# Document Information Form

Mine Number: C/007/007

File Name: Incoming

To: DOGM

**From:**

Person N/A

Company Securities And Exchange Commission

**Date Sent:** April 30, 1984

**Explanation:**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**cc:**

File in:
C/ 007 , 007 , Incoming
Refer to:
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- ☐ Shelf
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As Filed with the Securities and Exchange Commission and Amended.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-K

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

**For the Fiscal Year Ended December 31, 1983** **Commission File Number 1-7651**

# Kaiser Steel Corporation

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| Delaware<br>**(State of Incorporation)** | 94-0594733<br>**(I.R.S. Employer Identification Number)** |

RECEIVED

APR 30 1984

DIVISION OF OIL
GAS & MINING

9400 Cherry Avenue, P.O. Box 5050
Fontana, California 92335
**(Address of principal executive office and zip code)**

(714) 350-5199
**(Registrant's telephone number, including area code)**

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

| Title: | Exchange on which registered: |
|---|---|
| Series A Preferred Stock, $1 par value | Pacific Stock Exchange |
| Series B Preferred Stock, $1 par value | Pacific Stock Exchange |

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

None

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 ☒ No ☐

State the aggregate market value of the voting stock held by non-affiliates of the registrant:

| Title | Aggregate Market Value as of March 12, 1984 | Shares Excluded Because Held by Persons Who May Be Deemed Affiliates |
|---|---|---|
| Common Stock, 10 cents par value | No established market value | All shares held by persons who may be deemed affiliates |
| Series A Preferred Stock, $1 par value | $52,108,0[illegible] | [illegible] |
| Series B Preferred Stock, $1 par value | $95,074,0[illegible] | |

File in:
☐ Confidential
☐ Shelf
☐ Expandable
Refer to Record No 0026 Date 4-30-84
In C/ 007 , 007 , Incoming
For additional information

Indicate the number of shares outstanding of each of the latest practicable date:

| Class | |
|---|---|
| Common Stock, 10 cents par value | |
| Series A Preferred Stock, $1 par value | |
| Series B Preferred Stock, $1 par value | 7,478,256 |

As Filed with the Securities and Exchange Commission and Amended.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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None

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 ☒ No ☐

State the aggregate market value of the voting stock held by non-affiliates of the registrant:

| Title | Aggregate Market Value as of March 12, 1984 | Shares Excluded Because Held by Persons Who May Be Deemed Affiliates |
|---|---|---|
| Common Stock, 10 cents par value | No established market value | All shares held by persons who may be deemed affiliates |
| Series A Preferred Stock, $1 par value | $52,108,000 | 164,868 |
| Series B Preferred Stock, $1 par value | $95,074,000 | 164,868 |

Indicate the number of shares outstanding of each of the registrant's classes of stock as of the latest practicable date:

| Class | Outstanding at March 30, 1984 |
|---|---|
| Common Stock, 10 cents par value | 10,000,000 |
| Series A Preferred Stock, $1 par value | 7,478,256 |
| Series B Preferred Stock, $1 par value | 7,478,256 |

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# PART I

## Item 1. BUSINESS

### General

As a result of actions taken in 1983 and the first quarter of 1984, the future operations of Kaiser Steel Corporation (the "Company") will be significantly different from those of the past. The operations of the Company are now organized into two principal operating groups: Fabricated Products and Coal. The Fabricated Products Group engages in heavy steel fabrication and erection activities and the manufacture of steel products. The Coal Group mines and markets metallurgical and steam coal. The Company was also engaged in steelmaking and steel finishing until the Company's steelworks at Fontana, California were shut down in late 1983. The Company's fabricating plants, light steel manufacturing plants, and coal mines are all located in the western United States.

In January 1984 stockholders approved the acquisition of the Company by an investment group led by J. A. Frates of Tulsa, Oklahoma. The acquisition of the Company was effected on February 29, 1984 through the merger of Kaiser Acquisition Corporation ("KAC") into the Company (the "Merger"). The transaction was accounted for using the purchase accounting method whereby the assets and liabilities were recorded at their fair values. The fair values of the assets and liabilities will be reviewed for one year subsequent to the Merger and any adjustments will be recorded as an addition or reduction to the excess of purchase price over fair value of net assets acquired. As a result of the Company's decision not to write up assets related to operations which did not provide a 10 percent return, appraisal write-ups aggregating approximately $63 million were not made. See Note C to the Consolidated Financial Statements. In connection with the Merger and the retirement of certain of the Company's outstanding debt, substantial cash payments were made to the former holders of the Company's equity and debt securities and to others. In addition, significant changes were made in the management of the Company.

As a result of the Merger, the discontinuance of steel manufacturing, and the new management's review of the assets and operations of the Company, the future operations of the Company will be significantly different from those of the past. Accordingly, trends indicated from past operating results are not likely to be predictive of future operating results.

### Reincorporation and Merger

At the Annual Meeting of the Company held on January 18, 1984, stockholders approved (1) the change in the state of incorporation of the Company from Nevada to Delaware and (2) an Agreement of Merger, dated October 4, 1983 and subsequently amended (the "Agreement of Merger"), providing for the Merger of KAC into the Company. KAC was a Delaware corporation wholly owned by Equivest Associates, a general investment partnership composed of J. A. Frates, Robert E. Merrick, P. Peter Prudden, III, J. Anthony Frates, and Stephen I. Frates; Charles S. Holmes; Stan P. Doyle; Clifford V. Brokaw, III; and Howard H. Samuels (the "Acquisition Group").

The reincorporation of the Company in Delaware was effected January 26, 1984, through a merger of the Company into its wholly owned Delaware subsidiary which was incorporated on July 26, 1983 for the purpose of effecting the reincorporation.

The Merger of KAC into the Company was consummated on February 29, 1984. Pursuant to the Agreement of Merger, upon consummation of the Merger each share of Common Stock, 66⅔ cents par value (the "66⅔ Cents Par Common Stock"), was converted into the right to receive $22.00 in cash and one share of Series A Preferred Stock and one share of Series B Preferred Stock of the Company. Both the Series A Preferred Stock and the Series B Preferred Stock are listed on the Pacific Stock Exchange. Upon consummation of the Merger the Acquisition Group received, in exchange for their stock in KAC, all of the Common Stock, 10 cents par value (the "Common Stock"), of the Company.

In accordance with the Agreement of Merger, upon consummation of the Merger the following individuals became directors of the Company: J. A. Frates, Robert E. Merrick, Charles S. Holmes, Stan P. Doyle, Clifford V. Brokaw, III, Howard H. Samuels, Joseph Hansen, Stephen A. Girard, Richard N. Gary, William R. Gould and Garfield O. Anderson. Messrs. Gould and Anderson were elected as representatives of the Company's Preferred Stock. Mr. Anderson died on April 8, 1984. Under the Company's Certificate of Incorporation, the remaining director representing the holders of the Preferred Stock, Mr. Gould, has the authority to fill the vacancy. Mr. Gould has not yet appointed Mr. Anderson's successor.

Pursuant to an agreement between the Acquisition Group and a group led by Perma Resources Corporation (the "Perma Group"), immediately following the Merger, Messrs. Doyle, Hansen, Brokaw and Samuels resigned as directors and Monty H. Rial, Charles S. McNeil, Dr. Eustace H. Winn, Jr. and Charles H. Black were elected in their stead by the holders of the Common Stock.

Following the Merger, Stephen A. Girard resigned as Chairman of the Board and Chief Executive Officer, J. A. Frates replaced him as Chairman, and Monty H. Rial was elected Vice Chairman. In March 1984, Richard N. Gary resigned as President of the Company; George M. Perry resigned as Vice President, General Counsel and Secretary; Joe T. Taylor resigned as Vice President; and William S. Barnum retired as Vice President and Treasurer. Also in March 1984, Charles H. Black was re-elected Senior Vice President; Kevin J. Reidy, Harold P. Halterman, and Kenneth L. Gibson, were re-elected as Vice Presidents; Robert J. Brignano was re-elected Vice President and Controller; Charles S. McNeil was elected Vice President; and Patrick J. Hunt was elected Vice President and Treasurer. Gerald G. Ferro, W. Raymond Worman and James R. McCaughey were also re-elected as Vice Presidents but are retiring. See "Item 10, Directors and Executive Officers of the Registrant."

In connection with the Merger the Company made, or will make, significant payments including the following: (a) $161.5 million to the former holders of the Company's 66⅔ Cents Par Common Stock, (b) $31.9 million for defeasance of the Company's Pollution Control Revenue Bonds, (c) $14.5 million for the purchase of an option with respect to 1,181,100 shares of 66⅔ Cents Par Common Stock, (d) $8.3 million for the redemption of the Company's $1.46 Preferred Stock, and (e) $18.5 million for expenses and fees of the Acquisition Group, expenses of the Perma Group, settlement of employment contracts and certain other expenses relating to the Merger. See Note C to the Consolidated Financial Statements. In addition, the Company has accrued $10.2 million for settlement of stock appreciation rights. Except for funds provided by a bank loan, funds for the expenditures related to the Merger were provided from general funds of the Company.

To provide a portion of the funds distributed in the Merger to the former holders of the Company's 66⅔ Cents Par Common Stock, the Company entered into a credit agreement with Citibank, N.A. ("Citibank"), described below, for a loan of $100,000,000 secured by substantially all of the Company's assets.

Prior to the Merger, the Acquisition Group and the Perma Group entered into an Agreement, dated as of November 12, 1983 (the "Perma Agreement"), which provides for the joint ownership of the Common Stock of the Company, the joint management of the business of the Company, and the creation of a joint venture for the development, mining and marketing of coal from certain coal properties of the Company and the Perma Group. Under the Perma Agreement, all of the Common Stock owned by the Aquisition Group would be contributed to a new entity referred to as "Newco" which would be jointly owned by the Acquisition Group and the Perma Group. The Perma Group also entered into an agreement relating to the Company's New Mexico coal properties pursuant to which the Company or the proposed coal venture would enter into a long-term coal supply contract for coal shipments beginning in the early 1990's. See "Item 1, Business, Coal Group." In connection with the credit agreement with Citibank, described below, the Acquisition Group has agreed with Citibank to obtain Citibank's consent prior to taking any action that would have the effect of transferring any interest in the Company to the Perma Group. The consent of Citibank has not yet been obtained and therefore none of the shares of Common Stock have been transferred to Newco or the Perma Group.

In an Option Agreement, dated February 28, 1984, by and among the Acquisition Group and the Perma Group (the "Perma Option Agreement"), the Acquisition Group granted to the Perma Group an option (the "Perma Option") to purchase all the issued and outstanding Common Stock of the Company. In general, the Perma Option is exercisable only if (a) Citibank does not consent by April 30, 1984 to the transfer of all of the Common Stock to Newco as contemplated by the Perma Agreement or 50 percent of the Common Stock to the Perma Group and such transfer does not occur, and (b) a new financing commitment permitting such transfer and replacing the Citibank Credit Agreement is not obtained by April 30, 1984 or if such financing commitment is not funded by May 31, 1984. The Perma Option is exercisable for a five-month period. In the Perma Option Agreement, the Perma Group also granted to the Acquisition Group an option (the "Frates Option") to purchase all its interest in the Company under the Perma Agreement (including the SPS Agreement). The Frates Option becomes exercisable only if the Perma Option has become effective and the Perma Group has not exercised its option within the time period prescribed, and is exercisable during a five-month period. See "Item 12, Security Ownership of Certain Beneficial Owners and Management."

*Acquisition Credit Agreement.* In connection with the Merger, the Company obtained a financing commitment from Citibank pursuant to an Acquisition Credit Agreement, dated as of January 27, 1984 (the "Credit Agreement"). The commitment consists of two credit facilities: (a) a term loan (the "A Advance") of $100,000,000 repayable over a five-year period in ten semi-annual installments of $10,000,000 each, and (b) a revolving credit (the "B Advance") for five years in an amount equal to the excess over $30,000,000 of repayments of the A Advance, not to exceed $70,000,000.

Advances are secured by substantially all of the Company's assets, including the Company's inventory, accounts receivable, cash and cash equivalents, subsidiary stock, equipment, plants and all other real and personal property. Both Advances will bear interest at a floating interest rate per annum of 1.25 percent over the bank's alternate base rate, which is defined as the higher of (a) the bank's announced base rate and (b) 0.5 percent plus a rate calculated by a formula based on the cost of funds. For the first three years of the commitment the Company has the limited option on Advances of not less than $10,000,000 to convert the fluctuating rate to one fixed at 3.75 percent above the then current quote on United States Treasury Notes for an agreed upon period.

The A Advance of $100,000,000 was made on February 29, 1984. In connection with the Advance, Citibank received from the Company a closing fee of $2,500,000 and payment for expenses of approximately $1,700,000. Citibank will also receive an agent's fee equal to one-quarter of one percent per annum on the maximum total used commitment and a commitment fee of three-eighths of one percent per annum on any available but unused portion of the B Advance.

