OREGON STEEL MILLS INC
Form 10-Q
May 15, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2001

OR

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

For the transition period from ____________________ to ____________________

Commission File Number 1-9887

OREGON STEEL MILLS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-0506370
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1000 S.W. Broadway, Suite 2200, Portland, Oregon	97205
(Address of principal executive office)	(Zip Code)

(503) 223-9228
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's

classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding (as of April 26, 2001)
Common Stock, $.01 Par Value	25,776,804

OREGON STEEL MILLS, INC.
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OREGON STEEL MILLS, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands)
(Unaudited)

	March 31, 2001	D
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,098	
Trade accounts receivable, net	94,277	
Inventories	122,117	
Deferred tax asset and other current assets	11,894	
Total current assets	232,386	
Property, plant and equipment:		
Land and improvements	29,928	
Buildings	50,382	
Machinery and equipment	779,902	
Construction in progress	10,064	
	870,276	
Accumulated depreciation	(295,777)	
	574,499	
Costs in excess of net assets acquired, net	33,166	
Other assets	26,167	
	$ 866,218	
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 13,248	
Accounts payable	77,950	
Accrued expenses	43,408	
Total current liabilities	134,606	
Long-term debt	309,687	
Deferred employee benefits	23,008	
Environmental liability	32,577	
Deferred income taxes	16,919	
Total liabilities	516,797	
Minority interests	28,596	
Contingencies (Note 6)		
STOCKHOLDERS' EQUITY		
Common stock	258	
Additional paid-in capital	227,584	

Retained earnings	101,586
Accumulated other comprehensive income:	
Cumulative foreign currency translation adjustment	(8,603)
Total stockholders' equity	320,825
	$ 866,218

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

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OREGON STEEL MILLS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except tonnage and per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
Sales	$ 167,480	$ 164,903
Costs and expenses:		
Cost of sales	160,011	161,642
Selling, general and administrative expenses	13,821	12,611
Profit participation and other incentive compensation	44	165
	173,876	174,418
Operating loss	(6,396)	(9,515)
Other income (expense):		
Interest and dividend income	107	119
Interest expense, net	(9,077)	(8,506)
Minority interests	(101)	447
Other, net	296	62
Loss before income taxes	(15,171)	(17,393)
Provision for income tax benefit	5,611	6,626
Net loss	$ (9,560)	$ (10,767)
Basic and diluted net loss per share	$(.36)	$(.41)
Dividends declared per common share	$ --	$ .02
Weighted average common shares and common share equivalents outstanding	26,375	26,375

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

OREGON STEEL MILLS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 3	
	2001	2000
Cash flows from operating activities:		
Net loss	$ (9,560)	$ (10,767)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,263	11,648
Deferred income tax provision	(5,708)	(6,989)
Minority interests' share of income	101	(447)
Changes in operating assets and liabilities	7,483	10,452
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,579	3,897
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,248)	(4,837)
Other, net	1,940	492
NET CASH USED BY INVESTING ACTIVITIES	(308)	(4,345)
Cash flows from financing activities:		
Net payments under Canadian bank revolving loan facility	(1,582)	(20)
Proceeds from credit facility	160,511	71,680
Payments on credit facility and long-term debt	(158,936)	(64,539)
Minority portion of subsidiary's distribution	(1,276)	(2,739)
Repurchase of bonds	--	(6,750)
Dividends paid	--	(516)
NET CASH USED BY FINANCING ACTIVITIES	(1,283)	(2,884)
Effects of foreign currency exchange rate changes on cash	(1,260)	(106)
Net increase (decrease) in cash and cash equivalents	728	(3,438)
Cash and cash equivalents at beginning of period	3,370	9,270
Cash and cash equivalents at end of period	$ 4,098	$ 5,832

	=========	=========
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 2,056	$ 2,654
Income taxes	$ 20	$ 1,829

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

OREGON STEEL MILLS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Oregon Steel Mills, Inc. and its subsidiaries ("Company"), which include wholly-owned Camrose Pipe Corporation ("CPC"), which through ownership in another corporation, holds a 60 percent interest in Camrose Pipe Company ("Camrose"); and 87 percent owned New CF&I, Inc. ("New CF&I") which owns a 95.2 percent interest in CF&I Steel, L.P. ("CF&I"). The Company 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. All significant intercompany balances and transactions have been eliminated.

