Higher One Holdings, Inc.
Form SC 13G/A
February 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 5)*

Higher One Holdings, Inc.

(Name of Issuer)

Common Stock, par value $.001 per share

(Title of Class of Securities)

42983D104

(CUSIP Number)

December 31, 2015

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

¨ Rule 13d-1(b)

¨ Rule 13d-1(c)

x Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1. Name of reporting persons:

Lightyear Fund II, L.P.

2. Check the appropriate box if a member of a group

(a) ¨ (b) x[1]

3. SEC use only

4. Citizenship or place of organization:

Delaware

Number of shares beneficially owned by each reporting person with	
5. Sole voting power:	6,646,960
6. Shared voting power:	0
7. Sole dispositive power:	6,646,960
8. Shared dispositive power:	0

9. Aggregate amount beneficially owned by each reporting person:

6,646,960

10. Check box if the aggregate amount in Row (9) excludes certain shares (see instructions) ¨

11. Percent of class represented by amount in Row (9):

13.8%[2]

12. Type of reporting person (see instructions):

PN

[1] This Schedule 13G is filed on behalf of the Reporting Persons. The Reporting Persons expressly disclaim status as a group for purposes of this Schedule 13G.

[2] The calculation of the foregoing percentage is based on 48,012,477 outstanding shares of Common Stock of the Issuer as of January 29, 2016 as reported in the Issuer s preliminary proxy statement, as filed with the Securities and Exchange Commission on February 3, 2016.

1.	Name of reporting persons: Lightyear Co-Invest Partnership II, L.P.	
2.	Check the appropriate box if a member of a group (a) ¨ (b) x[(1)]	
3.	SEC use only	
4.	Citizenship or place of organization: Delaware	
Number of shares beneficially owned by each reporting person with	5.	Sole voting power: 35,424
	6.	Shared voting power: 0
	7.	Sole dispositive power: 35,424
	8.	Shared dispositive power: 0
9.	Aggregate amount beneficially owned by each reporting person: 35,424	
10.	Check box if the aggregate amount in Row (9) excludes certain shares (see instructions) ¨	
11.	Percent of class represented by amount in Row (9):	

0.1%[2]

12. Type of reporting person (see instructions):

PN

[1] This Schedule 13G is filed on behalf of the Reporting Persons. The Reporting Persons expressly disclaim status as a group for purposes of this Schedule 13G.

[2] The calculation of the foregoing percentage is based on 48,012,477 outstanding shares of Common Stock of the Issuer as of January 29, 2016 as reported in the Issuer s preliminary proxy statement, as filed with the Securities and Exchange Commission on February 3, 2016.

1. Name of reporting persons:

   Lightyear Fund II GP, L.P.

2. Check the appropriate box if a member of a group

   (a) ¨ (b) x[1]

3. SEC use only

4. Citizenship or place of organization:

   Delaware

Number of shares beneficially owned by each reporting person with		
	5.	Sole voting power: 6,646,960 [2]
	6.	Shared voting power: 0
	7.	Sole dispositive power: 6,646,960 [2]
	8.	Shared dispositive power: 0

9. Aggregate amount beneficially owned by each reporting person:

   6,646,960 [2]

10. Check box if the aggregate amount in Row (9) excludes certain shares (see instructions) ¨

11. Percent of class represented by amount in Row (9):

13.8%[3]

12. Type of reporting person (see instructions):

PN

(1) This Schedule 13G is filed on behalf of the Reporting Persons. The Reporting Persons expressly disclaim status as a group for purposes of this Schedule 13G.

(2) As the sole general partner of Lightyear Fund II, L.P. (Lightyear Fund II), Lightyear Fund II GP, L.P. (Lightyear Fund II GP) possesses the power to direct the voting and disposition of the shares owned by Lightyear Fund II. However, Lightyear Fund II GP disclaims beneficial ownership of the shares held by Lightyear Fund II. Lightyear Fund II GP does not directly own securities of the Issuer.

(3) The calculation of the foregoing percentage is based on 48,012,477 outstanding shares of Common Stock of the Issuer as of January 29, 2016 as reported in the Issuer s preliminary proxy statement, as filed with the Securities and Exchange Commission on February 3, 2016.

1. Name of reporting persons:

   Lightyear Fund II GP Holdings, LLC

2. Check the appropriate box if a member of a group

   (a) ¨ (b) x[(1)]

3. SEC use only

4. Citizenship or place of organization:

   Delaware

Number of shares beneficially owned by each reporting person with		
	5.	Sole voting power: 6,682,384 [(2)]
	6.	Shared voting power:
	7.	Sole dispositive power: 6,682,384 [(2)]
	8.	Shared dispositive power:

9. Aggregate amount beneficially owned by each reporting person:

   6,682,384 [(2)]

10. Check box if the aggregate amount in Row (9) excludes certain shares (see instructions) ¨

11. Percent of class represented by amount in Row (9):

    13.9%[(3)]

12. Type of reporting person (see instructions):

OO

(1) This Schedule 13G is filed on behalf of the Reporting Persons. The Reporting Persons expressly disclaim status as a group for purposes of this Schedule 13G.

(2) Includes (i) 6,646,960 shares of Common Stock held by Lightyear Fund II and (ii) 35,424 shares of Common Stock held by Lightyear Co-Invest Partnership II, L.P. (Lightyear Co-Invest II). As the sole general partner of Lightyear Fund II, Lightyear Fund II GP possesses the power to direct the voting and disposition of the shares owned by Lightyear Fund II. As the general partner of Lightyear Fund II GP and Lightyear Co-Invest II, Lightyear Fund II GP Holdings, LLC (Lightyear Fund II GP Holdings) may also be deemed to share voting and/or dispositive power over such securities. However, Lightyear Fund II GP Holdings disclaims beneficial ownership of the shares held by Lightyear Fund II and Lightyear Co-Invest II. Lightyear Fund II GP Holdings does not directly own securities of the Issuer.

(3) The calculation of the foregoing percentage is based on 48,012,477 outstanding shares of Common Stock of the Issuer as of January 29, 2016 as reported in the Issuer s preliminary proxy statement, as filed with the Securities and Exchange Commission on February 3, 2016.

Item 1. (a). Name of Issuer:

Higher One Holdings, Inc. (the Issuer)

(b). Address of Issuer s Principal Executive Offices:

115 Munson Street, New Haven, Connecticut 06511

Item 2. (a). Name of Person Filing:

This Statement is filed on behalf of each of the following persons (collectively, the Reporting Persons):

(i) Lightyear Fund II, L.P., a Delaware limited partnership (Lightyear Fund II); (ii) Lightyear Co-Invest Partnership II, L.P., a Delaware limited partnership (Lightyear Co-Invest II); (iii) Lightyear Fund II GP, L.P., a Delaware limited partnership (Lightyear Fund II GP); and (iv) Lightyear Fund II GP Holdings, LLC, a Delaware limited liability company (Lightyear Fund II GP Holdings).

(b). Address of Principal Business Office:

9 West 57th Street, 31st Floor, New York, New York 10019

(c). Citizenship:

See Item 4 of each cover page.

(d). Title of Class of Securities:

Common Stock, par value $.001 per share (Common Stock)

(e). CUSIP Number:

42983D104

Item 3. If this statement is filed pursuant to Rule 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:

Not Applicable.

Item 4. Ownership.

(a) Amount beneficially owned:

See Item 9 of each cover page.

(b) Percent of class:

See Item 11 of each cover page.

(c) Number of Shares as to which the Reporting Person has:

(i) Sole power to vote or to direct the vote:

See Item 5 of each cover page.

(ii) Shared power to vote or to direct the vote:

See Item 6 of each cover page.

(iii) Sole power to dispose or to direct the disposition of:

See Item 7 of each cover page

(iv) Shared power to dispose or to direct the disposition of:

See Item 8 of each cover page.

As of December 31, 2015, 6,646,960 shares of Common Stock of the Issuer reported herein were directly held by Lightyear Fund II and 35,424 shares of Common Stock of the Issuer reported herein were directly held by Lightyear Co-Invest II. As the general partner of Lightyear Fund II, Lightyear Fund II GP may be deemed to share voting and/or dispositive power over such securities. As the general partner of Lightyear Fund II GP and Lightyear Co-Invest II, Lightyear Fund II GP Holdings may also be deemed to share voting and/or dispositive power over such securities. However, each of Lightyear Fund II GP and Lightyear Fund II GP Holdings disclaims beneficial ownership of the shares held by Lightyear Fund II and Lightyear Co-Invest II.

The managing member of Lightyear Fund II GP Holdings, LLC is LY Holdings, LLC, and Mr. Mark Vassallo is the managing member of LY Holdings, LLC. LY Holdings, LLC and Mr. Vassallo have separately filed a Schedule 13D reporting their beneficial ownership of shares of Common Stock of the Issuer, including beneficial ownership over the shares of Common Stock held by Lightyear Fund II and Lightyear Co-Invest II, which filing shall not be deemed an admission that either Mr. Vassallo or LY Holdings, LLC is the beneficial owner of such securities.

Item 5. Ownership of Five Percent or Less of a Class.

Not Applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Not Applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.

Not Applicable.

Item 8. Identification and Classification of Members of the Group.

See response to Item 4 above.

Item 9. Notice of Dissolution of Group.

Not Applicable.

Item 10. Certifications.

Not Applicable.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 5, 2016

LIGHTYEAR FUND II, L.P.

By: Lightyear Fund II GP, L.P.,

its general partner

By: Lightyear Fund II GP Holdings, LLC,

its general partner

/s/ Lori Forlano
Name: Lori Forlano
Title: Vice President

LIGHTYEAR CO-INVEST PARTNERSHIP II, L.P.

By: Lightyear Fund II GP Holdings, LLC,

its general partner

/s/ Lori Forlano
Name: Lori Forlano
Title: Vice President

LIGHTYEAR FUND II GP, L.P.

By: Lightyear Fund II GP Holdings, LLC,

its general partner

/s/ Lori Forlano
Name: Lori Forlano
Title: Vice President

LIGHTYEAR FUND II GP HOLDINGS, LLC

/s/ Lori Forlano
Name: Lori Forlano
Title: Vice President

Exhibit List

Exhibit A Joint Filing Agreement, dated February 2, 2015, among the Reporting Persons (filed as Exhibit A to the Schedule 13G filed on February 2, 2015 and incorporated herein by reference).