Thirty percent of the Advances are personally guaranteed by members of the Acquisition Group pursuant to a Guaranty, dated February 29, 1984. The thirty percent reduces to fifteen percent once the A Advance has been reduced by $50,000,000 from sources other than "Excluded Cash", defined to be cash held by the Company on February 28, 1984, cash generated from the Company's operations or cash from the B Advance.

The Company, Citibank and the members of the Acquisition Group also entered into a Purchase Agreement, dated as of February 29, 1984 (the "Purchase Agreement"), pursuant to which enough real property of the Company in San Bernardino County, California (other than real property used primarily by the Company's Fabricated Products Group) is to be sold so as to generate proceeds equal to or greater than the lesser of (a) $30,000,000 and (b) the extent that the A Advance is not reduced by $50,000,000 in the first year of the A Advance from sources other than Excluded Cash. If the Company has not sold sufficient assets by the 90th day after the first anniversary of the A Advance, a buyer designated by the Acquisition Group must buy such property. If sufficient property is not sold, the members of the Acquisition Group must lend the Company any shortfall in proceeds from the sale.

If an Event of Default occurs under the Credit Agreement, the Company generally may not pay dividends on or redeem the Series A or Series B Preferred Stock. Even if an Event of Default occurs, however, the Company may declare and pay the first four scheduled quarterly dividends on the Series A and Series B Preferred Stock if (a) the Company is not in default on payments of interest or principal on the Advances, (b) Citibank holds not less than $25,000,000 of the Company's cash and permitted investments as collateral for the Advances, and (c) final judgments against the Company do not exceed $15,000,000 ($10,000,000 of which cannot result from actions commenced after the date of the Merger).

Events of Default under the Credit Agreement include the violation by the Company of various and complex financial and other covenants. In addition to complying with covenants involving the maintenance of its property, the payment of taxes, the making of reports and the carrying of adequate insurance, the Company must meet certain financial tests concerning working capital, tangible net worth and earnings. The proceeds from any disposition of the Company's assets, other than dispositions in the ordinary course of business, must be used to prepay the Advances unless the proceeds are required by the Company's Certificate of Incorporation to be used to redeem Series B Preferred Stock. In general, the Company may not, without Citibank's approval and except in the ordinary course of business, dispose of any of its assets having an appraised value of greater than $50,000 or an aggregate appraised value of $500,000 in any 12 month period. The Company may dispose of the Eagle Mountain iron ore mine and the Fontana steelworks for not less than certain values. Without Citibank's approval, the Company and its subsidiaries may not make expenditures for fixed assets in the aggregate in excess of $15,000,000 per fiscal year and may not change the character of its business or create any new subsidiaries.

Events of Default also include events related to the members of the Acquisition Group. These events include material misrepresentations, failure to perform under the Purchase Agreement, failure to perform the Guaranty, failure to pay indebtedness for borrowed money exceeding $350,000, insolvency or bankruptcy, judgments in excess of $200,000 and ceasing to own the same percentage of common stock of the Company as owned on the date of the Merger.

**Executive Offices**

The principal executive office of the Company is at Fontana, California, where its address is 9400 Cherry Avenue, P.O. Box 5050, Fontana, California 92335, and its telephone number is (714) 350-5199.

**Markets and Operations of Industry Segments**

The markets and operations of the Company's two principal operating groups, Fabricated Products and Coal, are described below.

**Fabricated Products Group**

Following are each of the major components of the Fabricated Products Group and their sales during 1983 (in millions):

| | |
|---|---|
| Fabricated Products | $75.9 |
| Myers Drum Company | 45.5 |
| Industrial Molding Company | 10.2 |
| Kaiser Steel Tubing, Inc. | 23.2 |
| Kaiser Pipe & Casing, Inc. | 14.9 |
| Large Diameter Pipe | 18.1 |
| Eliminations | ( 4.2) |
| Total Fabricated Products Group | $183.6 |

***Markets:***

*Energy-Related Fabrications.* As one of the major steel fabricators on the West Coast, the Company sells the greater part of its fabricated products and field construction and installation services to customers in the western states. The Company has marine assembly yards at Vallejo and Los Angeles which are used primarily for the construction of offshore oil drilling platforms. At present, the Fabricated Products Group is concentrating its efforts on providing structures that support oil and gas exploration and production on the Alaskan North Slope and off the California coast. Adverse market conditions and intensified foreign competition in the market for offshore oil and gas platforms and related work resulted in a substantial decline in this business during 1983.

In the third quarter of 1983, the Company entered into a 10 year lease agreement, beginning September 1, 1984, with the City of Los Angeles Board of Harbor Commissioners for a new 48 acre marine assembly yard at the Port of Los Angeles. This yard, to be situated on a 48 acre parcel on the newly created 190 acre landfill on Terminal Island, is to be used for assembly of the larger, deep water offshore platforms expected to be installed off the California coast over the next several years. Because of the water retention characteristics of the dredged material placed in the landfill project, the leased premises will require extensive soil conditioning prior to use for assembly yard purposes. To accomplish such preparatory work, the Company entered into a Joint Development Agreement with the Port of Los Angeles in February 1984. The Company's share of such yard development costs are estimated to be approximately $3.4 million. Rent savings resulting from negotiating a delay in the commencement of the term of the lease until September 1, 1984 will be $1.2 million.

In 1983 the Company fabricated and began assembly of a 700-foot-long jacket or tower for Shell Oil Company's platform "Eureka." This jacket is scheduled for delivery in the first half of 1984. Deck modules for Chevron's platform "Edith", which were fabricated, assembled and outfitted by the Company, were delivered and installed in the spring of 1983.

The Company has executed an agreement to purchase an ocean-going launch barge capable of loading out, transporting and launching offshore oil platform jackets. It has also obtained a contract for the transportation and launch of a platform when the barge is completed in 1985.

Under a contract with SOHIO Construction Company, the Company is fabricating steel skid bases to support buildings on the North Slope's permafrost. The rectangular steel skids, which weigh up to 450 tons and measure up to 11,000 square feet in surface area, are assembled at the Stockton yard.

*Other Markets.* The Fabricated Products Group also produces heavy fabrications, fabricated water pipe, pipe mill equipment, containers and light steel products.

The Napa fabricating plant is the most completely equipped facility for steel plate fabrication in California. The Fontana plate fabricating plant is equipped to produce and test most critical heavy-plate fabrications. The Company's large diameter pipe mill is located at Napa and has supplied pipe for several major oil and gas transmission lines.

Sales of pipe mill equipment and other heavy fabrications declined in 1983, reflecting depressed economic conditions worldwide. The Company in 1983 completed fabrication of equipment for a large-diameter pipe mill installed at Lazaro Cardenas on Mexico's west coast.

Work continued during 1983 on the construction of a movable shuttle assembly building for the space shuttle at the Vandenberg AFB launch complex. This work is being performed as a joint venture with an engineering company.

Through a wholly owned subsidiary, Myers Drum Company, the Fabricated Products Group manufactures new and reconditioned steel drums. The market for these containers and sales by Myers Drum Company improved slightly in 1983.

Through Industrial Molding Corporation, a wholly owned subsidiary in Torrance, California ("IMC"), the Group produces plastic pails and custom injection-molded plastics for use in a wide range of products, including video games, computers, toys and equipment for hospitals and offices. IMC enjoyed record sales during 1983.

Light steel products, including mechanical and structural and commercial stamped metal products, are manufactured by Kaiser Steel Tubing, Inc., a subsidiary located in Vernon, California. Buyers of tubing products include manufacturers of wheelchairs, outdoor and indoor furniture, lighting fixtures, bicycles, and other exercise and recreational equipment. This market and sales by Kaiser Steel Tubing, Inc., a wholly owned subsidiary of the Company, improved in 1983.

The Company has a 51 percent interest in Kaiser Pipe & Casing, Inc., an Irwindale, California, producer of electric-resistance weld ("ERW") pipe. Kaiser Pipe & Casing's pipe conversion business improved throughout the year. During 1983 Kaiser Pipe & Casing also entered into end-finishing and selling of imported seamless oil country tubular goods. The Company has signed a letter of intent pursuant to which the Company would sell its interest in Kaiser Pipe & Casing. See "Discontinued Operations" below.

***Operations:***

The Fabricated Products Group historically received steel sheet and plate for its fabrication work from both the Fontana steelworks and outside suppliers. With the shutdown of primary steelmaking and finishing operations at Fontana, the group has had to obtain sheet and plate steel from alternate suppliers. This is not expected to be a significant problem for most of the Company's fabricating operations. Recent political action to control steel imports could reduce the availability of steel from foreign sources.

During 1983 the Napa fabricating plant operated at approximately half its capacity compared with operating at almost full capacity in 1982. The Fontana structural fabricating plant operated at only a small fraction of its capacity during 1983 and 1982. The Fontana plate fabricating plant, which also operated at only a small fraction of its capacity in 1982, operated at approximately 60 percent of its capacity during 1983. The operations at the Company's container facilities did not change appreciably during 1983, remaining at approximately 50 percent of capacity. Operations at the Company's tubing facilities increased during 1983 to approximately 60 percent of capacity compared with about half their capacity in 1982. Kaiser Pipe & Casing was functioning at near capacity for much of the year.

**Results of Fabricated Products Group**

| | 1983 | 1982 (restated) | 1981 (restated) |
|---|---|---|---|
| | (millions of dollars) | | |
| Sales to Fontana steelworks | $— | $ 3.7 | $ 40.4 |
| Sales to unaffiliated entities | 183.6 | 347.7 | 472.3 |
| Total | $183.6 | $351.4 | $512.7 |
| Pretax earnings (loss) | ($ 5.0) | $ 21.4 | $ 54.0 |
| Backlog at year-end | $ 40.3 | $101.5 | $171.1 |
| Shipments (000s net tons) | 141 | 305 | 561 |

**Major Products—Fabricated Products Group**

**(Percent of Total Revenues, Excluding Intersegment Sales)**

| | 1983 | 1982 (restated) | 1981 (restated) |
|---|---|---|---|
| Large diameter and ERW pipe | 12% | 37% | 54% |
| Energy-related fabrications | 31 | 17 | 7 |
| Fabricated water pipe | 2 | 8 | 3 |
| Pipe mill equipment and other heavy fabrications | 8 | 12 | 13 |
| Containers | 29 | 15 | 12 |
| Light steel products | 18 | 11 | 11 |
| Total | 100% | 100% | 100% |

## Coal Group

***Market:***

The Company's coal mines at Sunnyside, Utah, and Raton, New Mexico, were acquired in 1942 and 1955, respectively, to supply the Fontana steelworks with coking coal. In recent years sales to outside commercial customers increased as the steelworks phased out its requirements. In 1982, one million tons, or nearly half the output, was shipped to commercial customers with the steelworks taking 1.2 million tons. At the end of 1982 the Fontana coke ovens were permanently shut down, and in 1983 1.1 million tons of coal were shipped, all to commercial customers. The reduced tonnage caused 1983 operating results to be significantly lower than in 1982.

The Company's present long-term contracts will provide an operating base for the immediate future even though the coal market, both domestic and export, has been depressed since the first quarter of 1982. The coal market for the Company's coal mines could be promising as the Company directs its marketing efforts towards the domestic steam coal market for industrial and utility customers. The Company's coal mines are well situated to capture future steam coal contracts due to the high heat content of the coal and the relatively close proximity of the mines to the markets they plan to serve.

***Operations:***

The Company controls coal acreage and operates mines that produce both steam and metallurgical coal in Utah and New Mexico. The Company's in-place raw coal reserves total more than 1.5 billion tons. From these resources, potential mining areas are estimated to contain more than 900 million tons of recoverable coal (the in-place tonnage that can be recovered using existing mining techniques without regard to economic considerations, discounted to reflect mining losses and any washing losses). Of this amount, approximately 100 million tons (11 percent) are currently "assigned" (reserves which can be mined on the basis of current mining practices using existing or planned mine shafts and plant facilities) and the remaining 800 million tons (89 percent) are currently "unassigned" (reserves which would require additional mining facilities before operations could begin with respect thereto). The Company believes that all of these reserves have potential for sale to the steam coal market and that nearly all of them can be upgraded by washing for sale in the metallurgical coal market.

Together, the Company's coal mines are currently capable of producing approximately 3 million tons of high-quality steam and metallurgical coal annually.

The Company operates two coal mines at York Canyon in northeastern New Mexico's Raton Basin. The older York Canyon mine uses an underground longwall technique, while the newer mine works the same coal seam from the surface.

The Company's Utah mining operations are located near Sunnyside, approximately 150 miles southeast of Salt Lake City. The Sunnyside mine uses an underground longwall mining technique. In addition, the Company controls two nearby coal leases known as the North Lease and the South Lease properties and has entered into an option agreement to acquire a third lease area contiguous with the existing operating mine known as the "B" Canyon properties.

Due to the depressed market for coal during 1983, the New Mexico underground mine did not operate for ten months of 1983 and the Utah mine was shut down for seven months of 1983 and did not operate during January 1984.

