretary
2 years of service

Board Of Directors

George B. Cartledge, Jr.
Chairman,
Grand Home Furnishings, Inc.

T. Joe Crawford

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President and Chief Operating Officer,
Roanoke Electric Steel Corporation

Timothy R. Duke
President and Chief Executive Officer,
Steel of West Virginia, Inc.

George W. Logan
Chairman,
Valley Financial Corporation

Charles I. Lunsford, II
Retired Chairman,
Charles Lunsford Sons & Associates

Thomas L. Robertson
Retired Chairman,
Carilion Foundation

Donald G. Smith
Chairman, Treasurer and Chief Executive Officer,
Roanoke Electric Steel Corporation

Charles W. Steger
President,
Virginia Polytechnic Institute and State University

Joseph H. Vipperman
Retired Executive Vice President - Corporate Services,
American Electric Power Company

Committees Of The Board

Executive:
D. G. Smith, Chairman;
T. L. Robertson, G. W. Logan,
G. B. Cartledge, Jr.

Audit:
T. L. Robertson, Chairman;
G. W. Logan, C. W. Steger

Compensation:
G. B. Cartledge, Jr., Chairman;
C. I. Lunsford, II, J. H. Vipperman

Profit Sharing:
C. I. Lunsford, II, Chairman;
D. G. Smith, M. G. Meikle

Nominating and Corporate Governance:

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C. I. Lunsford, II, Chairman;
G. B. Cartledge Jr., C. W. Steger

Corporate Information

Outside Counsel
Woods Rogers P.L.C.
Roanoke, Virginia

Transfer Agent
Shareholder Inquiries:
Roanoke Electric Steel Corporation
c/o Computershare
P.O. Box 43012
Providence, RI 02940-3010
1-800-633-4236
www.equiserve.com

Dividend Reinvestment Plan
Roanoke Electric Steel offers its shareholders a dividend reinvestment plan through its transfer agent. For more information, please contact the transfer agent or William M. Watson, Jr., General Counsel and Secretary.

Independent Registered Public Accounting Firm
KPMG LLP
Roanoke, Virginia

Stock Listing
Nasdaq National Market
Symbol: RESC

Financial Information
Analysts, investors and others seeking financial information are requested to contact: Mark G. Meikle, Vice President-Finance or William M. Watson, Jr., General Counsel and Secretary.

Copies of the Corporation' s Annual Report or Form 10-K may be obtained without charge by writing to Mr. Watson at the address below.

Corporate Office
102 Westside Boulevard NW (zip 24017)
P. O. Box 13948
Roanoke, Virginia 24038-3948
540-342-1831

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Roanoke Electric Steel Corporation

Steel Mini-mills

Parent:

Roanoke Electric Steel Corporation
102Westside Boulevard NW (zip 24017)
P. O. Box 13948
Roanoke, Virginia 24038-3948
Telephone: 540-342-1831 Sales: 800-753-3532 Fax: 540-342-6610
Web site: www.roanokesteel.com E-mail: sales@roanokesteel.com

Subsidiary:

SWVA, Inc.
17th Street & 2nd Avenue (zip 25703)
P.O. Box 2547
Huntington, West Virginia 25726-2547
Telephone: 304-696-8200 Sales: 800-624-3492 Fax: 304-529-1479
Web site: www.swvainc.com E-mail: steel@swvainc.com or sales@swvainc.com

Steel Fabricators

Subsidiaries:

John W. Hancock, Jr., Inc.
2535 Diuguids Lane
P.O. Box 3400
Salem, Virginia 24153
Telephone: 540-389-0211 Sales: 800-336-5773 Fax: 540-389-0378
Web site: www.hancockjoist.com E-mail: jwhmail@hancockjoist.com

Marshall Steel, Inc.
1555 Harbor Avenue
P. O. Box 13463
Memphis, Tennessee 38113-0463
Telephone: 901-946-1124 Fax: 901-946-5676
Web site: www.swvainc.com E-mail: sales@marshallsteel.com

Socar, Inc.
2527 East National Cemetery Road (zip 29506)
P.O. Box 671
Florence, South Carolina 29503
Telephone: 843-669-5183 Sales: 800-669-5183 Fax: 843-669-0675
Web site: www.socarinc.com E-mail: llm@socarinc.com

Socar of Ohio, Inc.
21739 Road E16
P.O. Box 219
Continental, Ohio 45831
Telephone: 419-596-3100 Fax: 419-596-3120
Web site: www.socarinc.com E-mail: socaroh@socarinc.com

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Scrap Steel Processor

Subsidiary:

Shredded Products Corporation
700 Commerce Road
Rocky Mount, Virginia 24151
Telephone: 540-489-7599 Fax:540-489-8431