The unaudited financial statements include all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the interim periods. Results for an interim period are not necessarily indicative of results for a full year. Reference should be made to the Company's 2000 Annual Report on Form 10-K for additional disclosures including a summary of significant accounting policies.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" on June 15, 1998, establishing the accounting treatment for commercial entities' positions in derivative instruments. The Company adopted SFAS No. 133, effective January 1, 2001, however, the impact on the Company's consolidated financial position and consolidated results of operations was immaterial.

2. INVENTORIES

Inventories were as follows:

	March 31, 2001	December 31, 2000

	(In thousands)	
Raw materials	$11,055	$10,189
Semifinished product	41,803	49,816
Finished product	42,314	43,415
Stores and operating supplies	26,945	26,381
Total inventory	$122,117	$129,801

3. NET LOSS PER SHARE

Basic and diluted net loss per share was as follows:

	Three Months Ended March 31, 2001	2000
	(In thousands, except per share amounts)	
Weighted average number of common shares outstanding	25,777	25,777
Shares of common stock to be issued March 2003	598	598
	26,375	26,375
Net loss	$ (9,560)	$(10,767)
Basic and diluted net loss per share	$ (.36)	$ (.41)

4. COMPREHENSIVE LOSS

	Three Months Ended March 31, 2001	2000
	(In thousands)	
Net loss	$ (9,560)	$ (10,767)
Foreign currency translation adjustment	(1,260)	(106)
Comprehensive loss	$(10,820)	$ (10,873)

5. DEBT, FINANCING ARRANGEMENTS, AND LIQUIDITY

Debt balances were as follows:

	March 31, 2001	December 31, 2000
	(In thousands)	
11% First Mortgage Notes ("Notes")	$228,250	$228,250
Revolving credit facility	71,331	69,756
CF&I acquisition term loan	23,161	23,161
Camrose revolving bank loan	193	1,814
	322,935	322,981
Less current portion of long-term debt	13,248	8,625
Non-current portion of long-term debt	$309,687	$314,356

The Company has $228.3 million principal amount of Notes due 2003, payable to outside parties. The Indenture under which the Notes were issued contains potential restrictions on new indebtedness and various types of disbursements, including dividends, based on the Company's net income in relation to its fixed charges, as defined. Under these restrictions, there was no amount available for cash dividends at March 31, 2001.

On December 1, 2000, the Company entered into a $125 million revolving credit facility ("Credit Agreement"), which expires April 30, 2003. The Credit Agreement contains various restrictive covenants including minimum consolidated tangible net worth, minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") coverage ratio, maximum annual capital expenditures, limitations on stockholder dividends and limitations on incurring new or additional debt obligations other than borrowings provided by the Credit Agreement. The Company cannot issue cash dividends without prior approval from the lenders.

The Company is able to draw up to $15 million of the borrowings available under the Credit Agreement to support issuance of letters of credit and similar contracts. At March 31, 2001, $5.2 million was restricted under outstanding letters of credit.

The Company experienced a net loss for the quarter ended March 31, 2001. Despite the unfavorable operating results for the period, the Company has been able to fulfill its needs for working capital and capital expenditures, due in part to its ability to maintain adequate financing arrangements. The Company expects that operations will continue for the remainer of 2001, with the realization of assets, and discharge of liabilities in the ordinary course of business. The Company believes that its prospective needs for working capital and capital expenditures will be met from cash flows generated by operations and borrowings pursuant to the Credit Agreement. If operations are not consistent with management's plans, there is no assurance that the amounts from these sources will be sufficient for such purposes. In that event, or for other reasons, the Company may be required to seek alternative financing arrangements. There is no assurance that such sources of financing will be available if required or, if available, will be on terms satisfactory to the Company.

6. CONTINGENCIES

Environmental

All material environmental remediation liabilities, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required and affect the total cost. The best estimate of the probable cost within a range is recorded; however, if there is no best estimate, the low end of the range is recorded and the range is disclosed.

In May 2000, the Company entered into a Voluntary Clean-up Agreement with the DEQ committing it to conduct an investigation of whether, and to what extent, past or present operations at the Company's steel mill site located in Portland, Oregon ("Portland Mill") might have affected sediment quality in the Willamette River. The Company has begun preliminary studies related to this investigation, however, no conclusive data have been obtained. The Company has expended an insignificant amount to date; however, it appears that further investigation, with associated costs, will be necessary to complete the request. It is not presently possible to estimate the costs associated with completion of this investigation.