In the third quarter of 1983, the Company, through a wholly owned subsidiary, entered into a ten year agreement with the City of Los Angeles Board of Harbor Commissioners for the operation, beginning January 1, 1984, of a bulk loading terminal at Los Angeles Harbor for the importing and exporting of coal, petroleum, coke, steel scrap and other bulk products.

*Coal Venture and SPS Contract.* Prior to the Merger, the Acquisition Group and the Perma Group entered into an Agreement, dated as of November 12, 1983 (the "Perma Agreement"), which, among other things, provides for (1) the creation of a new entity referred to as "Newco" to which the Acquisition Group would contribute all of the Common Stock of the Company and the Perma Group would contribute certain coal properties and a coal supply contract described below; and (2) the creation of a joint venture between the Company and Newco (the "Coal Venture") for the development, mining and marketing of coal from certain coal properties of the Company and of the Perma Group. Prior to the Merger the Perma Group also entered into an Agreement, dated as of November 12, 1983, with Southwestern Public Service Company ("SPS"), an interstate electric utility which serves customers in New Mexico, Texas, Oklahoma, and Kansas (the "SPS Agreement") pursuant to which SPS would, as described below, enter into a long-term coal supply contract with the Company or the Coal Venture for the sale of coal beginning in the early 1990's.

The Perma Agreement contemplates that the Company would contribute to the Coal Venture all of its New Mexico coal properties, which are estimated by the Company to contain approximately 78 percent of the Company's proven and probable coal reserves. The properties of the Perma Group that would be contributed to the Coal Venture by Newco would include certain coal properties in southern Colorado and the SPS coal supply contract. The initial percentage interests of the Company and Newco in the Coal Venture have not yet been determined.

The SPS Agreement provides that SPS would (a) under certain conditions, enter into a long-term coal supply contract with the Company or the Coal Venture; (b) negotiate in good faith to purchase additional coal from the Company or the Coal Venture; (c) assist the Coal Venture in the marketing of coal to other large coal consumers; (d) receive a one percent "overriding royalty interest" in coal and other minerals in the land containing the Company's New Mexico coal reserves and the Perma Group's Colorado recoverable coal; and (e) receive an option to acquire a 10 percent interest in the Coal Venture for $10,000,000. The long-term coal supply contract would be for the supply of coal to SPS's planned approximately 570 megawatt coal-fired electric power generating facility to be constructed in Lubbock County, Texas which SPS anticipates will be operational by the early 1990's. Sales of coal to SPS would not commence until shortly before the facility commences full commercial operation, which is not expected to occur before 1990. In an Agreement, dated as of February 29, 1984, by and among the members of the Acquisition Group and the Perma Group, the Acquisition Group reaffirmed its intent as of that date to cause the SPS Agreement to be implemented.

The contribution of coal properties to the Coal Venture would not give rise to any obligation of the Company under the Purchase Fund for the redemption of Series B Preferred Stock. However, dispositions either of the Company's interest in the Coal Venture or of coal properties contributed to the Coal Venture by the Company for cash or assumption of indebtedness, other than sales in the ordinary course of business, would give rise to such obligations.

**Results of Coal Group**

| | 1983 | 1982 | 1981 |
|---|---|---|---|
| | (millions of dollars) | | |
| Sales to Fontana steelworks | $— | $ 49.5 | $ 41.8 |
| Sales to unaffiliated entities | 43.4 | 43.5 | 50.4 |
| Total | $ 43.4 | $ 93.0 | $ 92.2 |
| Pretax earnings (loss) | ($ 7.5) | $ 14.8 | $ 11.9 |
| Backlog at year-end | $428.8 | $435.6 | $446.7 |
| Production (000s net tons) | 939 | 2,317 | 2,244 |
| Shipments (000s net tons): | | | |
| Shipments to Fontana steelworks | — | 1,205 | 1,081 |
| Shipments to unaffiliated entities | 1,074 | 1,032 | 1,149 |

**Major Products—Coal Group**

**(Percent of Total Shipments and Revenues)**

| | Tons Shipped | | | Revenues | | |
|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1981 | 1983 | 1982 | 1981 |
| Sales to Fontana steelworks: | | | | | | |
| Metallurgical coal | —% | 54% | 48% | —% | 53% | 46% |
| Outside sales: | | | | | | |
| Steam coal | 52 | 27 | 23 | 48 | 23 | 19 |
| Metallurgical coal | 48 | 19 | 29 | 52 | 24 | 35 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

**Discontinued Operations**

In late 1981, the Company announced that it was not economically feasible to continue as an integrated steel producer, processing iron ore, coal and limestone into pig iron, refining that into raw steel slabs, and finally rolling the slabs into finished steel products. The Company took steps during 1982 to phase out the primary steelmaking activities, purchased slabs from other producers to supply its rolling and finishing operations, and considered alternative technologies for producing steel.

In March 1983, the Company's Board of Directors adopted a plan providing for the discontinuation of the Company's steelmaking and finishing activities at the Fontana steelworks when raw material and semi-finished steel inventories were exhausted in late 1983 unless, before that time, the Company found either a purchaser or a partner with the resources necessary to produce steel profitably at the Fontana facility. No purchaser or partner was found and raw material and semi-finished steel inventories were exhausted in late 1983. In accordance with the plan adopted by the Board, the Company's primary steelmaking facilities were closed in October 1983, and the rolling mills and finishing mills were closed in November 1983. The loss on discontinued operations in 1983 totaled $421.4 million. For further information, see Note B to the Consolidated Financial Statements.

On April 12, 1984, the Company signed a letter of intent with Pacific Steel Corporation and Companhia Vale do Rio Doce ("CVRD") outlining conditions under which Pacific Steel Corporation would acquire certain facilities at the Fontana steelworks. The facilities that would be acquired are the finishing and rolling mills, the Basic Oxygen Process Shop #2 and its continuous caster, and related equipment and real estate. In addition, the Company would sell its 51 percent interest in Kaiser Pipe & Casing, Inc. and a suit brought against the Company by CVRD would be dismissed with prejudice. For a discussion of the suit brought by CVRD, see "Item 1, Business, Certain Legal Developments." The letter of intent contemplates a purchase price for the facility in excess of $100 million which would be paid over a five year period. The letter of intent is only an expression of the intent of the parties and is not a binding agreement, and is subject to the negotiation of a mutually acceptable purchase agreement. The purchase agreement is expected to be executed in approximately 30 days from the date of the letter of intent. Pacific Steel Corporation is controlled by investor Michael Wilkinson, who is currently the beneficial owner of 49 percent of Kaiser Pipe & Casing, Inc. Under the terms of the letter of intent, if the sale of the Fontana steelworks to Pacific Steel Corporation is completed, CVRD intends to become a stockholder of Pacific Steel Corporation.

**Principal Facilities of the Company**

***Continuing Operations:***

*Fabricated Products Group*

| | |
|---|---|
| Napa Fabricating Plant....... | This plant is the largest and most completely equipped facility for steel plate fabrication in California. The plant, located on a 160 acre site on the navigable Napa River with access to San Francisco Bay, has shops, overhead crane systems, four permanent drydocks and 620 lineal feet of seawall. Approximately 480,000 square feet of the plant are under one roof. |
| Napa Pipe Mill............... | The pipe mill located at the Napa Fabricating Plant is one of only five in the country capable of producing large-diameter submerged arc-welded pipe. The pipe mill also has double-ending and coating capabilities. It can produce 25 miles of large-diameter pipe per week, or more than 350,000 to 400,000 tons of pipe per year, depending upon product mix. |
| Fontana Plate Fabricating Plant ..................... | This plant is equipped to manufacture heavy plate fabrications including pressure vessels, penstock, manifolds and large diameter water pipe. The 67 acre facility is located one mile from the Fontana steelworks. |
| Fontana Structural Fabricating Plant .......... | This plant fabricates girders, beams, and special fabrications for marine and general uses. This 98 acre site has 460,000 square feet of buildings and shops, including a welded beam plant with sophisticated quality control and testing capabilities. |

| | |
|---|---|
| Oakland Marine Assembly Yard | This assembly yard, located at the inner harbor and leased from the Port of Oakland, is able to receive subassemblies by barge, rail or truck. The yard has a seawall with a deep draft and specializes in offshore oil and gas exploration and production platforms. The Port of Oakland has requested that the Company vacate the property by April 30, 1985, the end of the current phase of the lease, to enable the Port of Oakland to proceed with its long-term plans for the property. The Company, which has an option to continue the lease past April 30, 1985, is presently evaluating this request. |
| Vallejo Marine Assembly Yard | This assembly yard has a 750 foot long deep draft seawall on its 40 acre site and deepwater access inland or to sea. The yard is used for assembly and shipment of large marine structures. |
| Terminal Island Marine Assembly Yard | This 48 acre parcel in the Los Angeles Harbor, which the Company leased in 1983, is intended to be used for assembly of offshore oil and gas exploration and production platforms. The Company is considering leasing, or obtaining an option to lease, an additional 52 acres adjacent to the 48 acre parcel. Whether the Company enters into such a lease or option will depend on business requirements. |
| Stockton Yard | This 14 acre parcel, which the Company has leased until August 31, 1986 with two one-year renewal options, is used for the fabrication of skid bases to support buildings on the North Slope permafrost. |
| Kaiser Steel Tubing, Inc. | This wholly owned subsidiary is the West's largest manufacturer of mechanical and structural tubing and also makes stamped products. Kaiser Steel Tubing's 11.5 acre site near Los Angeles has a 280,000 square foot manufacturing facility consisting of seven tube mills offering a variety of sizes, gauges and finishes, and several stamping presses. End uses of Kaiser Steel Tubing's products include motor home frames, exhaust pipes, bicycles, furniture and stamped components for water heaters and other items. Kaiser Steel Tubing has a fleet of 8 tractors and 18 trailers for deliveries. |
| Myers Drum Company | This wholly owned subsidiary is engaged in manufacturing, reconditioning and marketing steel containers in the United States. New containers range in size from 3½ gallon pails to 55 gallon steel drums. New steel drums are manufactured at facilities at Los Angeles, California; Richmond, California; and Portland, Oregon. New steel pails are manufactured at Los Angeles. Myers Drum operates its own lithography production plant for decoration of steel containers. It is the largest manufacturer of steel containers in the western United States and also operates five drum reconditioning plants in California and Oregon, making it one of the largest reconditioners in the world. Drum and pail shipments totaled approximately 32,000 tons in 1983. A wholly owned subsidiary of Myers Drum, Industrial Molding Corporation, located in Torrance, California, makes injection molded plastic products. |
| Kaiser Pipe & Casing, Inc. | This 51 percent owned subsidiary produces ERW pipe and is located at Irwindale, California. The Company has signed a letter of intent pursuant to which the Company would sell its interest in Kaiser Pipe & Casing. See "Markets and Operations of Industry Segments, Discontinued Operations" above. |

*Coal Group*

New Mexico ................ The Company mines high-volatile, high-Btu coal, with an average sulfur content of approximately 0.5 percent, through both surface and underground methods near Raton, New Mexico. The mines are presently capable of producing over 1.5 million tons of coal annually. A coal preparation plant near the mines has a 1.5 million ton capacity. The operating mines, including Upper York Canyon, have proven reserves and probable reserves of approximately 72 million net tons located on almost 15,000 acres owned or leased by the Company. The Company's long-term lease of 4,125 acres, including approximately 2,400 acres comprised of coal-bearing lands, is from private interests and continues as long as exploration or operations are conducted on any part of the leased property.

In addition to the reserves of the operating mines, the Company also controls proven reserves and probable reserves aggregating approximately 648 million net tons of coal on more than 600,000 acres comprised of fee land, coal rights and leased land. Total proven reserves and probable reserves in the Raton area, therefore, are approximately 720 million tons.

Utah ....................... The Company mines high-volatile, high-Btu, low-ash coal with an average sulfur content of approximately 1%, through underground methods at Sunnyside, Utah. The mine is presently capable of mining 1.5 million tons of coal annually. A coal preparation plant with a 1.8 million ton annual capacity is located at the mine. The operating mine has proven reserves and probable reserves of approximately 35 million net tons located on 13,000 acres owned or held under county or federal leases. The federal leases are subject to the Coal Leasing Act of 1976, which imposes certain requirements regarding development and operation of the properties as a condition to continuation of such leases.

In addition to the reserves of the operating mines, the Company controls in Carbon and Emery counties proven reserves and probable reserves of approximately 173 million tons on over 14,000 acres of land held under federal or state leases and about 4,000 acres of coal rights. Total proven reserves and probable reserves in Utah, therefore, are approximately 208 million tons.

The Company has entered into an option agreement to acquire the "B" Canyon coal reserve properties adjacent to the operating mine in Carbon County. These properties are comprised of over 3,800 acres of federal and state leases, with indicated and inferred reserves of about 30 million tons.

