OREGON STEEL MILLS INC
Form S-3/A
September 20, 2004

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**As filed with the Securities and Exchange Commission on September 20, 2004**

**Registration No. 333-118959**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# AMENDMENT NO. 1 TO
# FORM S-3

**REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933**

# OREGON STEEL MILLS, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **1000 S.W. Broadway, Suite 2200**<br>**Portland, Oregon 97205**<br>**(503) 223-9228**<br>(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices) | **94-0506370**<br>(I.R.S. Employer Identification No.) |

**L. Ray Adams, Vice President, Finance**
**Oregon Steel Mills, Inc.**
**1000 S.W. Broadway, Suite 2200**
**Portland, Oregon 97205**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

| | |
|---|---|
| **Carmen Calzacorta, Esq.**<br>**Schwabe, Williamson & Wyatt, P.C.**<br>**1211 S.W. Fifth Avenue, Suites 1600-1900**<br>**Portland, Oregon 97204**<br>**(503) 222-9981** | **Richard L. Muglia, Esq.**<br>**Skadden, Arps, Slate, Meagher & Flom LLP**<br>**4 Times Square**<br>**New York, New York 10036**<br>**(212) 735-3000** |

Approximate date of commencement of proposed sale to the public: *As soon as practicable after this Registration Statement becomes effective.*

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being offered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to completion, dated September 20, 2004**

PRELIMINARY PROSPECTUS

# 7,500,000 Shares

# OREGON STEEL MILLS, INC.

## Common Stock

We are offering 7,500,000 shares of our common stock.

Our common stock is traded on the New York Stock Exchange under the symbol "OS." The closing sale price on September 17, 2004 as reflected on the New York Stock Exchange, was $15.64 per share.

**Investing in our common stock involves risks. See "Risk Factors" beginning on page 8.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these shares or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

| | Per Share | Total |
|---|---|---|
| Price to the public | $ | $ |
| Underwriting discount | | |
| Proceeds to us | | |

We have granted the underwriters an option to purchase up to 1,125,000 additional shares of our common stock to cover over-allotments.

The underwriters are offering the common stock as set forth under "Underwriting." Delivery of the shares will be made on or about , 2004.

**CIBC World Markets** **UBS Investment Bank**

**Jefferies & Company, Inc.** **KeyBanc Capital Markets**

**D.A. Davidson & Co.**

The date of this prospectus is , 2004

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## PROSPECTUS SUMMARY

*This summary highlights information contained in other parts of this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in the shares. You should read this entire prospectus carefully. Unless the context otherwise requires, references to "we," "us" or "our" refer collectively to Oregon Steel Mills, Inc. and its subsidiaries.*

### Our Company

We are a leading minimill steel producer with one of the broadest lines of specialty and commodity steel products of any domestic minimill company. We own two steel mills and have nine finishing facilities in the Western United States and Alberta, Canada.

We are focused on serving customers operating in diverse end markets west of the Mississippi River and in Western Canada. Our geographic location enables us to capitalize on a transportation cost competitive advantage in our market and contributes to the stability of our operating results. This market typically exhibits a favorable supply / demand balance as there are few competitors producing in the geographic area. There is a significant transportation cost associated with shipping steel products from other domestic and overseas locations into our market. Our manufacturing flexibility enables us to meet demanding customer specifications in a timely fashion and actively manage our product mix in response to changes in customer demand and individual product cycles.

Through strategic acquisitions and selective capital additions, we have: (i) increased shipments of steel products from approximately 750,000 tons in 1991 to over 1.6 million tons in 2003, (ii) expanded our range of finished products from two in 1991, discrete plate and large diameter welded pipe, to nine currently by adding electric resistance welded ("ERW") pipe, rail, rod, bar, seamless pipe, coiled plate, and structural tubing, (iii) increased our emphasis on higher margin specialty steel products, and (iv) focused on our primary selling region west of the Mississippi River and Western Canada.

Our two business units are the Oregon Steel Division and the Rocky Mountain Steel Mills ("RMSM") Division.

> The Oregon Steel Division is centered on our Portland mill, a steel minimill with a Steckel combination mill that produces steel plate and coil for the division's steel plate heat treating, structural tubing, and large diameter and ERW pipe finishing facilities. Our Portland mill is the only hot rolled steel plate mill in the 11 Western states and is focused on selling plate and coil in the core markets of the Pacific Northwest.

> The RMSM Division consists of the steelmaking and finishing facilities of CF&I Steel, L.P. located in Pueblo, Colorado. The Pueblo mill is a steel minimill which supplies steel for our rail, rod and bar, and seamless tubular finishing mills. The Pueblo mill operates the only rail facility west of the Mississippi River, and is one of only two established rail manufacturers in North America.

For 2004, we expect to ship approximately 1.72 million tons of steel products and generate approximately $1 billion in sales. The Oregon Steel Division expects to ship approximately 615,000 tons of plate and coil, 175,000 tons of welded pipe, and 70,000 tons of structural tubing. The RMSM Division expects to ship approximately 362,000 tons of rail and 500,000 tons of rod and bar products.

**Our Recent Initiatives**

In May 2003, we closed our Portland mill melt shop, thereby eliminating a significant percentage of our Portland mill's fixed costs. We are currently producing finished product by processing semi-finished steel slab ("steel slab") purchased on the open market. We believe this revised business strategy will help stabilize our financial performance by substantially lowering fixed costs and allowing us to manage the margin between finished product selling prices and the cost of steel slab.

On July 31, 2003, we named James E. Declusin President and Chief Executive Officer. Mr. Declusin has over 30 years of experience in the steel industry. In 2000, Mr. Declusin joined our board of directors after a successful career with California Steel Industries where he was Senior Executive Vice President and Chief Operating Officer.

In October 2003, we leased, with an option to buy, Columbia Structural Tubing ("CST"), a structural tubing facility close to our Portland mill. CST is the former LTV Structural Tube Facility and was not operating at the time of the lease. CST provides significant operational synergies with our Portland mill by increasing capacity utilization and yields, helping to reduce overall costs per ton. In addition, CST's structural tubing sales have enhanced our operating income. Since October 2003, we have increased tons sold from this facility each month as we further develop the structural tubing market in our primary selling region.

On January 15, 2004, we announced a tentative agreement to settle the six-year labor dispute between the United Steelworkers of America (the "Union") and CF&I Steel, L.P. ("CF&I"). On March 12, 2004, the Union voted to accept the proposed agreement. On September 10, 2004, we finalized the settlement, and we now have new five-year collective bargaining agreements in place. This settlement represents a breakthrough in employee relations for us and we believe it will help provide additional operational stability.

In June 2004, we announced that we would be indefinitely idling our Napa, California large diameter steel pipe mill and fabrication facility. This will further reduce our fixed costs and improve our operational efficiencies. The steel plate that was being allocated to the Napa pipe mill from the Portland mill will be redirected to our plate and coil customers and our structural tubing and Canadian line pipe businesses.

In July 2004, our board of directors approved the construction of a spiral weld facility at or near our Portland mill. The project as approved would consist of two pipe mills with a capacity of approximately 150,000 tons, depending on product mix, capable of producing large diameter line pipe from 20" to 60" in diameter, in wall thicknesses of $^{1}/_{4}$" to 1", and in lengths of up to 80 feet. The approved budget for the project is approximately $35 million and we expect the project to be completed during the fourth quarter of 2005. We intend to use a portion of the net proceeds from this offering for the project. See "Use of Proceeds."

**Our Strengths**

***Flexible and Diverse Product Portfolio:*** We currently have nine finishing facilities centered on our two primary steel operations. As a result, we are able to adjust our product mix as market conditions change to the products that generate higher margins. This allows us to produce a variety of specialty and commodity products, more efficiently balance capacity utilization, take advantage of niche market opportunities, and meet diverse customer needs not serviced by our competitors. For example, we can shift production at our Portland mill among specialty plate, commodity plate, and coiled plate. In addition, the Portland mill can produce coiled plate for structural tubing at CST and discrete plate and coil for line pipe at our pipe mills. At RMSM, we are able to switch production between our rail, rod and bar, and seamless tubular finishing facilities. We believe we are better able to weather downturns in particular end markets than some of our less diversified competitors, reducing our sensitivity to economic cycles.

***High Margin Specialty Steel Products:*** We plan to continue our emphasis on specialty steel products, which enable us to focus on markets with barriers to entry, premium pricing, and less competition. Our specialty products include structural tubing, heat treated and other specialty plate, welded line pipe, high-carbon rod, and deep head-hardened ("DHH") rail, a highly durable rail product that commands a higher price than standard rail. We are one of only two established North American producers of rail for the railroads and the sole North American licensee of Nippon Steel's proprietary DHH rail technology. The recently leased CST facility produces high margin structural tubing by further processing coil provided almost exclusively by the Portland mill.

***Market Focus:*** Our Portland mill is the only plate mill in the 11 Western states and our Pueblo mill is the only rail facility west of the Mississippi River. Competition from Midwestern and Eastern United States steel manufacturers is limited by the significant additional transportation costs to be incurred if they decided to ship products to the West Coast. We are currently facing only limited competition from imports due to the weak United States dollar, high ocean freight rates, and substantial demand for steel products in Asia.

***Variable Cost Structure:*** In May 2003, we shut down our Portland mill melt shop. The determination to close the melt shop was based, in part, on high energy costs and yield losses associated with the inefficient casting technology in use at the Portland mill. We are currently producing finished product by processing steel slab purchased on the open market. This initiative significantly lowered our fixed costs and helped to stabilize our operation. We are now focused on managing the margin between finished product selling prices and the cost of steel slab.

We produce steel at our minimill at the Pueblo mill utilizing an electric arc furnace ("EAF"). The EAF method of producing steel provides numerous advantages over integrated steel producers using blast furnaces. Minimills have more efficient labor utilization and lower ratios of fixed costs to variable costs than integrated steel producers.

***Efficient and Modern Manufacturing Facilities:*** Over the past ten years, we have invested approximately $450 million in capital expenditures for our production facilities, including steelmaking upgrades and a combination rod and bar mill at the Pueblo mill, a Steckel combination mill at the Portland mill and a temper mill cut-to-length line adjacent to the Portland mill built as part of a joint venture with Feralloy Corporation. Additionally, in October 2003, we leased CST, a nearby state-of-the-art structural tubing facility that was constructed in 2000. These investments have increased yields, improved efficiency, and diversified our product mix, and will allow us to incur minimal capital expenditures in the near future.

***Experienced Management Team:*** We have a strong and experienced senior management team who have an average of 24 years of experience in the steel industry. See "Management." In 2003, we hired several experienced senior managers for our Portland mill which has been an important factor in the improved operational performance of our Oregon Steel Division.

**Our Strategy**

We aim to continue to improve our position as a cost-efficient producer of specialty and commodity steel products. We strive to identify and implement programs to reduce production costs, diversify our product mix, enhance performance, and improve operating margins through:

- using free cash flow generation to improve our liquidity;
- operating manufacturing facilities capable of responding to changes in customer demand and individual product cycles;

emphasizing the production of higher margin specialty steel products;

investing in efficient and flexible manufacturing technology; and

maintaining tight cost and quality controls.

**Corporate Information**

We were founded in 1926 by William G. Gilmore and were incorporated in California in 1928. We were reincorporated in Delaware in 1974. Our executive offices are located at 1000 SW Broadway, Suite 2200, Portland, Oregon 97205, and our telephone number is (503) 223-9228.

**The Offering**

| | |
|---|---|
| Common stock offered by Oregon Steel Mills, Inc. | 7,500,000 shares |
| Common stock to be outstanding after this offering | 34,197,504 shares |
| NYSE symbol | OS |
| Use of proceeds | We estimate that the net proceeds to us from this offering will be approximately $111.0 million, assuming an offering price of $15.64 per share. We intend to use (1) approximately $62.6 million (assuming the offering price will be $15.64 per share) of the net proceeds to satisfy an obligation in connection with the settlement of the labor dispute with the Union and (2) approximately $35 million of the net proceeds to construct a spiral weld pipe mill at our Portland mill. We will use the remaining net proceeds for general corporate purposes, which may include capital expenditures, including completion of the conversion to the new furnace at the Pueblo mill, possible acquisitions of businesses, technologies, products or assets complementary to our business, funding of working capital, enhancement of liquidity, or reduction of debt. See "Use of Proceeds." |
| Over-allotment option | We have granted the underwriters a 30-day option to purchase up to 1,125,000 additional shares of our common stock to cover over-allotments. |
| Risk factors | You should read carefully the "Risk Factors" beginning on page 8 of this prospectus before making an investment in our common stock. |

The number of shares of our common stock to be outstanding after this offering is based on the number of shares of our common stock outstanding as of the date of this prospectus and does not include:

options to acquire an aggregate of 649,468 shares outstanding as of August 31, 2004; and

shares that may be purchased by the underwriters to cover over-allotments, if any.

Unless otherwise stated, all information contained in this prospectus assumes no exercise of the over-allotment option granted to the underwriters. See "Underwriting."

**Summary Consolidated Financial Data**

The following table presents our summary consolidated financial data as of the end of and for each year in the three-year period ended December 31, 2003, which have been derived from our consolidated financial statements that have been audited by KPMG LLP as of the end of and for the year ended December 31, 2003 and PricewaterhouseCoopers LLP as of December 31, 2002 and for each of the two years in the period then ended. The table also presents our summary consolidated financial data for the six months ended June 30, 2004 and 2003, which are derived from our unaudited condensed consolidated financial statements which, in our opinion, reflect all adjustments necessary for a fair presentation. The consolidated balance sheets as of December 31, 2003 and 2002 and June 30, 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years ended December 31, 2003 and the six months ended June 30, 2004 and 2003 and the notes thereto appear elsewhere in this prospectus. Results for the six months ended June 30, 2004 are not necessarily indicative of results for the full year. The summary consolidated financial data presented below should be read in conjunction with, and are qualified in their entirety by, "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the notes thereto, and other financial information included elsewhere in this prospectus.