s have adversely affected the profitability of the Company. On March 5, 2002, President Bush announced the imposition of restrictions on a wide range of steel imports for three years, including a 30% tariff on steel plate and hot-rolled coil and a 30% tariff on imports of steel slabs in excess of 5.4 million tons in year one. The tariffs on steel plate, coil, and slabs decline to 24% in year two and 18% in year three. The tariffs for steel slabs are for imports in excess of 5.9 million tons in year two and 6.4 million tons in year three. Imports from Mexico, a large exporter of slab to the U.S., and Canada and certain developing countries are exempted from these restrictions. This action is expected to reduce the supply of certain steel products available on the U.S. market, thereby increasing the prices domestic steel manufacturers can charge for those products. The Company expects these restrictions will not materially impact either the supply or the cost of steel slabs, which it purchases on the open market to process into steel plate and coil. Oregon Steel believes these restrictions will assist it in increasing profitability. The legality of these restrictions may be challenged before the World Trade Organization. Similarly, the President may adjust these restrictions or lift them in their entirety, depending on economic and industry conditions. Accordingly, these restrictions may not remain in place for the entire three-year period. -18- The Company expects to ship approximately 1.8 million tons of product during 2002. The Oregon Steel Division anticipates that it will ship more than 550,000 tons of welded pipe and approximately 460,000 tons of plate and coil products during 2002. The increase in anticipated welded pipe shipments is due primarily to the Kern River Expansion Project, which will require production of more than 370,000 tons. The Company expects that this order will be completed and shipped by the end of 2002. The RMSM Division anticipates that it will ship approximately 370,000 tons of rail, approximately 440,000 tons of rod and bar and approximately 58,000 tons of other products. Accordingly, the Company believes it is well positioned for an upturn in the steel cycle and expects revenue and cash flow growth in 2002. CRITICAL ACCOUNTING POLICIES AND ESTIMATES The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates. This includes allowance for doubtful accounts, inventories, income taxes, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. This provides a basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and these differences may be material. 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. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. 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. INVENTORY. The Company's inventories, consisting of raw materials, semi-finished and finished products, are stated at the lower of average cost or market. ENVIRONMENTAL LIABILITIES. All material environmental remediation liabilities for non-capital expenditures, which are both probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or when estimated time periods are changed, thereby affecting the total cost. The best estimate of the probable cost within a range is recorded; however, if there is no best estimate, the low end of the range is recorded and the range is disclosed. Even though the Company has established certain reserves for environmental remediation, additional remedial measures may be required by environmental authorities and additional environmental hazards, necessitating further remedial expenditures, may be asserted by these authorities or private parties. Accordingly, the costs of remedial measures may exceed the amounts reserved. LITIGATION LIABILITIES. All material litigation liabilities, which are both probable and estimable, are recorded in the financial statements based on the nature of the litigation, progress of the case, and opinions of management and legal counsel on the outcome. Adjustments are made when additional information is available that alters opinions of management and legal counsel on the outcome of the litigation. The best estimate of the probable cost within a range is recorded; however, if there is no best estimate, the low end of the range is recorded and the range is disclosed. DEFERRED TAXES. Deferred income taxes reflect the differences between the financial reporting and tax bases of assets and liabilities at year-end based on enacted tax laws and statutory tax rates. Tax credits are recognized as a reduction of income tax expense in the year the credit arises. A valuation allowance is established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. COMPARISON OF 2001 TO 2000 SALES. Consolidated sales for 2001 of $780.9 million increased $108.9 million, or 16.2%, from sales of $672.0 million for 2000. Included in 2001 sales are $19.1 million in electricity sales and $54.8 -19- million in freight revenue. Included in 2000 sales is $2.8 million in electricity sales and $36.1 million in freight revenue. The Company does not expect any sales of electricity in 2002. Revenues from product sales increased 11.7% to $707.0 million in 2001 from $633.1 million in 2000. Shipments were down 1.1% at 1,610,600 tons for 2001 compared to 1,628,500 tons for 2000. However, the average product selling price per ton increased from $389 in 2000 to $439 in 2001. Growth in both product sales and related average selling prices were due primarily by the shift in product mix from plate and coil products to welded and seamless pipe products. Freight revenue increased in response to product sales growth, as well as the product mix and customer preference on shipping. OREGON STEEL DIVISION. For 2001, the division shipped 829,700 tons of plate, coil and welded pipe products, compared to 871,500 tons in 2000. This decrease was due to a weakness in market demand and also due, in large part, to the 6-day temporary curtailment at the Portland Mill during August of 2001. This curtailment was in response to the plate market decline. Despite the decline in total shipments, average selling price per ton, net of revenues from the electricity sales and shipping revenues, increased in 2001 to $500 from $417 in the prior year. The increase was in large part due to greater mix of higher priced welded pipe products attributable to the increased pipe orders at the Napa Pipe Mill. The Company anticipates that the sale of welded pipe will continue to account for a substantial portion of the division's product sales in the foreseeable future. Also included in 2001 sales is $16.9 million in electricity sales. The Company sold approximately 50% of excess power load in its melting facility at the Portland Mill back to the local utility under an electricity exchange contract, which has since expired. RMSM DIVISION. For 2001, the division shipped 780,900 tons, compared to 757,000 tons in 2000. The increase was due to higher shipments of seamless pipe and rod and bar products, partially offset by decreased rail shipments caused by capital program reductions by the major railroads. Average product selling price per ton increased to $374 in 2001 from $356 in 2000. The shift of product mix to seamless pipe in 2001 was the principal reason for the improved pricing, as seamless pipe has the highest selling price per ton of all the division's products. Due to the adverse market conditions in the prior year, no seamless products were shipped during the first nine months of 2000 because the operation was temporarily shut down. While performance of seamless products for the first half of 2001 was strong, market conditions again deteriorated as demand from oil and gas distributors decreased toward the second half of the year, due to significant decline of oil and natural gas prices. As a result, the seamless mill was temporarily shut down in November 2001 and remains shut down. Also included in 2001 sales is $2.2 million in electricity sales. GROSS PROFITS. Gross profit was $85.9 million, or 11.0%, for 2001 compared to $53.0 million, or 7.9%, for 2000. The increase of $32.9 million in gross profit was primarily related to the increased sales of high-priced welded pipe and seamless pipe products. Additionally, the sale of electricity positively impacted gross profit margin. This increase in gross profit was partially offset by continued manufacturing overhead costs at the Portland Mill that did not decline with the lower melt shop production that occurred as a result of the sale of electricity back to the local utility. SETTLEMENT OF LITIGATION. In 2001, the Company recorded a $3.4 million gain from litigation settlements with various graphite electrode suppliers. SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses ("SG&A") of $64.3 million for 2001 increased by 24.9%, from $51.5 million for 2000. SG&A expenses increased as a percentage of total sales to 8.2% in 2001 from 7.7% in 2000. The increase was due in part to $3.1 million in additional seamless pipe commission fees for 2001, as compared to commission fees paid in 2000 when the seamless mill was shut down for the majority of that year. In addition, shipping costs increased 18.1%, from $14.9 million in 2000 to $17.6 million in 2001. This was a direct result of higher volume of shipments on welded and seamless pipe in 2001.

The remaining increase from the prior year was due to higher general and administrative costs. This included an increase in bad debt expense of $2.7 million and an increase in reserves for environmental and other legal expenses of $4.0 million. INTEREST EXPENSE. Total interest expense increased $700,000, or 2.0%, to $35.6 million in 2001, compared to $34.9 million in 2000. The increase in interest expense in 2001 was primarily due to the acceleration of amortized loan fees, additional loan fees, and higher interest costs associated with the amendment of the Company's credit facility in the third and fourth quarters of 2001. -20- INCOME TAX EXPENSE. Effective income tax benefit rate was 26.7% and 38.0% for 2001 and 2000, respectively. The effective income tax rate for 2001 varied principally from the combined state and federal statutory rate due to the adjustments created by structural changes in the Company's foreign operations and non-deductible fines and penalties. COMPARISON OF 2000 TO 1999 SALES. Consolidated sales for 2000 of $672.0 million decreased $212.6 million, or 24%, from sales of $884.6 million for 1999. Included in 2000 sales is $2.8 million in electricity sales and freight revenue of $36.1 million. Included in 1999 sales is $67.1 million in freight revenue. Revenues from product sales decreased 22.6% to $633.1 million in 2000 from $817.5 million in 1999. Shipments were down 4.5% at 1,628,500 tons for 2000 compared to 1,704,700 tons for 1999. The average product selling price per ton declined $91 from $480 for 1999 to $389 for 2000. The decrease in product sales and related average selling price, primarily resulted from the shift in product mix from welded pipe products to plate and coil products and declining average selling prices per ton for plate and welded pipe offset in part by higher average selling prices achieved on rail, seamless pipe and rod and bar products. Freight revenues decreased as a result of decreased product sales. OREGON STEEL DIVISION. For 2000, the division shipped 871,500 tons of plate, coil and welded pipe products at an average product selling price per ton of $417 compared to 969,800 tons with an average product selling price per ton of $584 for 1999. The decline in the average product selling price results primarily from the decrease in the percentage of higher priced welded pipe products and a decrease in the average product selling price for both plate and welded pipe. The decreased shipments were the result of the decrease in welded pipe shipments, which were negatively affected by the completion of the Alliance Pipeline contract in 1999 and by a weak domestic welded pipe market. RMSM DIVISION. For 2000, the division shipped 757,000 tons at an average product selling price per ton of $356 compared to 734,900 tons at an average selling price per ton of $342 for 1999. The increase in average product selling price resulted primarily from the shift in product mix to higher priced rail products from rod and bar products and an increase in the average product selling price for all of the Division's product lines for 2000 as compared to 1999. Seamless pipe was particularly affected, with the average selling price increasing by $230 per ton as compared to the previous year. The seamless pipe mill restarted operations in October 2000 after being idled in May 1999, in response to the market opportunities created by the activity in oil and gas drilling in the western United States and Canada. GROSS PROFITS. Gross profit was $53.0 million, or 7.9%, for 2000 compared to $128.2 million, or 14.5% for 1999. The $75.2 million decrease in gross profit was primarily due to the reduction in welded pipe shipments for 2000, driven by a lack of market demand, which led to decreases in both volume of shipments and average selling price per ton for welded pipe. Also, the average gross profit per ton for the Company's plate products was reduced due to declining average selling prices for 2000 as compared to 1999. Offsetting these decreases were improved average margins for the Company's rod and bar products, as the Company was able to sell a greater percentage of specialty rod products for 2000 as compared to 1999. The effect of restarting the seamless mill also mitigated the decrease in gross profit, as the seamless mill was reopened with minimal start-up costs in 2000, as opposed to the significant shutdown and severance costs incurred in 1999 when operation of the mill was suspended. SETTLEMENT OF LITIGATION. The Company recorded a $7.0 million gain for 1999 from litigation settlements with various graphite electrode suppliers. SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expenses at $51.5 million for 2000 decreased by 8.0% from $56.0 million for 1999, primarily due to decreased shipping costs and reduced costs resulting from a reduction in workforce at the Napa Pipe Mill. SG&A expenses increased as a percentage of sales to 7.7% for 2000 from 6.3% for 1999, primarily due to the decrease in sales revenue exceeding the corresponding declines in volume of product shipped. PROFIT PARTICIPATION. Profit participation plan expense was $698,000 for 2000 compared to $10.5 million for 1999. The decrease in 2000 reflects the negative operating results of the Oregon Steel Division in 2000. INTEREST EXPENSE. Total interest expense for 2000 was unchanged from 1999 at $35.0 million; however, the interest cost before capitalized interest was lower at $35.8 million for 2000 as com- -21- pared to $36.0 million for 1999. The lower interest cost is primarily the result of a reduction in average outstanding debt principal for 2000 as compared to 1999, but was partially offset by an increase in the Company's average borrowing rate. INCOME TAX EXPENSE.

The Company's effective benefit rate for state and federal taxes for 2000 was 38.0% as compared to an income tax rate of 39.6% for 1999. LIQUIDITY AND CAPITAL RESOURCES At December 31, 2001, the Company's liquidity, comprised of cash, cash equivalents, and funds available under its revolving credit agreement, amended effective November 29, 2001 ("Amended Credit Agreement"), totaled approximately $46.3 million, compared to $36.9 million at December 31, 2000. Cash flow provided by operations for 2001 was $49.5 million compared to cash flow used in operations of $3.0 million in 2000. The items primarily affecting the $52.5 million increase in cash flows were the decrease in net loss in 2001 ($12.3 million), a non-cash provision for deferred taxes recorded in 2001 ($9.2 million), a smaller increase in inventories ($2.6 million in 2001 versus $12.5 million in 2000), and a decrease in net receivables in 2001 of $2.0 million versus an increase in 2000 of $28.6 million. As an offset, operating liabilities increased $18.0 million in 2001 versus a $25.3 million increase in 2000. Net working capital at December 31, 2001 decreased $55.3 million compared to December 31, 2000, reflecting a $23.6 million increase in current assets offset by a $78.9 million increase in current liabilities. The increase in current assets was primarily due to increased cash and deferred tax assets ($8.9 million and $10.7 million, respectively). An offset to the increase in current assets was a $2.0 million decrease in net accounts receivable due to timing of payments by customers. The accounts receivable for the year ended December 31, 2001, as measured in average daily sales outstanding, remained relatively unchanged at 40 days, as compared to 39 days for the year ended December 31, 2000. The increase in current liabilities was primarily due to the increase in short-term debt and current portion of long-term debt ($62.5 million). As the Company's Amended Credit Agreement will expire in less than one year, the amount outstanding, approximately $61.6 million, was reclassified from non-current debt to current debt. Additionally, a $9.5 million minimum pension liability adjustment at year-end and a $2.2 million increase for environmental reserves contributed to the change in current liabilities. Generally weak financial market conditions resulted in poor investment returns in the pension plans for the year 2001, thus causing pension assets to be lower than actuarial liabilities and requiring an additional liability to be recorded. The increase for environmental reserves were in relation to the expected settlements with the EPA and CDPHE at the RMSM Division. See "Business - Environmental Matters" for a description of those matters. The Company has outstanding $228.3 million principal amount of First Mortgage Notes ("Notes"), due 2003, which bear interest at 11%. The Guarantors guarantee the Notes. The Notes and the guarantees are secured by a lien on substantially all the property, plant and equipment and certain other assets of the Company (exclusive of Camrose) and the Guarantors. The collateral does not include, among other things, accounts receivable and inventory. The Indenture under which the Notes were issued contains restrictions on new indebtedness and various types of disbursements, including dividends, based on the Company's net income in relation to its fixed charges, as defined. Under these restrictions, there was no amount available for cash dividends at December 31, 2001. The Company maintains the Amended Credit Agreement, which expires on September 30, 2002. The Guarantors guarantee the Amended Credit Agreement. At December 31, 2001, the amount available was the lesser of $100 million (which decreased to $85 million on January 1, 2002 and will again decrease to $75 million on April 1, 2002) or the sum of the product of the Company's eligible domestic accounts receivable and inventory balances and specified advance rates. The Amended Credit Agreement and guarantees are secured by these assets in addition to a shared security interest in certain equity and intercompany interests of the Company. Interest on the Amended Credit Agreement is based on the prime rate plus a margin of 2.75%, 1.25%, 1.25% and 1.50%, for the first, second, third and fourth quarter of 2001, respectively; and 1.75% thereafter. As of December 31, 2001, the average interest rate for the Amended Credit Agreement was 8.66%. The unused line fees are 0.38%. The Amended Credit Agreement contains various restrictive covenants including minimum consolidated tangible net worth, minimum earnings before interest, taxes, depreciation and amortization coverage ratio, maximum annual capital expenditures, limitations -22- on stockholder dividends and limitations on incurring new or additional debt obligations other than provided by the Amended Credit Agreement. The Company cannot pay cash dividends without prior approval from the lenders. At December 31, 2001, the outstanding balance on the Amended Credit Agreement was approximately $61.6 million and approximately $34.0 million was available under the Amended Credit Agreement at that time. The Company is able to draw up to $15 million of the borrowings available under the Amended Credit Agreement to support issuance of letters of credit and similar contracts. At December 31, 2001, $4.4 million was restricted under outstanding letters of credit. CF&I incurred $67.5 million in term debt in 1993 as part of the purchase price of certain assets, principally the Pueblo, Colorado steelmaking and finishing facilities, from CF&I Steel Corporation. This debt is unsecured and is payable over ten years, bearing interest at 9.5%. As of December 31, 2001, the outstanding balance on the debt was $14.5 million, of which $5.1 million was classified as long-term.