Cushenbury Limestone Properties ................ The Cushenbury limestone properties are located in the Lucerne Valley approximately 40 miles northeast of Fontana. Portions of these properties are mined under long-term mining contracts. The Company has patented and unpatented mining claims on approximately 9,850 acres and owns an additional 730 acres. Proven reserves and probable reserves total approximately 19 million tons of whiting grade limestone.

Los Angeles Harbor Bulk Loading Terminal .......... The Company has a ten-year agreement for the operation, commencing on January 1, 1984, of a bulk loading terminal at Los Angeles Harbor for the importing and exporting of coal, petroleum, coke, steel scrap and other bulk products.

***Discontinued Operations***

Blast Furnaces .............. The Company sold three of its four blast furnaces and its coke plant in December 1982 for dismantling and closed its single remaining blast furnace in October 1983.

BOP Steelmaking Facilities ... Basic Oxygen Process ("BOP") steelmaking furnaces are used to convert molten iron into raw steel. BOP shop #1, which contains three 120-ton furnaces, was abandoned in 1981.

BOP shop #2 houses two 225-ton steelmaking furnaces put into production in late 1978, which together are capable of producing approximately 2,800,000 net tons of raw steel per year. BOP shop #2 was closed in October 1983.

| | |
|---|---|
| Soaking Pits | The soaking pit area comprises 40 soaking pits which were used to reheat ingots to a uniform temperature prior to rolling in the slabbing mill. |
| Slabbing Mill | The slabbing mill, with an annual capacity of 3,120,000 ingot net tons, was used to roll ingots into steel slabs and was closed in October 1983. |
| Continuous Caster | The single-strand continuous casting facility allows slabs to be cast directly from molten steel, thus bypassing the ingot-pouring and slab-rolling steps. The caster is designed to cast approximately 750,000 tons per year. The caster was closed in October 1983. |
| Rolling Mills | The hot-strip mill with an annual capacity of approximately 1,800,000 tons of hot rolled sheet and strip was closed in November 1983.<br>The plate mill with an annual capacity of approximately 600,000 tons of steel plate was closed in November 1983. |
| Finishing Mills | The tin mill with an annual capacity of approximately 400,000 tons of tin plate was closed in November 1983.<br>The galvanizing mill, with an annual capacity of approximately 150,000 tons, which produces galvanized sheet on one continuous galvanizing line, was closed in November 1983.<br>The ERW pipe mill, with an annual capacity of approximately 120,000 tons and capable of producing ERW pipe ranging in sizes from 4½″ to 16″ in diameter, was closed in 1982.<br>The cold-rolled sheet mill was closed in 1979. |
| Miscellaneous Fontana Facilities | Raw materials blending and storage facilities, sinter plant (two strands), foundry, storage facilities, and water treatment facilities. |
| Eagle Mountain Iron Ore Mine | The Eagle Mountain iron ore mine, located 150 miles east of Fontana, was shut down in 1981. The Company has patented and unpatented mining claims on approximately 9,000 acres. Facilities and equipment include ore crushing and separating systems, a pelletizing plant, and heavy mobile equipment, most of which is held for sale. |

**Real Estate Development**

The Company owns approximately 2,400 acres in the Fontana, California area and owns additional property in the Los Angeles area. A portion of the property is currently undeveloped or underutilized and an effort is being made to generate additional revenues from those assets by selling or developing the property.

As part of this effort, the Company has agreed to sell for $4 million 460 acres of undeveloped land in the Fontana area, a portion of which would be the site of a residential community. The Company also owns a 200 acre parcel in the Fontana area which is zoned for industrial use. The Company intends to develop such property as an industrial park, sell it, or enter into another arrangement, such as a joint venture, for the development of the property.

**Environmental Considerations**

In preparation for the closure of the steelworks in Fontana, the Company undertook an evaluation of the effects of such a closure on future environmental compliance. Under certain conditions, federal and state programs relating to water quality and waste disposal may require certain closure actions and may impose continuing obligations on the Company for the costs of required controls or remedial actions. In the following discussion, facts are presented which could ultimately result in the Company's exposure to significant liabilities for such remedial actions.

*Water Quality.* There are four operable water wells located on the Company's property in Fontana. Since the early 1960's, periodic tests of water quality have been conducted on water samples from these wells. Analytical results for total dissolved solids have varied over time with earlier peaks occurring in the late 1960's. The Company, in March 1983, began a well testing and groundwater evaluation program to determine the nature and extent of total dissolved solids in the groundwater. Initial testing on the Company's wells indicated elevated salinity in some of the wells, but no evidence of the presence of organic compounds or hazardous substances in concentrations exceeding established drinking water standards or other federal limits. In June 1983, the Company entered into an agreement with an engineering consulting firm to do additional well testing and to undertake a computer modelling study of the groundwater underlying the Fontana facility. A final report of this phase of the investigation was received in December 1983. Results of this further testing corroborate the earlier findings regarding the absence of organic compounds or hazardous substances in concentrations exceeding established drinking water standards or other federal limits, and also confirm the presence of high salinity in one well. The report also concludes that the Company's steel manufacturing operations over the years contributed to the observed levels of salinity in the wells. A further study has been undertaken for several purposes, including to determine the extent of the salinity and evaluate possible corrective actions.

Beginning in August 1983, representatives of the Company have met periodically with representatives of the California Regional Water Quality Control Board—Santa Ana Region to apprise it of the various test results and the actions the Company plans to take to determine the extent of the problem. The Company also advised members of the Chino Basin Watermaster Appropriator's Pool Committee, a committee comprised of representatives of local cities and water companies, of the groundwater situation.

The federal Environmental Protection Agency ("EPA") and the California Water Quality Control Board have concurrent jurisdiction over protection of water supplies. These agencies have a number of enforcement options, including remedial orders, restraining orders, and injunctions.

The Company cannot now estimate with any degree of certainty the magnitude of the potential liability, if any, on account of groundwater condition.

*Waste Handling and Disposal.* Since the shutdown of the Fontana steelworks in December 1983, no hazardous wastes have been generated. Previous treatment and disposal of such wastes were subject to various state and federal hazardous waste control laws and regulations. These laws set stringent standards for the handling, treatment, storage and disposal of hazardous wastes.

Federal law also required any owner or operator of a waste storage, disposal or treatment facility closed prior to November 19, 1980 to report the existence of such facility to the EPA by June 9, 1981. The Company reported the existence of three tar pits at the steelworks in accordance with this law. The Company is investigating whether other releases have occurred.

Under the law's strict liability provisions, owners or operators can be held liable for response costs, remedial costs and damages to or loss of natural resources from releases of a hazardous substance.

Since the inception of operations in 1942, a number of "facilities," as defined in the law, have existed at the Fontana steelworks which, over the past 40 years, could have contained substances currently defined as hazardous by federal and California regulations. Steelmaking, coke production and ancillary by-products generation inherently involve the presence of certain compounds and elemental materials which may fall within the definition of "hazardous." However, until more is known about releases at the Fontana steelworks, no firm conclusions can be drawn.

If subsequent studies reveal releases of hazardous substances from the steelworks, and agencies take enforcement action, the Company could be held liable for remedial costs. As described above, enforcement actions are based on strict liability standards. Due to the large number of uncertainties, the Company is not now in a position accurately to estimate its exposure to liability, if any.

*Air Quality.* In 1982, the United States filed a Complaint for Injunction and Civil Penalties against the Company in the United States District Court for the Central District of California (No. CV 82 2623 IH). This action sought to enjoin the Company from operating four blast furnaces in alleged violation of opacity limitations. Trial commenced on January 17, 1984 and resulted in a judgment for civil penalties against the Company in the sum of $825,000 plus costs. In addition, the Company was enjoined from operating blast furnaces without first installing prescribed control equipment and demonstrating compliance with opacity limitations.

*Environmental Considerations Related to Coal Mining Operations.* The Company's coal mining operations are subject to federal and state statutes and regulations for environmental protection. The Company believes that these operations are in compliance in all material respects with such statutes and regulations.

**Certain Legal Developments**

In May 1983, Union Carbide Corporation filed a suit against the Company in the United States District Court for the Central District of California alleging breach of a contract for the supply of oxygen to the Fontana steelworks. Union Carbide seeks $26 million under a contractual claim for relief and "lost profit and incidental damages" of $150 million under an alternative claim for relief. On February 17, 1984, the Company made a payment of $9.2 million to Union Carbide. This payment represented an early termination fee contended to be payable under the terms of the contract and reduced the amount in issue under the contractual claim for relief to approximately $16 million.

In October 1983, Companhia Vale do Rio Doce ("CVRD"), a Brazilian mining company, filed a suit against the Company in the United States District Court for the Southern District of New York alleging breach of a long-term contract to purchase iron ore pellets and seeking damages of $67 million. In December 1983, the New York federal action was dismissed without prejudice and a substantially identical action was filed in the United States District Court in Nevada. On January 13, 1984, the court denied plaintiff's request for a pre-judgment attachment of assets on a number of grounds, including the court's conclusion that CVRD's allegation that the Company had repudiated (and thereby breached) the iron ore pellet contract was questionable. On April 12, 1984 the Company signed a letter of intent relating to the sale of certain assets of the Company and pursuant to which this suit would be dismissed with prejudice if the sale is consummated. See "Item 1, Business, Markets and Operations of Industry Segments, Discontinued Operations."

The Company is named, along with many other defendants, in more than 200 asbestos cases. These cases generally allege either exposure to asbestos during employment with a shipyard which was an alleged corporate predecessor to the Company, exposure elsewhere to asbestos materials incorporated in ships produced at that shipyard, or that the Company or its alleged predecessor was a manufacturer of asbestos or asbestos containing materials. Recovery is sought for unspecified general and punitive damages. Most of the complaints are so vague that the allegations against the Company cannot be ascertained. The amount of the Company's exposure is uncertain at this time. The cases are at an early stage and no trial is expected in the near future.

The Company is named in more than 100 black lung cases arising out of its coal operations. These cases are pending at various levels of review within the Department of Labor, including 27 before the Benefits Review Board.

A large number of grievances and arbitrations are pending under the Company's collective bargaining agreements. Also pending are approximately ten law suits which have been brought by salaried employees alleging wrongful termination. Although none of the suits, arbitrations or grievance proceedings is likely, by itself, to impose substantial liability upon the Company, collectively they could have a substantial impact.

In October and November 1983, six suits were filed against the Company, its directors, the Acquisition Group, a shareholder group led by Irwin L. Jacobs (the "Jacobs Group"), and several others in connection with an option agreement (the "Jacobs Option Agreement") entered into by the Company with the Jacobs Group. The Jacobs Option Agreement is described in "Item 13, Certain Relationships and Related Transactions." Separate complaints were filed in the California Superior Court for Los Angeles County as purported class actions on behalf of all shareholders other than the Jacobs Group by Edith Citron, Fanny Minsky, Herbert R. Behrens, William Lisker, and Robert N. Kaplan, P.C.

William Steiner also filed a complaint in the United States District Court for the Central District of California asserting both class claims and derivative claims. On January 30, 1984, before any defendants had been required to respond to the original complaints, the five named plaintiffs in the state court actions filed an amended and consolidated class action complaint. The amended complaint seeks injunctive relief and unspecified damages (including exemplary damages of $100 million) and alleges, among other things, (a) intentional and negligent breach of fiduciary duties by the Company's directors in connection with the reincorporation, the Merger, the Jacobs Option Agreement, and certain other matters; (b) abuse of control and conspiracy to abuse control by the defendant directors and members of the Jacobs Group; (c) intentional and negligent breach of fiduciary duties by members of the Acquisition Group and the Perma Group; (d) conspiracy to breach fiduciary duties by all defendants; (e) various federal securities law violations by the Company and the directors in connection with disclosures in the Company's December 9, 1983 Proxy Statement; and (f) interference with prospective economic advantage by all defendants. On February 9, 1984, William Steiner filed a complaint identical to the amended and consolidated complaint in Los Angeles County Superior Court. On March 14, 1984, the six state court actions were consolidated by court order, and defendants' motion to stay those cases was denied. On March 26, 1984, the U. S. District Court granted William Steiner's motion to voluntarily dismiss his federal action. Discovery is now proceeding in the consolidated state actions.

On January 6, 1984, a complaint was filed in the United States District Court for the Central District of California by Pearl Brewing Company and Falstaff Brewing Corporation against the Company, its directors, members of the Acquisition Group and members of the Jacobs Group seeking injunctive relief and unspecified damages and alleging (a) various federal securities laws violations in connection with the disclosures in the Company's December 9, 1983 Proxy Statement; (b) discriminatory treatment of stockholders in connection with the Merger and the Jacobs Option Agreement; and (c) breach of fiduciary duties by the directors in connection with the Jacobs Option Agreement, the Merger, and certain post-merger transactions by the Acquisition Group. On January 17, 1984, the court refused to temporarily restrain or preliminarily enjoin the Annual Meeting set for January 18, 1984 on the grounds that the plaintiffs had failed to demonstrate a likelihood of success on the merits of their claims or that they would suffer irreparable injury if the meeting were not enjoined. Discovery is now proceeding.