| | Six Months Ended June 30 | | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (unaudited) | | | | |
| | (in thousands, except tonnage, per ton, and per share amounts) | | | | |
| **Income Statement Data:** | | | | | |
| Sales | $ 534,165 | $ 365,576 | $ 723,297 | $ 904,950 | $ 780,887 |
| Cost of sales | 427,372 | 359,607 | 713,601 | 783,940 | 694,941 |
| Fixed and other asset impairment charges | | 36,113 | 36,113 | | |
| Labor dispute settlement charges | 38,868 | | 31,089 | | |
| Selling, general and administrative expenses | 27,683 | 24,925 | 50,477 | 58,600 | 64,300 |
| Settlement of litigation | | | | | (3,391) |
| Loss (gain) on sale of assets | (293) | (274) | (1,835) | (1,283) | (10) |
| Incentive compensation | 5,088 | 339 | 354 | 3,761 | 244 |
| Operating income (loss) | 35,447 | (55,134) | (106,502) | 59,932 | 24,803 |
| Interest expense | (17,029) | (16,561) | (33,620) | (36,254) | (35,595) |
| Minority interests | 1,614 | 2,462 | 6,108 | (3,036) | (339) |
| Other income, net | 1,472 | 735 | 1,448 | 961 | 3,044 |
| Income (loss) before tax | 21,504 | (68,498) | (132,566) | 21,603 | (8,087) |
| Income tax benefit (expense) | 41 | 7,525 | 6,617 | (9,244) | 2,159 |
| Net income (loss) before cumulative effect of change in accounting principle | 21,545 | (60,973) | (125,949) | 12,359 | (5,928) |
| Cumulative effect of change in accounting principle, net of tax | | | | (17,967) | |
| Net income (loss) | $ 21,545 | $ (60,973) | $ (125,949) | $ (5,608) | $ (5,928) |
| **Common Stock Information:** | | | | | |
| Basic earnings (loss) per share | $ 0.81 | $ (2.31) | $ (4.77) | $ (0.21) | $ (0.22) |
| Diluted earnings (loss) per share | $ 0.81 | $ (2.31) | $ (4.77) | $ (0.21) | $ (0.22) |
| Cash dividends declared per share | $ | $ | $ | $ | $ |
| Weighted average common shares and common equivalents outstanding: | | | | | |
| Basic | 26,535 | 26,388 | 26,392 | 26,388 | 26,378 |
| Diluted | 26,704 | 26,388 | 26,392 | 26,621 | 26,378 |

| | Six Months Ended June 30 | | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (unaudited) | | | | |
| | (in thousands, except tonnage, per ton and per share amounts) | | | | |
| **Other Data:** | | | | | |
| Capital expenditures | $ 9,461 | $ 11,618 | $ 19,754 | $ 18,246 | $ 12,933 |
| Depreciation and amortization | 19,499 | 21,691 | 40,809 | 45,868 | 46,097 |
| EBITDA | 58,032 | (30,246) | (58,137) | 85,758 | 73,605 |
| EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation | $ 96,900 | $ 5,867 | $ 9,065 | $ 85,758 | $ 70,214 |
| Total tonnage sold: | | | | | |
| Oregon Steel Division | 447,200 | 364,800 | 740,700 | 947,000 | 829,700 |
| RMSM Division | 460,500 | 456,800 | 894,100 | 836,500 | 780,900 |
| Total tonnage sold | 907,700 | 821,600 | 1,634,800 | 1,783,500 | 1,610,600 |
| Revenue per ton sold | $ 588 | $ 445 | $ 442 | $ 507 | $ 485 |
| EBITDA per ton sold | $ 64 | $ (37) | $ (36) | $ 48 | $ 46 |
| EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation, per ton sold | $ 107 | $ 7 | $ 6 | $ 48 | $ 44 |
| Operating income (loss) per ton sold | $ 39 | $ (67) | $ (65) | $ 34 | $ 15 |

| | As of June 30, 2004 (in thousands) | |
|---|---|---|
| | Actual | As Adjusted(1) |
| | (unaudited) | |
| **Balance Sheet Data:** | | |
| Cash and cash equivalents | $ 52,958 | $ 163,980(2) |
| Net working capital | 178,536 | 289,558 |
| Net property, plant and equipment | 482,189 | 482,189 |
| Total assets | 823,557 | 934,579 |
| Long-term debt, including current portion | 311,550 | 311,550 |
| Total stockholders' equity | 209,118 | 320,140 |

(1) Gives effect to the sale by us of 7,500,000 shares of common stock in this offering (without giving effect to the exercise of the underwriters' over-allotment option), at the assumed public offering price of $15.64 per share and our receipt of the estimated net proceeds therefrom. See "Capitalization."

(2) Includes approximately $62.6 million (assuming the offering price will be $15.64 per share), which we intend to use to satisfy an obligation in connection with the settlement of the labor dispute with the Union. See "Use of Proceeds."

EBITDA, as used in the table above, is defined as the sum of consolidated net income (loss), consolidated depreciation and amortization expenses, consolidated interest expense, and consolidated income tax expense or benefit. This definition of EBITDA may not be the same as that of similarly named measures used by other companies or the definition used in any of our debt agreements.

We believe that EBITDA is useful to investors because it is a basis upon which we assess our financial performance, it provides useful information regarding our ability to service our debt, and because it is a commonly used financial analysis tool for measuring and comparing companies in several areas of liquidity, operating performance, and leverage. We believe EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of

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litigation is useful to investors because we believe the excluded items are nonrecurring, except for additional labor dispute settlement charges that may occur based on the market value of our shares of common stock. See "Business Labor Matters." Therefore, we believe this financial measure is more useful to investors when comparing the reported results to previous periods.

Neither of these measures is determined in accordance with generally accepted accounting principles, are unaudited and should not be considered an alternative to, or more meaningful than, net income or income from operations, as an indicator of our operating performance, or cash flows from operating activities, as a measure of liquidity.

The following table provides a reconciliation of net income (loss) to (1) EBITDA and (2) EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation:

| | Six Months Ended June 30 | | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | **2004** | **2003** | **2003** | **2002** | **2001** |
| | **(unaudited)** | | | | |
| | | | **(in thousands)** | | |
| Net income (loss) | $ 21,545 | $ (60,973) | $ (125,949) | $ (5,608) | $ (5,928) |
| Income tax provision (benefit) | (41) | (7,525) | (6,617) | 9,244 | (2,159) |
| Interest expense, net | 17,029 | 16,561 | 33,620 | 36,254 | 35,595 |
| Depreciation and amortization | 19,499 | 21,691 | 40,809 | 45,868 | 46,097 |
| EBITDA | 58,032 | (30,246) | (58,137) | 85,758 | 73,605 |
| Add back (less): | | | | | |
| Fixed and other asset impairment charges | | 36,113 | 36,113 | | |
| Labor dispute settlement charges | 38,868 | | 31,089 | | |
| Settlement of litigation | | | | | (3,391) |
| EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation | $ 96,900 | $ 5,867 | $ 9,065 | $ 85,758 | $ 70,214 |

## RISK FACTORS

*You should carefully consider the following risk factors, together with other information contained or incorporated by reference in this prospectus, in evaluating whether to invest in our shares.*

***Risks Related to Our Business***

**Until recently, the steel industry had been experiencing weak demand for products, excess capacity and low prices, and if those conditions return we could be required to reduce prices for our products and our profitability could be adversely impacted.**

In recent years, the steel industry has faced weakened demand, overcapacity and low prices for products, and these conditions caused a significant number of domestic companies in the steel industry to file for bankruptcy, including some that are substantially larger than us. Our operating results were affected in 2003 by, among other things, reduced demand and pricing for welded pipe products and increased pricing pressure in plate and coil products and higher scrap and energy costs. The specialty and commodity plate and coil markets have been impacted by both new sources of domestic supply and continued imports from foreign suppliers, which have adversely affected average selling prices for our plate products. In addition, we believe that high fixed costs motivate steel producers to maintain high output levels even in the face of falling prices, thereby increasing further downward pressures on selling prices.

Demand for steel products in Asia, a weak United States dollar, high ocean freight cost, improving conditions in the manufacturing economy, and reduced United States steel production capacity have significantly reduced worldwide oversupply and excess capacity. As a result, in 2004, we, and the domestic steel industry in general, have seen significant increases in the selling price of steel products and as a result, our net revenues and profitability have significantly increased.

However, if the domestic steel industry again experiences reduced demand, overcapacity and reduced selling prices for steel products, our ability to realize our target profit margins will be impaired and our results of operations could be materially and adversely affected.

**The inputs used to produce our products are subject to price fluctuations that could increase our costs of production and adversely affect our profitability.**

Our principal raw material for the Pueblo mill is ferrous scrap metal derived from, among other sources, junked automobiles, railroad cars and railroad track materials and demolition scrap from obsolete structures, containers, and machines. In addition, direct-reduction iron, hot-briquetted iron, and pig iron (collectively "alternate metallics") can substitute for a limited portion of the scrap used in EAF steel production, although the sources and availability of alternate metallics are substantially more limited than those of scrap. The purchase prices for scrap and alternate metallics are affected by cyclical, seasonal, and other market factors. Prices also fluctuate on the basis of factors affecting supply, such as demand from domestic and foreign steel producers, periodic shortages, freight costs, speculation by brokers, export markets, and other conditions. Most of these factors are beyond our control. The cost of scrap and alternate metallics to us can vary significantly, and our product prices often cannot be adjusted, especially in the short-term, to recover the costs of increases in scrap and alternate metallics prices. In addition, an increase in specific utility or service costs could have an adverse effect on our margins if we are unable to pass along the higher costs to our customers.

In recent years, we purchased material quantities of steel slabs on the open market for use in the production of plate and coiled plate. Due to the closure of our melt shop, we expect steel slab purchases to represent 100% of our production needs for plate and coiled plate in 2004 and into the foreseeable future. We purchase steel slabs on the spot market. While we do have ongoing procurement relationships, we do not have any long-term steel slab supply agreements. The steel slab market and pricing are subject to significant volatility, and steel slabs may not be available at reasonable prices in the future or at the times and in the quantities we need to satisfy our customers. The recent increase in demand in Asia, a weak United States dollar, and the increase in ocean freight costs have added to price volatility, and we expect this situation to remain unsettled until demand in Asia stabilizes.

**Supply limitations or delays, including as a result of trade tariffs or quotas or port closures, would constrain our production and could materially and adversely affect our sales and profitability.**

As described above, we purchase material quantities of steel slabs on the open market for use in the production of plate and coiled plate because, following the addition of the Steckel combination mill to the Portland mill in 1998, the production of steel plate and coiled plate has exceeded the steel slab production of the Portland mill. Due to the closure of our melt shop, we expect steel slab purchases to represent 100% of our production needs for plate and coiled plate in 2004 and into the foreseeable future.

The imposition of tariffs pursuant to trade laws and regulations can have an adverse impact on our business by placing tariffs and tariff-rate quotas on the import of steel slabs and raising the prices of steel slabs which we require as raw material for our production. On March 5, 2002, President Bush announced temporary measures on imports of ten categories of steel products. These measures took the form of tariffs ranging from 8 to 30 percent, as well as a tariff-rate quota on steel slab. On December 4, 2003, President Bush announced his decision to terminate the safeguard measures fifteen months before the scheduled end date of March 5, 2005, but reserved the option of introducing new measures should steel imports again surge into the United States. Since the lifting of the tariffs, the United States steel industry has seen dramatic increases in both the cost of raw materials and the selling price of most steel products. Future impositions of tariffs or quotas could limit our access to steel slabs at reasonable cost, or at all, and could consequently have a material adverse effect on our production, sales levels, operating margins, and profitability.

We purchase steel slab from a number of foreign producers. Any interruption or reduction in the supply of steel slab may make it difficult or impossible to satisfy customers' delivery requirements, which could have a material adverse effect on our results of operations. Thus far in 2004, our major suppliers of steel slab have been Ispat Mexicana S.A. de C. V. of Mexico and Companhia Siderúrgica de Tubarão, a Brazilian company. Any interruption of supply from these suppliers could have a material adverse effect on our results of operations. Most of the steel slabs we purchase are delivered by ship. Any disruption to port operations, including those caused by a labor dispute involving longshoreman or terrorism, could materially impact the supply or the cost of steel slabs, which could have a material adverse effect on our production, sales levels, and profitability.

In addition, there may be interruption or limitations in supply in the future. A disruption or curtailment in the supply of any of these or other inputs could constrain our production in general or require us to reallocate resources, thereby constraining our production of more profitable products.

**We service cyclical industries and generally do not have long-term contracts with our customers, and therefore any downturn in these industries could reduce our revenue and profitability.**

We sell many products to cyclical industries, such as the rail transportation, construction, capital equipment, oil and gas, and durable goods segments. Their demand for our products changes as a result of economic conditions, energy prices or other factors beyond our control. For example, the demand for our rail products is impacted by seasonal demand, as dictated by the major railroads' procurement schedules. Demand for oil country tubular goods, which includes seamless pipe, can be subject to seasonal factors. Overall demand for these goods also is subject to significant fluctuations due to the volatility of the oil and gas prices and North American drilling activities, as well as other factors such as competition from imports. As a result of the volatility of the industries we serve, we may have difficulty increasing or maintaining our sales and profitability if we are not able to divert sales of our products to customers in other industries when one or more of our customers' industries is experiencing a decline.

We do not have any significant ongoing contracts with customers, and orders placed with us generally are cancelable by the customer prior to production. We do have contracts ranging from one year to three years with the major railroads, but these customers may not take delivery of their projected requirements or may terminate their contract with less than 60 days' advance notice. In addition, many of our contracts may be terminated by us or the customer before delivery of the full contracted amount.

Our product mix and levels of production and sales therefore are subject to fluctuations and curtailments in the demands of our customers for our products. For example, we made the decision to shut down our seamless pipe operation from November 2001 to April 2002, from mid-August 2002 to mid-September 2002, and from mid-November 2003 to date and the Napa pipe mill in July 2004 because of weakened demand in the oil and gas sector. Changes in our product mix can materially affect our operating results due to variation in the selling prices and profit margins of products.

**Increased levels of imports could have an adverse effect on our business.**

Foreign competition historically has adversely affected product prices in the United States and the tonnage sold by domestic producers. Fluctuations in the value of the United States dollar against several other currencies substantially affect the intensity of foreign competition. Foreign governments control or subsidize many foreign steel producers. Decisions by these producers concerning production and exports may be influenced, in part, by political and social policy considerations as well as by prevailing market conditions and profit opportunities. Economic and currency dislocations in foreign markets may encourage importers to target the United States with excess capacity at aggressive prices. Moreover, existing trade laws and regulations may be inadequate to prevent unfair trade practices concerning these imports that could pose increasing problems for us and the rest of the domestic steel industry. Any such competition may have an adverse effect on our production, sales, operating margins, and profitability.

**Our substantial amount of debt could materially and adversely affect our financial health in a number of ways, including limiting our ability to obtain additional financing and reducing our ability to use cash flow for purposes other than debt payments, and prevent us from fulfilling our obligations under our outstanding debt.**

At June 30, 2004, we had $311.6 million of total debt, $823.6 million of total assets and $209.1 million of total stockholders' equity, and our total debt as a percentage of total capitalization was approximately 59.8%. All of our debt is secured by our and our subsidiaries' assets.

This debt could have material adverse consequences for you and for us, including but not limited to:

- making it more difficult for us to satisfy our obligations with respect to our outstanding debt;

- increasing our vulnerability to adverse economic and industry conditions or a downturn in our business;
- limiting our ability to obtain additional financing;
- requiring a substantial portion of our cash flow from operations to be used for debt payments and reducing our ability to use cash flow to fund working capital, capital expenditures, development projects, acquisitions, and other general corporate purposes;
- requiring us to comply with restrictive covenants and limitations;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- placing us at a disadvantage to competitors with less debt or greater resources.

If we are unable to satisfy our obligations under our debt, it could result in all of our debt becoming immediately due and payable and could permit our lenders to foreclose on our and our subsidiaries' assets securing the debt.

**We may not be able to generate sufficient cash flow to service our debt which could prevent us from fulfilling our obligations under our outstanding debt.**

We may not be able to generate sufficient cash flow to service our debt, to repay our debt when due or to meet unanticipated capital needs. We plan to service interest payments on our debt with cash from operations. Our cash from operations, however, may not be sufficient to repay the principal of our debt when due.

Our ability to generate sufficient cash flow to satisfy our obligations will depend on our future performance, which is subject to many economic, political, competitive, regulatory, and other factors that are beyond our control. In addition, we face potential costs and liabilities associated with environmental compliance and remediation issues. If cash from operations is not sufficient to satisfy our obligations, we may need to seek additional financing in the debt or equity markets, refinance our debt, sell selected assets or reduce or delay planned activities and capital expenditures. Any such financing, refinancing or sale of assets might not be available on economically favorable terms, if at all. If we cannot meet our debt service requirements an event of default would occur under our debt instruments. This could result in all of our debt becoming immediately due and payable and could permit our lenders to foreclose on our and our subsidiaries' assets securing the debt.