In a related manner, in December 2000, the Company received a notice from the U.S. Environmental Protection Agency ("EPA"), identifying it, along with many other entities, as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act with respect to contamination in a portion of the Willamette River that has been designated as a Superfund site. As the Portland Mill is located downstream from the portion of the river so designated, the Company has requested from the EPA evidence with respect to the basis for the potential liability. It is not presently possible to determine the costs associated with this designation, in the event the Company is unable to demonstrate that it is not a PRP.

In connection with the acquisition of the steel mill located in Pueblo, Colorado ("Pueblo Mill"), the Company accrued a liability of $36.7 million for environmental remediation related to the prior owner's operations. The Company believed this amount was the best estimate from a range of $23.1 million to $43.6 million. The Company's estimate of this liability was based on two separate remediation investigations conducted by independent environmental engineering consultants, and included costs for the Resource Conservation and Recovery Act facility investigation, a corrective measures study, remedial action, and operation and maintenance associated with the proposed remedial actions. In October 1995, CF&I and the Colorado Department of Public Health and Environment ("CDPHE")finalized a postclosure permit for hazardous waste units at the Pueblo Mill. As part of the postclosure permit requirements, CF&I must conduct a corrective action program for the 82 solid waste management units at the facility and continue to address projects on a prioritized corrective action schedule which is substantially reflective of a straight-line rate of expenditure over 30 years. The State of Colorado mandated that the schedule for corrective action could be accelerated if new data indicated a greater threat existed to the environment than was presently believed to exist. At March 31, 2001, the accrued liability was $32.5 million, of which $30.9 million was classified as non-current in the consolidated balance sheet.

The CDPHE inspected the Pueblo Mill in 1999 for possible environmental violations, and in the fourth quarter of 1999 issued a Compliance Advisory indicating that air quality regulations had been violated, which was followed by the filing of a judicial enforcement action ("Action") in the

first quarter of 2000. Although the Action has not been quantified, resolution will likely include payment of penalties and an agreement to implement additional pollution controls. The Company has allocated up to $2 million in capital expenditures to reach resolution with the CDPHE. It is not presently possible to determine if further expenditures will be necessary to satisfy the liability, if any, associated with the Action.

In a related matter, on April 27, 2000, the United Steel Workers of America ("Union") filed suit in U.S. District Court in Denver, Colorado, asserting that the Company had violated the Clean Air Act Amendments of 1990 at the Pueblo Mill for a period extending over five years. The suit seeks damages and to compel the Company to incur significant capital improvements or alter its operating procedures so that the Pueblo Mill would be in compliance with more stringent environmental standards than the Company currently is operating under. The Company does not believe as a matter of law that it has an obligation to meet these standards. Although the

Company expects that the impact of any adverse determination reached in this matter would be at least partially mitigated as a result of the resolution of the Action discussed above, it is not presently possible to estimate the ultimate liability in the event of an adverse finding.

Labor Dispute

The labor contract at CF&I expired on September 30, 1997. After a brief contract extension intended to help facilitate a possible agreement, on October 3, 1997, the Union initiated a strike at CF&I for approximately 1,000 bargaining unit employees. The parties failed to reach final agreement on a new labor contract due to differences on economic issues. As a result of contingency planning, CF&I was able to avoid complete suspension of operations at the Pueblo Mill by utilizing a combination of permanent replacement workers, striking employees who returned to work, contractors and salaried employees.

On December 30, 1997, the Union called off the strike and made an unconditional offer to return to work. At the time of this offer, only a few vacancies existed at the Pueblo Mill. Since that time, vacancies have occurred and have been filled by formerly striking employees. As of March 31, 2001, approximately 530 formerly striking employees had either returned to work or had declined CF&I's offer of equivalent work. At March 31, 2001, approximately 400 formerly striking workers remain unreinstated ("Unreinstated Employees").