Camrose maintains a (CDN) $15 million revolving credit facility with a Canadian bank, the proceeds of which may be used for working capital and general business purposes by Camrose. The facility is collateralized by substantially all of the assets of Camrose, and borrowings under this facility are limited to an amount equal to the sum of the product of specified advance rates and Camrose's eligible trade accounts receivable and inventories. This facility expires in September 2003. At the Company's election, interest is payable based on either the bank's Canadian dollar prime rate, the bank's U.S. dollar prime rate, or LIBOR. As of December 31, 2001, the interest rate of this facility was 4.0%. Annual commitment fees are .25% of the unused portion of the credit line. At December 31, 2001, the outstanding balance under the credit facility was $220,000. During 2001 the Company expended (exclusive of capital interest) approximately $5.1 million and $7.8 million on capital projects at the Oregon Steel Division and the RMSM Division, respectively. Despite the unfavorable operating results for 2001, the Company has been able to satisfy its needs for working capital and capital expenditures, due in part on its ability to secure adequate financing arrangements. The Company expects that operations will continue, with the realization of assets, and discharge of liabilities in the ordinary course of business. The Company believes that its anticipated needs for working capital and capital expenditures for the next twelve months will be met from funds generated from operations. The Amended Credit Agreement expires on September 30, 2002 with available credit limits reducing from $100 million at December 31, 2001 to $85 million at January 1, 2002 and further reducing to $75 million at April 1, 2002 through maturity. Although the Company believes it will be able to replace the Amended Credit Agreement on satisfactory terms, a replacement credit agreement is subject to negotiation and the execution of definitive documentation. If the Company is unable to replace the Amended Credit Agreement, at least in part, or if funds generated from operations and available borrowings are not sufficient to meet the Company's needs for working capital and capital expenditures, or if the Company's cash needs are greater than anticipated, the Company will be required to seek alternative financing. These alternative sources of financing may not be available if required or, if available, may not be on terms satisfactory to the Company. If the Company is unable to obtain alternative financing on satisfactory terms, it could have a material adverse effect on the Company's business. In addition, the Notes are due in June 2003 and will need to be refinanced by their maturity date. The Company is in discussions with financial advisors to refinance the Notes in a private placement of notes exempt from registration under the Securities Act of 1933 pursuant to Rule 144A thereunder, possibly during the second or third quarter of 2002. The Company's level of indebtedness presents other risks to investors, including the possibility that the Company and its subsidiaries may be unable to generate cash sufficient to pay the principal of and interest on their indebtedness when due. In that event, the holders of the indebtedness may be able to declare all indebtedness owing to them to be due and payable immediately, and to proceed against their collateral, if applicable. These actions would likely have a material adverse effect on the Company. In addition, the Company faces potential costs and liabilities associated with environmental compliance and remediation issues and the labor dispute at the Pueblo Mill. See "Business-Environmental Matters" and "Business-Labor Dispute" for a description of those matters. Any costs or liabilities in excess of those expected by the Company could have a material adverse effect on the Company. -23- NEW ACCOUNTING PRONOUNCEMENTS See Note 2., in Part II, Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements". ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The Company has entered into certain market-risk-sensitive financial instruments for other than trading purposes, principally short-term debt. The following discussion of market risks necessarily includes forward-looking statements. Actual changes in market conditions and rates and fair values may differ materially from those used in the sensitivity and fair value calculations discussed. Factors which may cause actual results to differ materially include, but are not limited to: greater than 10% changes in interest rates or foreign currency exchange rates, changes in income or cash flows requiring significant changes in the use of debt instruments or the cash flows associated with them, or changes in commodity market conditions affecting availability of materials in ways not predicted by the Company. INTEREST RATE RISK Sensitivity analysis was used to determine the potential impact that market risk exposure may have on the fair values of the Company's financial instruments, including debt and cash equivalents. The Company has assessed the potential risk of loss in fair values from hypothetical changes in interest rates by determining the effect on the present value of the future cash flows related to these market sensitive instruments. The discount rates used for these present value computations were selected based on market interest rates in effect at December 31, 2001, plus or minus 10%. A 10% decrease in interest rates with all other variables held constant would result in an increase in the fair value of the Company's financial instruments by $4.2 million. A 10% increase in interest rates with all other variables held constant would result in a decrease in the fair value of the Company's financial instruments by $4.7 million. There would not be a material effect on consolidated earnings or consolidated cash flows from these changes alone. FOREIGN CURRENCY RISK In general, the Company uses a single functional currency for all receipts, payments and other settlements at its facilities. Occasionally, transactions will be denominated in another currency and a foreign currency forward exchange contract is used to hedge currency gains and losses; however, at December 31, 2001, the Company did not have any open forward contracts. ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA QUARTERLY FINANCIAL DATA - UNAUDITED 2001 2000 -- -- 4TH 3RD 2ND 1ST 4TH 3RD 2ND 1ST -------- -------- ------- ------- ------ ------ ------ ------- (IN MILLIONS EXCEPT PER SHARE AMOUNTS) Sales $197.7 $199.3 $204.3 $179.6 $161.9 $165.2 $170.8 $174.1 Operating income (loss) 6.8 15.4 8.9 (6.3) 1.7 8.0 .9 (9.5) Net income (loss) 0.6 3.6 (.5) (9.6) (4.1) (.4) (3.0) (10.8) Net income (loss) per share: Basic $0.02 $.14 $(.02) $(.36) $(.15) $(.02) $(.11) $(.41) Diluted $0.02 $.13 $(.02) $(.36) $(.15) $(.02) $(.11) $(.41) Dividends declared per common share $- $- $- $- $- $.02 $.02 $.02 Common stock price per share range: High $5.40 $9.30 $7.51 $5.95 $ 2.38 $3.63 $4.00 $8.50 Low $3.35 5.15 3.93 1.13 1.00 1.88 1.63 3.38 Average shares and equivalents outstanding: Basic 26.4 26.4 26.4 26.4 26.4 26.4 26.4 26.4 Diluted 26.5 26.6 26.4 26.4 26.4 N/A N/A N/A -24- REPORT OF INDEPENDENT ACCOUNTANTS To the Board of Directors and Stockholders of Oregon Steel Mills, Inc. In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(ii) on page 49 present fairly, in all material respects, the financial position of Oregon Steel Mills, Inc. and its subsidiaries at December 31, 2001, 2000, and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(iii) on page 49 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. PricewaterhouseCoopers LLP Portland, Oregon March 22, 2002 -25- OREGON STEEL MILLS, INC. CONSOLIDATED BALANCE SHEETS (IN THOUSANDS EXCEPT PER SHARE AMOUNTS) DECEMBER 31, ----------------------------------- 2001 2000 1999 --------- --------- --------- ASSETS Current assets: Cash and cash equivalents $ 12,278 $ 3,370 $ 9,270 Trade accounts receivable, less allowance for doubtful accounts of $4,299, $1,528 and $1,994 89,132 91,149 62,547 Inventories 132,402 129,801 117,315 Deferred tax asset 17,998 7,266 9,245 Other 7,259 3,915 4,460 --------- --------- --------- Total current assets 259,069 235,501 202,837 --------- --------- --------- Property, plant and equipment: Land and improvements 30,177 29,869 29,383 Buildings 52,463 50,549 50,426 Machinery and equipment 787,156 778,921 766,416 Construction in progress 9,644 14,607 18,817 --------- --------- --------- 879,440 873,946 865,042 Accumulated depreciation (328,386) (290,071) (251,679) --------- --------- --------- 551,054 583,875 613,363 --------- --------- --------- Cost in excess of net assets acquired, net 32,446 33,452 34,636 Other assets 27,007 27,526 26,418 --------- --------- --------- $ 869,576 $ 880,354 $ 877,254 ========= ========= ========= LIABILITIES Current liabilities: Current portion of long-term debt $ 9,464 $ 8,625 $ 7,861 Short-term debt 61,638 -- -- Accounts payable 81,270 82,014 58,451 Accrued expenses 53,235 36,109 35,348 --------- --------- --------- Total current liabilities 205,607 126,748 101,660 Long-term debt 233,542 314,356 298,329 Deferred employee benefits 24,077 22,630 21,530 Environmental liability 31,350 32,577 32,645 Deferred income taxes 29,102 22,627 38,186 --------- --------- --------- 523,678 518,938 492,350 --------- --------- --------- Minority interests 27,312 29,771 32,502 --------- --------- --------- Contingencies (Note 14) STOCKHOLDERS' EQUITY Capital stock: Preferred stock, par value $.01 per share; 1,000 shares authorized; none issued Common stock, par value $.01 per share; 30,000 shares authorized; 25,787, 25,777 and 25,777 shares issued and outstanding 258 258 258 Additional paid-in capital 227,618 227,584 227,584 Retained earnings 105,218 111,146 130,958 Accumulated other comprehensive income: Cumulative foreign currency translation adjustment (9,003) (7,343) (6,398) Minimum pension liability (5,505) - - --------- --------- --------- 318,586 331,645 352,402 --------- --------- --------- $ 869,576 $ 880,354 $ 877,254 ========= ========= ========= The accompanying notes are an integral part of the consolidated financial statements. -26- OREGON STEEL MILLS, INC. CONSOLIDATED STATEMENTS OF INCOME (IN THOUSANDS EXCEPT PER SHARE AMOUNTS) YEAR ENDED DECEMBER 31, ------------------------------ 2001 2000 1999 ---- ---- ---- Sales: Product sales $ 706,987 $633,129 $817,507 Freight 54,804 36,088 67,142 Electricity sales 19,096 2,800 -- --------- -------- -------- 780,887 672,017 884,649 Costs and expenses: Cost of sales 694,941 619,016 756,461 Selling, general and administrative 64,300 51,486 55,992 Settlement of litigation (3,391) -- (7,027) Loss (gain) on sale of assets (10) (290) 501 Profit participation 244 698 10,540 --------- -------- -------- 756,084 670,910 816,467 --------- -------- -------- Operating income 24,803 1,107 68,182 Other income (expense): Interest expense (35,595) (34,936) (35,027) Minority interests (339) (7) (1,475) Other income (expense), net 3,044 4,355 1,290 --------- -------- -------- Income (loss) before income taxes (8,087) (29,481) 32,970 Income tax benefit (expense) 2,159 11,216 (13,056) --------- -------- -------- Net income (loss) $ (5,928) $(18,265) $ 19,914 ========= ======== ======== Basic net income (loss) per share $(.22) $(.69) $.76 ===== ===== ==== Diluted net income (loss) per share $(.22) $(.69) $.76 ===== ===== ==== The accompanying notes are an integral part of the consolidated financial statements. -27- OREGON STEEL MILLS, INC. CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'EQUITY (IN THOUSANDS EXCEPT PER SHARE AMOUNTS) ACCUMULATED ADDITIONAL OTHER COMMON STOCK PAID-IN RETAINED COMPREHENSIVE ------------------- SHARES AMOUNT CAPITAL EARNINGS INCOME TOTAL ------ ------ --------- -------- ------------- -------- BALANCES, DECEMBER 31, 1998 25,777 $258 $227,584 $125,479 $(8,204) $345,117 -------- Net income 19,914 19,914 Foreign currency translation adjustment 1,806 1,806 -------- Comprehensive income 21,720 Dividends paid ($.56 per share) (14,435) (14,435) -------- ------- -------- BALANCES, DECEMBER 31, 1999 25,777 258 227,584 130,958 (6,398) 352,402 -------- Net (loss) (18,265) (18,265) Foreign currency translation adjustment (945) (945) -------- Comprehensive income (19,210) Dividends paid ($.06 per share) (1,547) (1,547) -------- ------- -------- BALANCES, DECEMBER 31, 2000 25,777 258 227,584 111,146 (7,343) 331,645 -------- Net (loss) (5,928) (5,928) Foreign currency translation adjustment (1,660) (1,660) Minimum liability adjustment (Note 10) (5,505) (5,505) -------- Comprehensive income (13,093) Issuance of common stock 10 34 34 ------ ---- -------- -------- --------- -------- BALANCES, DECEMBER 31, 2001 25,787 $258 $227,618 $105,218 $(14,508) $318,586 ====== ==== ======== ======== ========= ======== The accompanying notes are an integral part of the consolidated financial statements. -28- OREGON STEEL MILLS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS) YEAR ENDED DECEMBER 31, -------------------------------------- 2001 2000 1999 ------- --------- --------- Cash flows from operating activities: Net income (loss) $(5,928) $ (18,265) $ 19,914 Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: Depreciation and amortization 46,097 46,506 47,411 Deferred income taxes (4,415) (13,580) 6,119 Loss (gain) on sale of assets and investments (10) (2,537) 501 Minority interests' share of income 339 7 1,475 Other, net (1,227) 22 (120) Changes in current assets and liabilities: Trade accounts receivable 2,017 (28,602) 4,707 Inventories (2,601) (12,486) 73,142 Income taxes (134) 102 1,087 Operating liabilities 17,963 25,322 (56,782) Other (2,571) 544 1,125 --------- --------- --------- NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 49,530 (2,967) 98,579 --------- --------- --------- Cash flows from investing activities: Additions to property, plant and equipment (12,933) (16,684) (15,908) Proceeds from disposal of property, plant and equipment 114 2,951 -- Other, net 1,014 (783) 722 --------- --------- --------- NET CASH USED BY INVESTING ACTIVITIES (11,805) (14,516) (15,186) --------- --------- --------- Cash flows from financing activities: Net borrowings (repayments) under Canadian bank revolving loan facility (1,530) 1,689 (4,431) Proceeds from bank debt 732,476 304,536 382,520 Payments on bank and long-term debt (755,613) (282,661) (443,364) Dividends paid -- (1,547) (14,435) Repurchase of bonds -- (6,750) -- Issue/repurchase common stock 34 -- -- Minority share of subsidiary's distribution (2,524) (2,739) (5,263) --------- --------- --------- NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES (27,157) 12,528 (84,973) --------- --------- --------- Effects of foreign currency exchange rate changes on cash (1,660) (945) 1,806 --------- --------- --------- Net increase (decrease) in cash and cash equivalents 8,908 (5,900) 226 Cash and cash equivalents at beginning of year 3,370 9,270 9,044 --------- --------- --------- Cash and cash equivalents at end of year $ 12,278 $ 3,370 $ 9,270 ========= ========= ========= Supplemental disclosures of cash flow information: Cash paid for: Interest $ 27,149 $ 33,394 $ 36,091 Income taxes $ 427 $ 5,112 $ 5,321 Non Cash Financing Activities: Interest transferred to loan balance $ 6,394 $ -- $ -- The accompanying notes are an integral part of the consolidated financial statements. -29- OREGON STEEL MILLS,

INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. NATURE OF OPERATIONS Oregon Steel Mills, Inc. and subsidiaries ("Company") manufactures various specialty and commodity steel products with operations in the United States and Canada. The principal markets for the Company's products are steel service centers, steel fabricators, railroads, oil and gas producers and distributors and other industrial concerns. The Company's products are primarily marketed in the United States west of the Mississippi River and western Canada. The Company also markets products outside North America. 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES PRINCIPLES OF CONSOLIDATION The consolidated financial statements include all wholly-owned and those majority-owned subsidiaries over which the Company exerts management control. Non-controlled majority-owned subsidiaries and affiliates are accounted for using the equity method. Material wholly-owned and majority-owned subsidiaries of the Company are Camrose Pipe Corporation ("CPC"), which through ownership in another corporation holds a 60% interest in Camrose Pipe Company ("Camrose"), and 87% owned New CF&I, Inc. ("New CF&I") which owns a 95.2% interest in CF&I Steel, L.P. ("CF&I"). The Company also owns directly an additional 4.3% interest in CF&I. In January 1998, CF&I assumed the trade name of Rocky Mountain Steel Mills ("RMSM"). All significant inter-company transactions and account balances have been eliminated. USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. REVENUE RECOGNITION The Company recognizes revenues when title passes, the earnings process is substantially complete, and the Company is reasonably assured of the collection of the proceeds from the exchange, all of which generally occur upon shipment of the Company's products. Sales revenues include $19.1 million and $2.8 million earned on the resale of electricity back to the Company's local electrical companies for the year of 2001 and 2000, respectively. CASH AND CASH EQUIVALENTS Cash and cash equivalents include short-term securities that have an original maturity date of 90 days or less. CONCENTRATIONS OF CREDIT RISK Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its cash in high credit quality investments and limits the amount of credit exposure to any one financial institution. At times, cash balances are in excess of the Federal Deposit Insurance Corporation insurance limit of $100,000. The Company believes that risk of loss on its trade receivables is reduced by ongoing credit evaluation of customer financial condition and requirements for collateral, such as letters of credit and bank guarantees. INVENTORIES Inventories, consisting of raw materials, semi-finished and finished products, are stated at the lower of average cost or market. PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are stated at cost, including capitalized interest during construction of $683,000, $794,000 and $941,000 in 2001, 2000 and 1999, respectively. Depreciation is -30- determined using principally the straight-line and the units of production methods over the estimated useful lives of the assets. The estimated useful lives of most of the Company's operating machinery and equipment are from 20 to 30 years. Maintenance and repairs are expensed as incurred and costs of improvements are capitalized. Upon disposal, cost and accumulated depreciation are removed from the accounts and gains or losses are reflected in results of operations. COSTS IN EXCESS OF NET ASSETS ACQUIRED The costs in excess of net assets acquired by CF&I and CPC are being amortized on a straight-line basis over 40 years. Accumulated amortization was $9.0 million, $8.0 million and $7.0 million in 2001, 2000 and 1999, respectively. IMPAIRMENT OF LONG-LIVED ASSETS When events or circumstances indicate the carrying value of a long-lived asset may be impaired, the Company uses an estimate of the future undiscounted cash flows to be derived from the remaining useful life of the asset to assess whether or not the asset is recoverable. If the future undiscounted cash flows to be derived over the life of the asset do not exceed the asset's net book value, the Company then considers estimated fair market value versus carrying value in determining any potential impairment. INCOME TAXES Deferred income taxes reflect the differences between the financial reporting and tax bases of assets and liabilities at year-end based on enacted tax laws and statutory tax rates. Tax credits are recognized as a reduction of income tax expense in the year the credit arises. A valuation allowance is established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. FINANCIAL INSTRUMENTS The Company uses foreign currency forward exchange contracts occasionally to reduce its exposure to fluctuations in foreign currency exchange rates. Gains and losses on these contracts are deferred and recognized in income as part of the related transaction. FOREIGN CURRENCY TRANSLATION Assets and liabilities subject to foreign currency fluctuations are translated into U.S.

dollars at the period-end exchange rate, and revenue and expenses are translated at average rates for the period. Translation adjustments are included in "accumulated other comprehensive income," a separate component of stockholders' equity. DERIVATIVE FINANCIAL INSTRUMENTS Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES", which requires that all derivative instruments be recorded on the balance sheet at fair value. The adoption of SFAS 133 did not have material effect on the Company's results of operations or its financial position. The Company did not have any derivative financial instruments outstanding at the time of adoption. See disclosure regarding Financial Instruments in Note 7. STOCK OPTION PLAN In 2000, the Company adopted the 2000 Nonqualified Stock Option Plan (the "Plan"). The Plan authorizes the Board of Directors, or a committee appointed by the Board of Directors, to grant options to certain executives and management personnel. 1,000,000 shares of the Company's $.01 par value common stock is issuable under the Plan. The Company accounts for the stock option plan in accordance with Accounting Principles Board (APB) Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES." The Company provides pro forma net income (loss) and pro forma earnings (loss) per share disclosure prescribed by SFAS No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATIOn" (see discussion of the Plan in Note 15). NET INCOME (LOSS) PER SHARE Basic EPS is determined using the weighted average number of common shares outstanding during the period. The diluted EPS calculation assumes that all stock options granted were exercised at the beginning of the period. -31- For purposes of computing diluted EPS, stock options with an exercise price that exceeded the average fair market value of the common stock for the period were excluded from the diluted weighted average number of common shares. In addition, common stock equivalent shares are excluded from the EPS computation if their effect is antidilutive. SEGMENT REPORTING In accordance with the criteria of SFAS No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION", the Company operates in a single reportable segment, the steel industry. All of the products of the Company are steel products in finished or semi-finished form. Production is the standard "mini-mill" process where electric arc furnaces are used to melt scrap and other metallics. Liquid steel is cast and cooled, then reheated for additional forming. These processes occur at different locations, but are not dissimilar. The Company markets and sells the majority of its products through its own sales organization to customers primarily in the transportation, construction, or oil and gas industries. The Company distributes product at various locations in the United States and Canada, and as appropriate, through foreign sales agents. The Company currently has two aggregated operating divisions: the Oregon Steel Division and RMSM Division (see Note 3 for geographic disclosure). SHIPPING AND HANDLING COST All shipping billed to customers is recorded as revenue with the related cost being recorded under cost of sales. Internal handling costs incurred to store, move, or prepare goods for shipment are recorded under Selling, General, and Administration expenses. For the years of 2001, 2000, and 1999, internal handling costs were $17.6 million, $14.9 million and $17.2 million, respectively. RECLASSIFICATIONS Certain reclassifications have been made in prior years to conform to the current year presentation. Such reclassifications do not affect results of operations as previously reported. NEW ACCOUNTING PRONOUNCEMENTS In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, collectively referred to as the "Standards." SFAS No. 141 supersedes Accounting Principles Board Opinion (APB) No. 16, BUSINESS COMBINATION. The provisions of SFAS No. 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. SFAS No. 141 also requires that, upon adoption of SFAS No. 142, the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS No. 142 supersedes APB 17, INTANGIBLE ASSETS, and is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS No. 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives. The Company will adopt the provisions of SFAS No. 142 in its first quarter ended March 31, 2002. The Company is preparing for its adoption of SFAS No. 142 and is making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets, and liabilities should be allocated to those reporting units. The Company will also evaluate the useful lives assigned to its intangible assets. SFAS No. 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the fiscal year. However, a company has six months from the date of adoption to complete the first step. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of the Company's fiscal year. Intangible assets deemed to have an indefinite life will be tested for impairment using a -32- one-step process which compares the fair value to the carrying amount of the asset as of the beginning of the fiscal year, and pursuant to the requirements of SFAS No. 142 will be completed during the first quarter of 2002. Any impairment loss resulting from the transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter 2002. The Company has not yet determined what effect these impairment tests will have on the Company's earnings and financial position. In July 2001, the FASB issued SFAS No. 143, "ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS". SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity is required to capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002 and will be adopted by the Company effective January 1, 2003. The Company believes adoption of this standard will not have a material effect on its financial statements. On October 3, 2001, the FASB issued SFAS No. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS." SFAS No. 144 supercedes SFAS No. 121, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF." SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30 (APB 30), REPORTING RESULTS OF OPERATIONS AND REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for the Company for the year beginning January 1, 2002. The Company believes adoption of this standard will not have a material effect on its financial statements. 3. GEOGRAPHIC INFORMATION Geographical information was as follows: 2001 2000 1999 -------- -------- -------- (IN THOUSANDS) Revenues from External Customers: United States $729,707 $624,694 $777,355 Canada (1) 51,180 47,323 107,294 -------- -------- -------- $780,887 $672,017 $884,649 ======== ======== ======== Revenues by Division: Oregon Steel Division $470,098 $390,403 $621,013 RMSM Division 310,789 281,614 263,636 -------- -------- -------- $780,887 $672,017 $884,649 ======== ======== ======== Assets by Location: United States $792,798 $797,903 $790,569 Canada 31,670 36,044 39,325 -------- -------- -------- $824,468 $833,947 $829,894 ======== ======== ======== Assets by Division: Oregon Steel Division $528,274 $519,200 $539,939 RMSM Division 296,194 314,743 289,955 -------- -------- -------- $824,468 $833,947 $829,894 ======== ======== ======== (1) Revenues attributed to Canada are earned by Camrose, which is domiciled there. Revenues attributed to other countries are insignificant. -33- 4. INVENTORIES Inventories were as follows at December 31: 2001 2000 1999 -------- -------- -------- (IN THOUSANDS) Raw materials $ 11,419 $ 10,189 $ 14,383 Semi-finished product 51,777 49,816 46,819 Finished product 41,201 43,415 35,536 Stores and operating supplies 28,005 26,381 20,577 -------- -------- -------- Total inventory $132,402 $129,801 $117,315 ======== ======== ======== 5. ACCOUNTS PAYABLE Accounts payable includes book overdrafts of $5.1 million and $5.5 million at December 31, 2001 and 1999, respectively. 6. DEBT, FINANCING ARRANGEMENTS AND LIQUIDITY Debt balances were as follows at December 31: 2001 2000 1999 -------- -------- -------- (IN THOUSANDS) 11% First Mortgage Notes ("Notes") $228,250 $228,250 $235,000 Revolving credit facility 61,638 69,756 40,020 CF&I acquisition term loan 14,536 23,161 31,023 Camrose revolving bank loan 220 1,814 147 -------- -------- -------- 304,644 322,981 306,190 Less current maturities and short-term debt 71,102 8,625 7,861 -------- -------- -------- Non-current maturity of long-term debt $233,542 $314,356 $298,329 ======== ======== ======== The