**We face significant competition in our principal markets, and increased competition could reduce our gross margins and net income.**

The principal markets that we serve are highly competitive. We compete with other steel manufacturers primarily on the basis of product quality, price, and responsiveness to customer needs. Many of our competitors are larger and have substantial capital resources. Consolidation of our competitors and the purchase by our competitors of assets of producers that have exited the industry has increased the size of some of our competitors. Foreign producers have had, and may in the future have, a significant impact on our ability to compete, depending upon various factors, including the level of domestic prices, global and regional steel demand, exchange rates, import restrictions, and foreign subsidies. While we are one of two established North American manufacturers of rail for the railroads, foreign suppliers compete with us in the domestic rail market. In addition, one United States steel company has announced that it plans to start shipping non-specialty rail sometime in 2004. Increased competition, especially combined with excess production capacity in some products, could force us to lower our prices or to offer increased services at a higher cost to us, which would reduce our gross margins and net income.

**Unplanned repairs or equipment outages could interrupt production and reduce income or cash flow.**

Our operations depend upon critical pieces of equipment, such as electric arc furnaces, semi-finished casters, and rolling mills that may occasionally be out of service due to routine scheduled maintenance or equipment failures. Any unplanned unavailability of critical equipment would interrupt our production capabilities and reduce our sales and profitability. Although we have not recently experienced any equipment failures that have resulted in the complete shutdown of a major portion of our production for a significant period, we have experienced unscheduled equipment outages in the past and we could have material shutdowns in the future.

**The resolution of pending environmental actions and our costs of compliance with environmental orders and regulations may materially and adversely affect our competitiveness and profitability.**

We are subject to extensive federal, state, and local environmental laws and regulations concerning, among other things, wastewater, stormwater, air emissions, toxic use reduction and hazardous materials storage, handling, and disposal. Like other similar steel mills in the industry, the Pueblo mill generates, and the Portland mill has in the past generated, hazardous waste from the melting operation of the electric arc furnaces, primarily dust containing heavy metals. We are subject to increasingly stringent environmental standards, including those relating to air emissions, waste water and stormwater discharge and hazardous materials use, storage, handling, and disposal, and will likely be required to make additional expenditures, which could be significant, relating to environmental matters on an ongoing basis. Furthermore, although we have established reserves for environmental remediation, the cost of remedial measures that might eventually be required by environmental authorities may exceed those reserves. In addition, additional environmental claims, requiring further remedial expenditures in excess of our reserves, might be asserted by environmental authorities or private parties. We also may be subject to legal proceedings brought by private parties or governmental agencies with respect to environmental matters. Expenditures related to these matters could have a material adverse effect on our business.

Expenditures or proceedings of the nature described above, or other expenditures or liabilities resulting from hazardous substances located on our property or used or generated in the conduct of our business, or resulting from circumstances, actions, proceedings or claims relating to environmental matters, may have a material adverse effect on us by reducing profitability and cash available for other uses. At June 30, 2004, our financial statements reflected total accrued liabilities of $31.0 million to cover future costs arising from environmental issues relating to our properties. Our actual future expenditures, however, for installation of and improvements to environmental control facilities, remediation of environmental conditions existing at our properties and other similar matters cannot be conclusively determined and expenditures in excess of our accrual could have a material adverse effect on our business by reducing our profitability and cash available for other uses.

We own or have owned properties and conduct or have conducted operations at properties which have been assessed as contaminated with hazardous or other controlled substances or as otherwise requiring remedial action under federal, state or local environmental laws or regulations. As a result, we are subject to several actual or potential environmental remediation obligations and potential environmental related liabilities, including the following:

- We entered into a Voluntary Clean-up Agreement with the Oregon Department of Environmental Quality ("DEQ") in May 2000 committing us to conduct a full remedial investigation of, whether and to what extent, past or present operations at the Portland mill might have affected sediment quality in the Willamette River. Based on preliminary findings, we are conducting a full remedial investigation ("RI"), including areas of investigation throughout the Portland mill, and we have committed to implement source control if required. Our best estimate for costs of the RI study is $853,000 over the next two years. Accordingly, we have accrued a liability of $853,000 as of June 30, 2004. Based on the results of the RI, the DEQ may require us to incur costs associated with additional phases of investigation, remedial action or implementation of source controls. While insurance is covering the costs of the investigation, subject to a standard reservation of rights, any additional actions we are required to take by the DEQ could cause us to incur costs either in excess of available insurance amounts or not covered by insurance, which could have a material adverse effect on our results of operations.

We, along with 68 other entities, have been identified by the United States Environmental Protection Agency ("EPA") in a general notice letter 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 us that we may be liable for costs of remedial investigation and remedial action at the site, which liability, under CERCLA, may be joint and several with other PRPs. The letter also advised us that we may be liable for natural resource damages that may be associated with any releases of contaminants, principally at the Portland mill site, for which we have liability. We have agreed, along with nine other PRPs, to fund certain investigations relating to the environmental condition of the site and to the assessment of damages to natural resources. We, along with eight of the nine other industrial and municipal parties, withdrew from the agreement, effective October 1, 2004, because of the inability to reach agreement with the trustees with respect to the assessment to be conducted. We intend to continue to work with interested parties to assess natural resource damages. In connection with these matters, we could incur costs associated with remedial action, natural resource damage, and natural resource restoration, which could have a material adverse effect on our results of operations.

In connection with the acquisition of the Pueblo mill, our subsidiary, CF&I, accrued a liability of $36.7 million for environmental remediation related to the prior owner's operations. In addition, as part of the postclosure permit requirements for hazardous waste units at the Pueblo mill, 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. At June 30, 2004, the accrued liability was $27.5 million, of which $23.8 million was classified as non-current in our consolidated balance sheet. If the cost of remediation exceeds our accrual, or if regulatory authorities decide to accelerate the corrective action program schedule, our results of operations could be materially and adversely affected.

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 New Source Performance Standards Subpart AA ("NSPS AA"). This determination was contrary to an earlier "grandfather" determination first made in 1996 by the Colorado Department of Public Health and Environment ("CDPHE"). CF&I appealed the EPA determination in the federal Tenth Circuit Court of Appeals. The issue has been resolved by entry of a Consent Decree on November 26, 2003, and the Tenth Circuit dismissed the appeal on December 10, 2003. In that Consent Decree and overlapping with the commitments made to the CDPHE, CF&I committed to the conversion to the new furnace (to be completed approximately 21 months after permit approval and expected to cost, with all related emission control improvements, approximately $25.0 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 additional pollution control equipment at the Pueblo mill. Under this settlement, and a related settlement with the

CDPHE, we are subject to certain stipulated penalties if we fail to comply. In March 2004, the CDPHE notified CF&I of alleged violations of the state consent decree relating to opacity. In June 2004, the CDPHE assessed stipulated penalties of $270,000. On July 26, 2004, CF&I sought judicial review of the determination. At this time, no date for a hearing has been set. In addition to these assessed penalties, we may in the future incur additional penalties related to these matters. Such penalties may materially and adversely affect our results of operations and cash flows.

**Approximately 795 of our employees belong to unions; any labor disruptions, work stoppages or significant negotiated wage increases could reduce our sales or increase our costs, and accordingly could have an adverse effect on our business.**

Most of the employees at our Pueblo mill and our Camrose pipe mill belong to unions. Accordingly, CF&I and Camrose Pipe Company, our 60%-owned subsidiary, negotiate collective bargaining agreements with these unions. Any failure to reach agreement on new labor agreements when required might result in a work stoppage that could, depending upon the operations affected and the length of the work stoppage, have a material adverse effect on our operations. In addition, a contract may be renegotiated with significant increases in wages or other adverse economic terms, which would increase our costs and could reduce our profitability. Moreover, as part of the 2004 settlement with the Union, we will remain neutral, that is, we will not in any way, directly or indirectly, involve ourselves in any matter which involves the unionization of production and maintenance employees, starting on January 1, 2005 for the Portland mill and January 1, 2006 for the Napa pipe mill and CST. Our unionized employees consist primarily of hourly production workers.

**We may be unable to satisfy regulatory requirements relating to internal controls over financial reporting.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and report on our internal controls over financial reporting and have our auditor attest to such evaluation. We have prepared an internal plan of action for compliance and we are in the process of documenting and testing our system of internal controls to provide the basis for our report. Due to ongoing evaluation and testing of our internal controls and the uncertainties of the interpretation of these new requirements, we cannot assure you that there may not be significant deficiencies or material weaknesses that would be required to be reported.

**Senior management may be difficult to replace if they leave.**

The loss of the services of one or more members of our senior management team or the inability to attract, retain and maintain additional senior management personnel could harm our business, financial condition, results of operations and future prospects. Our operations and prospects depend in large part on the performance of our senior management team, including our chief executive officer and president, James E. Declusin, our chief financial officer, L. Ray Adams, and the other members of the senior management team. We may not be able to find qualified replacements for any of these individuals if their services are no longer available. We do not have key man insurance on any executive.

*Risks Relating to Our Common Stock*

**Certain provisions of our charter documents, Delaware law, and our stockholder rights plan could discourage potential acquisition proposals and could delay, defer or prevent a change in control of our company that our stockholders consider favorable and could depress the market value of our common stock.**

Certain provisions of our certificate of incorporation and bylaws, provisions of the Delaware General Corporation Law, as well as our stockholder rights plan, could have the effect of deterring takeovers or delaying, deferring or preventing changes in control or management of our company that our stockholders consider favorable and could depress the market value of our common stock.

Our certificate of incorporation and bylaws provide for a classified board, that directors can only be removed for cause, and require advance notice of certain stockholder proposals and director nominations. These provisions may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the stockholder's shares.

We are a Delaware corporation subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Generally, this statute prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which such person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the stockholder. We anticipate that the provisions of Section 203 may encourage parties interested in acquiring us to negotiate in advance with our board of directors because the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder.

In addition, we have adopted a stockholder rights plan. The rights plan is designed to protect our stockholders in the event of unsolicited offers to acquire us and other coercive takeover tactics, which, in our board of directors' opinion, would impair its ability to represent our stockholders' interests. The rights plan may make an unsolicited takeover more difficult or less likely to occur or may prevent a takeover, even though a takeover may offer our stockholders the opportunity to sell their stock at a price above the prevailing market rate and may be favored by a majority of our stockholders.

**Future sales of our common stock could depress our market price and diminish the value of your investment.**

Future sales of shares of our common stock could adversely affect the prevailing market price of our common stock. If one of our existing stockholders sells a large number of shares, or if we issue a large number of shares, the market price of our common stock could significantly decline. Moreover, the perception in the public market that a stockholder might sell shares of common stock could depress the market for our common stock.

Although, we, our officers, and our directors have entered into lock-up agreements with CIBC World Markets Corp. and UBS Securities LLC, as representatives of the underwriters, whereby we and they will not offer, sell, contract to sell, pledge, grant or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for shares of our common stock, except for the shares of common stock to be sold in this offering and certain other exceptions, for a period of 90 days from the date of this prospectus, without the prior written consent of CIBC World Markets Corp. and UBS Securities LLC, we or any of these persons may be released from this obligation, in whole or in part, by CIBC World Markets Corp. and UBS Securities LLC in their sole discretion at any time with or without notice.

**The price of our common stock may fluctuate substantially.**

The market price of our common stock is likely to be highly volatile and may fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- variance in our financial performance from the expectations of market analysts;
- conditions and trends in the end markets we serve and changes in the estimation of the size and growth rate of these markets;
- announcements of significant contracts by us or our competitors;
- loss of one or more of our significant customers;
- legislation;
- changes in market valuation or earnings of our competitors;
- trading volume of our common stock; and
- general economic conditions.

In addition, the stock market in general, and the New York Stock Exchange and the market for steel companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies affected. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

**We currently do not intend to pay dividends on our common stock and, consequently, your best opportunity to achieve a return on your investment is if the price of our common stock appreciates.**

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. Further, the payment of dividends by us is restricted by the indenture governing our 10% First Mortgage Notes due 2009 and by our credit facility. Consequently, your best opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you sell your shares at a profit.

## FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements," as defined by federal securities laws, with respect to our financial condition, results of operations and business, and our expectations or beliefs concerning future events. Statements made in this prospectus that are not statements of historical fact are forward-looking statements. In addition, from time to time, we and our representatives may make statements that are forward-looking. This section provides you with cautionary statements identifying important factors that could cause our actual results to differ materially from those contained in forward-looking statements made in this prospectus or otherwise made by us or on our behalf. You can identify these forward-looking statements by forward-looking words such as, but not limited to, "expect," "anticipate," "believe," "intend," "plan," "seek," "forecast," "estimate," "continue," "may," "will," "would," "could," "likely," and similar expressions.

All forward-looking statements involve risks and uncertainties. Many risks and uncertainties are inherent in the steel industry. Others are more specific to our operations. The occurrence of any of the events described, and the achievement of the expected results, depend on many events, some or all of which are not predictable or within our control. Because of such risks, uncertainties and assumptions, actual results may differ materially from expected results, and the forward-looking events described in the forward-looking statements may not occur. The following are some of the factors that could cause actual results to differ from our expectations:

- changes in market supply and demand for steel, including the effect of changes in general economic conditions and imports;
- changes in the availability and costs of steel scrap, steel scrap substitute materials, steel slab and billets and other raw materials or supplies used by us, as well as the availability and cost of electricity and other utilities;
- downturns in the industries we serve, including the rail transportation, construction, capital equipment, oil and gas, and durable goods segments;
- increased levels of steel imports;
- our substantial indebtedness, debt service requirements, and liquidity constraints;
- our highly leveraged capital structure and the effect of restrictive covenants in our debt instruments on our operating and financial flexibility;
- availability and adequacy of our cash flow to meet our requirements;
- actions by our domestic and foreign competitors;
- unplanned equipment failures and plant outages;
- costs of environmental compliance and the impact of governmental regulations;
- risks related to pending environmental matters, including the risk that costs associated with such matters may exceed our expectations or available insurance coverage, if any, and the risk that we may not be able to resolve any matter as expected;
- risks relating to our relationship with our current unionized employees and the possibility of future unionization at our Portland mill;
- changes in our relationship with our workforce;

- inability to satisfy regulatory requirements relating to internal controls over financial reporting;

- changes in United States or foreign trade policies affecting steel imports or exports; and

- other factors disclosed under "Risk Factors" in this prospectus and that may be disclosed from time to time in our SEC filings or otherwise.

All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We caution you that any forward-looking statement reflects only our belief at the time the statement is made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made.

## USE OF PROCEEDS

We estimate that the net proceeds from the sale of the shares of common stock we are offering will be approximately $111.0 million ($127.7 million if the underwriters fully exercise the over-allotment option). "Net proceeds" is what we expect to receive after paying the underwriting discount and other expenses of the offering. For the purpose of estimating net proceeds, we are assuming that the public offering price will be $15.64 per share (the closing sale price of our common stock on September 17, 2004).

We intend to use (1) approximately $62.6 million (assuming the offering price will be $15.64 per share) of the net proceeds to satisfy an obligation in connection with the settlement of the labor dispute with the Union and (2) approximately $35 million of the net proceeds to construct a spiral weld pipe mill at our Portland mill. We will use the remaining net proceeds for general corporate purposes, which may include capital expenditures, including completion of the conversion to the new furnace at the Pueblo mill, possible acquisitions of businesses, technologies, products or assets complementary to our business, funding of working capital, enhancement of liquidity, or reduction of debt. Although we currently have no commitments or agreements to make any additional material acquisitions, we may make acquisitions in the future. Pending our use of any excess proceeds, we intend to invest such excess proceeds of this offering in short-term, interest-bearing investment-grade or government securities.

## CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2004:

- on an actual basis; and
- as adjusted to give effect to the sale by us of 7,500,000 shares of our common stock in this offering and our receipt of the estimated net proceeds therefrom.

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

| | As of June 30, 2004 | |
|---|---|---|
| | Actual | As Adjusted(3) |
| | (in thousands) | |
| Cash and cash equivalents | $ 52,958 | $ 163,980(4) |
| Long-term debt (including current portion): | | |
| 10% First Mortgage Notes due 2009 | $ 305,000 | $ 305,000 |
| Less unamortized discount on 10% First Mortgage Notes due 2009 | (2,950) | (2,950) |
| Oregon Feralloy Partners Term Loan(1) | 9,500 | 9,500 |
| Total long-term debt (including current portion) | 311,550 | 311,550 |
| Stockholders' equity: | | |
| Preferred stock, par value $0.01 per share; 1,000 shares authorized; none issued | | |
| Common stock, $0.01 par value, 45,000 shares authorized, 26,656 shares issued and outstanding; 34,156 shares issued and outstanding as adjusted(2) | 266 | 341 |
| Additional paid-in capital | 228,747 | 339,694 |
| Accumulated deficit | (4,794) | (4,794) |
| Accumulated other comprehensive income (deficit) | (15,101) | (15,101) |
| Total stockholders' equity | 209,118 | 320,140 |
| Total capitalization | $ 520,668 | $ 631,690 |

(1) Includes current portion of $2.0 million.

(2) Excludes (i) an aggregate of 612,718 shares subject to outstanding options under our 2000 Nonqualified Stock Option Plan of as of June 30, 2004 at a weighted average exercise price of $2.29 per share and (ii) an aggregate of 58,750 shares subject to outstanding options under our 2002 Non-Employee Director Stock Option Plan as of June 30, 2004 at a weighted average exercise price of $4.17 per share.

(3) Does not give effect to the exercise of the underwriters' over-allotment option.

(4) Includes approximately $62.6 million (assuming the offering price will be $15.64 per share), which we intend to use to satisfy an obligation in connection with the settlement of the labor dispute with the Union. See "Use of Proceeds."

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## PRICE RANGE OF COMMON STOCK

Our common stock trades on the New York Stock Exchange under the symbol "OS." The following table shows, for the quarterly periods indicated, the high and low prices for the common stock as reported on the New York Stock Exchange.

| | Stock Price | |
|---|---|---|
| | **High** | **Low** |
| **Year ended December 31, 2002** | | |
| First Quarter | $ 7.60 | $ 4.70 |
| Second Quarter | 8.13 | 5.00 |
| Third Quarter | 7.46 | 5.62 |
| Fourth Quarter | 6.50 | 3.81 |
| **Year ended December 31, 2003** | | |
| First Quarter | $ 4.07 | $ 2.08 |
| Second Quarter | 3.50 | 2.11 |
| Third Quarter | 3.55 | 2.53 |
| Fourth Quarter | 6.02 | 2.95 |
| **Year ended December 31, 2004** | | |
| First Quarter | $ 7.56 | $ 4.84 |
| Second Quarter | 14.74 | 6.74 |
| Third Quarter (through September 17, 2004) | 17.76 | 12.32 |

On September 17, 2004, the closing price of our common stock on the New York Stock Exchange was $15.64 per share. As of June 30, 2004, there were 1,010 holders of record of our common stock.

## DIVIDEND POLICY

We have not declared cash dividends on our common stock since the third quarter of 2000. The indenture under which our 10% First Mortgage Notes due 2009 were issued contains restrictions on new indebtedness and various types of disbursements, including common stock dividends. One of the restrictions on cash dividends is based on the cumulative amount of our consolidated net income, as defined. Under that restriction, there was no amount available for cash dividends at June 30, 2004. In addition, our revolving credit facility does not allow us to pay cash dividends without the approval from the lenders. See Note 5 to the Consolidated Financial Statements as of June 30, 2004 and "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

## SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents our selected consolidated financial data as of the end of and for each year in the five-year period ended December 31, 2003, which have been derived from our consolidated financial statements that have been audited by KPMG LLP as of and for the year ended December 31, 2003 and PricewaterhouseCoopers LLP as of December 31, 2002 and for each of the four years in the period then ended. The table also presents our summary consolidated financial data for the six months ended June 30, 2004 and 2003, which are derived from our unaudited condensed consolidated financial statements which, in our opinion, reflect all adjustments necessary for a fair presentation. The consolidated balance sheets as of December 31, 2003 and 2002 and June 30, 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years ended December 31, 2003 and the six months ended June 30, 2004 and 2003 and the notes thereto appear elsewhere in this prospectus. Results for the six months ended June 30, 2004 are not necessarily indicative of results for the full year. The selected consolidated financial data presented below should be read in conjunction with, and are qualified in their entirety by, "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the notes thereto and other financial information included elsewhere in this prospectus.

| | **Six Months Ended June 30** | | **Year Ended December 31** | | | | |
|---|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2003** | **2002** | **2001** | **2000** | **1999** |
| | **(unaudited)** | | | | | | |
| | **(in thousands, except tonnage, per ton and per share amounts)** | | | | | | |
| **Income Statement Data:** | | | | | | | |
| Sales | $ 534,165 | $ 365,576 | $ 723,297 | $ 904,950 | $ 780,887 | $ 672,017 | $ 884,649 |
| Cost of sales | 427,372 | 359,607 | 713,601 | 783,940 | 694,941 | 619,016 | 756,461 |
| Fixed and other asset impairment charges | | 36,113 | 36,113 | | | | |
| Labor dispute settlement charges | 38,868 | | 31,089 | | | | |
| Selling, general and administrative expenses | 27,683 | 24,925 | 50,477 | 58,600 | 64,300 | 51,486 | 55,992 |
| Settlement of litigation | | | | | (3,391) | | (7,027) |
| Loss (gain) on sale of assets | (293) | (274) | (1,835) | (1,283) | (10) | (290) | 501 |
| Incentive compensation | 5,088 | 339 | 354 | 3,761 | 244 | 698 | 10,540 |
| Operating income (loss) | 35,447 | (55,134) | (106,502) | 59,932 | 24,803 | 1,107 | 68,182 |
| Interest expense | (17,029) | (16,561) | (33,620) | (36,254) | (35,595) | (34,936) | (35,027) |
| Minority interests | 1,614 | 2,462 | 6,108 | (3,036) | (339) | (7) | (1,475) |
| Other income, net | 1,472 | 735 | 1,448 | 961 | 3,044 | 4,355 | 1,290 |
| Income (loss) before tax | 21,504 | (68,498) | (132,566) | 21,603 | (8,087) | (29,481) | 32,970 |
| Income tax benefit (expense) | 41 | 7,525 | 6,617 | (9,244) | 2,159 | 11,216 | (13,056) |
| Net income (loss) before cumulative effect of change in accounting principle | 21,545 | (60,973) | (125,949) | 12,359 | (5,928) | (18,265) | 19,914 |
| Cumulative effect of change in accounting principle, net of tax | | | | (17,967) | | | |
| Net income (loss) | $ 21,545 | $ (60,973) | $ (125,949) | $ (5,608) | $ (5,928) | $ (18,265) | $ 19,914 |
| **Common Stock Information:** | | | | | | | |

| | Six Months Ended June 30 | | Year Ended December 31 | | | | |
|---|---|---|---|---|---|---|---|
| Basic earnings (loss) per share | $ 0.81 | $ (2.31) | $ (4.77) | $ (0.21) | $ (0.22) | $ (0.69) | $ 0.76 |
| Diluted earnings (loss) per share | $ 0.81 | $ (2.31) | $ (4.77) | $ (0.21) | $ (0.22) | $ (0.69) | $ 0.76 |
| Cash dividends declared per share | $ | $ | $ | $ | $ | $ 0.06 | $ 0.56 |
| Weighted average common shares and common equivalents outstanding: | | | | | | | |
| Basic | 26,535 | 26,388 | 26,392 | 26,388 | 26,378 | 26,375 | 26,375 |
| Diluted | 26,704 | 26,388 | 26,392 | 26,621 | 26,378 | 26,375 | 26,375 |

| | Six Months Ended June 30 | | Year Ended December 31 | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (unaudited) | | | | | | |
| | (in thousands, except tonnage, per ton and per share amounts) | | | | | | |
| **Other Data:** | | | | | | | |
| Capital expenditures | $ 9,461 | $ 11,618 | $ 19,754 | $ 18,246 | $ 12,933 | $ 16,684 | $ 15,908 |
| Depreciation and amortization | 19,499 | 21,691 | 40,809 | 45,868 | 46,097 | 46,506 | 47,411 |
| EBITDA | 58,032 | (30,246) | (58,137) | 85,758 | 73,605 | 51,961 | 115,408 |
| EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation | $ 96,900 | $ 5,867 | $ 9,065 | $ 85,758 | $ 70,214 | $ 51,961 | $ 108,381 |
| Total tonnage sold: | | | | | | | |
| Oregon Steel Division | 447,200 | 364,800 | 740,700 | 947,000 | 829,700 | 871,500 | 969,800 |
| RMSM Division | 460,500 | 456,800 | 894,100 | 836,500 | 780,900 | 757,000 | 734,900 |
| Total tonnage sold | 907,700 | 821,600 | 1,634,800 | 1,783,500 | 1,610,600 | 1,628,500 | 1,704,700 |
| Revenue per ton sold | $ 588 | $ 445 | $ 442 | $ 507 | $ 485 | $ 413 | $ 519 |
| EBITDA per ton sold | $ 64 | $ (37) | $ (36) | $ 48 | $ 46 | $ 32 | $ 68 |
| EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation, per ton sold | $ 107 | $ 7 | $ 6 | $ 48 | $ 44 | $ 32 | $ 64 |
| Operating income (loss) per ton sold | $ 39 | $ (67) | $ (65) | $ 34 | $ 15 | $ 1 | $ 40 |
| | As of June 30, 2004 | | | | | | |
| **Balance Sheet Data (at end of period):** | Actual | As Adjusted(1) | | | | | |
| Cash and cash equivalents | $ 52,958 | $ 163,980(2) | $ 5,770 | $ 28,008 | $ 12,278 | $ 3,370 | $ 9,270 |
| Net working capital | 178,536 | 289,558 | 126,727 | 171,521 | 62,145 | 108,753 | 101,177 |
| Net property, plant and equipment | 482,189 | 482,189 | 477,581 | 523,378 | 551,054 | 583,875 | 613,363 |
| Total assets | 823,557 | 934,579 | 763,978 | 844,320 | 869,576 | 880,354 | 877,254 |
| Long-term debt, including current portion | 311,550 | 311,550 | 301,832 | 301,428 | 243,006 | 322,981 | 306,190 |
| | 209,118 | 320,140 | 187,252 | 306,990 | 318,586 | 331,645 | 352,402 |

| | Six Months Ended June 30 | Year Ended December 31 |
|---|---|---|
| Total stockholders' equity | | |

(1) Gives effect to the sale by us of 7,500,000 shares of common stock in this offering (without giving effect to the exercise of the underwriters' over-allotment option), at the assumed public offering price of $15.64 per share and our receipt of the estimated net proceeds therefrom. See "Capitalization."

(2) Includes approximately $62.6 million (assuming the offering price will be $15.64 per share), which we intend to use to satisfy an obligation in connection with the settlement of the labor dispute with the Union. See "Use of Proceeds."

EBITDA, as used in the table above, is defined as the sum of consolidated net income (loss), consolidated depreciation and amortization expenses, consolidated interest expense, and consolidated income tax expense or benefit. This definition of EBITDA may not be the same as that of similarly named measures used by other companies or the definition used in any of our debt agreements.

We believe that EBITDA is useful to investors because it is a basis upon which we assess our financial performance, it provides useful information regarding our ability to service our debt, and because it is a commonly used financial analysis tool for measuring and comparing companies in several areas of liquidity, operating performance, and leverage. We believe EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation is useful to investors because we believe the excluded items are nonrecurring, except for additional labor dispute settlement charges that may occur based on the market value of our shares of common stock. See "Business  Labor Matters." Therefore, we believe this financial measure is more useful to investors when comparing the reported results to previous periods.

Neither of these measures is determined in accordance with generally accepted accounting principles, are unaudited and should not be considered an alternative to, or more meaningful than, net income or income from operations, as an indicator of our operating performance, or cash flows from operating activities, as a measure of liquidity.

The following table provides a reconciliation of net income (loss) to (1) EBITDA and (2) EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation:

| | Six Months Ended June 30 | | Year Ended December 31 | | | | |
|---|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2003** | **2002** | **2001** | **2000** | **1999** |
| | (unaudited) | | | | | | |
| | | | (in thousands) | | | | |
| Net income (loss) | $ 21,545 | $ (60,973) | $ (125,949) | $ (5,608) | $ (5,928) | $ (18,265) | $ 19,914 |
| Income tax provision (benefit) | (41) | (7,525) | (6,617) | 9,244 | (2,159) | (11,216) | 13,056 |
| Interest expense, net | 17,029 | 16,561 | 33,620 | 36,254 | 35,595 | 34,936 | 35,027 |
| Depreciation and amortization | 19,499 | 21,691 | 40,809 | 45,868 | 46,097 | 46,506 | 47,411 |
| EBITDA | 58,032 | (30,246) | (58,137) | 85,758 | 73,605 | 51,961 | 115,408 |
| Add back (less): | | | | | | | |
| Fixed and other asset impairment charges | | 36,113 | 36,113 | | | | |
| Labor dispute settlement charges | 38,868 | | 31,089 | | | | |
| Settlement of litigation | | | | | (3,391) | | (7,027) |
| EBITDA excluding effects of fixed and other asset impairment charges, labor dispute settlement charges, and settlement of litigation | $ 96,900 | $ 5,867 | $ 9,065 | $ 85,758 | $ 70,214 | $ 51,961 | $ 108,381 |

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

**Overview**

The consolidated financial statements include our and our subsidiaries' accounts, which include wholly owned Camrose Pipe Corporation, which does business as Columbia Structural Tubing and through ownership in another corporation holds a 60 percent interest in Camrose Pipe Company ("Camrose"); a 60 percent interest in Oregon Feralloy Partners ("OFP"); and 87 percent owned New CF&I, Inc. ("New CF&I"), which owns a 95.2 percent interest in CF&I. Oregon Steel Mills, Inc. also directly owns an additional 4.3 percent interest in CF&I. In January 1998, CF&I assumed the trade name Rocky Mountain Steel Mills. New CF&I owns a 100 percent interest in the Colorado and Wyoming Railway Company. All significant inter-company balances and transactions have been eliminated.

We currently have two aggregated operating divisions known as the Oregon Steel Division and the RMSM Division. The Oregon Steel Division is centered at the steel plate mill in Portland, Oregon, which supplies steel for our steel plate, structural tubing, and welded pipe finishing facilities. The Oregon Steel Division's steel pipe mill in Napa, California is a large diameter steel pipe mill and fabrication facility. The Oregon Steel Division also produces large diameter pipe and ERW pipe at Camrose. In October 2003, the Oregon Steel Division began production of structural tubing at its Columbia Structural Tubing facility. The RMSM Division consists of the steelmaking and finishing facilities of the Pueblo mill, as well as certain related operations.