On February 27, 1998 the Regional Director of the National Labor Relations Board ("NLRB") Denver office issued a complaint against CF&I, alleging violations of several provisions of the National Labor Relations Act ("NLRA"). CF&I not only denies the allegations, but rather believes that both the facts and the law fully support its contention that the strike was economic in nature and that it was not obligated to displace the properly hired permanent replacement employees. On August 17, 1998, a hearing on these allegations commenced before an Administrative Law Judge ("Judge"). Testimony and other evidence were presented at various sessions in the latter part of 1998 and early 1999, concluding on February 25, 1999. On May 17, 2000, the Judge rendered a decision upholding certain allegations against CF&I. On August 2, 2000, CF&I filed an appeal with the NLRB in Washington D.C. The ultimate determination of the issues may require a ruling from the appropriate United States appellate court.

In the event there is an adverse determination of these issues, Unreinstated Employees could be entitled to back pay, including benefits, from the date of the Union's unconditional offer to return to work through the date of the adverse determination. The number of Unreinstated Employees entitled to back pay would probably be limited to the number of past and present replacement workers; however, the Union might assert that all Unreinstated Employees should be entitled to back pay. Back pay is generally determined by the quarterly earnings of those working less interim wages earned elsewhere by the Unreinstated Employees. In addition to other considerations, each Unreinstated Employee has a duty to take reasonable steps to mitigate the liability for back pay by seeking employment elsewhere that has comparable working conditions and compensation. A separate hearing concluded in February 2000, with the judge for that hearing rendering a decision on August 7, 2000, that certain of the Union's actions undertaken since the beginning of the strike did constitute misconduct and violations of certain provisions of the NLRA. Given the inability to either determine the extent the adverse and offsetting mitigating factors discussed above will impact the liability or to quantify the financial impact of any of these factors, it is not presently possible to estimate the liability if there is ultimately an adverse determination.

During the strike by the Union at CF&I, 38 bargaining unit employees of the Colorado & Wyoming Railway Company ("C&W"), a wholly-owned subsidiary of New CF&I, refused to report to work for an extended period of time, claiming that concerns for their safety prevented them from crossing the picket line. The bargaining unit employees of C&W were not on strike, and because the other C&W employees reported to work without incident, C&W considered those employees to have quit their employment and, accordingly, C&W declined to allow those individuals to return to work. The various unions representing those individuals filed claims with C&W asserting that the C&W had violated certain provisions of the applicable collective bargaining agreement, the Federal Railroad Safety Act ("FRSA"), or the Railway Labor Act. In all of the claims, the unions demand reinstatement of the former employees with their seniority intact, back pay and benefits.

The United Transportation Union, representing thirty of those former employees, asserted that their members were protected under the FRSA and pursued their claim before the Public Law Board ("PLB"). A hearing was held in November 1999, and the PLB, with one member dissenting, rendered an award on January 8, 2001 against C&W, ordering the reinstatement of those claimants who intend to return to work for C&W, at their

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prior seniority, with back pay and benefits, net of interim wages earned elsewhere. On February 6, 2001, C&W filed a petition for review of that award in the District Court for the District of Colorado, and intends to pursue this matter through the appropriate United States appellate court, if necessary. Given the inability to determine the number of former employees who intend to return to work at C&W and the extent to which the adverse and mitigating factors discussed above will impact the liability for back pay and benefits, it is not presently possible to estimate the liability if there is ultimately an adverse determination.

The Transportation-Communications International Union, Brotherhood Railway Carmen Division, representing six of those former employees, asserted that their members were protected under the terms of the collective bargaining agreement and pursued their claim before a separate PLB. A hearing was held in January 2001, and that PLB, with one member dissenting, rendered an award on March 14, 2001 against C&W, ordering the reinstatement of those

claimants who intend to return to work for C&W, at their prior seniority, with back pay and benefits, net of interim wages earned elsewhere. The Company is determining whether to appeal the matter, but given the inability to determine the number of former employees who intend to return to work at C&W and the extent to which the adverse and mitigating factors discussed above will impact the liability for back pay and benefits, it is not presently possible to estimate the liability if there is ultimately an adverse determination.

Of the remaining former employees, the claims are either pending or have been adjudicated in favor of C&W. For the matter that is still pending, C&W intends to vigorously defend itself, and believe that it has meritorious defenses against the outstanding claim. For the claim that has been decided in its favor, there is no assurance that further appeals will not be pursued by the claimant or the union. The outcome of such proceedings is inherently uncertain, and it is not possible to estimate any potential settlement amount that would result from adverse court or arbitral decisions.