Company has outstanding $228.3 million principal amount of Notes due 2003. The Indenture under which the Notes were issued contains restrictions on new indebtedness and various types of disbursements, including dividends, based on the Company's net income in relation to its fixed charges, as defined. Under these restrictions, there was no amount available for cash dividends at December 31, 2001. The Company maintains a $100 million revolving credit facility, as amended effective November 29, 2001 ("Amended Credit Agreement"), which expires September 30, 2002. As of December 31, 2001, approximately $34.0 million was available for use. The revolving credit facility decreased to $85 million on January 1, 2002 and again will decrease to $75 million on April 1, 2002. The Amended Credit Agreement contains various restrictive covenants including minimum consolidated tangible net worth, minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") coverage ratio, maximum annual capital expenditures, limitations on stockholder dividends and limitations on incurring new or additional debt obligations other than borrowings provided by the Amended Credit Agreement. The Company was in compliance with such covenants at December 31, 2001. CF&I incurred $67.5 million in term debt in 1993 as part of the purchase price of certain assets, principally the Pueblo, Colorado steelmaking and finishing facilities, from CF&I Steel Corporation. This debt is unsecured and is payable over ten years, bearing interest at 9.5%. As of December 31, 2001, the outstanding balance on the debt was $14.5 million, of which $5.1 million was classified as long-term. Camrose maintains a (CDN) $15 million revolving credit facility with a Canadian bank, the proceeds of which may be used for working capital and general business purposes of Camrose. The facility is collateralized by substantially all of the assets of Camrose, and borrowings under this facility are limited to an amount equal to the sum of the product of specified advance rates and Camrose's eligible trade accounts receivable and inventories. This facility expires in September 2003. At December 31, 2001, the outstanding balance under the credit facility was $220,000. -34- As of December 31, 2001, principal payments on debt are due as follows (in thousands): 2002 $ 71,102 2003 233,542 -------- $304,644 ======== The Company is able to draw up to $15 million of the borrowings available under the Amended Credit Agreement to support issuance of letters of credit and similar contracts. At December 31, 2001, $4.4 million was restricted under outstanding letters of credit. Despite the unfavorable operating results for 2001, the Company has been able to satisfy its needs for working capital and capital expenditures, due in part on its ability to secure adequate financing arrangements. The Company expects that operations will continue, with the realization of assets, and discharge of liabilities in the ordinary course of business. The Company believes that its anticipated needs for working capital and capital expenditures for the next twelve months will be met from funds generated from operations. The Amended Credit Agreement expires on September 30, 2002. Although the Company believes it will be able to replace the Amended Credit Agreement on satisfactory terms, a replacement credit agreement is subject to negotiation and the execution of definitive documentation. If the Company is unable to replace the Amended Credit Agreement, at least in part, or if funds generated from operations and available borrowings are not sufficient to meet the Company's needs for working capital and capital expenditures, or if the Company's cash needs are greater than anticipated, the Company will be required to seek alternative financing. These alternative sources of financing may not be available if required or, if available, may not be on terms satisfactory to the Company. If the Company is unable to obtain alternative financing on satisfactory terms, it could have a material adverse effect on the Company's business. 7. FAIR VALUES OF FINANCIAL INSTRUMENTS The estimated fair values of the Company's financial instruments were as follows as of December 31: 2001 2000 1999 -------------------------- ------------------------ --------------------------- CARRYING FAIR CARRYING FAIR CARRYING FAIR AMOUNT VALUE AMOUNT VALUE AMOUNT VALUE ------------- ------------- ------------- ----------- ----------- --------------- (IN THOUSANDS) Cash and cash equivalents $ 12,278 $ 12,278 $ 3,370 $ 3,370 $ 9,270 $ 9,270 Short-term debt 61,638 61,959 - - - - Long-term debt, including current portion 304,644 295,793 322,981 250,120 306,190 313,068 The carrying amounts of cash or cash equivalents approximate fair value due to their nature. The fair value of short-term debt and long-term debt, including current portion, is estimated based on quoted market prices or by discounting future cash flows based on the Company's incremental borrowing rate for similar types of borrowing arrangements. On limited occasions, the Company uses foreign currency forward exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. Such contracts are typically short-term in duration and relate to specific transactions. At December 31, 2001, the Company had no open forward exchange contracts. During 2001, 2000, and 1999, the use of such contracts has been minimal. -35- 8. INCOME TAXES The income tax benefit (expense) consisted of the following: 2001 2000 1999 -------- -------- --------- (IN THOUSANDS) Current: Federal $ 1,851 $ (67) $ (4,478) State (235) (167) (375) Foreign (169) (2,131) (2,188) -------- -------- -------- 1,447 (2,365) (7,041) -------- -------- -------- Deferred: Federal (3,332)