In June 2004, we announced the indefinite idling of our Napa pipe mill. Our determination to idle the Napa pipe mill was based on (1) our ability to improve operating margins by directing production from the Portland mill to support our plate and coil customers, our structural tubing operation, and our Canadian line pipe business instead of the Napa pipe mill, (2) our assessment that our large diameter pipe business can be more effectively produced at our Camrose pipe mill, and (3) our ability to restart the Napa pipe mill should market conditions change.

On January 15, 2004, we announced a tentative agreement to settle the labor dispute between the Union and CF&I. We recorded a charge of $31.1 million in the fourth quarter of 2003, an additional charge of $7.0 million in the first quarter of 2004, and an additional charge of $31.9 million in the second quarter of 2004 related to the tentative settlement. The agreement was finalized in September 2004. See "  Discussion and Analysis of Income  Labor Dispute Settlement Charges" for a discussion of the accounting for the agreement.

In May 2003, we shut down our Portland mill melt shop. Our determination to close the melt shop was based on (1) our ability to obtain steel slab through purchases from suppliers on the open market, and (2) high energy and raw material costs and the yield losses associated with the inefficient casting technology in use at the Portland mill. We forecast that future steel slab purchases for the Portland mill will meet the production needs of the Portland mill finishing operation for the remainder of 2004 and into the foreseeable future. We intend to maintain the melt shop in operating condition but we are also exploring other alternatives and have contracted with a third party to market the melt shop equipment to suitable buyers. Associated with the operations of the melt shop is an oxygen purchase contract which cannot be used in current operations and therefore does not provide a current benefit to us unless we decide to restart the melt shop. See Note 12 to the Consolidated Financial Statements as of June 30, 2004. In the future if we determine to not reopen the melt shop, or terminate the associated oxygen purchase contract, we will incur an expense for contract termination costs. We estimate the cancellation and buyout costs could range from $3.0 million to $5.5 million, depending on negotiation of a settlement. None of the future costs of the contract have been accrued as of June 30, 2004, in accordance with SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*" as we have not effectively ceased our rights under the contract. In addition, CF&I determined in the second quarter of 2003 that the new single furnace operation will not have the capacity to support a two caster operation and therefore CF&I has determined that one caster and other related assets have no future service potential. We recorded a pre-tax charge to earnings of approximately $36.1 million in the second quarter of 2003 related to the melt shop and caster and other related asset impairments. See Note 12 to the Consolidated Financial Statements as of June 30, 2004.

On December 4, 2003, President Bush lifted the tariffs on imports of steel that were imposed March 5, 2002. The tariffs were designed to give the United States steel industry time to restructure and become competitive in the global steel market. During the time that the tariffs were in effect, we believe that the tariffs did not materially impact either the supply of, or the cost of, steel slabs purchased by us on the open market for processing into steel plate and coil. Since the lifting of the tariffs, the steel industry has seen a dramatic increase in both the cost of raw materials and the selling price of most steel products. We believe that current market conditions are the result of the combination of strong steel demand in Asia, a weak United States dollar, and an increase in ocean freight costs. We anticipate that market conditions will remain unsettled into the foreseeable future. During this period of time, we believe that we will continue to incur increased costs for steel scrap, steel slabs, and ocean freight, and achieve increased selling prices to offset these higher costs.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The preparation of these financial statements requires us 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, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe 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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Employee Benefits Plans and Other Post-retirement Benefits.* Annual pension and other post-retirement benefits ("OPRB") expenses are calculated by third party actuaries using standard actuarial methodologies. The actuaries assist us in making estimates based on both historical and current information and estimates about future events and circumstances. Significant assumptions used in the valuation of pension and OPRB include expected return on plan assets, discount rate, rate of increase in compensation levels, and the health care cost trend rate. We account for the defined benefit pension plans using Statement of Financial Accounting Standards No. 87, "*Employer's Accounting for Pensions.*" As a result of continuing declines in interest rates being offset by favorable investment returns of our defined benefit pension plans' assets, we reduced the minimum pension liability at December 31, 2003 by $0.8 million after tax effect. This adjustment did not impact current earnings. For further details regarding our benefits and post-retirement plans, see Note 11 to the Consolidated Financial Statements as of December 31, 2003 and Note 8 to the Consolidated Financial Statements as of June 30, 2004.

*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 we have established certain reserves for environmental remediation, environmental authorities may require additional remedial measures, and additional environmental hazards, necessitating further remedial expenditures, may be asserted by these authorities or by private parties. Accordingly, the costs of remedial measures may exceed the amounts reserved.

*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.

*Allowance for Doubtful Accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. As of June 30, 2004, the allowance of doubtful accounts was approximately $4.5 million. In establishing a proper allowance for doubtful accounts, we evaluate the collectibility of our accounts receivable based on a combination of factors. In cases where our management is aware of the circumstances that may impair a specific customer's ability to meet its financial obligations, we record a specific allowance against amounts due from customers, and thereby reduce the net recognized receivable amount we reasonably believe will be collected. For all other customers, we evaluate the allowance for doubtful accounts based on the length of time the receivables are past due, historical collection experience, customer credit-worthiness and economic trends.

*Long-Lived Asset Impairments.* Long-lived asset impairments are recognized when the carrying value of those productive assets exceeds their aggregate projected undiscounted cash flows. These undiscounted cash flows are based on our long range estimates of market conditions, with due consideration to historical, cyclical, operating cash flows, and the overall performance associated with the individual asset. If future demand and market conditions are less favorable than those projected by us, or if the probability of disposition of the assets differs from that previously estimated by us, additional asset write-downs may be required.

**Operations**

The following table sets forth, for the periods indicated, the percentage of sales represented by selected income statement items.

| | Six Months Ended June 30 | | Year Ended December 31 | | |
|---|---|---|---|---|---|
| **Income Statement Data:** | **2004** | **2003** | **2003** | **2002** | **2001** |
| Sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 80.0 | 98.4 | 98.7 | 86.6 | 89.0 |
| Fixed and other asset impairment charges | | 9.9 | 5.0 | | |
| Labor dispute settlement charges | 7.3 | | 4.3 | | |
| Selling, general and administrative expenses | 5.2 | 6.8 | 7.0 | 6.5 | 8.2 |
| Settlement of litigation | | | | | (0.4) |
| Gain on sale of assets | (0.1) | (0.1) | (0.3) | (0.1) | |
| Incentive compensation | 1.0 | 0.1 | | 0.4 | |
| Operating income (loss) | 6.6 | (15.1) | (14.7) | 6.6 | 3.2 |
| Interest expense | (3.2) | (4.5) | (4.6) | (4.0) | (4.6) |
| Minority interests | 0.3 | 0.7 | 0.8 | (0.3) | (0.1) |
| Other income, net | 0.3 | 0.2 | 0.2 | 0.1 | 0.4 |
| Pretax income (loss) | 4.0 | (18.7) | (18.3) | 2.4 | (1.1) |
| Income tax benefit (expense) | 0.0 | 2.1 | 0.9 | (1.0) | 0.3 |
| Net income (loss) before cumulative effect of change in accounting principle | 4.0 | (16.6) | (17.4) | 1.4 | (0.8) |
| Cumulative effect of change in accounting principle, net of tax | | | | (2.0) | |
| Net income (loss) | 4.0% | (16.6)% | (17.4)% | (0.6)% | (0.8)% |

The following table sets forth by division, for the periods indicated, tonnage sold, revenues, and average selling price per ton.

| | Six Months Ended June 30 | | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| **Total tonnage sold:** | | | | | |
| Oregon Steel Division: | | | | | |
| Plate and Coil | 309,700 | 234,600 | 501,300 | 467,600 | 472,000 |
| Welded Pipe | 108,200 | 130,200 | 237,800 | 479,400 | 357,700 |
| Structural Tubing(1) | 28,900 | | 1,600 | | |
| Steel Slabs | 400 | | | | |
| Total Oregon Steel Division | 447,200 | 364,800 | 740,700 | 947,000 | 829,700 |
| RMSM Division: | | | | | |
| Rail | 193,900 | 199,700 | 360,400 | 384,100 | 246,000 |
| Rod and Bar | 263,300 | 232,900 | 482,400 | 419,700 | 432,500 |
| Seamless Pipe(2) | 3,300 | 24,200 | 51,300 | 30,000 | 97,700 |
| Semi-finished | | | | 2,700 | 4,700 |
| Total RMSM Division | 460,500 | 456,800 | 894,100 | 836,500 | 780,900 |
| Total Company | 907,700 | 821,600 | 1,634,800 | 1,783,500 | 1,610,600 |
| **Product sales (in thousands):(3)** | | | | | |
| Oregon Steel Division | $ 287,875 | $ 175,808 | $ 343,755 | $ 535,049 | $ 414,994 |
| RMSM Division | 223,871 | 170,343 | 340,658 | 315,448 | 291,993 |
| Total Company | $ 511,746 | $ 346,151 | $ 684,413 | $ 850,497 | $ 706,987 |
| **Average selling price per ton:(3)** | | | | | |
| Oregon Steel Division | $ 644 | $ 482 | $ 464 | $ 565 | $ 500 |
| RMSM Division | 486 | 373 | 381 | 377 | 374 |
| Company Average | $ 564 | $ 421 | $ 419 | $ 477 | $ 439 |

(1) We began operations at the structural tubing facility in October 2003.

(2) We suspended operation of the seamless pipe mill from November 2001 to April 2002, from mid-August 2002 to mid-September 2002, and from mid-November 2003 to date.

(3) Product sales and average selling price per ton exclude freight revenues of $22.4 million and $19.4 million in the first six months of 2004 and 2003, respectively, and $38.9 million, $54.5 million, and $54.8 million in 2003, 2002, and 2001, respectively, and sale of electricity of $19.1 million in 2001. During 2001, the Portland mill was the beneficiary of a committed power supply contract with a local utility company. Under the contract the utility guaranteed to supply an amount of electricity to the mill at a fixed rate. During the west coast electricity shortage in 2001, we agreed not to use a daily determined portion of the guaranteed supply and was compensated by the local utility at a daily-determined rate per megawatt/hour. The revenue from this was included in operating income because we made an operational choice to not use power in return for compensation rather than to produce product. There was no direct cost of sales associated with this transaction and, accordingly, the net revenue (compensation in excess of contracted price) fully impacted operating income for the period.

Our operating results were affected in 2003 by, among other things, reduced demand and pricing for welded pipe products and increased pricing pressure in plate and coil products and higher scrap and energy costs. The specialty and commodity plate markets were impacted by both new sources of domestic supply and continued imports from foreign suppliers, which adversely affected average selling prices for our plate products. In addition, we believe that high fixed costs motivate steel producers to maintain high output levels even in the face of falling prices, thereby increasing further downward pressures on selling prices. Operating income was further reduced by the recognition of impairment to fixed assets and by the charge for the tentative settlement of the labor dispute. The domestic steel industry and our business are highly cyclical in nature and these factors adversely affected our profitability in 2003.

Our operating results in the first and second quarters of 2004 were affected by strong demand for our plate, coil, and rod and bar products, resulting in our ability to raise steel prices throughout the quarter on these products. Our improved operating performance was primarily accomplished by our ability to successfully manage steel price increases which more than offset high costs for steel slab and steel scrap experienced during the first and second quarters of 2004.

**Discussion and Analysis of Income**

*(Information in tables in thousands except tons, per ton, and percentages)*

***Comparison of First and Second Quarters of 2004 to First and Second Quarters of 2003***

During the second quarter of 2004, tons sold of 431,000 tons were up 2 percent from the second quarter of 2003. Sales were $281.8 million for the second quarter of 2004, the highest level per quarter in our history and up 48 percent from the second quarter of 2003.

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| *Sales* | | | | | | | | |
| Oregon Steel Division | $ 156,433 | $ 104,496 | $ 51,937 | 49.7% | $ 302,059 | $ 187,622 | $ 114,437 | 61.0% |
| RMSM Division | 125,336 | 85,398 | 39,938 | 46.8% | 232,106 | 177,954 | 54,152 | 30.4% |
| Consolidated | $ 281,769 | $ 189,894 | $ 91,875 | 48.4% | $ 534,165 | $ 365,576 | $ 168,589 | 46.1% |
| *Tons sold* | | | | | | | | |
| Oregon Steel Division: | | | | | | | | |
| Plate and Coil | 135,900 | 125,900 | 10,000 | 7.9% | 309,700 | 234,600 | 75,100 | 32.0% |
| Welded Pipe | 49,400 | 79,000 | (29,600) | (37.5)% | 108,200 | 130,200 | (22,000) | (16.9)% |
| Structural Tubing | 18,500 | | 18,500 | 100.0% | 28,900 | | 28,900 | 100.0% |
| Steel Slabs | 300 | | 300 | 100.0% | 400 | | 400 | 100.0% |
| Total Oregon Steel Division | 204,100 | 204,900 | (800) | (0.4)% | 447,200 | 364,800 | 82,400 | 22.6% |
| RMSM Division: | | | | | | | | |
| Rail | 93,200 | 86,800 | 6,400 | 7.4% | 193,900 | 199,700 | (5,800) | (2.9)% |
| Rod and Bar | 133,200 | 117,400 | 15,800 | 13.5% | 263,300 | 232,900 | 30,400 | 13.1% |
| Seamless Pipe | 500 | 13,300 | (12,800) | (96.2)% | 3,300 | 24,200 | (20,900) | (86.4)% |
| Total RMSM Division | 226,900 | 217,500 | 9,400 | 4.3% | 460,500 | 456,800 | 3,700 | 0.8% |
| Consolidated | 431,000 | 422,400 | 8,600 | 2.0% | 907,700 | 821,600 | 86,100 | 10.5% |
| *Sales price per ton* | | | | | | | | |
| Oregon Steel Division | $ 766 | $ 510 | $ 256 | 50.2% | $ 675 | $ 514 | $ 161 | 31.3% |
| RMSM Division | 552 | 393 | 159 | 40.5% | 504 | 390 | 114 | 29.2% |

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| Consolidated | $ 654 | $ 450 | $ 204 | 45.3% | $ 588 | $ 445 | $ 143 | 32.1% |

*Sales.* The increase in consolidated tonnage shipments for the comparative three and six month periods ended on June 30, 2004 and June 30, 2003 was primarily due to increased shipments of plate, coil, structural tubing and rod and bar products partially offset by lower welded and seamless pipe shipments. The increase in product sales and average product sales price were primarily due to higher average selling prices for plate, coil, welded pipe, rail and rod and bar products and the increased shipments noted above. Increased shipments and selling prices are the result of a combination of factors including strong steel demand in Asia, a weak United States dollar and increased ocean freight costs, all of which makes the United States market less attractive to foreign producers.

*Gross Profit*

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| Gross Profit | $ 68,997 | $ (112) | $ 69,109 | 61,704.4% | $ 106,793 | $ 5,969 | $ 100,824 | 1,689.1% |

The increase in gross profit for the three months and six months ended June 30, 2004 over the same periods ended June 30, 2003 was primarily a result of the increased volume and higher average sales prices discussed above, partially offset by higher steel slab and scrap costs and our inability to fully recover our cost of raw material for rail and large diameter pipe products.