OREGON STEEL MILLS, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following information contains forward-looking statements which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties and actual results could differ materially from those projected. Such risks and uncertainties include, but are not limited to, general business and economic conditions; competitive products and pricing, as well as fluctuations in demand; the supply of imported steel and subsidies provided by foreign governments to support steel companies domiciled in their countries; potential equipment malfunction; work stoppages, plant construction and repair delays, and failure of the Company to accurately predict the impact of lost revenues associated with interruption of the Company's, its customers' or suppliers' operations.

The Company is organized into two business units known as the Oregon Steel Division and the Rocky Mountain Steel Mills ("RMSM") Division. The Oregon Steel Division is centered on the Company's steel plate minimill in Portland, Oregon ("Portland Mill"). In addition to the Portland Mill, the Oregon Steel Division includes the Company's large diameter pipe finishing facility in Napa, California and the large diameter and electric resistance welded pipe facility in Camrose, Alberta. The RMSM Division consists of the steelmaking and finishing facilities of CF&I Steel, L.P. ("CF&I") located in Pueblo, Colorado, as well as certain related operations.

Results of Operations

The following table sets forth by division tonnage sold, sales and average selling price per ton:

	Three Months Ended March 31,	
	2001	2000
Total tonnage sold:		
Oregon Steel Division:		
Plate and Coil	150,300	206,600
Welded pipe	57,200	38,800
Total Oregon Steel Division	207,500	245,400
RMSM Division:		
Rail	55,100	75,000
Rod and Bar	106,100	94,600
Seamless Pipe	29,200	-
Semi-finished	2,700	16,500
Total RMSM Division	193,100	186,100
Total Company	400,600	431,500
Sales (in thousands):		
Oregon Steel Division	$ 95,023	$ 99,207
RMSM Division	72,457	65,696
Total Company	$167,480	$164,903
Average selling price per ton:		
Oregon Steel Division	$458	$404
RMSM Division	$375	$353
Company Average	$418	$382

Sales increased 1.6 percent for the first quarter on a year over year basis, to $167.5 million for the first quarter of 2001 from $164.9 million for the first quarter in 2000, while the consolidated average selling price increased to $418 per ton for 2001 from $382 per ton for 2000. The increase in average selling price is primarily due to a shift in product mix from plate and coil products to welded and seamless pipe products, partially offset by lower selling prices for the Company's rail and rod and bar products.

The Company's shipments decreased 7.2 percent to 400,600 tons for the first quarter of 2001 from 431,500 tons for the first quarter of 2000. The decrease in shipments was primarily the result of decreased shipments of plate products by the Oregon Steel Division and a decrease in rail and semi-finished product shipments by the RMSM Division, partially offset by increased shipments of welded pipe products by the Oregon Steel Division and seamless pipe and rod and bar products by the RMSM Division.

The Oregon Steel Division shipped 207,500 tons of plate, coil and welded pipe products at an average selling price of $458 per ton during the first quarter of 2001 as compared to 245,400 tons of product at an average selling price of $404 per ton for the corresponding period for 2000. The increase in the

average selling price is due primarily to a shift in product mix from plate and coil to large diameter welded pipe, as welded pipe generally has a higher average selling price than plate and coil, and to an increase in the average selling price for plate as compared to average selling price one year ago. Welded pipe shipments during the first quarter of 2001 were significantly greater than in the comparable period in 2000, increasing to 57,200 tons for 2001 from 38,800 tons for 2000. The level of shipments of welded pipe during 2000 was the result of a general lack of market demand for pipe products. During the first quarter of 2001, the Oregon Steel Division plate mill produced 205,300 tons of plate and coil products compared to 217,600 tons for the first quarter of 2000. However, shipments to non-affiliated plate and coil customers during the first quarter of 2001 were 150,300 tons compared to 206,600 tons during the corresponding 2000 period, primarily due to a greater percentage of plate production being required during 2001 to fulfill the welded pipe orders than during 2000.

The RMSM Division shipped 193,100 tons of rail, rod and bar, seamless pipe and semifinished products at an average selling price of $375 per ton for the first quarter of 2001, compared to 186,100 tons of product at an average selling price of $353 per ton for the first quarter of 2000. The increase in shipments is a result of an increase in seamless pipe and rod and bar product shipments, partially offset by a decrease in rail and semi-finished shipments. Due to adverse market conditions, the division did not ship any seamless products during 2000 until the seamless mill was reopened in October 2000, after those market conditions had improved. The increase in average selling price is a result of the shift in product mix to seamless pipe partially offset by reduced average selling prices for the division's rod and bar and rail products. Seamless pipe products have the highest average selling prices of the division's products. The division shipped 55,100 tons of rail for the first quarter of 2001 compared to 75,000 tons for the first quarter of 2000, primarily due to a major rail customer canceling its orders due to a significant reduction of its capital spending program.