10,911 (6,918) State 4,742 641 (91) Foreign (698) 2,029 994 -------- -------- -------- 712 13,581 (6,015) -------- -------- -------- Income tax benefit (expense) $ 2,159 $ 11,216 $(13,056) ======== ======== ======== A reconciliation of the statutory benefit (tax) rate to the effective benefit (tax) rate on income before income taxes is as follows: 2001 2000 1999 -------- ------ ------- U.S. statutory income benefit (tax) rate 35.0% 35.0% (35.0)% Deduction for dividends to ESOP participants - - 0.9 State taxes, net 5.2 1.7 (0.9) Fines and penalties (9.4) - - Permanent differences 3.0 - - Tax impact of foreign operations (7.1) 0.9 (7.6) Other - 0.4 3.0 ---- ---- ----- 26.7% 38.0% (39.6)% ==== ==== ===== -36- The current and noncurrent components of the net deferred tax assets and liabilities were as follows as of December 31: 2001 2000 1999 -------- -------- -------- (IN THOUSANDS) Net current deferred tax asset: Assets Inventories $ 2,423 $ 1,864 $ 3,496 Accrued expenses 3,332 3,065 4,976 Net operating loss carryforward 12,073 - - Other 1,351 2,644 813 -------- -------- -------- 19,179 7,573 9,285 Liabilities Other 1,181 307 40 -------- -------- -------- Net current deferred tax asset $ 17,998 $ 7,266 $ 9,245 ======== ======== ======== Net noncurrent deferred income tax liability: Assets Postretirement benefits other than pensions 2,869 $ 2,516 $ 2,684 State tax credits 5,997 5,829 5,882 Alternative minimum tax credit 18,131 17,923 20,299 Environmental liability 11,960 12,417 12,473 Net operating loss carryforward 68,669 73,615 48,890 Pension mimimum liability adjustment 3,544 - - Other 9,855 10,808 5,018 -------- -------- -------- 121,025 123,108 95,246 Valuation allowance (3,424) (3,105) (3,282) -------- -------- -------- 117,601 120,003 91,964 -------- -------- -------- Liabilities Property, plant and equipment 135,324 130,428 119,729 Cost in excess of net assets acquired 9,309 9,987 10,301 Other 2,070 2,215 120 -------- -------- -------- 146,703 142,630 130,150 -------- -------- -------- Net noncurrent deferred income tax liability $ 29,102 $ 22,627 $ 38,186 ======== ======== ======== At December 31, 2001, the Company has state tax credits of $6.0 million, expiring 2002 through 2013, which are available to reduce future income taxes payable. At December 31, 2001, the Company has $194.6 million in federal net operating loss carryforwards expiring in 2012 through 2021. In addition, the Company has $243.0 million in state net operating loss carryforwards expiring in 2002 through 2016. The Company maintained a valuation allowance of $3.4 million, $3.1 million and $3.3 million at December 31, 2001, 2000, and 1999, respectively, for state tax credit carryforwards. The Company believes that it is more likely than not that future taxable income will not be sufficient to realize the full benefit of the state tax credit carryforwards. No valuation allowance has been established for net operating loss carryforwards. At December 31, 2001, the Company recorded deferred tax assets totaling $3.5 million created by a minimum pension liability established pursuant to SFAS 87. The setup of the deferred tax asset has no impact on the current year deferred tax expense calculation because of the direct impact on equity required by SFAS No. 87 "EMPLOYER'S ACCOUNTING FOR PENSION." -37- 9. EARNINGS (NET LOSS) PER SHARE Basic and diluted net income (loss) per share was as follows: 2001 2000 1999 ------ ------- ------- (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) Weighted average number of common shares outstanding 25,780 25,777 25,777 Shares of common stock to be issued March 2003 598 598 598 ------ -------- ------- 26,378 26,375 26,375 Dilutive effect of : Employee stock options - - - ------- -------- ------- Weighted average number of common shares outstanding: Assuming dilution 26,378 26,375 26,375 ======= ======== ======= Net income (loss) $(5,928) $(18,265) $19,914 ======= ======== ======= EPS: Basic and diluted net income (loss) per share $(.22) $(.69) $.76 ======= ======== ======= Weighted average common shares outstanding, assuming dilution, includes the incremental shares that would be issued upon the assumed exercise of stock options for the period they were outstanding. For the years of 2001 and 2000, approximately 190,284 and 188,500 shares, respectively, were excluded from the diluted earnings per share calculation, as to include them would have been antidilutive. There were no stock options outstanding at December 31, 1999. 10. EMPLOYEE BENEFIT PLANS UNITED STATES PENSION PLANS -------------------------- The Company has noncontributory defined benefit retirement plans covering all of its eligible domestic employees. The plans provide benefits based on a participant's years of service and compensation. The Company funds at least the minimum annual contribution required by ERISA. The following table sets forth the funded status of the plans and the amounts recognized in the Company's consolidated balance sheets at December 31: 2001 2000 1999 -------- -------- -------- (IN THOUSANDS) Change in benefit obligation: Projected benefit obligation at January 1 $ 64,999 $ 62,775 $ 64,525 Service cost 3,030 3,123 3,474 Interest cost 4,765 4,599 4,266 Benefits paid (3,074) (2,789) (2,655) Actuarial loss (gain) 6,982 (2,709) (6,835) -------- -------- -------- Projected benefit obligation at December 31 76,702 64,999 62,775 -------- -------- -------- Change in plan assets: Fair value of plan assets at January 1 62,085 67,951 59,932 Actual return (loss) on plan assets (3,365) (3,077) 8,847 Company contribution 1,200 -- 1,827 Benefits paid (3,074) (2,789) (2,655) -------- -------- -------- Fair value of plan assets at December 31 56,846 62,085 67,951 -------- -------- -------- Projected benefit obligation less than (in excess of) plan assets (19,856) (2,914) 5,176 Unrecognized net transition obligation, amortized through 2001 -- 73 149 Unrecognized prior service cost 146 266 386 Unrecognized net gain 11,090 (4,409) (10,788) -------- -------- -------- Net amount recognized (8,620) (6,984) (5,077) Minimum liability (7,435) -- -- -------- -------- -------- Total pension liability recognized in consolidated balance sheet $(16,055) $ (6,984) $ (5,077) ======== ======== ======== -38- Net pension cost was $ 2.8 million, $1.9 million and $3.0 million for the years ended December 31, 2001, 2000 and 1999, respectively. Plan assets are invested in common stock and bond funds (81%) and marketable fixed income securities (19%) at December 31, 2001. The plans do not invest in the stock of the Company. CANADIAN PENSION PLANS ---------------------- The Company has noncontributory defined benefit retirement plans covering all of its eligible Camrose employees. The plans provide benefits based on participants' years of service and compensation. The following table sets forth the funded status and the amounts recognized at December 31: 2001 2000 1999 -------- -------- -------- (IN THOUSANDS) Change in benefit obligation: Projected benefit obligation at January 1 $ 11,678 $ 10,863 $ 10,310 Service cost 313 464 573 Interest cost 859 834 727 Plan amendments 273 -- -- Benefits paid (648) (432) (243) Actuarial loss (gain) 3,083 55 (530) Foreign currency exchange rate change (771) (106) 26 -------- -------- -------- Projected benefit obligation at December 31 14,787 11,678 10,863 -------- -------- -------- Change in plan assets: Fair value of plan assets at January 1 14,102 12,229 11,340 Actual return on plan assets (1,315) 1,903 397 Company contribution 395 530 705 Benefits paid (648) (432) (243) Foreign currency exchange rate change (491) (128) 30 -------- -------- -------- Fair value of plan assets at December 31 12,043 14,102 12,229 -------- -------- -------- Projected benefit obligation less than (in excess of) plan assets (2,744) 2,424 1,366 Unrecognized prior service cost 513 -- -- Unrecognized net loss (gain) 4,874 (58) 754 -------- -------- -------- Net amount recognized 2,643 2,366 2,120 Minimum liability (2,038) -- -- -------- -------- -------- Total Pension asset recognized in consolidated balance sheet $ 605 $ 2,366 $ 2,120 ======== ======== ======== Net pension cost was $265,000, $284,000 and $334,000 for the years ended December 31, 2001, 2000, and 1999, respectively. Generally weak financial market conditions resulted in poor investment returns in the pension plans for the year 2001, thus causing pension assets to be lower than actuarial liabilities and requiring an additional liability of $7.4 million and $2.0 million to be recorded for the United States and Canadian plans, respectively. The additional liability is tax-affected when recorded to retained earnings and shown as a component of accumulated other comprehensive income. The following table sets forth the significant actuarial assumptions for the United States and Canadian pension plans: 2001 2000 1999 ---- ---- ---- Discount rate United States Plans 7.0% 7.5% 7.5% Canadian Plan 6.3% 7.5% 7.5% Rate of increase in future compensation levels: United States Plans 4.0% 4.0% 4.0% Canadian Plan 4.5% 5.0% 4.0% Expected long-term rate of return on plan assets 8.5% 8.5% 8.5% -39- POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS -- The Company provides certain health care and life insurance benefits for substantially all of its retired employees. Employees are generally eligible for benefits upon retirement after completion of a specified number of years of service. The benefit plans are unfunded. The following table sets forth the unfunded status and the amounts recognized at December 31: 2001 2000 1999 -------- -------- -------- (IN THOUSANDS) Change in benefit obligation: Accumulated postretirement benefit obligation at January 1 $ 22,672 $ 20,814 $ 18,661 Service cost 518 473 461 Interest cost 1,629 1,515 1,231 Benefits paid (1,339) (916) (824) Plan amendment (1,913) -- 430 Actuarial loss 1,423 786 850 Foreign currency exchange rate change (448) -- 5 -------- -------- -------- Accumulated postretirement benefit obligation at December 31 22,542 22,672 20,814 -------- -------- -------- Accumulated benefit obligation in excess of plan assets (22,542) (22,672) (20,814) Unrecognized transition obligation 1,792 4,110 4,518 Unrecognized prior service cost 561 636 711 Unrecognized net loss 2,341 1,289 520 -------- -------- -------- Postretirement liability recognized in consolidated balance sheet $(17,848) $(16,637) $(15,065) ======== ======== ======== Net postretirement benefit cost was $2.7 million, $2.5 million and $2.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. The discount rate used for the United States Plans in determining the accumulated postretirement benefit obligation was 7.0%, 7.5% and 7.0% for 2001, 2000 and 1999, respectively. In 2001, the Canadian Plan used a discount rate of 6.3%. In 2000 and 1999, the Canadian Plan used a discount rate of 7.5% and 7.5%, respectively. The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation for the United States and Canadian plans were 11.0% and 9.0%, respectively, for 2001 and assumed to gradually decline to 4.5% by 2009 and 2009, respectively. In subsequent years, the health care trend rates for both countries are assumed to remain constant at 4.5%. A one-percentage-point change in the assumed health care cost trend rates would have the following effect: 1 PERCENTAGE POINT CHANGE ------------------------ INCREASE DECREASE -------- -------- (IN THOUSANDS) Accumulated postretirement benefit obligation $942 $(780) Service and interest costs 140 (115) OTHER EMPLOYEE BENEFIT PLANS --------------------------- The Company has an unfunded supplemental retirement plan designed to maintain benefits for eligible nonunion domestic employees at the plan formula level. The amount expensed for this plan in 2001, 2000 and 1999 was $299,000, $318,000 and $285,000, respectively. The Company has an Employee Stock Ownership Plan ("ESOP") noncontributory qualified stock bonus plan for eligible domestic employees. Contributions to the plan are made at the discretion of the Board of Directors and are in the form of newly issued shares of the Company's common stock. Shares are allocated to eligible employees' accounts based on annual compensation. At December 31, 2001, the ESOP held 904,287 shares of Company common stock. The ESOP provides that dividends paid on shares held by the ESOP are paid to eligible employees. The Company has profit participation plans under which it distributes quarterly to eligible employees 12% to 20%, depending on operating unit, of its pretax income after adjustments for cer- -40- tain nonoperating items. Each eligible employee receives a share of the distribution based upon the employee's base compensation in relation to the total base compensation of all eligible employees of the operating unit. The Company may modify, amend or terminate the plans, at any time, subject to the terms of various labor agreements. The Company has qualified Thrift (401(k)) plans for eligible domestic employees under which the Company matches 25% of the first 4% or 6%, depending on location, of the participants' deferred compensation. Company contribution expense in 2001, 2000 and 1999 was $1.2 million, $1.3 million and $1.7 million, respectively. 11. MAJOR CUSTOMERS Sales to a single customer, related to a significant pipeline contract, were $269.3 million in 1999. 12. RELATED PARTY TRANSACTIONS STELCO, INC. Camrose purchases steel coil and plate under a steel supply agreement with Stelco, Inc. ("Stelco"), a 40% owner of Camrose. Transactions under the agreement are at negotiated market prices. The following table summarizes the transactions between Camrose and Stelco: 2001 2000 1999 ------- ------- ------- (IN THOUSANDS) Sales to Stelco $ 193 $ 228 $ 217 Purchases from Stelco 23,486 35,640 25,529 Accounts receivable from Stelco at December 31 155 - 207 Accounts payable to Stelco at December 31 227 5,484 1,633 Under the acquisition agreement for Camrose, either the Company or Stelco may initiate a buy-sell procedure pursuant to which the initiating party establishes a price for Camrose and the other party must either sell its interest at that price or purchase the initiating party's interest at that price. 13. JOINT VENTURE In June 1999, a wholly-owned subsidiary of the Company and Feralloy Oregon Corporation ("Feralloy") formed Oregon Feralloy Partners (the "Joint Venture") to construct a temper mill and a cut-to-length ("CTL") facility ("Facility") with an annual stated capacity of 300,000 tons to process CTL plate from coil produced at the Company's plate mill in Portland, Oregon. The Facility commenced operations in May 2001. The Company owns 60% and Feralloy, the managing partner, owns 40% of the Joint Venture. Each partner holds 50% voting rights as owners of the Joint Venture. The Company is not required to, nor does it currently anticipate it will, make other contributions of capital to fund operations of the Joint Venture in case of sustained or foreseeable losses. As of December 31, 2001, total assets and total liabilities of the Joint Venture were $18.0 million and $13.2 million, respectively. The Company's investment in the Joint Venture is $3.0 million as of December 31, 2001. The investment in this non-controlled majority-owned affiliate is accounted for by the equity method as required by Emerging Issues Task Force No. 96-16. 14. CONTINGENCIES ENVIRONMENTAL All material environmental remediation liabilities for non-capital expenditures, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required and affect the total cost. The best estimate of the probable cost within a range is recorded; however, if there is no best estimate, the low end of the range is recorded and the range is disclosed. OSM DIVISION In May 2000, the Company entered into a Voluntary Clean-up Agreement with the DEQ committing the Company to conduct an investigation of whether, and to what extent, past or present -41- operations at the Portland Mill may have affected sediment quality in the Willamette River. Based on preliminary findings, the DEQ has requested the Company to begin a full remedial investigation ("RI"), including areas of investigation throughout the Portland Mill, and implement source control as required. The Company estimates that costs of the RI study could range from $732,000 to $1,872,000 over the next two years. Based on a best estimate, the Company has accrued a liability of $1,159,000 as of December 31, 2001. The Company has also recorded a $1,159,000 receivable for insurance proceeds that are expected to cover these RI costs. Based upon the results of the RI, the DEQ may require the Company to incur costs associated with additional phases of investigation, remedial action or implementation of source controls, which could have a material adverse effect on the Company's results of operations, as it may cause costs to exceed available insurance amounts. The Company is unable at this time to determine if the likelihood of an unfavorable outcome or loss is either probable or remote, or to estimate a dollar amount range for a potential loss. In a related manner, in December 2000 the Company received a general notice letter from the U.S. Environmental Protection Agency ("EPA"), identifying it, along with 68 other entities, as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") with respect to contamination in a portion of the Willamette River that has been designated as the "Portland Harbor Superfund Site." The letter advised the Company that it may be liable for costs of remedial investigation and remedial action at the site (which liability, under CERCLA, is joint and several with other PRPs) as well as for natural resource damages that may be associated with any releases of contaminants (principally at the Portland Mill site) for which the Company has liability. At this time, nine private and public entities have signed an Administrative Order on Consent ("AOC") to perform a remedial investigation/feasibility study ("RI/FS") of the Portland Harbor Superfund Site under EPA oversight. The RI/FS is expected to take three to five years to complete. The Company is a member of the Lower Willamette Group, which is funding that investigation, but the Company is not a signatory to the AOC. Although the EPA has not yet defined the boundaries of the Portland Harbor Superfund Site, the AOC requires the RI/FS to focus on an "initial study area" that does not now include the portion of the Willamette River adjacent to the Portland Mill. The study area, however, may be expanded. At the conclusion of the RI/FS, the EPA will issue a Record of Decision setting forth any remedial action that it requires to be implemented by the PRPs. A determination that the Company is a PRP could cause the Company to incur costs associated with remedial action, natural resource damage and natural resource restoration, which could have a material adverse effect on the Company's results of operations. The Company is unable to estimate a dollar amount range for any related remedial action that may be implemented by the EPA. On April 18, 2001, the United Steelworkers of America (the "Union"), along with two other groups, filed suit against the Company under the citizen suit provisions of the CAA in U.S. District Court in Portland, Oregon. The suit alleges that the Company has violated various air emission limits and conditions of its operating permits at the Portland Mill approximately 100 times since 1995. The suit seeks injunctive relief and unspecified civil penalties. The Company filed a response to the suit on July 24, 2001, disputing many of the suit's allegations, and trial is expected to be scheduled for the summer of 2003. The Company believes it has factual and legal defenses to the allegations and intends to defend the matter vigorously. Although the Company believes it will prevail, it is not presently possible to estimate the liability if there is ultimately an adverse determination. RMSM DIVISION In connection with the acquisition of the Pueblo Mill, CF&I accrued a liability of $36.7 million for environmental remediation related to the prior owner's operations. CF&I believed this amount was the best estimate of costs from a range of $23.1 million to $43.6 million. CF&I's estimate of this liability was based on two remediation investigations conducted by environmental engineering consultants, and included costs for the Resource Conservation and Recovery Act facility investigation, a corrective measures study, remedial action, and operation and maintenance associated with the proposed remedial actions. In October 1995, CF&I and the Colorado Department of Public Health and Environment ("CDPHE") finalized a postclosure permit for hazardous waste units at the Pueblo Mill. As part of the postclosure permit requirements, CF&I must conduct a corrective action program for the 82 solid waste management units at the facility and continue to address projects on a prioritized corrective action schedule which substantially reflects a straight-line rate of expenditure over 30 -42- years. The State of Colorado mandated that the schedule for corrective action could be accelerated if new data indicated a greater threat existed to the environment than was presently believed to exist. At December 31, 2001, the accrued liability was $30.8 million, of which $28.5 million was classified as non-current on the consolidated balance sheet. The CDPHE inspected the Pueblo Mill in 1999 for possible environmental violations, and in the fourth quarter of 1999 issued a Compliance Advisory indicating that air quality regulations had been violated, which was followed by the filing of a judicial enforcement action ("Action") in the first quarter of 2000. In March 2002, CF&I and CDPHE reached a settlement of the Action, which remains subject to the approval of the presiding judge. The proposed settlement provides for CF&I to pay $300,000 in penalties, fund $1.5 million of community projects, and to pay approximately $400,000 for consulting services. CF&I will also be required to make certain capital improvements expected to cost approximately $20 million, including converting to the new single New Source Performance Standards ("NSPS") Subpart AAa ("NSPS AAa") compliant furnace discussed below. The proposed settlement provides that the two existing furnaces will be permanently shut down 18 months after the issuance of a Prevention of Significant Deterioration ("PSD") air permit. It is expected the PSD air permit will be issued on or before September 30, 2002. In May 2000, the EPA issued a final determination that one of the two electric arc furnaces at the Pueblo Mill was subject to federal NSPS - Subpart AA ("NSPS AA"). This determination was contrary to an earlier "grandfather" determination first made in 1996 by CDPHE. CF&I appealed the EPA determination in the federal Tenth Circuit Court of Appeals, and that appeal is pending. CF&I is prepared, however, to voluntarily exceed the NSPS AA requirements at issue by converting to a new single furnace that will meet NSPS AAa standards, which are stricter than NSPS AA standards. Based on negotiations with the EPA, the Company believes it will reach a resolution that will allow for a compliance schedule to accommodate the conversion to the new single furnace. The Company expects that, to resolve the EPA matter, it will be required to commit to the conversion to the new furnace (to be completed approximately two years after permit approval and expect to cost, with all related emission control improvements, approximately $20.0 million), and to pay approximately $450,000 in penalties and fund certain supplemental environmental projects valued at approximately $1.1 million, including the installation of certain pollution control equipment at the Pueblo Mill. The above mentioned expenditures for supplemental environmental projects will be both capital and non-capital expenditures. In response to the CDPHE settlement and the resolution of the EPA action, CF&I has accrued $3.0 million as of December 31, 2001 for possible fines and non-capital related expenditures. In December 2001, the State of Colorado issued a Title V air discharge permit to CF&I under the CAA requiring that the furnace subject to the EPA action operate in compliance with NSPS AA standards. This permit's compliance schedule required the furnace to operate in compliance with these standards by March 22, 2002. The State of Colorado entered a stay of this compliance schedule on March 22, 2002, effective until April 18, 2002, when the permit is expected to be modified to incorporate the longer compliance schedule that is part of the settlement with the CDPHE and is part of the negotiations with the EPA. This modification would give CF&I adequate time to convert to a single NSPS AAa compliant furnace. Any decrease in steelmaking production during the furnace conversion period when both furnaces are expected to be shut down will be offset by the Company purchasing semi-finished steel ("billets") for conversion into rod products at spot market prices at costs comparable to internally generated billets. Pricing and availability of billets is subject to significant volatility. However, the Company believes that near term supplies of billets will continue to be available in sufficient quantities at favorable prices. In a related matter, in April 2000 the Union filed suit in U.S. District Court in Denver, Colorado, asserting that the Company and CF&I had violated the CAA at the Pueblo Mill for a period extending over five years. On July 6, 2001, the presiding judge dismissed the suit. The Union has appealed the decision. The Company intends to defend this matter vigorously. While the Company does not believe the suit will have a material adverse effect on its results of operations, the result of litigation, such as this, is difficult to predict and an adverse outcome with significant penalties is possible. It is not presently possible to estimate the liability if there is ultimately an adverse determination on appeal. -43- LABOR DISPUTE The labor contract at CF&I expired on September 30, 1997. After a brief contract extension intended to help facilitate a possible agreement, on October 3, 1997, the Union initiated a strike at CF&I for approximately 1,000 bargaining unit employees. The parties, however, failed to reach final agreement on a new labor contract due to differences on economic issues. As a result of contingency planning, CF&I was able to avoid complete suspension of operations at the Pueblo Mill by utilizing a combination of new hires, striking employees who returned to work, contractors and salaried employees. On December 30, 1997, the Union called off the strike and made an unconditional offer on behalf of its members to return to work. At the time of this offer, because CF&I had permanently replaced the striking employees, only a few vacancies existed at the Pueblo Mill. Since that time, vacancies have occurred and have been filled by formerly striking employees ("Unreinstated Employees"). As of December 31, 2001, approximately 680 Unreinstated Employees have either returned to work or have declined CF&I's offer of equivalent work. At December 31, 2001, approximately 250 Unreinstated Employees remain unreinstated. On February 27, 1998, the Regional Director of the National Labor Relations Board ("NLRB") Denver office issued a complaint against CF&I, alleging violations of several provisions of the National Labor Relations Act ("NLRA"). On August 17, 1998, a hearing on these allegations commenced before an Administrative Law Judge ("Judge"). Testimony and other evidence were presented at various sessions in the latter part of 1998 and early 1999, concluding on February 25, 1999. On May 17, 2000, the Judge rendered a decision which, among other things, found CF&I liable for certain unfair labor practices and ordered as remedy the reinstatement of all 1,000 Unreinstated Employees, effective as of December 30, 1997, with back pay and benefits, plus interest, less interim earnings. Since January 1998, the Company has been returning unreinstated strikers to jobs as positions became open. As noted above, there were approximately 250 unreinstated strikers as of December 31, 2001. On August 2, 2000, CF&I filed an appeal with the NLRB in Washington, D.C. A separate hearing concluded on February 2000, with the judge for that hearing rendering a decision on August 7, 2000, that certain of the Union's actions undertaken since the beginning of the strike did constitute misconduct and violations of certain provisions of the NLRA. The Union has appealed this determination to the NLRB. In both cases, the non-prevailing party in the NLRB's decision will be entitled to appeal to the appropriate U.S. Circuit Court of Appeals. CF&I believes both the facts and the law fully support its position that the strike was economic in nature and that it was not obligated to displace the properly hired replacement employees. The Company does not believe that final judicial action on the strike issues is likely for at least two to three years. In the event there is an adverse determination of these issues, Unreinstated Employees could be entitled to back pay, including benefits, plus interest, from the date of the Union's unconditional offer to return to work through the date of their reinstatement or a date deemed appropriate by the NLRB or an appellate court. The number of Unreinstated Employees entitled to back pay may be limited to the number of past and present replacement workers; however, the Union might assert that all Unreinstated Employees should be entitled to back pay. Personnel records, since the strike, do not provide sufficient information necessary to provide a reasonable estimate of liability. Back pay is generally determined by the quarterly earnings of those working less interim wages earned elsewhere by the Unreinstated Employees. In addition to other considerations, each Unreinstated Employee has a duty to take reasonable steps to mitigate the liability for back pay by seeking employment elsewhere that has comparable working conditions and compensation. Any estimate of the potential liability for back pay will depend significantly on the ability to assess the amount of interim wages earned by these employees since the beginning of the strike, as noted above. Due to the lack of accurate information on interim earnings for both reinstated and unreinstated workers and sentiment of the Union towards the Company, it is not currently possible to obtain the necessary data to calculate possible back pay. In addition, the NLRB's findings of misconduct by the Union may mitigate any back pay award with respect to any Unreinstated Employees proven to have taken part or participated in acts of misconduct during and after the strike. Thus, it is not presently possible to estimate the liability if there is ultimately an adverse determination against CF&I. An ultimate adverse determination against CF&I on these issues may have a material adverse effect on the Company's consolidated financial condition, results of opera- -44- tions, or cash flows. CF&I does not intend to agree to any settlement of this matter that will have a material adverse effect on the Company. In connection with the ongoing labor dispute, the Union has undertaken certain activities designed to exert public pressure on CF&I. Although such activities have generated some publicity in news media, CF&I believes that they have had little or no material impact on its operations. During the strike by the Union at CF&I, certain bargaining unit employees of the Colorado & Wyoming Railway Company ("C&W"), a wholly-owned subsidiary of New CF&I, refused to report to work for an extended period of time, claiming that concerns for their safety prevented them from crossing the picket line. The bargaining unit employees of C&W were not on strike, and because the other C&W employees reported to work without incident, C&W considered those employees to have quit their employment and, accordingly, C&W declined to allow those individuals to return to work. The various unions representing those individuals filed claims with C&W asserting that C&W had violated certain provisions of the applicable collective bargaining agreement, the Federal Railroad Safety Act ("FRSA"), or the Railway Labor Act. In all of the claims, the unions demand reinstatement of the former employees with their seniority intact, back pay and benefits. The United Transportation Union, representing thirty of those former employees, asserted that their members were protected under the FRSA and pursued their claim before the Public Law Board ("PLB"). A hearing was held in November 1999, and the PLB, with one member dissenting, rendered an award on January 8, 2001 against C&W, ordering the reinstatement of those claimants who intend to return to work for C&W, at their prior seniority, with back pay and benefits, net of interim wages earned elsewhere. On February 6, 2001, C&W filed a petition for review of that award in the District Court for the District of Colorado, and intends to pursue this matter through the appropriate United States appellate court, if necessary. Given the inability to determine the number of former employees who intend to return to work at C&W and the extent to which the adverse and mitigating factors discussed above will impact the liability for back pay and benefits, it is not presently possible to estimate the liability if there is ultimately an adverse determination against C&W. The Transportation-Communications International Union, Brotherhood Railway Carmen Division, representing six of those former C&W employees, asserted that their members were protected under the terms of the collective bargaining agreement and pursued their claim before a separate PLB. A hearing was held in January 2001, and that PLB, with one member dissenting, rendered an award on March 14, 2001 against C&W, ordering the reinstatement of those claimants who intend to return to work for C&W, at their prior seniority, with back pay and benefits, net of interim wages earned elsewhere. As of December 31, 2001, two of the six former employees have accepted a settlement from C&W. The remaining four do not agree with the award amount from the court. The