**Waste-to-Energy Plant**

During the first half of 1983, the Company, together with National Resources Recovery Corporation, Fluor Engineers, and Bache Resource Recovery Associates, submitted feasibility proposals to San Bernardino County and Riverside County for the design, construction and operation of a waste-to-energy plant at the Fontana steelworks. The Company's proposal is one of several submitted for this project. While the counties evaluate the proposals, the Company is considering the long-term economic feasibility of its involvement in the project.

**Order Backlog**

The consolidated order backlog at December 31, 1983 was $469.1 million, of which approximately $383.5 million represent coal orders which are not expected to be filled within one year. Total coal backlog represented $428.8 million at that date.

**Employees**

As of December 31, 1983, the Company had a total of 2,962 active employees. This compares with a total of 5,045 active employees at year-end 1982 and 9,632 at year-end 1981. As of December 31, 1983, the Company also had a total of 3,515 employees on layoff status, 76 percent of whom were on permanent layoff status from the Fontana steelworks. The number of active employees at the Fontana steelworks dropped from 2,258 at the beginning of 1983 to 533 at December 31, 1983 and 125 at January 31, 1984.

**Collective Bargaining Agreements**

Approximately 83 percent of the Company's employees are represented by labor unions and are covered by various collective bargaining agreements. Significant collective bargaining developments during 1983 include the following:

(1) The negotiation of an extension, to December 31, 1983, of the collective bargaining agreements between the Company and the United Steelworkers of America (which were to have expired on July 31, 1983) that covered substantially all of the hourly employees at the Fontana steelworks. Effective December 31, 1983, the Company terminated these agreements.

(2) The negotiation of new multi-year agreements (with various 1986 and 1987 expiration dates) covering union employees at the Vallejo Marine Assembly Yard, the structural steel fabrication and plant fabricating facilities in Fontana, and Myers Drum's facilities in Richmond and Vernon, California and Portland, Oregon.

(3) The negotiation of a new multi-year agreement with the Teamsters Union (to February 28, 1986) covering union employees of Kaiser Steel Tubing's Vernon, California facility.

The Company's collective bargaining agreement with the United Mine Workers of America covering union employees at the Raton, New Mexico and Sunnyside, Utah mines is scheduled to expire on September 30, 1984. The Company has withdrawn from the Bituminous Coal Operators' Association and will negotiate independently with the United Mine Workers of America.

**Item 2. PROPERTIES**

Information regarding the Company's properties required for Item 2 is included in answer to Item 1 hereof.

**Item 3. LEGAL PROCEEDINGS**

Information regarding legal proceedings required for Item 3 is included in answer to Item 1 hereof.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At the Annual Meeting held on January 18, 1984, stockholders approved (1) the change in the state of incorporation of the Company from Nevada to Delaware by means of the merger of the Company into its wholly owned Delaware subsidiary (the "Reincorporation") and (2) the Agreement of Merger providing for the Merger of Kaiser Acquisition Corporation into the Company (the "Merger"). The number of shares voting in favor of, and against, the Reincorporation were 5,363,153 and 418,542, respectively, and the number of shares voting in favor of, and against, the Merger were 5,322,070 and 459,456, respectively.

# PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock, Series A Preferred Stock, and Series B Preferred Stock were first issued upon consummation of the Merger on February 29, 1984. All of the Company's Common Stock is held by the Acquisition Group and there is no public trading market for the Common Stock. As of March 12, 1984, there were five holders of record of the Company's Common Stock. See "Item 12, Security Ownership of Certain Beneficial Owners and Management."

The Company is permitted under the Certificate of Incorporation to pay semiannual dividends on the Common Stock up to $2,500,000 plus an additional amount up to the lesser of $2,500,000 or the excess of stockholders' equity at the end of the last fiscal quarter over a threshold of $87,200,000, plus or minus $1 for each $1 that the stockholders' equity on the opening balance sheet of the Company after the Merger is greater than or less than $100,000,000. For purposes of this provision, stockholders' equity includes amounts in the accounts of both the Series A Preferred Stock and the Series B Preferred Stock. Based upon the balance sheet included herein, the threshold would be $135,895,000. Dividends on the Common Stock can be paid under the Certificate of Incorporation, however, only if all dividends on the Series A and Series B Preferred Stock for past quarters have been paid in full, dividends on the Series A and Series B Preferred Stock for the current quarter have been paid or funds are available for that purpose, and all required redemption or retirement payments on the Series A and Series B Preferred Stock have been made. The Credit Agreement entered into with Citibank in connection with the Merger further restricts the payment of dividends on the Common Stock. Under the Credit Agreement the Company may pay dividends on the Common Stock only if (a) the principal amount outstanding on the term loan (originally $100,000,000) is not in excess of $50,000,000, and (b) the aggregate amount of such dividends declared in any fiscal year is not in excess of an amount equal to 30 percent of the excess of (i) the Company's net income for such year over (ii) the aggregate amount of dividends declared or paid for such year on the Company's Series A and Series B Preferred Stock. The Credit Agreement further prohibits the Company from declaring any dividend on the Common Stock if an Event of Default occurs under the Credit Agreement. See "Item 1, Business, Reincorporation and Merger."

The Company's Series A Preferred Stock and Series B Preferred Stock are listed on the Pacific Stock Exchange. The high and low sales prices of the Series A Preferred Stock for the period March 1, 1984 to March 26, 1984 were 7⅞ and 6¾, respectively, and the high and low sales prices of the Series B Preferred Stock for that period were 13⅜ and 12⅝, respectively. As of March 26, 1984 there were approximately 9,200 holders of record of the Series A Preferred Stock and 9,200 holders of record of the Series B Preferred Stock.

Holders of the Series A Preferred Stock are entitled to receive cumulative cash dividends of $1.04 per share per annum and holders of the Series B Preferred Stock are entitled to receive cumulative cash dividends of $2.25 per share per annum. Dividends on the Series A Preferred Stock and Series B Preferred Stock began accruing from the date of issuance of such stock, February 29, 1984, and are payable quarterly on the fifteenth day of February, May, August and November of each year, beginning May 15, 1984.

Delaware law does not permit dividends to be paid except out of surplus (defined as the excess, at any given time, of a corporation's assets over its liabilities and stated capital) or, if there is no surplus, out of net profits for the fiscal year in which the dividends are declared or the preceding fiscal year. The Credit Agreement entered into with Citibank in connection with the Merger prohibits the Company from declaring a dividend on the Series A or Series B Preferred Stock if an Event of Default occurs under the Credit Agreement. Events of Default under the Credit Agreement include the violation by the Company of various and complex financial and other covenants and events related to the members of the Acquisition Group. See "Item 1, Business, Reincorporation and Merger." Even if an Event of Default occurs, however, the Company may declare and pay the first four scheduled quarterly dividends on the Series A and Series B Preferred Stock if (1) the Company is not in default on payments of interest or principal on the Advances, (2) Citibank holds not less than $25,000,000 of the Company's cash and permitted investments as collateral for the Advances, and (3) final judgments against the Company do not exceed $15,000,000 ($10,000,000 of which cannot result from actions commenced after the date of the Merger).

**Item 6. SELECTED FINANCIAL DATA**

The shutdown of steel manufacturing operations, changes in components of the operating groups, the Merger and resultant purchase accounting adjustments, and the new management's review and changes in the operations of the Company make it unlikely that trends indicated from past operating results will be predictive of future operating results. Accordingly, the following financial data is set forth only for the period ended December 31, 1983. See Note Q to the Consolidated Financial Statements for certain financial information for the years ended December 31, 1981 and 1982.

| | Thousands of dollars |
|---|---|
| Net Sales: | |
| Fabricated Products Group | $ 183,633 |
| Coal Group | 43,351 |
| | $ 226,984 |
| Pretax loss: | |
| Fabricated Products Group | ($ 5,041) |
| Coal Group | ( 7,502) |
| Corporate | ( 16,650) |
| | ( 29,193) |
| Interest income | 22,369 |
| Loss from continuing operations | ( 6,824) |
| Discontinued operations (Note B): | |
| Loss from discontinued operations | ( 25,578) |
| Loss on discontinuance, including provision of $6,101 for operating losses during phase out period (net of applicable income tax benefits of $33,000) | ( 395,784) |
| | ( 421,362) |
| Loss before extraordinary item | ( 428,186) |
| Extraordinary item | 5,416 |
| Net loss | ($ 422,770) |
| Dividends—Common Stock | $ — |
| Other Operating Data: | |
| Cost of products sold | $ 210,120 |
| Depreciation | $ 12,076 |
| Selling and administrative expense | $ 22,066 |
| Other expenses | $ 8,743 |
| Employment costs excluding pension and profit sharing expense | $ 91,775 |
| Pension and profit sharing expense | $ 9,008 |
| At Year End: | |
| Working capital | $ 21,621 |
| Investments and other assets | $ 35,240 |
| Property, plant and equipment and coal reserves | $ 524,130 |
| Total assets | $1,057,401 |
| Long-term debt | $ 104,556 |
| Series A Preferred Stock | $ 50,478 |
| Series B Preferred Stock | $ 7,478 |
| Common Stock | $ 1,000 |
| Capital surplus | $ 89,739 |
| Average number of employees | 4,796 |

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

This discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto. The steel manufacturing operations were discontinued in 1983, and the effect of the discontinuance is described below and in Note B to the Consolidated Financial Statements. The Consolidated Financial Statements also reflect the Merger of the Company with Kaiser Acquisition

Corporation ("KAC"), which was owned by an investor group led by J. A. Frates of Tulsa, Oklahoma (the "Acquisition Group"). The transaction is described in Note C to the Consolidated Financial Statements and in "Item 1, Business, Reincorporation and Merger."

The schedule below shows net sales and operating results by business segment for continuing operations and discontinued operations, for the year ended December 31, 1983 (thousands of dollars).

| | |
|---|---|
| Net sales: | |
| Fabricated Products Group | $183,633 |
| Coal Group | 43,351 |
| | $226,984 |
| Pretax loss: | |
| Fabricated Products Group | ($ 5,041) |
| Coal Group | ( 7,502) |
| Corporate | ( 16,650) |
| | ( 29,193) |
| Interest income | 22,369 |
| Loss from continuing operations | ( 6,824) |
| Discontinued operations: | |
| Loss from discontinued operations | ( 25,578) |
| Loss on discontinuance, including provision of $6,101 for operating losses during phase-out period (net of applicable income tax benefits of $33,000) | ( 395,784) |
| | ( 421,362) |
| Loss before extraordinary item | ( 428,186) |
| Extraordinary item | 5,416 |
| Net loss | ($422,770) |

**Results of Operations**

***Fabricated Products Group***

The operating results for the Fabricated Products Group have been restated to include the production and sale of large diameter oil and gas transmission pipe. This product was previously included in steel manufacturing operations, which have been discontinued. Large diameter pipe sales declined significantly to $18.1 million in 1983. Sales of the fabricated product business also declined in 1983.

The downturn in large diameter pipe business was the primary cause of the Fabricated Products Group's pretax loss of $5.0 million in 1983. Work is continuing on a large drilling platform, the space shuttle shelter at Vandenberg Air Force Base, skid-base modules and other projects while the Group is aggressively seeking new and follow-on business. The tubing and drum operations showed improvements in 1983 and in the first quarter of 1984.

***Coal Group***

Sales to unaffiliated customers were relatively unchanged in 1983. Results of operations, however, declined in 1983, with a pretax loss of $7.5 million being incurred. The loss resulted primarily from a softening of world-wide coal prices and the cessation of coal sales to the Fontana steelworks. The world-wide coal market remains depressed, but it is anticipated that the Merger could lead to new coal business, including a long-term coal supply contract with one or more electric utilities for coal shipments beginning in the early 1990's. See "Item 1, Business, Coal Group."

***Other***

Interest income declined in 1983 primarily because of lower cash balances available for investment, caused mainly by retirement of the Company's First Mortgage Bonds. It is anticipated that interest income will not be substantial in 1984 because of the Company's reduced cash balances.

***Discontinued Operations***

The Company discontinued its steel manufacturing operations in late 1983. The steel manufacturing operations incurred a pretax loss of $25.6 million in 1983, which included income of $112.2 million resulting from liquidation of applicable LIFO quantities carried at lower costs prevailing in prior years. A $395.8 million loss on discontinuance, attributable primarily to employment-related costs, is estimated to be incurred in connection with the discontinued operations. The estimated loss is net of income tax benefits of $33.0 million, resulting from the Company's decision to carryback its 1983 tax loss to prior years for refunds of taxes paid in those years. For a discussion of the provision for discontinued operations, see Note B to the Consolidated Financial Statements.

***Extraordinary Item***

The extraordinary item represents the gain on retirement of $185.2 million aggregate principal amount of the Company's First Mortgage Bonds at a discount in June and July 1983.