*Selling, General and Administrative Expenses*

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| Selling, General and Administrative | $ 13,774 | $ 12,434 | $ 1,340 | 10.8% | $ 27,683 | $ 24,925 | $ 2,758 | 11.1% |

The increase in selling, general and administrative expenses for the three and six months ended June 30, 2004 over the same periods ended June 30, 2003 was primarily the result of a $1.7 million and $3.0 million, respectively, charge due to the 10 year profit participation obligation resulting from the Settlement. See Note 10 to the Consolidated Financial Statements as of June 30, 2004. In addition, we incurred increased costs related to the handling and loading of products sold due to an increase in the volume of tons shipped. These increases were partially offset by decreased costs for information technology support and equipment and lower depreciation expense of certain information technology assets, and for the three months ended June 30, 2004, by recovery of bad debt previously expensed in the three months ended March 31, 2004.

*Incentive Compensation*

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| Incentive Compensation | $ 3,042 | $ 117 | $ 2,925 | 2,500.0% | $ 5,088 | $ 339 | $ 4,749 | 1,400.9% |

The increase in incentive compensation for the three and six months ended June 30, 2004 over the same periods ended June 30, 2003 was the result of increased operating income.

*Interest Expense*

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| Interest Expense | $ 8,461 | $ 8,352 | $ 109 | 1.3% | $ 17,029 | $ 16,561 | $ 468 | 2.8% |

The increase in interest expense for the three months ended June 30, 2004 over the same period ended June 30, 2003 was due to the addition of OFP interest expense as a result of the adoption of FASB's Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"). See Note 11 to the Consolidated Financial Statements as of June 30, 2004.

The increase in interest expense for the six months ended June 30, 2004 over the same period ended June 30, 2003 was due to short-term borrowings under our credit facility in the first six months of 2004 versus no borrowings in the same period ended June 30, 2003, and also to the addition of OFP interest expense as a result of the adoption of FIN 46R (as noted above).

*Income Tax Benefit*

| | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| Income Tax Benefit | $ 43 | $ 2,305 | $ (2,262) | (98.1)% | $ 41 | $ 7,525 | $ (7,484) | (99.5)% |

The effective income tax benefit rate was less than 1% for the three and six months ended June 30, 2004, compared to the tax benefit rate of 4.2% and 11.0% for the three and six months ended June 30, 2003, respectively. The effective income tax rate for the three and six months ended June 30, 2004 varied from the combined state and federal statutory rate principally because we reversed a portion of the valuation allowance, established in 2003, for certain federal and state net operating loss carry-forwards, state tax credits, and alternative minimum tax credits. SFAS No. 109, *"Accounting for Income Taxes,"* requires that tax benefits for federal and state net operating loss carry-forwards, state tax credits, and alternative minimum tax credits each be recorded as an asset to the extent that management assesses the utilization of such assets to be "more likely than not"; otherwise, a valuation allowance is required to be recorded. Based on this guidance, we reduced our valuation allowance by $7.3 million and $10.5 million in the three and six months ended June 30, 2004, respectively, due to less uncertainty regarding the realization of these deferred tax assets. We will continue to evaluate the need for valuation allowances in the future. Changes in estimated future taxable income and other underlying factors may lead to adjustments to the valuation allowances.

***Comparison of 2003 to 2002***

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | **2003** | **2002** | **Change** | **% Change** |
| *Product Sales* | | | | |
| Oregon Steel Division | $ 343,755 | $ 535,049 | $ (191,294) | (35.8)% |
| RMSM Division | 340,658 | 315,448 | 25,210 | 8.0% |
| Consolidated | $ 684,413 | $ 850,497 | $ (166,084) | (19.5)% |
| *Tons sold* | | | | |
| Oregon Steel Division: | | | | |
| Plate and Coil | 501,300 | 467,600 | 33,700 | 7.2% |
| Welded Pipe | 237,800 | 479,400 | (241,600) | (50.4)% |
| Structural Tubing | 1,600 | | 1,600 | 100.0% |
| Total Oregon Steel Division | 740,700 | 947,000 | (206,300) | (21.8)% |
| RMSM Division: | | | | |
| Rail | 360,400 | 384,100 | (23,700) | (6.2)% |
| Rod and Bar | 482,400 | 419,700 | 62,700 | 14.9% |
| Seamless Pipe | 51,300 | 30,000 | 21,300 | 71.0% |
| Semi-finished | | 2,700 | (2,700) | (100.0)% |
| Total RMSM Division | 894,100 | 836,500 | 57,600 | 6.9% |
| Consolidated | 1,634,800 | 1,783,500 | (148,700) | (8.3)% |
| *Sales price per ton* | | | | |
| Oregon Steel Division | $ 464 | $ 565 | $ (101) | (17.9)% |
| RMSM Division | 381 | 377 | 4 | 1.1% |
| Consolidated | $ 419 | $ 477 | $ (58) | (12.2)% |

*Sales.* The decrease in consolidated product sales and average sales price was primarily due to a reduction in welded pipe sales at the Oregon Steel Division. During 2002, the Oregon Steel Division sales were higher due to a large pipe contract for the Kern River Gas Transmission Company at the Napa pipe mill. No similar large pipe contract was in place in 2003 and consequently the Oregon Steel Division's sales, shipments, and sales price per ton were significantly reduced. The RMSM Division's sales, shipments, and sales price per ton all increased in 2003 due to higher shipments of rod and bar products as a result of higher rod production and a reduction in domestic capacity.

*Gross Profit*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | **2003** | **2002** | **Change** | **% Change** |

| | Year Ended December 31 | | | | | | |
|---|---|---|---|---|---|---|---|
| Gross Profit | $ | 9,696 | $ | 121,010 | $ | (111,314) | (92.0)% |

The decrease in gross profit was a result of the decreased sales and average sales price of high-priced welded pipe from the Napa pipe mill, and to an increase in our costs due to increased costs in scrap, steel slab, and energy costs for electricity and natural gas.

*Selling, General and Administrative*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | **2003** | **2002** | **Change** | **% Change** |
| Selling, General and Administrative | $ 50,477 | $ 58,600 | $ (8,123) | (13.9)% |

The decrease in selling, general and administrative expenses ("SG&A") for 2003 was the result of a decrease of $5.5 million in expenses related to the handling and loading of goods for sale, which was due to a decrease in the volume of tons shipped in 2003; a decrease of $1.0 million in expenses for information technology support and equipment, and a decrease of $0.7 million in bad debt expense.

*Interest Expense*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | **2003** | **2002** | **Change** | **% Change** |
| Interest Expense | $ 33,620 | $ 36,254 | $ (2,634) | (7.3)% |

The decrease in interest expense was primarily due to a decreased borrowing rate during 2003. We issued our 10% First Mortgage Notes due 2009 ("10% Notes") on July 15, 2002 in order to refinance our 11% First Mortgage Notes due 2003 ("11% Notes"). We also incurred additional interest expense in 2002 due to interest accrued on the 11% Notes which were outstanding concurrently with the 10% Notes for the period of July 15 to August 14, 2002.

*Income Tax Benefit (Expense)*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | **2003** | **2002** | **Change** | **% Change** |
| Income Tax Benefit (Expense) | $ 6,617 | $ (9,244) | $ 15,861 | 171.6% |

The effective income tax benefit rate was 5.0% in 2003, compared to the tax expense rate of 42.8% in 2002. The effective income tax rate for 2003 varied from the combined state and federal statutory rate principally because we established a valuation allowance for certain federal and state net operating loss carry-forwards, state tax credits, and alternative minimum tax credits. In accordance with SFAS No. 109, we recorded an additional valuation allowance of $48.3 million in 2003 due to uncertainties regarding the realization of these deferred tax assets. We will continue to evaluate the need for valuation allowances in the future. Changes in estimated future taxable income and other underlying factors may lead to adjustments to the valuation allowance.

***Comparison of 2002 to 2001***

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | **2002** | **2001** | **Change** | **% Change** |
| *Product Sales* | | | | |
| Oregon Steel Division | $ 535,049 | $ 414,994 | $ 120,055 | 28.9% |
| RMSM Division | 315,448 | 291,993 | 23,455 | 8.0% |
| Consolidated | $ 850,497 | $ 706,987 | $ 143,510 | 20.3% |
| *Tons sold* | | | | |
| Oregon Steel Division: | | | | |
| Plate and Coil | 467,600 | 472,000 | (4,400) | (0.9)% |
| Welded Pipe | 479,400 | 357,700 | 121,700 | 34.0% |
| Total Oregon Steel Division | 947,000 | 829,700 | 117,300 | 14.1% |
| RMSM Division: | | | | |
| Rail | 384,100 | 246,000 | 138,100 | 56.1% |
| Rod and Bar | 419,700 | 432,500 | (12,800) | (3.0)% |
| Seamless Pipe | 30,000 | 97,700 | (67,700) | (69.3)% |
| Semi-finished | 2,700 | 4,700 | (2,000) | (42.6)% |
| Total RMSM Division | 836,500 | 780,900 | 55,600 | 7.1% |
| Consolidated | 1,783,500 | 1,610,600 | 172,900 | 10.7% |
| *Sales price per ton* | | | | |
| Oregon Steel Division | $ 565 | $ 500 | $ 65 | 13.0% |
| RMSM Division | 377 | 374 | 3 | 0.8% |
| Consolidated | $ 477 | $ 439 | $ 38 | 8.7% |

*Sales.* Growth in both product sales and related average selling prices were primarily due to higher shipments of welded pipe and rail products and higher rod and bar prices in 2002. The increase in sales at the Oregon Steel Division was due to significantly higher shipments of welded pipe resulting from the supply of more than 364,000 tons of large diameter pipe to Kern River Gas Transmission Company. The increase in sales at the RMSM Division was due to higher shipments of rail products, partially offset by decreased rod and bar shipments, as well as decreased shipments of seamless pipe and semi-finished products. The shift of product mix to rail in 2002 was the principal reason for the improvement in average sales price. In addition, the demand for seamless pipe remained sluggish throughout 2002, and as a result, the seamless mill was temporarily shut down for the periods from November 2001 to April 2002 and from mid-August 2002 to mid-September of 2002.

*Gross Profit*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | **2002** | **2001** | **Change** | **% Change** |
| Gross Profit | $ 121,010 | $ 85,946 | $ 35,064 | 40.8% |

The increase of $35.1 million in gross profit was due to increased sales of high-priced welded pipe from the Napa pipe mill and increased sales of rail products and higher rod and bar prices at the RMSM Division.

*Selling, General and Administrative*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2002 | 2001 | Change | % Change |
| Selling, General and Administrative | $ 58,600 | $ 64,300 | $ (5,700) | (8.9)% |

SG&A decreased as a percentage of total sales to 6.5% in 2002 from 8.2% in 2001. The decrease was due to higher general administrative costs in 2001, including $3.1 million of seamless pipe commission fees and $4.0 million of environmental and other legal expenses.

*Interest Expense*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2002 | 2001 | Change | % Change |
| Interest Expense | $ 36,254 | $ 35,595 | $ 659 | 1.9% |

Total interest expense increased as a result of refinancing activities in 2002. We issued our 10% Notes on July 15, 2002 in order to refinance our outstanding 11% Notes. Although our 10% Notes bear a lower interest rate than the 11% Notes, we incurred increased interest expense primarily attributable to the additional interest accrued on the 11% Notes which were outstanding concurrently with the 10% Notes for the period of July 15 to August 14, 2002. This was partially offset by the lower average borrowing levels on our credit facility in 2002. In 2001, interest expense included additional expensed loan fees due to an amendment of our credit facility.

*Income Tax (Expense) Benefit*

| | Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2002 | 2001 | Change | % Change |
| Income Tax (Expense) Benefit | $ (9,244) | $ 2,159 | $ (11,403) | (528.2)% |

The effective income tax expense rate was 42.8% for 2002 versus an effective income tax benefit rate of 26.7% for 2001. The effective income tax rate for 2002 varied principally from the combined state and federal statutory rate due to a $1.7 million increase in the valuation allowance for state tax credit carryforwards.

***Impairment Charges***

In May 2003, we shut down our Portland mill melt shop. The determination to close the melt shop was based on (1) our ability to obtain steel slab through purchases from suppliers on the open market, and (2) high energy and raw material costs and the yield losses associated with the inefficient casting technology in use at the Portland mill. We believe that future steel slab purchases for the Portland mill will meet the production needs of the Portland mill finishing operation for the remainder of 2004 and into the foreseeable future. We intend to maintain the melt shop in operating condition but we are also exploring other alternatives and have contracted with a third party to market the melt shop equipment to suitable buyers.

In connection with the melt shop closure, we determined the value of the related assets to be impaired. Accordingly, we recorded a pre-tax impairment charge to earnings of $27.0 million for the melt shop and other related assets in the quarter ended June 30, 2003. Of this impairment charge recognized, $18.3 million represented impairment of fixed assets and $8.4 million pertained to reduction of dedicated stores and operating supplies to net realizable value. Following the impairment charge, the carrying value of the fixed assets was approximately $1.4 million. The fair value of the impaired fixed assets was determined using our estimate of market prices for similar assets.

As part of the settlement with the CDPHE and the EPA, CF&I is required to install one new electric arc furnace, and thus the two existing furnaces with a combined melting and casting capacity of approximately 1.2 million tons through two continuous casters will be shut down. CF&I has determined that the new single furnace operation will not have the capacity to support a two caster operation and therefore CF&I has determined that one caster and other related assets have no future service potential. Accordingly, we recorded a pre-tax impairment charge to earnings of $9.1 million in the quarter ended June 30, 2003. Of the impairment charge recognized, $8.1 million represented impairment of fixed assets and $1.0 million pertained to reduction of related stores items to net realizable value. Because it is believed the caster has no salvage value, the carrying value of the fixed assets was zero after the effect of the impairment charge.

***Labor Dispute Settlement Charges***

*CF&I Labor Dispute and Resultant Litigation*

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. On December 30, 1997, the Union called off the strike and made an unconditional offer on behalf of its members to return to work. The labor dispute lasted more than six years and resulted in various legal actions between us and the Union.

*CF&I Labor Dispute Settlement*

On January 15, 2004, we announced a tentative agreement to settle the labor dispute between the Union and CF&I and on September 10, 2004 the settlement was finalized and became effective ("Settlement"). The Settlement was conditioned on, among other things, (1) its approval by stockholders of New CF&I, (2) ratification of a new collective bargaining agreement being executed between CF&I and the Union, (3) approval of the Settlement by the NLRB and the dismissal of cases pending before the NLRB related to the labor dispute, and (4) various pending legal actions between us, New CF&I and CF&I and the Union being dismissed. The Settlement resulted in the dismissal of all court actions between us and the Union relating to the labor dispute and environmental matters and the NLRB's issuance of an Order Withdrawing Complaints and Conditionally Approving Withdrawals of Charges related to the labor dispute and includes the ratification of new five-year collective bargaining agreements. The Settlement called for the establishment of a trust and on September 10, 2004, the Rocky Mountain Steel Mills United Steelworkers of America Back Pay Trust ("Trust") was established. As part of the tentative settlement we had originally planned to issue four million shares of our common stock to the Trust. On September 10, 2004, the parties agreed instead that the Trust would receive cash in an amount equal to the gross proceeds from the sale of four million shares of our common stock in this offering. We, after consultation with the Union, will determine the price at which the four million shares of common stock will be sold in this offering. CF&I is generally responsible for the employer portion of the employment taxes associated with certain Settlement payments. However, the Trust is responsible for the employer portion of the employment taxes associated with the gross proceeds from the sale of the four million shares of common stock in this offering if: (1) the offering is closed and the per share sales price was acceptable to the Union; or (2) if the offering is not closed and the per share sales price was not acceptable to the Union.