Company does not believe an adverse determination against C&W would have a material adverse effect on the Company's results of operations. CONTRACTS WITH KEY EMPLOYEES The Company has agreements with certain officers which provide for severance compensation in the event their employment with the Company is terminated subsequent to a defined change in control of the Company. OTHER CONTINGENCIES The Company is party to various other claims, disputes, legal actions and other proceedings involving contracts, employment and various other matters. In the opinion of management, the outcome of these matters would not have a material adverse effect on the consolidated financial condition of the Company, its results of operations, and liquidity. 15. CAPITAL STOCK COMMON STOCK In connection with the 1993 acquisition of the assets of CF&I, the Company agreed to issue 598,400 shares of its common stock in March 2003 to specified creditors of CF&I Steel. At the date of acquisition, the stock was valued at $11.2 million using the Black-Scholes option pricing model. -45- STOCKHOLDER RIGHTS PLAN The Company has issued preferred stock purchase rights ("Rights") to its common stockholders. The Rights generally become exercisable after a person or group announces a tender offer that would result in that person or group owning 15% or more of the Company's common stock. In that event, a holder will be entitled to buy from the Company a unit consisting of one one-thousandth of a share of participating preferred stock of the Company at a purchase price of $42. The Rights also become exercisable after a person or group acquires 15% or more of the Company's outstanding common stock. In that event, each Right, excluding those held by the acquirer, would become exercisable for preferred stock of the Company having a market value equal to twice the exercise price of the Right. Alternatively, if the Company is acquired in a merger or other business combination, each Right, excluding those held by the acquirer, would be exercisable for common stock of the acquirer having a market value equal to twice the exercise price of the Right. The Company may redeem the Rights prior to a change in control at a price of $.001 per Right. The Rights will expire December 22, 2009 if not exercised prior to that date. STOCK OPTIONS The Company maintains a Non-Qualified Stock Option Plan ("Plan"), effective January 1, 2000. At December 31, 2001, the Company has granted options to purchase 620,000 shares to certain senior management employees under the provisions of the Plan. The exercise price is the fair value per share on the date of grant. The term of each option is 10 years from grant date. One-half of the options granted vest immediately upon grant, and the remaining one-half vest ratably under a three-year schedule. The Company has elected to account for the stock options consistent with Accounting Principles Board Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES" and related interpretations. Therefore, no additional compensation expense has been recognized for the Plan within the Consolidated Statements of Income. If the Company had accounted for the options in a manner consistent with SFAS No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION," estimating the fair value of the options at grant date using the Black-Scholes option pricing model, the Company's pro forma net loss from continuing operations and pro forma diluted loss per common share would have been reduced to the amounts indicated below: 2001 2000 -------- --------- Net loss from continuing operations: As reported $(5,928) $(18,265) SFAS No. 123 pro forma (6,418) (18,335) Basic and diluted loss per share from continuing operations: As reported $(0.22) $(0.69) SFAS No. 123 pro forma (0.24) (0.70) A summary of option activity is as follows: 2001 2000 ------------------------------- ------------------------------- WEIGHTED WEIGHTED AVERAGE AVERAGE OPTIONS OUTSTANDING SHARES EXERCISE PRICE SHARES EXERCISE PRICE ------------------ --------- ------------- --------- ------------- Outstanding at beginning of period 188,500 $1.94 - $ - New Grants 431,500 4.37 188,500 1.94 Exercised (10,050) 3.37 - - Terminated (10,050) 3.37 - - --------- ----- ------- ----- Outstanding at end of period 599,900 3.64 188,500 1.94 Outstanding but not exercisable (270,333) 3.82 (94,250) 1.94 -------- ----- ------- ----- Exercisable at end of period 329,567 $3.48 94,250 $1.94 ======== ===== ======= ===== -46- The estimated fair value as of grant date of options granted in 2001 and 2000, using the Black-Scholes option pricing model, was as follows: 2001 2000 ----- ---- Estimated fair value of options granted during the year $2.97 $1.20 Assumptions: Annualized Dividend Yield - - Common Stock Price Volatility 54.0% 66.1% Risk-free Rate of Return 4.7% 5.7% Expected option term (in years) 7 7 A summary of options outstanding at December 31, 2001, was as follows: OPTIONS OUTSTANDING OPTIONS EXERCISABLE -- ---------------------------- WEIGHTED AVERAGE NUMBER WEIGHTED NUMBER REMAINING WEIGHTED EXERCISABLE AT AVERAGE OUTSTANDING CONTRACTUAL AVERAGE DECEMBER 31, EXERCISE RANGE OF EXERCISE PRICE AT DECEMBER 31, 2001 LIFE EXERCISE PRICE 2001 PRICE ---------------------- ------------------- ----------- ------------- ------------- -------- $0.01 to $2.00 177,700 8.82 $1.94 118,467 $1.94 $2.01 to $4.00 221,800 9.71 $3.78 110,900 $3.78 $4.01 to $6.00 200,400 9.30 $4.99 100,200 $4.99 16. SALES OF SUBSIDIARY'S COMMON STOCK