***Financial Condition***

The financial condition of the Company as set forth in its balance sheet reflects purchase accounting adjustments made to give effect to the Merger. These adjustments included revaluing the assets and liabilities of the Company to fair values, recording the exchange of cash and Series A and Series B preferred stock for the previously outstanding common stock of the Company, recognition of the excess cost over the value of the assets acquired, and certain other adjustments more fully described in Note C to the Consolidated Financial Statements.

***Liquidity***

As of December 31, 1983, the Company had cash and short-term investments of $21.6 million available for use in the business and had $25 million of restricted cash which, under the Citibank Credit Agreement, must be maintained in cash or short-term investments. See Note J to the Consolidated Financial Statements. In addition to its normal operating requirements, the Company will have cash demands pertaining to its discontinued operations and arising as a result of the Merger.

Cash expenditures in the near future for closure of the Fontana steelworks will include expenditures for employee separation, termination of supply contracts, settlement of litigation and grievances, and administrative and salvage costs. It is expected that liquidation of inventories and receivables of these operations and receipt of a large tax refund will substantially or entirely cover such expenditures over the near term. The Company in March 1984 filed for a refund of $33 million of income taxes paid in prior years.

Disbursements related to the Merger include principal payments on the Citibank loan of $20 million per year, payment of preferred stock dividends of $24.6 million per year, payment of Merger related expenses of $18.5 million and settlement of stock appreciation rights of $10.2 million. The Company has also agreed to sell assets sufficient to repay an additional $30 million of its bank loan by February 28, 1985. To help meet repayment obligations under the bank loan, the Company intends to sell certain assets that are surplus to its continuing operations, including its Fontana steelworks and certain of its undeveloped land in Southern California. The Company may, subject to certain conditions, reborrow funds on a revolving basis after repaying specified principal amounts and is effectively prohibited from incurring other indebtedness without the consent of Citibank except with respect to a limited amount of purchase money indebtedness related to the acquisition of a launch barge, certain coal property, and property acquired in the ordinary course of business. For further information on terms of the bank loan, see "Item 1, Business, Reincorporation and Merger," and Note J.

***Accounting Policies***

The Company is reviewing its accounting policies and practices in view of the significant changes in its operations.

***Capital Expenditures***

Capital expenditures decreased to $8 million in 1983 due to the wind-down of operations at the Fontana steelworks. Because of changes in operations, the Company is not able to estimate what the capital expenditures will be in 1984. Under the Credit Agreement with Citibank, capital expenditures without the consent of Citibank are limited to $15 million per year.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

To the Board of Directors and Stockholders
Kaiser Steel Corporation
Fontana, California

We have examined the consolidated balance sheet of Kaiser Steel Corporation and Subsidiaries as of December 31, 1983 and the related statements of operations-historical basis, stockholders' equity and changes in financial position for the year then ended and the schedules listed in the Index at Item 14(a)(2). Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

During 1983, the Company discontinued its steelmaking and finishing operations and entered into an Agreement of Merger which materially changed the presentation of the balance sheet and will materially affect the statement of operations in the future. The balance sheet has been presented on the basis of accounting as set forth in Note C, which reflects the fair valuing of assets and liabilities in connection with the Merger.

In our opinion the consolidated financial statements referred to above, present fairly the financial position of Kaiser Steel Corporation and Subsidiaries as of December 31, 1983, and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles and the results of their operations-historical basis for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and the schedules listed in the Index at Item 14(a)(2) present fairly, when read in connection with the related financial statements, the information therein set forth.

We have also read the pro forma adjustments to the Statement of Operations-Pro Forma for the year ended December 31, 1983, and, in our opinion, these adjustments have been properly prepared and applied.

Touche Ross & Co.
Certified Public Accountants

Los Angeles, California
March 26, 1984
(April 12, 1984 with
respect to Note S)

## CONSOLIDATED STATEMENTS OF OPERATIONS

### Year Ended December 31, 1983

| | Historical | Pro Forma Adjustments Add (Deduct) (Note D) | Pro Forma |
|---|---|---|---|
| | | (thousands of dollars) | |
| Net sales | $226,984 | $ — | $226,984 |
| Operating costs and expenses: | | | |
| Cost of products sold | 210,120 | ( 2,500)(5) | 207,620 |
| Selling and administrative expenses | 22,066 | | 22,066 |
| Depreciation | 12,076 | 8,804(2) | 20,880 |
| Interest expense | 5,300 | 745(4) | 6,045 |
| Other expenses | 8,743 | | 8,743 |
| Interest and other income | ( 24,497) | 22,369(6) | ( 2,128) |
| | 233,808 | 29,418 | 263,226 |
| Loss from continuing operations | ( 6,824) | ( 29,418) | ( 36,242) |
| Discontinued operations (Note B): | | | |
| Loss from discontinued operations (Note G) | ( 25,578) | 25,578(3) | |
| Loss on discontinuance including provision of $6,101 for operating losses during phase-out period (net of applicable income tax benefits of $33,000) | ( 395,784) | 395,784(3) | |
| | ( 421,362) | 421,362 | |
| Loss before extraordinary item | ( 428,186) | 391,944 | ( 36,242) |
| Extraordinary item (Note J) | 5,416 | ( 5,416)(1) | |
| Net loss | ($422,770) | $386,528 | ($ 36,242) |

See notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

**December 31, 1983**

| | (Note C) (thousands of dollars) |
|---|---|
| Current Assets: | |
| Cash and short-term investments (Notes F and J) | $ 21,615 |
| Accounts receivable (less allowance of $10,176) | 25,641 |
| Refundable income taxes (Note L) | 33,000 |
| Inventories (Notes A, E and G) | 48,326 |
| Other current assets | 7,847 |
| Current assets—discontinued operations (Note B) | 119,946 |
| Total current assets | 256,375 |
| Restricted cash (Note J) | 25,000 |
| Property, plant and equipment and coal reserves—net (Notes A, H, I and J) | 524,130 |
| Other assets | 35,240 |
| Long-term assets—discontinued operations (Note B) | 117,992 |
| Excess of purchase price over fair value of net assets acquired | 98,664 |
| | $1,057,401 |
| Current Liabilities: | |
| Current portion of long-term debt (Notes H and J) | $ 11,353 |
| Accounts payable | 6,680 |
| Payroll and related charges | 29,192 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (Note E) | 3,596 |
| Income taxes (Note L) | 9,200 |
| Other current liabilities | 24,855 |
| Current liabilities—discontinued operations (Note B) | 149,878 |
| Total current liabilities | 234,754 |
| Long-term debt (Note H and J) | 104,556 |
| Income taxes (Note L) | 22,965 |
| Other liabilities | 56,405 |
| Minority shareholders' interest | 4,900 |
| Long-term liabilities—discontinued operations (Note B) | 485,126 |
| Series A preferred stock (Note K) | 50,478 |
| Series B preferred stock (Note K) | 7,478 |
| Common stock (Note K) | 1,000 |
| Capital surplus (Note P) | 89,739 |
| Commitments and contingencies (Notes H and N) | |
| | $1,057,401 |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
### Year ended December 31, 1983

| | (thousands of dollars) |
|---|---|
| Loss from continuing operations before extraordinary item | ($ 6,824) |
| Depreciation and amortization | 12,076 |
| Funds provided by continuing operations | 5,252 |
| Extraordinary item | 5,416 |
| Additions to property, plant and equipment, net | ( 6,221) |
| Payments and current maturities of long-term debt | ( 1,481) |
| Redemption of $1.46 preferred stock | ( 983) |
| Dividend on $1.46 preferred stock | ( 514) |
| Other | 2,884 |
| Increases in: | |
| Other current assets | ( 5,107) |
| Payroll and related charges | 6,489 |
| Other current liabilities | 2,678 |
| Decreases in: | |
| Accounts receivable | 8,175 |
| Inventories | 12,684 |
| Refundable income taxes | 64,800 |
| Accounts payable | ( 6,441) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | ( 7,550) |
| Income taxes | ( 35,242) |
| | 44,839 |
| Amounts related to Merger: | |
| Allocation of purchase price to capital surplus | 425,657 |
| Additions to long-term debt | 100,000 |
| Par value of Series B preferred stock | 7,478 |
| Issuance of Series A preferred stock | 50,478 |
| Increase in other liabilities | 50,000 |
| Issuance of common stock | 1,000 |
| Increase of property, plant and equipment, coal reserves, inventories and other assets to fair values | ( 459,842) |
| Payment of $22 per share of common stock | ( 161,436) |
| Increase in excess of purchase price over fair value of net assets acquired | ( 98,664) |
| Defeasance of Pollution Control Revenue Bonds | ( 31,949) |
| Purchase of option on common stock | ( 14,532) |
| Redemption of $1.46 preferred stock | ( 8,266) |
| Decrease in other current assets | 3,773 |
| Increase in other current liabilities | 21,120 |
| | ( 115,183) |
| Amounts related to discontinued operations: | |
| Loss from discontinued operations | ( 421,362) |
| Provision for losses, net | 395,784 |
| Income resulting from LIFO layer liquidations | ( 112,238) |
| Depreciation and amortization | 23,194 |
| Funds used in discontinued operations | ( 114,622) |
| Retirement of First Mortgage Bonds | ( 185,203) |
| Payments related to shutdown of steelmaking | ( 24,141) |
| Additions to property, plant and equipment, net | ( 1,542) |
| Increase in income taxes | 22,965 |
| Other | 5,295 |
| Decrease in current assets — discontinued operations | 221,761 |
| Decrease in current liabilities — discontinued operations | ( 101,638) |
| | ( 177,125) |
| Net decrease in cash and short-term investments | ( 247,469) |
| Cash and short-term investments, January 1, 1983 | 294,084 |
| Cash and short-term investments, December 31, 1983 (including restricted cash of $25,000) | $ 46,615 |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

| | Series B Preferred Stock | $1.46 Preferred Stock | Common Stock | Capital Surplus | Retained Earnings (Deficit) |
|---|---|---|---|---|---|
| | | (thousands of dollars) (Note K) | | | |
| Balance, January 1, 1983 | $ — | $9,337 | $4,845 | $ 84,451 | $166,486 |
| Net loss | | | | | ( 422,770) |
| Cash dividend on preferred stock—$1.46 per share | | | | | ( 514) |
| Purchase and retirement of preferred stock | | ( 1,000) | | 17 | |
| To record purchase accounting adjustments (Note C): | | | | | |
| Purchase and retirement of preferred stock | | ( 8,337) | | 71 | |
| Payment of $22 per share of common stock | | | ( 4,845) | | ( 156,591) |
| Issuance of 10,000,000 shares of common stock, 10 cents par value | | | 1,000 | | |
| Gain on defeasance of Pollution Control Revenue Bonds | | | | 7,464 | |
| Payment for option on 1,181,100 shares of common stock, 66⅔ cents par value | | | | ( 14,532) | |
| Allocation of purchase price: | | | | | |
| Net tangible assets | | | | 384,949 | |
| Excess of purchase price over fair value of net assets acquired | | | | 98,664 | |
| Less: Par value of Series B preferred stock | 7,478 | | | ( 7,478) | |
| Assigned value of Series A preferred stock | | | | ( 50,478) | |
| Capitalization of deficit (Note P) | | | | ( 413,389) | 413,389 |
| Balance, December 31, 1983 | $7,478 | $ — | $1,000 | $ 89,739 | $ — |

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE A—Summary of Significant Accounting Policies

*Principles of Consolidation.* The consolidated financial statements include the accounts of Kaiser Steel Corporation and its majority owned subsidiaries. Intercompany transactions and accounts have been eliminated.

*Inventories.* Inventories are stated at the lower of cost or market; however, at December 31, 1983, inventories were revalued to fair value in accordance with the purchase accounting described in Note C. The last-in, first-out (LIFO) method of accounting is used for finished and semi-finished products and raw materials. Cost of other inventories is determined by the average cost method. Depreciation, property taxes and insurance expenses are not included in the determination of inventory costs.

*Contract Revenues.* Revenues from long-term fabrication and construction contracts are recognized on the percentage-of-completion method, generally measured on the basis of direct labor hours.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor and supplies. Selling and administrative costs and depreciation are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Profit is recognized when its realization is reasonably assured and the amount can be reliably estimated.

*Property, Plant and Equipment.* Property, plant and equipment are recorded at cost; however, at December 31, 1983, they were revalued to fair value in accordance with the purchase accounting described in Note C. Depreciation is calculated on the straight-line method, based primarily on estimated remaining useful economic lives of functionally related properties.

Normal retirements and disposals of plant and equipment are eliminated from the accounts by a charge to accumulated depreciation. Only gains or losses on abnormal retirements are included in earnings.

*Pension and Profit Sharing Plans.* The Company has pension plans that cover substantially all employees. Contributions to defined benefit pension plans are actuarially determined to include amounts necessary to provide for current employee service and the funding of prior service liabilities over periods up to 40 years. The Company maintains a salaried employees' Savings and Profit Sharing Plan. Contributions to the plan are based, in part, on earnings. The Company records its contributions to these plans as expenses. (See Note B.)