Gross profit for the first quarter of 2001 was $7.5 million or 4.5 percent compared to $3.3 million or 2.0 percent for the first quarter of 2000. The $4.2 million increase in gross profit was primarily due to the increase in shipments of and improved profitability for welded pipe and seamless pipe, and higher average selling prices for plate products. These factors were partially offset by a decrease in the profitability of rail products due to the cutback in shipments discussed above, a decrease in the average selling price of welded pipe and rod and bar products, decreased shipments of semi-finished products and higher energy costs, primarily for natural gas.

Selling, general and administrative expenses for the first quarter of 2001 increased $1.2 million from the corresponding 2000 period and increased as a percentage of sales to 8.3 percent in the first quarter of 2001, from 7.6 percent for the corresponding 2000 period. The increase in cost is primarily due to increased shipping costs associated with the increased welded and seamless pipe shipments.

Total interest expense for the first quarter of 2001 was $9.1 million compared to $8.5 million for the corresponding 2000 period. The increase in expense was primarily due to an increase in the average borrowing outstanding for the first quarter in 2001 as compared to the first quarter in 2000.

The Company's effective income tax rates for state and federal taxes were a benefit of 37.0 percent and 38.1 percent for the three month period ended March 31, 2001 and 2000, respectively.

Liquidity and Capital Resources

At March 31, 2001, the Company's liquidity, comprised of cash, cash equivalents, and funds available under the revolving credit agreement ("Credit Agreement"), totaled approximately $49.1 million compared to $36.9 million at December 31, 2000.

Cash flow from operations for the three month period ended March 31, 2001 was $3.6 million compared to $3.9 million in the respective period of 2000. The major items causing the decrease were a smaller decrease in inventories for 2001 than for 2000 ($6.0 million), partially offset by a smaller increase in net receivables for 2001 than for 2000 ($2.8 million), a smaller loss for 2001 than for 2000 ($1.2 million), and a smaller decrease in deferred taxes for 2001 than for 2000 ($1.3 million).

Net working capital at March 31, 2001 decreased $11 million from $108.8 million at December 31, 2000 to $97.8 million at March 31, 2001, reflecting a $3.1 million decrease in current assets and a $7.9 million increase in current liabilities. The decrease in current assets was primarily due to decreased inventories ($7.7 million), partially offset by increased trade accounts receivable ($3.1 million). The increase in current liabilities was due to increased accrued expenses ($7.3 million), related in part to the accrued interest for the 11% First Mortgage Notes ("Notes"), and the increase in current portion of long-term debt ($4.6 million), partially offset by reduced accounts payable ($4.1 million) related to the lower inventory.

The Company has $228.3 million principal amount of Notes due 2003, payable to outside parties, which bear interest at 11 percent. New CF&I, Inc. and CF&I (collectively, "Guarantors") guarantee the Notes. The Notes and the guarantees are secured by a lien on substantially all the property, plant and equipment and certain other assets of the Company (exclusive of Camrose) and the Guarantors. The collateral does not include, among other things, accounts receivable and inventory. The Indenture under which the Notes were issued contains potential restrictions on new indebtedness and various types of disbursements, including dividends, based on the Company's net income in relation to its fixed charges, as defined. Under these restrictions, there was no amount available for cash dividends at March 31, 2001.

On December 1, 2000, the Company entered into the Credit Agreement, which expires on April 30, 2003. The Guarantors guarantee the Credit Agreement. The amount available is the lesser of $125 million or the sum of the product of the Company's eligible domestic accounts receivable and inventory balances and specified advance rates. The Credit Agreement and guarantees are secured by these assets in addition to a shared security interest in certain equity and intercompany interests of the Company. At the Company's election, interest on the Credit Agreement is based on either the Eurodollar rate plus a margin of 2.75 percent, or the prime rate plus a margin of .5 percent. As of March 31, 2001, the average interest rate for the Credit Agreement was 8.83 percent. The unused line fees are .38 percent of the difference from $125 million and the amount outstanding, including letters of credit. The Credit Agreement contains various restrictive covenants including minimum consolidated tangible net worth, minimum earnings before interest, taxes, depreciation and amortization coverage ratio, maximum annual capital expenditures, limitations on stockholder dividends and limitations on incurring new or additional debt obligations other than borrowings provided by the Credit Agreement. The Company cannot issue cash dividends without prior approval from the lenders. There is a fee payable in the event the Credit Agreement is terminated prior to April 30, 2003, decreasing after each subsequent anniversary of the Credit Agreement's obligation. At March 31, 2001, the outstanding balance on the Credit Agreement was $71.3 million.