The Settlement also includes payment by us of (1) a cash contribution of $2,500 for each beneficiary, estimated to be in total $2.5 million and (2) beginning on the effective date of the Settlement, a ten year profit participation obligation consisting of 25% of CF&I's quarterly profit, as defined, for years 2004 and 2007 through 2013, and 30% for years 2005 and 2006, not to exceed $3.0 million per year for 2004 through 2008 and $4.0 million per year for 2009 through 2013; these cap amounts are subject to carryforward/carryback provision described in the Settlement documents. The beneficiaries are those individuals who (1) as of October 3, 1997 were employees of CF&I and represented by the Union, (2) as of December 31, 1997 had not separated, as defined, from CF&I, and (3) are entitled to an allocation as defined in the Trust. The Settlement, certain elements of which are effected through the new five-year collective bargaining agreements, also includes: (1) early retirement with immediate enhanced pension benefit where CF&I will offer bargaining unit employees an early retirement opportunity based on seniority until a maximum of 200 employees have accepted the offer, the benefit will include immediate and unreduced pension benefits for all years of service (including the period of the labor dispute) and for each year of service prior to March 3, 1993 (including service with predecessor companies) an additional monthly pension of $10, (2) pension credit for the period of the labor dispute whereby CF&I employees who went on strike will be given pension credit for both eligibility and pension benefit determination purposes for the period beginning October 3, 1997 and ending on the latest of said employees actual return to work, termination of employment, retirement or death, (3) pension credit for service with predecessor companies whereby for retirements after January 1, 2004, effective January 2, 2006 for each year of service prior to March 3, 1978 (including service with predecessor companies), CF&I will provide an additional monthly benefit to employees of $12.50, and for retirements after January 1, 2006, effective January 2, 2008 for each year of service between March 3, 1978 and March 3, 1993 (including service with predecessor companies), CF&I will provide an additional monthly benefit of $12.50, and (4) individuals who are members of the bargaining units as of October 3, 1997 will be immediately eligible to apply for and receive qualified long-term disability ("LTD") benefits on a go forward basis, notwithstanding the date of the injury or illness, service requirements or any filing deadlines. The Settlement also includes our agreement to nominate a director designated by the Union on our board of directors, and to a broad based neutrality clause for certain of our facilities in the future.

*CF&I Labor Dispute Settlement Accounting*

We recorded charges of $31.1 million in the fourth quarter of 2003 and $7.0 million in the first quarter of 2004, and an additional charge of $31.9 million in the second quarter of 2004, of which $23.2 million, $7.0 million, and $28.7 million, respectively, were non-cash, related to our agreement to issue four million shares of our common stock as part of the Settlement. As of June 30, 2004, the liability accrued for these charges totals $70.0 million, with $63.5 million classified as long-term on our consolidated balance sheet. The non-cash portion of the charges in the first and second quarters of 2004 are a result of adjusting the previously recorded value at December 31, 2003 of the four million shares of our common stock ($23.2 million at $5.81 per share) to market at March 31, 2004 and June 30, 2004, respectively. The closing price of our common stock on the New York Stock Exchange at March 31, 2004 was $7.56 per share, resulting in an additional labor dispute settlement charge of $7.0 million for the first quarter of 2004, and at June 30, 2004 was $14.74, resulting in an additional labor dispute settlement charge of $28.7 million for the second quarter of 2004. Since the second quarter, the Settlement was revised so that no stock will be issued to the Trust, but rather the Trust will receive the gross cash proceeds from the sale of four million shares of our common stock in this offering. As a result, we will continue to adjust the Settlement charges for the change in the price of our common stock through the date of pricing of this offering. The accrual for the LTD benefits ($5.3 million at June 30, 2004) may also change, as better claims information becomes available. As employees accept the early retirement benefits, we expect to record an additional charge during 2004 estimated at approximately $6.8 million related to these benefits. The enhancements to pension and post-retirement medical benefits for non-early retirees will be accounted for prospectively on the date at which plan amendments occur pursuant to the new five-year collective bargaining agreements in accordance with SFAS No. 87 and SFAS No. 106.

**Liquidity and Capital Resources**

At December 31, 2003, our liquidity, comprised of cash, cash equivalents, and funds available under our $65 million revolving credit facility, totaled approximately $49.7 million, compared to $89.9 million at December 31, 2002. The reduction in liquidity was primarily the result of a reduction in cash on hand of $22.2 million, a reduction in the credit facility of $10.0 million, as well as increased outstanding letters of credit of $7.8 million. At June 30, 2004, our liquidity, comprised of cash, cash equivalents, and funds available under our credit facility totaled approximately $97.6 million.

Cash flow used in operations for 2003 was $5.0 million compared to $49.1 million of cash provided by operations in 2002. The items primarily affecting the $54.1 million decrease in operating cash flows were (a) an increase of $120.4 million in net loss including non-cash transactions of (1) an impairment of fixed and other assets of $36.1 million related to the Portland mill melt shop and the caster at the Pueblo mill; (2) the write-off of $31.9 million of goodwill during the first quarter of 2002 resulting in a cumulative effect of change in accounting principle of $18.0 million (net of a $11.3 million tax effect and $2.6 million of minority interest); (3) estimated settlement costs of $31.1 million related to the tentative agreement with the Union, (4) an allowance for deferred income taxes of $(7.9) million in 2003 versus $9.1 million in 2002, and (5) a reduction in depreciation and amortization of $5.1 million in 2003 that resulted from the impairment charges to fixed assets (see item 1 above); and (b) changes in working capital including: (1) a decrease in inventories of $14.4 million versus an increase of $30.4 million in 2002; (2) a decrease of $6.5 million in net accounts receivable in 2003 versus a decrease of $4.6 million in 2002; (3) a $7.6 million increase in other assets in 2003 versus a $0.7 million decrease in 2002; and (4) a $14.8 million increase in operating liabilities in 2003 verses a $4.1 million increase in 2002.

Net cash provided by operating activities was $56.0 million for the first six months of 2004 compared to $2.0 million provided by operations in the same period of 2003. The items primarily affecting the $54.0 million increase in operating cash flows were operating income of $93.3 million, before consideration of non-cash transactions of the labor dispute Settlement adjustment and fixed and other asset impairment charges, offset by cash used for net working capital requirements of $33.7 million.

Net cash used by investing activities in the first six months of 2004 totaled $9.4 million compared to $11.5 million in the same period of 2003. The decrease was in part due to a $2.2 million decrease in additions to property, plant and equipment. During the first six months of 2004, we expended approximately $5.3 million and $3.7 million on capital projects (excluding capitalized interest) at the Oregon Steel Division and the RMSM Division, respectively.

Net cash used in financing activities in 2003 was $3.3 million compared to $19.7 million used in 2002. Net cash used in financing activities during 2002 was primarily for issue costs of our 10% Notes issued on July 15, 2002.

Net working capital at December 31, 2003 decreased $44.8 million compared to December 31, 2002, reflecting a $31.9 million decrease in current assets and a $12.9 million increase in current liabilities. The decrease in current assets was primarily due to decreased cash, accounts receivable, and inventories ($22.2 million, $6.5 million, and $23.2 million, respectively). An offset to the decrease in current assets was an increase in the deferred tax asset of $11.4 million and an increase in other assets of $8.7 million. The accounts receivable turnover for the year ended December 31, 2003, as measured in average daily sales outstanding, decreased to 34 days, as compared to 35 days for the year ended December 31, 2002. The decrease was attributable to a faster turnover of product receivables from customers paying earlier in order to utilize cash discounts, and an increased effort on collections of receivables. The change in current liabilities was due primarily to a decrease in accrued sales taxes for welded pipe sales from $8.4 million in 2002 to $0.0 million in 2003.

Net working capital at June 30, 2004 increased $51.8 million compared to December 31, 2003, reflecting a $57.0 million increase in current assets and a $5.2 million increase in current liabilities. The increase in current assets was primarily due to an increase in cash, accounts receivable, and inventories of $47.2 million, $12.8 million, and $14.8 million, respectively, partially offset by a decrease in deferred income taxes of $11.8 million and a decrease in inventory reserved for deferred revenue of $7.2 million. The increase in accounts receivable was primarily due to increased sales and sales prices for plate and coil and rod and bar products. The increase in inventory is primarily due to the accumulation of structural tubing inventory as a result of the addition of the CST facility in the fourth quarter of 2003. The increase in current liabilities was primarily due to an increase in accrued incentive compensation of $6.4 million due to increased operating income, by $3.1 million for Settlement related to common stock issuance costs, by a $2.0 million increase in the current portion of the OFP debt, and by an increase in trade accounts payable of $2.4 million due to increased raw material prices, partially offset by a decrease of $7.4 million in other accrued expenses.

The following table summarizes our contractual obligations at December 31, 2003, and the effect such obligations are expected to have on liquidity and cash flow in future periods.

| | **Payments Due by Period** | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| | | | **(in thousands)** | | |
| Long-term debt(1) | $ 305,000 | $ | $ | $ | $ 305,000 |
| Capital lease obligations | 814 | 315 | 499 | | |
| Operating lease obligations | 46,476 | 4,830 | 9,342 | 9,043 | 23,261 |
| Purchase obligations(2) | 25,592 | 3,456 | 5,962 | 5,712 | 10,462 |
| Electric arc furnace improvements(3) | 22,632 | 8,615 | 14,017 | | |
| Pension obligations | (6) | 471 | (4) | (4) | (4) |
| Other post-retirement benefits(5) | (6) | 1,300 | 1,300 | 1,300 | (5) |

(1) Principal payments on our 10% Notes. See Note 6 to the Consolidated Financial Statements as of December 31, 2003.

(2) Includes minimum electricity purchase commitment, and oxygen supply contracts where the future amounts are estimated based on current prices. See Note 16 to the Consolidated Financial Statements as of December 31, 2003.

(3) Amounts required to satisfy the CDPHE settlement and the EPA action. These amounts are to be expended over a 16 month period after approval of the PSD air permit.

(4) Our obligation is limited to the next year's minimum current ERISA obligation. It is not possible to determine the future ERISA minimum required contributions beyond 2004.

(5) We estimated the future obligations based upon the recent history of benefits paid. Amounts in excess of 5 years cannot be reliably estimated.

(6) Totals cannot be determined because future obligations cannot be determined.

On July 15, 2002, we issued $305 million of 10% Notes at a discount of 98.772% and an interest rate of 10%. Interest is payable on January 15 and July 15 of each year. The 10% Notes are secured by a lien on substantially all of our property, plant and equipment and certain other assets (exclusive of Camrose Pipe Corporation and OFP), excluding accounts receivable, inventory, and certain other assets. As of June 30, 2004, we had outstanding $305 million of principal amount under the 10% Notes. The indenture under which the 10% Notes were issued contains restrictions on new indebtedness and various types of disbursements, including dividends, based on the cumulative amount of our net income, as defined. Under these restrictions, there was no amount available for cash dividends at June 30, 2004. New CF&I and CF&I (collectively "Guarantors") guarantee the obligations of the 10% Notes, and those guarantees are secured by a lien on substantially all of the property, plant and equipment and certain assets of the Guarantors, excluding accounts receivable, inventory, and certain other assets.

On March 29, 2000, OFP entered into a 7-year $14 million loan agreement for the purchase of certain processing assets and for the construction of a processing facility. Amounts under the loan agreement bear interest based on the prime rate plus a margin ranging from 1.84% to 3.00%, and as of June 30, 2004, there was $9.5 million of principal outstanding. The loan is secured by all the assets of OFP. The creditors of OFP have no recourse to our general credit. Effective January 1, 2004, we included the OFP loan balance in the consolidated balance sheet as a result of the adoption of FIN 46R. See Note 11 to the Consolidated Financial Statements as of June 30, 2004.

As of June 30, 2004, Oregon Steel Mills, Inc., New CF&I, Inc., CF&I Steel, L.P., and Colorado and Wyoming Railway Company ("Borrowers") maintained a $65 million revolving credit agreement ("Credit Agreement"), which will expire on June 30, 2005. At June 30, 2004, $5.0 million was restricted under the Credit Agreement, $15.4 million was restricted under outstanding letters of credit, and $44.6 million was available for use. Amounts under the Credit Agreement bear interest based on either (1) the prime rate plus a margin ranging from 0.25% to 1.00%, or (2) the adjusted LIBO rate plus a margin ranging from 2.50% to 3.25%. Unused commitment fees range from 0.25% to 0.75%. During the quarter ended June 30, 2004, there was a total of $11.5 million of short-term borrowings under the Credit Agreement with an average daily balance of $0.3 million. As of June 30, 2004, there was no outstanding balance due under the Credit Agreement. Had there been an outstanding balance, the average interest rate for the Credit Agreement would have been 5.0%. The unused commitment fees were 0.75% for the quarter ended June 30, 2004. The margins and unused commitment fees will be subject to adjustment within the ranges discussed above based on a quarterly leverage ratio. The Credit Agreement contains various restrictive covenants including minimum consolidated tangible net worth amount, a minimum earnings before interest, taxes, depreciation and amortization amount, a minimum fixed charge coverage ratio, limitations on maximum annual capital and environmental expenditures, a borrowing availability limitation relating to inventory, limitations on stockholder dividends and limitations on incurring new or additional debt obligations other than as allowed by the Credit Agreement. We cannot pay cash dividends without prior approval from the lenders. At June 30, 2004, the Borrowers were in compliance with the Credit Agreement covenants.

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 2005. As of June 30, 2004, the interest rate of this facility was 3.75%. Annual commitment fees are 0.25% of the unused portion of the credit line. At June 30, 2004, there was no outstanding balance due under the credit facility. At June 30, 2004, Camrose was in compliance with the revolving credit facility covenants.

As of June 30, 2004, principal payments on debt are due as follows (in thousands):

| | | |
|---|---|---|
| 2004 | $ | 1,000 |
| 2005 | | 2,000 |
| 2006 | | 2,000 |
| 2007 | | 4,500 |
| 2008 | | |
| 2009 | | 305,000 |
| | $ | 314,500 |

Due to the favorable net results for the first six months of 2004, we have been able to satisfy our needs for working capital and capital expenditures through operations and in part through our available cash on hand. We believe that our anticipated needs for working capital and capital expenditures for the next 12 months will be met from funds generated from operations, and if necessary, from our available credit facilities.

Our level of indebtedness presents other risks to investors, including the possibility that we may be unable to generate cash sufficient to pay the principal of and interest on our 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 have a material adverse effect on us. In addition, we face potential costs and liabilities associated with environmental compliance and remediation issues. See "Business Environmental Matters." Any costs or liabilities in excess of those expected by us could have a material adverse effect on us.

**Off Balance Sheet Arrangements**

Information on our off balance sheet arrangements is disclosed in the contractual obligations table above.

**New Accounting Pronouncements**

See Note 2 to the Consolidated Financial Statements as of December 31, 2003 and Note 1 to the Consolidated Financial Statements as of June 30, 2004.

**Quantitative and Qualitative Disclosures About Market Risk**

We have 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 us.

*Interest Rate Risk*

Sensitivity analysis was used to determine the potential impact that market risk exposure may have on the fair values of our financial instruments, including debt and cash equivalents. We have 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, 2003, plus or minus 10%.

All of our debt is fixed-rate debt. A hypothetical 10% decrease in interest rates with all other variables held constant would result in an increase in the fair value of our fixed-rate debt by $17.7 million. A hypothetical 10% increase in interest rates with all other variables held constant would result in a decrease in the fair value of our fixed-rate debt by $16.4 million. The fair value of our fixed-rate debt was estimated by considering the impact of the hypothetical interest rates on quoted market prices and current yield. While changes in interest rates impact the fair value of this debt, there is no impact to earnings and cash flows because we intend to hold these obligations to maturity unless we elect to repurchase our outstanding debt securities at prevailing market prices.