### NOTE B—Discontinued Operations

On March 4, 1983, the Company announced that it planned to discontinue operations at its steel mill in Fontana, California, if it could not find a buyer or suitable partner for the facility by the time its inventories of raw materials and semifinished slabs were exhausted. Such supplies were exhausted in the fall of 1983 and since the Company had not found a buyer or suitable partner, the mill was shut down.

The steel manufacturing operations incurred an operating loss of $25,578,000. In addition, provision has been made for operating losses expected to be incurred during the phase-out period, for estimated losses on disposal of plant and equipment, and for other costs to be incurred in the future as a result of discontinuing these operations. The provision is in addition to the charge taken in 1981 in a pretax amount of $540,000,000 for the shutdown of the Company's primary steelmaking operations. A summary of the 1983 provision for discontinued operations is as follows (millions of dollars):

| | | |
|---|---|---|
| Loss from operations of discontinued operations ... | | $ 25.6 |
| Loss on discontinuance: | | |
| Write-down of plant and equipment to fair value | $ 18.6 | |
| Employee-related costs | 384.3 | |
| Estimated operating losses during phase-out period | 6.1 | |
| Other | 19.8 | |
| | 428.8 | |
| Income tax benefits | 33.0 | |
| | | 395.8 |
| | | $421.4 |

The reserve for discontinued operations is summarized as follows (in millions):

| | |
|---|---|
| Employee-related costs | $503.9 |
| Other | 119.3 |
| | 623.2 |
| Less amounts included in current liabilities—discontinued operations | 138.1 |
| | $485.1 |

**NOTE C—Merger Transaction**

On January 18, 1984, the stockholders of the Company approved a change in the state of incorporation of the Company from Nevada to Delaware and the merger (the "Merger") of the Company with Kaiser Acquisition Corporation ("KAC"), which was owned by an acquisition group led by J. A. Frates of Tulsa, Oklahoma, and whom by virtue of the Merger, became the beneficial owners of all the presently outstanding common stock. Upon the Merger each outstanding share of common stock, 66⅔ cents par value, was converted into the right to receive $22.00 in cash plus one share of Series A preferred stock, bearing a cumulative annual dividend of $1.04, and one share of Series B preferred stock, bearing a cumulative annual dividend of $2.25.

The balance sheet gives effect to the Merger, which was consummated on February 29, 1984, as if it had occurred on December 31, 1983. The transaction was accounted for using the purchase accounting method whereby the assets and liabilities were recorded at their fair values. The fair values of the assets and liabilities will be reviewed for one year subsequent to the Merger and any adjustments will be recorded as an addition or reduction to the excess of purchase price over fair value of net assets acquired. The excess of purchase price over fair value of net assets acquired will be amortized on a straight-line method over forty years.

The following condensed balance sheet shows the adjustments for discontinued operations and purchase accounting:

## Condensed Balance Sheets as of December 31, 1983

| | Company Before Discontinued Operations and Purchase Adjustments | Discontinued Operations Adjustments Add (Deduct) (5)(10) | Company After Discontinued Operations Adjustments | Purchase Adjustments Add (Deduct) | Balance Sheet December 31,1983 |
|---|---|---|---|---|---|
| | (millions of dollars) | | | | |
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash | $162.8 | $— | $162.8 | $ 75.0(1)<br>( 216.2)(2) | $ 21.6 |
| Accounts receivable | 109.6 | ( 82.7) | 26.9 | ( 1.3) | 25.6 |
| Refundable income taxes | | 33.0(7) | 33.0 | | 33.0 |
| Inventories | 22.1 | 3.1 | 25.2 | 23.1(4) | 48.3 |
| Other current assets | 12.6 | ( 1.0) | 11.6 | ( 3.7) | 7.9 |
| From discontinued operations | | 119.9 | 119.9 | | 119.9 |
| Total current assets | 307.1 | 72.3 | 379.4 | ( 123.1) | 256.3 |
| Restricted Cash | | | | 25.0(1) | 25.0 |
| Property, plant and equipment and coal reserves—net | 261.6 | ( 136.4)(9) | 125.2 | 185.0(6)<br>214.0(6) | 524.2 |
| Other assets | 7.5 | | 7.5 | 27.8 | 35.3 |
| Long-term assets—discontinued operations | | 117.9 | 117.9 | | 117.9 |
| Excess of purchase price over fair value of net assets acquired | | | | 98.7 | 98.7 |
| | $576.2 | $ 53.8 | $630.0 | $427.4 | $1,057.4 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | $ 2.0 | ($ .1) | $ 1.9 | $ 9.5(1) | $ 11.4 |
| Accounts payable and payroll | 59.8 | ( 23.9) | 35.9 | | 35.9 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 12.5 | | 12.5 | ( 8.9) | 3.6 |
| Income taxes | 29.8 | ( 20.6)(7) | 9.2 | | 9.2 |
| Other current liabilities | 11.4 | ( 5.0) | 6.4 | 18.5(3) | 24.9(11) |
| Current portion of liability for shutdown of steel-making and finishing | 33.4 | 104.7 | 138.1 | | 138.1 |
| From discontinued operations | | 11.7 | 11.7 | | 11.7 |
| Total current liabilities | 148.9 | 66.8 | 215.7 | 19.1 | 234.8 |
| Long-term debt | 54.2 | ( .1) | 54.1 | 50.4(1)(2) | 104.5 |
| Long-term liabilities—discontinued operations | 125.2 | 359.9 | 485.1 | | 485.1 |
| Income taxes | | 23.0(7) | 23.0 | | 23.0 |
| Other liabilities | 11.3 | | 11.3 | 50.0(8) | 61.3 |
| Series A preferred stock | | | | 50.5(2) | 50.5 |
| $1.46 preferred stock | 8.3 | | 8.3 | ( 8.3)(2) | |
| Series B preferred stock | | | | 7.5(2) | 7.5 |
| Common stock | 4.8 | | 4.8 | ( 3.8)(2) | 1.0 |
| Capital surplus | 84.5 | | 84.5 | 5.2(2) | 89.7 |
| Retained earnings | 139.0 | ( 395.8) | ( 256.8) | 256.8 | |
| | $576.2 | $ 53.8 | $630.0 | $427.4 | $1,057.4 |

See notes to condensed balance sheets.

## NOTES TO CONDENSED BALANCE SHEETS

(1) To reflect the borrowing of $100,000,000 by the Company from Citibank, N.A. (Notes F and J).

(2) To reflect the following cash payments and the issuance of Series A and Series B preferred stock (in millions):

| | |
|---|---|
| Payment pursuant to the Merger of $22.00 per share of outstanding common stock | $161.5 |
| Defeasance of Pollution Control Revenue Bonds | 31.9 |
| Purchase of option with respect to 1,181,100 shares of common stock | 14.5 |
| Redemption of $1.46 preferred stock | 8.3 |
| | $216.2 |

The value of the Series A preferred stock and the Series B preferred stock is based on the closing bid prices on March 1, 1984, or $50,478,000 ($6.75 per share) and $97,217,000 ($13 per share), respectively.

(3) To record the liability of the Company for the cash settlement of stock appreciation rights, to the extent not previously accrued, and to record estimated costs relating to the Merger, including approximately $5.7 million payable to the Acquisition Group and its affiliates and $1.5 million payable to a group led by Perma Resources Corporation (the "Perma Group"), of which approximately $1 million had been paid prior to December 31, 1983. The Perma Group is a planned acquiror of an interest in the Company. Certain members of both groups are also officers and directors of the Company.

(4) To restate the Company's inventories of continuing operations, which historically had been stated on a last-in, first-out (LIFO) basis, to estimated fair value.

(5) To classify the steelmaking and finishing operations as discontinued operations.

(6) To restate property, plant and equipment of continuing operations at fair value based on independent appraisals. Assets of those divisions, which on the historical cost basis were not earning a ten percent return on net assets employed, were not written up to appraised values. As a result, appraisal write-ups aggregating approximately $63 million were not made.

(7) To reflect the tax refund arising from the carryback of losses, resulting principally from discontinued operations.

(8) To provide for certain liabilities relating principally to employee medical benefits of continuing operations.

(9) To restate the machinery and equipment of discontinued operations at the mid-point of independent appraised values, which are based on removal and disposal of these assets to either an end user (maximum value) or a dealer (minimum value).

(10) To provide for costs related to the shutdown of steelmaking and finishing operations (Note B).

(11) Other current liabilities consist of the following (in millions):

| | |
|---|---|
| Costs and fees of Acquisition and Perma Groups(3) | $ 6.2 |
| Settlement of employment contracts | 1.6 |
| Other Merger costs | 10.7 |
| Other | 6.4 |
| | $24.9 |

**NOTE D—Pro Forma Statement of Operations**

The pro forma statement of operations gives effect to the discontinuance of steelmaking and finishing operations and the Merger as if they had occurred on January 1, 1983, based on the assumptions set forth in the following notes. This statement does not purport to be indicative of the results that would actually have been attained if the Merger and discontinuance had occurred on January 1, 1983, or which may be attained in the future.

**NOTES TO PRO FORMA STATEMENT OF OPERATIONS**

(1) To record the reversal of the extraordinary item related to retirement of debt.

(2) To record additional depreciation, depletion, and amortization based on changes in recorded values of the Company's property, plant and equipment and coal reserves, as well as the excess of purchase price over values assigned.

(3) To eliminate discontinued operations related to steelmaking and finishing operations.

(4) To reflect an increase in interest expense as a result of borrowing $100,000,000 at the bank's alternate base rate plus 1.25% prior to the Effective Time of the Merger and a reduction in interest expense due to the defeasance of the Company's Pollution Control Revenue Bonds and retirement of the Company's First Mortgage Bonds.

(5) To adjust cost of products sold to reflect medical expense liabilities recorded as part of the Merger entries.

(6) To reflect a decrease in earnings from investments as a result of disbursement of cash to retire the Company's First Mortgage Bonds and the disbursements set forth in Note C, net of the $100,000,000 borrowing referred to above.

**NOTE E—Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts**

Billings in excess of costs and estimated earnings on uncompleted contracts represents billings in excess of revenues and is composed of the following at December 31, 1983 (thousands of dollars):

| | |
|---|---|
| Billings to date | $ 64,902 |
| Less: | |
| Costs incurred on uncompleted contracts | 49,445 |
| Estimated earnings | 11,861 |
| | 61,306 |
| | $ 3,596 |

**NOTE F—Cash And Short-Term Investments**

Cash and short-term investments consist of the following at December 31, 1983 (thousands of dollars):

| | |
|---|---|
| Demand deposits | $ 14,945 |
| Certificates of deposit | 85,635 |
| U.S. government obligations | 46,614 |
| Commercial paper | 3,964 |
| Bankers acceptances | 11,641 |
| Proceeds from bank loan (Note C) | 100,000 |
| Payments required as a result of the Merger (Note C) | ( 216,184) |
| Restricted cash (Note J) | ( 25,000) |
| | $ 21,615 |

The above investments are recorded at cost, which approximates market.

**NOTE G—Inventories**

Inventories consist of the following at December 31, 1983 (thousands of dollars):

| | |
|---|---|
| Finished products | $ 11,997 |
| Semi-finished products | 21,278 |
| Raw materials | 11,646 |
| Operating supplies (less valuation allowance of $1,616) | 3,405 |
| | $ 48,326 |

The above inventories are stated at fair value at December 31, 1983 in accordance with the purchase accounting described in Note C.

During 1983, certain inventory quantities were reduced, which resulted in a liquidation of applicable LIFO quantities carried at lower costs prevailing in prior years. The effect was to decrease the 1983 loss from discontinued operations by $112,238,000.

**NOTE H—Leases**

Leased capital assets included in property, plant and equipment are as follows at December 31, 1983 (thousands of dollars):

| | |
|---|---|
| Buildings | $10,750 |
| Machinery and equipment | 1,468 |
| | $12,218 |

The principal leased assets are office space in the Kaiser Center in Oakland, California, most of which is sublet to others. Sublease income was $3,626,000. Other capital leases relate to mobile equipment used in mining and manufacturing operations.

Future minimum lease payments for capitalized leases and rental payments for operating leases, as of December 31, 1983, are:

| | Capital Leases | Operating Leases |
|---|---|---|
| | (thousands of dollars) | |
| 1984 | $ 1,911 | $ 1,897 |
| 1985 | 1,894 | 1,639 |
| 1986 | 1,810 | 1,135 |
| 1987 | 1,734 | 789 |
| 1988 | 1,734 | 680 |
| Later years | 13,628 | 1,856 |
| Total minimum lease payments | 22,711 | $ 7,996 |
| Less amount representing interest | 9,828 | |
| Present value of net minimum lease payments | $12,883 | |

Rents charged to continuing operations were $4,133,000. Variable rentals did not represent a significant portion of rent expense in these periods.