In 1994, New CF&I sold a 10% equity interest to a subsidiary of Nippon Steel Corporation ("Nippon"). In connection with the sale, New CF&I and the Company entered into a stockholders' agreement with Nippon pursuant to which Nippon was granted a right to sell all, but not less than all, of its equity interest in New CF&I back to New CF&I at the then fair market value in certain circumstances. Those circumstances include, among other things, a change of control, as defined, in New CF&I, certain changes involving the composition of the board of directors of New CF&I, and the occurrence of certain other events that are within the control of New CF&I or the Company. The Company also agreed not to transfer voting control of New CF&I to a nonaffiliate except in those circumstances where Nippon is offered the opportunity to sell its interest in New CF&I to the transferee at the same per share price obtained by the Company. New CF&I retains a right of first refusal in the event that Nippon desires to transfer its interest in New CF&I to a nonaffiliate. During 1995, the Company sold a 3% equity interest in New CF&I to the Nissho Iwai Group under substantially the same terms and conditions of the Nippon transaction. The Company believes that it is not probable that the conditions that would permit a subsidiary stock redemption will occur. 17. UNUSUAL AND NONRECURRING ITEMS SETTLEMENT OF LITIGATION Operating income for 2001 and 1999 includes a $3.4 million and $7.0 million, respectively, from a settlement of outstanding litigated claims with certain graphite electrode suppliers. PROCEEDS FROM INSURANCE COMPANY Other income for 2001 includes $2.3 million received from the Company's life insurance provider due to its de-mutualization capital structure change into a public company. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE None -47- PART III ITEMS 10. AND 11. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND EXECUTIVE COMPENSATION In addition to the information under the caption "Executive Officers of the Registrant" in "Part I, Item 4" of this Report, the information required by these Items is incorporated herein by reference from the material under the headings "Nomination and Election of Class B Directors," "Directors' Compensation, Meetings and Standing Committees," "Executive Compensation," "Option Grants in Last Fiscal Year," "Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values," "Defined Benefit Retirement Plans," "Employment Contracts and Termination of Employment and Change in Control Arrangements," "Board Compensation, Personnel and Succession Planning Committee Report on Executive Compensation," and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission. The Registrant's Board of Directors appointed Mr. William Swindells as Chairman of the Board on December 13, 2001. Mr. Swindells succeeds Mr. Thomas B. Boklund, who held the position of Chairman since 1992. The Registrant's Board of Directors appointed Mr. Frank M. Walker to its Board of Directors on January 24, 2002. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The information required by this Item is incorporated by reference from the material under the caption "Principal Stockholders" in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information required by this Item is incorporated by reference from the material under the captions "Nomination and Election of Class B Directors," "Executive Compensation," "Option Grants in Last Fiscal Year," "Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values," and "Employment Contracts and Termination of Employment and Change in Control Arrangements" in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders. -48- PART IV ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K PAGE ---- (a) FINANCIAL STATEMENTS: (i) Report of Independent Accountants - 2001, 2000 and 1999 .. 25 (ii) Consolidated Financial Statements: Balance Sheets at December 31, 2001, 2000 and 1999.... 26 Statements of Income for each of the three years in the period ended December 31, 2001................27 Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2001.................................. 28 Statements of Cash Flows for each of three years in the period ended December 31, 2001................29 Notes to Consolidated Financial Statements.............30 (iii) Financial Statement Schedule for each of the three years in the period ended December 31, 2001: Schedule II - Valuation and Qualifying Accounts........50 (iv) Exhibits: Reference is made to the list on pages 51 and 52 of the exhibits filed with this report. (b) REPORTS ON FORM 8-K: No reports on Form 8-K were required to be filed by the Registrant during the quarter ended December 31, 2001. -49- OREGON STEEL MILLS, INC. SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 31 (IN THOUSANDS) COLUMN A COLUMN B COLUMN C COLUMN D COLUMN E -------- -------- -------------------------- -------- -------- ADDITIONS BALANCE AT CHARGED TO CHARGED BALANCE AT BEGINNING COSTS AND TO OTHER

END OF CLASSIFICATION OF PERIOD EXPENSES ACCOUNTS DEDUCTIONS PERIOD -------------- ---------- ---------- --------- ------------- ----------- 2001 ---- Allowance for doubtful accounts $1,528 $3,127 $ - $ (356) $4,299 Valuation allowance for impairment of non-current deferred income tax assets 3,105 319 - - 3,424 2000 ---- Allowance for doubtful accounts $1,994 $ 441 $ - $ (907) $1,528 Valuation allowance for impairment of non-current deferred income tax assets 3,282 - - (177) 3,105 1999 ---- Allowance for doubtful accounts $1,148 $ 1,007 $ - $ (161) $1,994 Valuation allowance for impairment of non-current deferred income tax assets 3,105 177 - - 3,282 -50- LIST OF EXHIBITS* 2.0 Asset Purchase Agreement dated as of January 2, 1992, by and between Camrose Pipe Company (a partnership) and Stelco Inc. (Filed as exhibit 2.0 to Form 8-K dated June 30, 1992 and incorporated by reference herein.) 2.1 Asset Purchase Agreement dated as of March 3, 1993, among CF&I Steel Corporation, Denver Metals Company, Albuquerque Metals Company, CF&I Fabricators of Colorado, Inc., CF&I Fabricators of Utah, Inc., Pueblo Railroad Service Company, Pueblo Metals Company, Colorado & Utah Land Company, the Colorado and Wyoming Railway Company, William J. Westmark as trustee for the estate of The Colorado and Wyoming Railway Company, CF&I Steel, L.P., New CF&I, Inc. and Oregon Steel Mills, Inc. (Filed as exhibit 2.1 to Form 8-K dated March 3, 1993, and incorporated by reference herein.) 3.1 Restated Certificate of Incorporation of the Company, as amended. (Filed as exhibit 3.2 to Form 10-K dated December 31, 1999, and incorporated by reference herein.) 3.2 Bylaws of the Company as amended. 4.1 Specimen Common Stock Certificate. (Filed as exhibit 4.1 to Form S-1 Registration Statement 33-38379 and incorporated by reference herein.) 4.2 Indenture dated as of June 1, 1996 among Oregon Steel Mills, Inc., as Issuer, Chemical Bank (now JP Morgan Bank), as Trustee, and New CF&I, Inc. and CF&I Steel, LP, as Guarantors, with respect to 11% First Mortgage Notes due 2003. (Filed as exhibit 4.1 to Form 10-Q dated June 30, 1996, and incorporated by reference herein.) 4.3 Form of Deed of Trust, Assignment of Rents and Leases and Security Agreement. (Filed as exhibit 4.2 to Amendment #1 to Form S-3 Registration Statement 333-02355 and incorporated by reference herein.) 4.4 Form of Security Agreement. (Filed as exhibit 4.3 to Amendment #1 to Form S-3 Registration Statement 333-02355 and incorporated by reference herein.) 4.5 Form of Intercreditor Agreement. (Filed as exhibit 4.4 to Amendment #1 to Form S-3 Registration Statement 333-02355 and incorporated by reference herein.) 4.6 Rights Agreement between Oregon Steel Mills, Inc. and ChaseMellon Shareholder Services, LLC (now Mellon Investor Services, LLC), as Rights Agent. (Filed as Exhibit 1 to the Company's Registration Statement on Form 8-A (SEC Reg. No. 1-9987) and incorporated by reference herein.) 10.1** Form of Indemnification Agreement between the Company and its directors. (Filed as exhibit 10.6 to Form S-1 Registration Statement 33-20407 and incorporated by reference herein.) 10.2** Form of Indemnification Agreement between the Company and its executive officers. (Filed as exhibit 10.7 to Form S-1 Registration Statement 33-20407 and incorporated by reference herein.) 10.3 Agreement for Electric Power Service between registrant and Portland General Electric Company. (Filed as exhibit 10.20 to Form S-1 Registration Statement 33-20407 and incorporated by reference herein.) 10.4** Form of Key Employee Contract between the Company and its executive officers. (Filed as exhibit 10.2 to Form 10-Q dated September 30, 2000, and incorporated by reference herein.) 10.5** Form of Notice of Stock Option Grant between the Company and its executive officers. (Filed as exhibit 10.3 to Form 10-Q dated September 30, 2000, and incorporated by reference herein.) 10.6*** Credit Agreement dated as of December 1, 2000 among Oregon Steel Mills, Inc. as the Borrower, New CF&I, Inc. and CF&I Steel, L.P. as Guarantors, and various financial institutions, as Lenders, and the Agent for the Lenders. Portions of this exhibit have been omitted pursuant to a confidential treatment request. (Filed as exhibit 10.7 to Form 10-K dated December 31, 2000 and incorporated by reference herein.) -51- 10.7 Amendment No. 1 to Credit Agreement dated as of June 30, 2001 among Oregon Steel Mills, Inc. as borrower, New CF&I, Inc. and CF&I Steel, L.P, as Guarantors, various financial institutions as Lenders, and the Agent for the lenders. (Filed as exhibit 10.1 to Form 10-Q/A Amendment-2 dated June 30, 2001 and incorporated by reference herein.) 10.8 Amendment No 2. to Credit Agreement dated as of November 29, 2001 among Oregon Steel Mills, Inc. as borrower, New CF&I, Inc. and CF&I Steel, L.P, as Guarantors, various financial institutions as Lenders, and the Agent for the lenders. 10.9 Summary of Rights to Purchase Participating Preferred Stock. (Filed as exhibit 2 to the Company's Registration Statement on Form 8-A (SEC Reg. No. 1-9987) and incorporated by reference herein.) 10.10 Form of Rights Certificate and Election to Purchase. (Filed as exhibit 3 to the Company's Registration Statement on Form 8-A (SEC Reg. No. 1-9987) and incorporated by reference herein.) 10.11** Annual Incentive Plan for certain of the Company's management employees. 10.12** 2000 Non-Qualified Stock Option Plan . (Filed as exhibit 99.1 to the Company's Registration Statement on Form S-8 (see Reg. No. 333-68732)and incorporated by reference herein.) 21.0 Subsidiaries of registrant. 23.0 Consent of Independent

Accountants - PricewaterhouseCoopers LLP. 99.0 Partnership Agreement dated as of January 2, 1992, by and between Camrose Pipe Corporation and Stelcam Holding, Inc. (Filed as exhibit 28.0 to Form 8-K dated June 30, 1992, and incorporated by reference herein.) --------------------- * The Company will furnish to stockholders a copy of the exhibit upon payment of $.35 per page to cover the expense of furnishing such copies. Requests should be directed to Vicki A. Tagliafico, Vice President, Corporate Affairs, Oregon Steel Mills, Inc., PO Box 5368, Portland, Oregon 97228. ** Management contract or compensatory plan. *** Certain Exhibits and Schedules to this Exhibit are omitted. A list of omitted Exhibits is provided in the Exhibit and the Registrant agrees to furnish to the Commission as a supplement a copy of any omitted Exhibits or Schedules upon request. -52- SIGNATURES REQUIRED FOR FORM 10-K Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Oregon Steel Mills, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. OREGON STEEL MILLS, INC. (Registrant) By /s/ Joe E. Corvin -------------------------- Chief Executive Officer Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Oregon Steel Mills, Inc. and in the capacities and on the dates indicated. SIGNATURE TITLE DATE --------- ----- ---- /s/ Joe E. Corvin President, Chief Executive March 20, 2002 ------------------------- (Joe E. Corvin) Officer and Director (Principal Executive Officer) /s/ L. Ray Adams Vice President Finance, March 20, 2002 ------------------------- (L. Ray Adams) Chief Financial Officer, and Treasurer (Principal Financial Officer) /s/ Jeff S. Stewart Corporate Controller March 20, 2002 ------------------------- (Jeff S. Stewart) (Principal Accounting Officer) /s/ William Swindells Chairman of the Board March 20, 2002 ------------------------- (William Swindells) and Director /s/ James E. Declusin Director March 20, 2002 ------------------------- (James E. Declusin) /s/ Harry L. Demorest Director March 20, 2002 ------------------------- (Harry L. Demorest) /s/ David L. Parkinson Director March 20, 2002 ------------------------- (David L. Parkinson) /s/ Stephen P. Reynolds Director March 20, 2002 ----------------------- (Stephen P. Reynolds) /s/ John A. Sproul Director March 20, 2002 ------------------------- (John A. Sproul) /s/ Frank M. Walker Director March 20, 2002 ------------------------- (Frank M. Walker) -53-