*Foreign Currency Risk*

In general, we use a single functional currency, the United States dollar, for all receipts, payments and other settlements at our 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, 2003, we did not have any open forward contracts.

## BUSINESS

### Our Company

We were founded in 1926 by William G. Gilmore and we were incorporated in California in 1928. We reincorporated in Delaware in 1974. We changed our name in December 1987 from Gilmore Steel Corporation to Oregon Steel Mills, Inc.

We are a leading minimill steel producer with one of the broadest lines of specialty and commodity steel products of any domestic minimill company. We own two steel mills and have nine finishing facilities in the Western United States and Alberta, Canada.

We are focused on serving customers operating in diverse end markets west of the Mississippi River and in Western Canada. Our geographic location enables us to capitalize on a transportation cost competitive advantage in our market and contributes to the stability of our operating results. This market typically exhibits a favorable supply / demand balance as there are few competitors producing in the geographic area. There is a significant transportation cost associated with shipping steel products from other domestic and overseas locations into our market. Our manufacturing flexibility enables us to meet demanding customer specifications in a timely fashion and actively manage our product mix in response to changes in customer demand and individual product cycles.

Through strategic acquisitions and selective capital additions, we have: (i) increased shipments of steel products from approximately 750,000 tons in 1991 to over 1.6 million tons in 2003, (ii) expanded our range of finished products from two in 1991, discrete plate and large diameter welded pipe, to nine currently by adding ERW pipe, rail, rod, bar, seamless pipe, coiled plate, and structural tubing, (iii) increased our emphasis on higher margin specialty steel products, and (iv) focused on our primary selling region west of the Mississippi River and Western Canada.

For 2004, we expect to ship approximately 1.72 million tons of steel products and generate approximately $1 billion in sales. The Oregon Steel Division expects to ship approximately 615,000 tons of plate and coil, 175,000 tons of welded pipe, and 70,000 tons of structural tubing. The RMSM Division expects to ship approximately 362,000 tons of rail and 500,000 tons of rod and bar products.

### Our Strengths

***Flexible and Diverse Product Portfolio:*** We currently have nine finishing facilities centered on our two primary steel operations. As a result, we are able to adjust our product mix as market conditions change to the products that generate higher margins. This allows us to produce a variety of specialty and commodity products, more efficiently balance capacity utilization, take advantage of niche market opportunities, and meet diverse customer needs not serviced by our competitors. For example, we can shift production at our Portland mill among specialty plate, commodity plate, and coiled plate. In addition, the Portland mill can produce coiled plate for structural tubing at CST and discrete plate and coil for line pipe at our pipe mills. At RMSM, we are able to switch production between our rail, rod and bar, and seamless tubular finishing facilities. We believe we are better able to weather downturns in particular end markets than some of our less diversified competitors, reducing our sensitivity to economic cycles.

***High Margin Specialty Steel Products:*** We plan to continue our emphasis on specialty steel products, which enable us to focus on markets with barriers to entry, premium pricing, and less competition. Our specialty products include structural tubing, heat treated and other specialty plate, welded line pipe, high-carbon rod, and DHH rail, a highly durable rail product that commands a higher price than standard rail. We are one of only two established North American producers of rail for the railroads and the sole North American licensee of Nippon Steel's proprietary DHH rail technology. The recently leased CST facility produces high margin structural tubing by further processing coil provided almost exclusively by the Portland mill.

***Market Focus:*** Our Portland mill is the only plate mill in the 11 Western states and our Pueblo mill is the only rail facility west of the Mississippi River. Competition from Midwestern and Eastern United States steel manufacturers is limited by the significant additional transportation costs to be incurred if they decided to ship products to the West Coast. We are currently facing only limited competition from imports due to the weak United States dollar, high ocean freight rates, and substantial demand for steel products in Asia.

***Variable Cost Structure:*** In May 2003, we shut down our Portland mill melt shop. The determination to close the melt shop was based, in part, on high energy costs and yield losses associated with the inefficient casting technology in use at the Portland mill. We are currently producing finished product by processing steel slab purchased on the open market. This initiative significantly lowered our fixed costs and helped to stabilize our operation. We are now focused on managing the margin between finished product selling prices and the cost of steel slab.

We produce steel at our minimill at the Pueblo mill utilizing an EAF. The EAF method of producing steel provides numerous advantages over integrated steel producers using blast furnaces. Minimills have more efficient labor utilization and lower ratios of fixed costs to variable costs than integrated steel producers.

***Efficient and Modern Manufacturing Facilities:*** Over the past ten years, we have invested approximately $450 million in capital expenditures for our production facilities, including steelmaking upgrades and a combination rod and bar mill at the Pueblo mill, a Steckel combination mill at the Portland mill and a temper mill cut-to-length line adjacent to the Portland mill built as part of a joint venture with Feralloy Corporation. Additionally, in October 2003, we leased CST, a nearby state-of-the-art structural tubing facility that was constructed in 2000. These investments have increased yields, improved efficiency, and diversified our product mix, and will allow us to incur minimal capital expenditures in the near future.

***Experienced Management Team:*** We have a strong and experienced senior management team who have an average of 24 years of experience in the steel industry. See "Management." In 2003, we hired several experienced senior managers for our Portland mill which has been an important factor in the improved operational performance of our Oregon Steel Division.

**Our Strategy**

We aim to continue to improve our position as a cost-efficient producer of specialty and commodity steel products. We strive to identify and implement programs to reduce production costs, diversify our product mix, enhance performance, and improve operating margins through:

- using free cash flow generation to improve our liquidity;
- operating manufacturing facilities capable of responding to changes in customer demand and individual product cycles;
- emphasizing the production of higher margin specialty steel products;
- investing in efficient and flexible manufacturing technology; and
- maintaining tight cost and quality controls.

**Our Divisions**

Our two business units are the Oregon Steel Division and the RMSM Division.

The Oregon Steel Division is centered on our Portland mill, a steel minimill with a Steckel combination mill that produces steel plate and coil for the division's steel plate heat treating, structural tubing, and large diameter and ERW pipe finishing facilities. Our Portland mill is the only hot rolled steel plate mill in the 11 Western states and is focused on selling plate and coil in the core markets of the Pacific Northwest.

The RMSM Division consists of the steelmaking and finishing facilities of CF&I Steel, L.P. located in Pueblo, Colorado. The Pueblo mill is a steel minimill which supplies steel for our rail, rod and bar, and seamless tubular finishing mills. The Pueblo mill operates the only rail facility west of the Mississippi River, and is one of only two established rail manufacturers in North America.

*Oregon Steel Division*

*Portland Mill.* The Portland mill is the only hot-rolled steel plate minimill and steel plate production facility in the 11 Western states. The Portland mill melt shop has the capability to produce steel slab thicknesses of 6", 7", 8" or 9" and the rolling mill can produce finished steel plate in widths up to 136" and coiled plate in widths up to 120". In May 2003, we shut down our Portland mill melt shop and recorded an asset impairment charge of $27.0 million, and we are currently producing our finished product from purchased steel slab. We intend to maintain the melt shop in operating condition but we are also exploring other alternatives and have contracted with a third party to market the melt shop equipment to suitable buyers.

During 1997, we completed the construction of a Steckel combination mill ("Combination Mill") at our Portland mill. The project included installation of a new reheat furnace, a 4-high rolling mill with coiling furnaces, a vertical edger, a down coiler, on-line accelerated cooling, hot leveling and shearing equipment, extended roll lines, and a fully automated hydraulic gauge control system.

The Combination Mill gives us the ability to produce steel plate in commercially preferred dimensions and sizes, increases our manufacturing flexibility and supplies substantially all our plate requirements for large diameter line pipe, as well as coiled plate for applications such as the smaller diameter ERW pipe manufactured at the Camrose pipe mill and structural tubing manufactured at CST. The Combination Mill produces discrete steel plate in widths from 48" to 136" and in thicknesses from $^{3}/_{16}$" to 8". Coiled plate can be produced in widths of 48" to 120" and in thicknesses that range from 0.09" to 0.75". With the Combination Mill, we are in a position to produce all grades of discrete steel plate and coiled plate for substantially all of our commodity and specialty markets, including heat-treated applications.

*Napa Pipe Mill.* The Napa pipe mill produces large diameter steel pipe of a quality suitable for use in high pressure oil and gas transmission pipelines. The Napa pipe mill can produce pipe with an outside diameter ranging from 16" to 42", with wall thicknesses of up to $1^{1}/_{16}$" and in lengths of up to 80 feet, and can process two different sizes of pipe simultaneously in its two finishing sections. Although the Portland mill can supply substantially all of the Napa pipe mill's specialty plate requirements, due to market conditions and other considerations, the Napa pipe mill may purchase steel plate from third-party suppliers. In June 2004, we announced that the Napa pipe mill would be idled indefinitely.

*Camrose Pipe Mill.* We acquired a 60% interest in the Camrose pipe mill in June 1992 from Stelco, Inc., a large Canadian steel producer. The Camrose pipe mill has two pipe manufacturing mills, a large diameter pipe mill similar to the Napa pipe mill and an ERW pipe mill which produces steel pipe used by the oil and gas industry. The large diameter pipe mill produces pipe in lengths of up to 80 feet with a diameter ranging from 20" to 42". The ERW mill produces pipe in sizes ranging from 4 1/2" to 16" in diameter.

*Columbia Structural Tubing.* In October 2003, we leased (with an option to buy) the equipment of the former LTV Structural Tube Facility located in the Rivergate Industrial Park in Portland, Oregon. The lease expires in March 2017. We have the option to purchase the assets beginning in October 2013 and extending through the term of the lease. The leased equipment consists of a slitting line, a structural tubing mill, a proprietary in-line coating system and a manufacturing/warehousing structure. The facility, known as Columbia Structural Tubing, is located one mile from the Portland mill. The CST structural tubing mill produces rectangular hollow steel sections ("HSS") in sizes ranging from 2 1/2" to 10".

See "Business Properties," for discussion of the operating capacities of the Portland mill, the Camrose pipe mill, CST, and the Napa pipe mill.

*RMSM Division*

On March 3, 1993, New CF&I, a wholly owned subsidiary of Oregon Steel Mills, Inc., acquired a 95.2% interest in CF&I, a newly formed Delaware limited partnership. The remaining 4.8% interest was owned by the Pension Benefit Guaranty Corporation ("PBGC"). CF&I then purchased substantially all of the steelmaking, fabricating, metals, and railroad business assets of CF&I Steel Corporation. In August 1994, New CF&I sold a 10% equity interest in New CF&I to a subsidiary of Nippon Steel Corporation ("Nippon"). In connection with that sale, Nippon agreed to license to us a proprietary technology for producing DHH rail products as well as to provide certain production equipment to produce DHH rail. In November 1995, we sold equity interests totaling 3% in New CF&I to two subsidiaries of the Nissho Iwai Group, a large Japanese trading company. In 1997, Oregon Steel Mills, Inc. purchased the 4.8% interest in CF&I owned by the PBGC. In 1998, Oregon Steel Mills, Inc. sold a 0.5% limited partnership interest in CF&I to a subsidiary of Nippon.

Shortly after the acquisition of the Pueblo mill in 1993, we began a series of major capital improvements designed to increase yields, improve productivity and quality, and expand our ability to offer specialty rail, rod and bar products. The primary components of the Pueblo mill and the related capital improvements, as appropriate, are outlined below.

*Steelmaking.* We installed a ladle refining furnace and a vacuum degassing facility and upgraded both continuous casters. During 1995, we eliminated ingot casting and replaced it with more efficient continuous casting methods that allow us to cast directly into bloom. These improvements expanded the Pueblo mill steelmaking capacity to 1.2 million tons.

*Rod and Bar Mill.* At the time of their acquisition, the rod and bar mills at the Pueblo mill were relatively old and located in separate facilities, which resulted in significant inefficiencies as we shifted production between them in response to market conditions. In 1995, we commenced operation of a new combination rod and bar mill with a new reheat furnace and a high speed rod train, capable of producing commodity and specialty grades of rod and bar products. These improvements have enabled us to produce a wider range of high margin specialty products, such as high-carbon rod, merchant bar and other specialty bar products, and larger rod coil sizes, which we believe are preferred by many of our customers.

*Rail Manufacturing.* At the time of our acquisition of the Pueblo mill, rail was produced by ingot casting using energy-intensive processes with significant yield losses as the ingots were reheated, reduced to blooms and then rolled into rail. Continuous casting has increased rail yields and decreased rail manufacturing costs. In 1996, we invested in the Pueblo mill's railmaking capacity by entering into the agreement with Nippon for the license of its proprietary technology to produce DHH rail, and acquired the production equipment necessary to produce the specialty rail. DHH rail is considered by the rail industry to be longer lasting and of higher quality than rail produced using conventional methods and, accordingly, DHH rail usually has a corresponding higher average selling price. We believe we are able to meet the needs of a broad array of rail customers with both traditional and DHH rail.

*Seamless Pipe.* Seamless pipe produced at the Pueblo mill consists of seamless casing, coupling stock and standard and line pipe. Seamless pipe casing is used as a structural retainer for the walls of oil or gas wells. Standard and line pipes are used to transport liquids and gasses both above and underground. Our seamless pipe mill is equipped to produce the most widely used sizes of seamless pipe (5" outside diameter through $10^{3}/_{4}$" outside diameter) in all standard lengths. Our production capability includes carbon and heat-treated tubular products. We also sell semi-finished seamless pipe (referred to as green tubes) for processing and finishing by others.

See "Business Properties" for discussion of the operating capacities of the Pueblo mill.

**Products**

***Overview***

We manufacture and market one of the broadest lines of specialty and commodity steel products of any domestic minimill company. Through acquisitions and capital improvements, we have expanded our range of finished products from two in 1991, discrete plate and large diameter welded pipe, to nine currently by adding ERW pipe, rail, rod, bar, seamless pipe, coiled plate, and structural tubing. We have also expanded our primary selling region from the Western United States to national and international markets. See Note 3 to the Consolidated Financial Statements as of December 31, 2003.

The following chart identifies our principal products and the primary markets for those products.

| | Products | Markets |
|---|---|---|
| **Oregon Steel Division** | Specialty steel and coiled plate | Steel service centers<br>Heavy equipment manufacturers<br>Railcar manufacturers<br>Pressure vessel manufacturers<br>Welded pipe mills |
| | Commodity steel and coiled plate | Steel service centers<br>Construction<br>Ship and barge manufacturers<br>Heavy equipment manufacturers |
| | Large diameter steel pipe | Oil and petroleum natural gas transmission pipelines<br>Construction |
| | ERW pipe | Oil and natural gas line pipe<br>Construction |
| | Structural tubing | Steel service centers<br>Construction<br>Ship and barge manufacturers<br>Heavy equipment manufacturers |
| **RMSM Division** | Rail | Rail transportation |
| | Rod and bar products | Construction<br>Durable goods<br>Capital equipment |
| | Seamless pipe | Oil and petroleum producers |

The following table sets forth for the period indicated the tonnage sold and our total shipments by product class:

| | Tons Sold | | |
|---|---|---|---|
| **Product Class** | **2003** | **2002** | **2001** |
| Oregon Steel Division: | | | |
| Steel Plate | 424,500 | 402,000 | 463,100 |
| Coiled Plate | 76,800 | 65,600 | 8,900 |
| Large Diameter Steel Pipe | 181,200 | 444,600 | 281,300 |
| Electric Resistance Welded Pipe | 56,600 | | |