1144 Fluff Road
P. O. Box 159,
Montvale, Virginia 24122
Telephone: 540-947-2225 Toll free: 877-668-8253 Fax:540-947-5173

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Exhibit 21

Subsidiaries of Roanoke Electric Steel Corporation

The following are the direct and indirect subsidiaries of Roanoke Electric Steel Corporation

Name	Jurisdiction of Organization	Name Under Which a Subsidiary Does Business in Addition to the Subsidiary' s Corporate Name
John W. Hancock, Jr. Incorporated	Virginia	Hancock Rack
RESCO Steel Products, Inc. (inactive)	Virginia	
Roanoke Technical Treatment & Services, Inc. (Inactive)	Virginia	
Shredded Products Corp.	Virginia	
Socar, Inc.	South Carolina	
Socar of Ohio, Inc.	Ohio	
Steel of West Virginia, Inc.	Delaware	
Marshall Steel, Inc.	Delaware	
Steel Ventures, Inc.	Delaware	
SWVA, Inc.	Delaware	Steel of West Virginia

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Exhibit 23.1

Report and Consent of Independent Registered Public Accounting Firm

The Board of Directors
Roanoke Electric Steel Corporation:

The audit referred to in our report dated January 11, 2006, with respect to the consolidated financial statements of Roanoke Electric Steel Corporation, included the related consolidated financial statement schedule (Schedule II – Valuation and Qualifying Accounts) as of October 31, 2005 and for the year then ended included in Item 15(c) of the Company' s 2005 Annual Report on Form 10-K. This consolidated financial statement schedule is the responsibility of the Company' s management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audit. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-27359), (Form S-8 No. 33-35243), (Form S-8 No. 333-25299), (Form S-8 No. 333-49525), and (Form S-8 No. 333-122726) of our reports dated January 11, 2006, with respect to the consolidated financial statements, management' s assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which reports appear in the 2005 Annual Report on Form 10-K of Roanoke Electric Steel Corporation. Our report on the consolidated financial statements refers to a change in the method of accounting and reporting for share-based payments.

/s/ KPMG LLP

Roanoke, Virginia
January 11, 2006

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Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-27359, 33-35243, 333-25299, 333-49525, and 333-122726 on Forms S-8 of our reports dated December 8, 2004, except for Note 1 - Discontinued Operations, as to which the date is January 11, 2006 (which reports express an unqualified opinion and include an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, on November 1, 2002), relating to the consolidated financial statements and financial statement schedule of Roanoke Electric Steel Corporation, appearing in and incorporated by reference in the Annual Report on Form 10-K of Roanoke Electric Steel Corporation for the year ended October 31, 2005.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

January 11, 2006

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Exhibit 24

POWER OF ATTORNEY

FORM 10-K

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned Directors of Roanoke Electric Steel Corporation, , a Virginia corporation, hereby constitute and appoint T. Joe Crawford, Mark G. Meikle, and William M. Watson, Jr., or any of them, with full power to each of them to act alone, my true and lawful attorneys-in-fact and agents, for me on my behalf and in my name, place and stead, to execute and file the Annual Report on Form 10-K for Roanoke Electric Steel Corporation for its fiscal year ended October 31, 2005, and any amendment which such attorney- or attorneys-in-fact may deem appropriate or necessary.

Dated: December 20, 2005

/s/ George B. Cartledge, Jr.

/s/ T. Joe Crawford

/s/ Timothy R. Duke

/s/ George W. Logan

/s/ Charles I. Lunsford, II

/s/ Thomas L. Robertson

/s/ Donald G. Smith

/s/ Charles W. Steger

/s/ Joseph H. Vipperman

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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 annual report on Form 10-K 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 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 report;

4. The Company’ s other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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 officer(s) 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 the Company’ s board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the 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 control over financial reporting.

Date: January 11, 2006

/s/ Donald G. Smith

Donald G. Smith, Chairman, Treasurer and

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Chief Executive Officer
(Principal Executive Officer)

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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 annual report on Form 10-K 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 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 report;

4. The Company’ s other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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 officer(s) 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 the Company’ s board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the 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 control over financial reporting.

Date: January 11, 2006

/s/ Mark G. Meikle
Mark G. Meikle, Vice President-Finance, Asst. Treasurer

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and Chief Financial Officer
(Principal Financial Officer)

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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-K for the year ended October 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: January 11, 2006

/s/ Donald G. Smith

Donald G. Smith, Chairman, Treasurer and

Chief Executive Officer

(Principal Executive Officer)

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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-K for the year ended October 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: January 11, 2006

/s/ Mark G. Meikle

Mark G. Meikle, Vice President-Finance, Asst. Treasurer and

Chief Financial Officer

(Principal Financial Officer)

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