The Company is able to draw up to $15 million of the borrowings available under the Credit Agreement to support issuance of letters of credit and similar contracts. At March 31, 2001, $5.2 million was restricted under outstanding letters of credit.

CF&I incurred $67.5 million in term debt in 1993 as part of the purchase price of certain assets, principally the Pueblo, Colorado steelmaking and finishing facilities, from CF&I Steel Corporation. This debt is without stated collateral and is payable over ten years, bearing interest at 9.5 percent. As of March 31, 2001, the outstanding balance on the debt was $23.2 million, of which $9.9 million was classified as long-term.

Camrose maintains a (CDN) $15 million revolving credit facility with a Canadian bank, the proceeds of which may be used for working capital and general corporate purposes. 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. The facility expires September 12, 2002. At the Company's election, interest is payable based on either the bank's Canadian dollar prime rate, the bank's U.S. dollar prime rate, or LIBOR. As of March 31, 2001, the interest rate of this facility was 7.5 percent. Annual commitment fees are .25 percent of the unused portion of the credit line. At March 31, 2001, the outstanding balance under the credit facility was $193,000.

During the first three months of 2001, the Company expended (exclusive of capital interest) approximately $164,000 and $3.1 million on capital projects at the Oregon Steel Division and the RMSM Division, respectively.

Despite the unfavorable operating results for the quarter ended March 31, 2001, the Company has been able to fulfill its needs for working capital and capital expenditures, due in part on its ability to secure adequate financing arrangements. The Company expects that operations will continue for the remainder of 2001, with the realization of assets, and discharge of liabilities in the ordinary course of business. The Company believes that its prospective needs for working capital and capital expenditures will be met from cash flows generated by operations and borrowings pursuant to the Credit Agreement. If operations are not consistent with management's plans, there is no assurance that the amounts from these sources will be sufficient for such purposes. In that event, or for other reasons, the Company may be required to seek alternative financing arrangements. There is no assurance that such sources of financing will be available if required or, if available, will be on terms satisfactory to the Company. The Company's level of indebtedness presents other risks to investors, including the possibility that the Company and its subsidiaries may be unable to generate cash sufficient to pay the principal of and interest on their indebtedness when due. In that event, the holders of such indebtedness may be able to declare all indebtedness owing to them to be due and payable immediately, and to proceed against their collateral, if applicable. These actions would likely have a material adverse effect on the Company.

The Company is currently in compliance with the restrictive debt covenants applicable to its financing arrangements; however, the Company anticipates that given the current unfavorable market conditions, it is unlikely that the Company will continue to remain in compliance with these covenants as presently structured. The Company is currently in preliminary discussions with its lenders to restructure the Credit Agreement, if required, to provide additional operating and financial flexibility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes.

OREGON STEEL MILLS, INC.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Part 1, "Consolidated Financial Statements - Note 6, Contingencies" for discussion of claims adjudicated in the first quarter of 2001 regarding the former employees of the Colorado & Wyoming Railway Company, a wholly owned subsidiary of New CF&I, which arose from the labor dispute.

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

The Company held its Annual Meeting of Stockholders on April 26, 2001. The stockholders elected Messrs. Joe E. Corvin and John A. Sproul as directors, to serve until April 2004. Messrs. Corvin and Sproul were elected by a vote of 20,059,298 and 22,832,946 shares, respectively, for; 3,254,491 and 480,843 shares, respectively, withheld authority to vote; and broker non-votes totaled 2,463,015 shares.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

No reports on Form 8-K were required to be filed by the Registrant during the quarter ended March 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OREGON STEEL MILLS, INC.

Date: May 15, 2001

/s/ Jeff S. Stewart

Jeff S. Stewart
Corporate Controller

(Principal Accounting Officer)