There are no significant renewal or purchase options, escalation clauses, related guarantees or obligations assumed in connection with these leases. There are no restrictions on paying dividends, incurring additional debt or negotiating additional leases under the terms of the present lease agreements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### NOTE I—Property, Plant and Equipment and Coal Reserves

Certain property, plant and equipment were revalued to fair value as of December 31, 1983 in connection with the purchase accounting described in Note C.

Property, plant and equipment of continuing operations consists of the following at December 31, 1983 (thousands of dollars):

| | |
|---|---|
| Coal reserves | $214,027 |
| Land | 141,459 |
| Buildings and improvements | 39,147 |
| Machinery and equipment | 127,751 |
| Construction in progress | 1,746 |
| | $524,130 |

### NOTE J — Long-Term Debt

Long-term debt consists of the following at December 31, 1983 (thousands of dollars):

| | |
|---|---|
| Bank loan (Note C) | $100,000 |
| Capitalized lease obligations—6%-10½% | 12,883 |
| Other | 3,026 |
| | 115,909 |
| Less current portion | 11,353 |
| | $104,556 |

The Company retired its First Mortgage Bonds in June and July 1983 in an aggregate principal amount of $185,203,000, resulting in an extraordinary gain of $5,416,000. Immediately prior to the Merger, Pollution Control Revenue Bonds in an aggregate principal amount of $40,000,000 were defeased by purchasing U.S. government securities and placing them in trust for the holders of the bonds. The gain on defeasance amounted to $7,464,000, and was included in the determination of the excess of purchase price over fair value of net assets acquired.

The bank loan is payable in semi-annual installments of $10,000,000 and bears interest at 1.25 percent above the bank's alternate base rate (which is a fluctuating rate per annum as defined in the loan agreement). The bank receives an agent's fee of 0.25 percent per annum on the outstanding balance. The loan is collateralized by substantially all of the Company's assets and the Acquisition Group has guaranteed 30 percent of the outstanding balance. The guaranty is reduced to 15 percent after the outstanding balance has been reduced to $50,000,000 with proceeds from sources other than cash held on February 28, 1984, cash generated from current operations or revolving credit advances. If, from such proceeds, the first two semi-annual installments of the loan and at least $30,000,000 more of the outstanding balance are not paid by February 28, 1985, the Acquisition Group has also agreed to arrange the sale of certain of the Company's property not used in continuing operations or to make a loan to the Company, in either case in amounts sufficient to make up the difference.

The loan agreement also contains a provision for a revolving credit in an amount equal to the principal repayments on the bank loan less $30,000,000. The revolving credit bears interest at 1.25 percent above the bank's alternate base rate. Also, the bank is to receive a commitment fee of 0.375 percent per annum on any available, but unused, portion of the revolving credit.

The loan agreement also contains various covenants pertaining to working capital, net worth, certain financial ratios, payment of dividends, redemption of preferred stock and capital expenditures. In addition, the agreement requires the Company to maintain at least $25,000,000 in cash or short-term investments. The $25,000,000 is shown in the balance sheet as Restricted Cash.

Minimum annual principal payments on long-term debt from continuing operations are $11,353,000, $22,139,000, $21,145,000, $21,153,000 and $21,240,000, respectively, for the years 1984 through 1988.

**NOTE K — Common and Preferred Stocks**

The acquisition of the Company, as described in Note C, involved the exchange of $22.00 in cash, plus one share of Series A preferred stock and one share of Series B preferred stock, for each share of common stock previously outstanding.

The redemption of the $1.46 cumulative preferred stock will be made by March 31, 1984. The financial statements at December 31, 1983 reflect such redemption.

Giving effect to the acquisition transaction, the Company has 7,478,256 authorized, issued and outstanding shares of Series A and Series B preferred stock. Holders of the Series A and Series B preferred stock are entitled to receive cumulative cash dividends of $1.04 per share and $2.25 per share per annum, respectively (Note J).

The Series A and Series B preferred stock have redemption prices of $13.00 per share and $17.00 per share, respectively. The mandatory redemption provision of the Series A preferred stock requires 20 percent of the stock to be redeemed on the day after the sixth anniversary of issuance and each year thereafter.

The Series B preferred stock has a purchase fund established using a specified portion of the proceeds, if any, from future sales, long-term leases, and certain other dispositions of the Company's coal and Fontana steel manufacturing properties. The Company is required to apply to the purchase fund 25 percent of the proceeds in excess of $60,000,000 received on disposition of any coal properties or steel manufacturing properties, individually, provided that if the proceeds from both sources combined exceed $100,000,000, then purchase fund amounts include 25 percent of the excess over $100,000,000.

Under the terms of the Agreement of Merger, the certificate of incorporation of the Company has been amended to authorize 10,000,000 shares of common stock, 10 cents par value, which are all currently issued and outstanding.

The Company's 1982 stock incentive plan was amended in 1983 to provide that, upon merger or acquisition, option holders would receive the same distributions that a holder of equivalent number of shares of common stock would receive, less the option price. Such distributions ($1,556,000) were made subsequent to the closing of the acquisition on February 29, 1984 and have been so reflected on the balance sheet at December 31, 1983.

A summary of stock option transactions follows:

| | Shares | Average Price Per Share |
|---|---|---|
| Outstanding January 1, 1983 | 211,000 | $14.63 |
| Eliminated in connection with the Merger (Note C) | (211,000) | $14.63 |
| Outstanding December 31, 1983 | — | |

**NOTE L — Income Taxes**

Income tax benefits for the year ended December 31, 1983 are $33,000,000 and result from the Company's decision to carry back its tax losses to prior years for refunds of taxes paid in those years. The 1983 tax loss consists primarily of the write-off of a substantial portion of the remaining tax basis of the Fontana mill. The income tax benefits are presented in the statement of operations as a deduction from loss on discontinuance. The provision for loss on discontinuance includes estimated costs which will not be deducted in the Company's income tax returns until the specific costs are incurred. Some of these costs, such as those for pensions and medical benefits, will cover an extended period of time.

The Company has available approximately $24,000,000 of investment tax credit carry forwards and $12,000,000 of net operating losses which may be used to reduce future federal tax liabilities. These carry forwards expire in various years from 1993 through 1998.

The Internal Revenue Service has completed its field examination of the Company's consolidated federal income tax returns for all years through 1979 and is in the process of examining returns for 1980 and 1981. Certain adjustments applicable to the 1978 and 1979 returns are being contested by the Company. Various state income tax authorities have also proposed certain adjustments, which are being contested by the Company. The recorded liabilities for income taxes are considered, by management, to be adequate to cover deficiencies which may reasonably be expected to be sustained for all open years through 1983.

## NOTE M—Pension Expenses and Liabilities

Pension expenses, including prior service costs, to the Company under pension and retirement plans amounted to $8,362,000. Pension expenses included in loss on operations of discontinued operations amounted to $12,250,000 (Note B). The Company also accrued $646,000 for contributions to the Savings and Profit Sharing Plan. In addition, the Company previously established a Tax Reduction Act Employee Stock Ownership Plan (TRASOP), for which no accrual was made for 1983.

A comparison of the actuarial present value of accumulated plan benefits and net assets available for benefits related to continuing and discontinued operations is as follows at January 1, 1983 (thousands of dollars):

| | |
|---|---|
| Actuarial present value of accumulated plan benefits: | |
| Continuing operations— | |
| Vested | $ 51,718 |
| Nonvested | 3,745 |
| Discontinued operations— | |
| Vested | 247,688 |
| Nonvested | 1,607 |
| | $304,758 |
| Net assets available for benefits— | |
| Continuing operations | $ 45,929 |
| Discontinued operations | 119,004 |
| | $164,933 |

The unfunded liabilities related to discontinued operations have been included in the provision for discontinuance of steelmaking and finishing operations (Note B).

In the table above, the assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9½ percent.

## NOTE N—Commitments and Contingencies

The Company has been named as a defendant in litigation arising from its normal operation and the discontinuance of its steelmaking and finishing operations. Further, the Company is a party to several long-term contracts for the purchase of raw materials used in steelmaking. An estimate of the costs of resolving these contracts has also been included in the provision for discontinued operations. On the basis of presently available information, and the advice of counsel, management is of the opinion that any resulting liability and costs will not have a material effect on the Company's consolidated financial position.

## NOTE O—Industry Segment Information

The Company's continuing domestic operations include the production and sale of coal and steel products from western United States mines and plants. The Fabricated Products Group includes steel fabricating and steel product manufacturing, as well as manufacturing of large diameter pipe which previously had been reported as part of the Company's discontinued operations. The Coal Group produces steam and metallurgical grades of coal from mines in Utah and New Mexico for sale to worldwide markets.

Certain information concerning the Company's business segments is contained in the following tables as of December 31, 1983 and the year then ended (thousands of dollars):

| | |
|---|---|
| Revenues: | |
| Fabricated Products Group-unaffiliated | $ 183,633 |
| Coal Group-unaffiliated | 43,351 |
| | $ 226,984 |
| Operating loss: | |
| Fabricated Products Group | ($ 721) |
| Coal Group | ( 5,802) |
| Corporate | ( 563) |
| | ( 7,086) |
| Allocation of general and administrative expenses, interest expense and other expenses: | |
| Fabricated Products Group | ( 4,320) |
| Coal Group | ( 1,700) |
| Corporate | ( 16,087) |
| | ( 22,107) |
| Pretax loss: | |
| Fabricated Products Group | ( 5,041) |
| Coal Group | ( 7,502) |
| Corporate | ( 16,650) |
| | ( 29,193) |
| Interest income | 22,369 |
| Loss from continuing operations | ($ 6,824) |
| Capital expenditures: | |
| Fabricated Products Group | $ 3,989 |
| Coal Group | 2,134 |
| Other | 98 |
| | $ 6,221 |
| Depreciation expense: | |
| Fabricated Products Group | $ 5,327 |
| Coal Group | 5,637 |
| Other | 1,112 |
| | $ 12,076 |
| Identifiable assets at end of period: | |
| Fabricated Products Group | $ 157,547 |
| Coal Group | 346,056 |
| | 503,603 |
| Investment in net assets of: | |
| Discontinued operations | 237,938 |
| Other corporate assets | 315,860 |
| Total assets at end of period | $1,057,401 |

Revenues for the Fabricated Products Group in 1983 included $48,200,000 from an oil company. No other single customer accounted for more than 10 percent of consolidated revenue in 1983.

Discontinued operations assets are all the assets from the Steel Manufacturing Group. See Note B to the consolidated financial statements for further explanations.

Other corporate assets are cash and short-term investments, surplus property and excess of purchase price over fair value of net assets acquired of the parent and other assets related to administrative functions.

## NOTE P— Capitalization of Deficit

As of December 31, 1983, the Company has charged the accumulated deficit to capital surplus. Accordingly, retained earnings will represent only the results of operations for periods subsequent to December 31, 1983.

## NOTE Q — Historical Financial Information

As a result of the significant adjustments to the balance sheet and operations of the Company resulting from the discontinuance of steelmaking and finishing operations discussed in Note B and the adjustments relating to the Merger described in Note C, the balance sheet as of December 31, 1983 is not comparable to prior financial information published by the Company. Accordingly, no balance sheet for December 31, 1982 has been presented since the Company deems it not to be useful to the reader in the understanding of the Company.

Operations of the Company in the future will be significantly different from those of the past as a result of the discontinuance of the steelmaking and finishing operations and the Merger. However, for informational purposes the following condensed statements of operations for the years ended December 31, 1982 and 1981 have been restated to show the effect of the discontinuance of steelmaking and finishing operations.

### Restated Condensed Statements of Operations

| | Years ended December 31, | |
|---|---|---|
| | 1982 | 1981 |
| | (thousands of dollars) | |
| Net Sales | $391,141 | $522,641 |
| Operating costs and expenses: | | |
| Cost of products sold | 328,029 | 437,322 |
| Selling and administrative expenses | 21,815 | 15,974 |
| Depreciation and amortization | 10,375 | 9,111 |
| Interest expense | 11,189 | 7,296 |
| Other expenses | 4,693 | |
| Interest and other income | ( 57,748) | ( 72,420) |
| Total operating costs and expenses | 318,353 | 397,283 |
| Earnings from continuing operations before unusual item and income taxes | 72,788 | 125,358 |
| Discontinued operations (Note B): | | |
| Loss from discontinued steelmaking operations (net of applicable income tax benefits of $82,000 in 1982 and $3,000 in 1981) | ( 57,178) | ( 35,077) |
| Loss on discontinuance of steelmaking (net of applicable income tax benefits of $11,000) | | ( 529,000) |
| | ( 57,178) | ( 564,077) |
| Earnings (loss) before unusual item and income taxes | 15,610 | ( 438,719) |
| Unusual item-gain on sale of investment | 21,055 | |
| Income taxes | 34,000 | |
| Net earnings (loss) | $ 2,665 | ($438,719) |

**NOTE R — Information on Effects of Changing Prices**

Information on the effects of changing prices has not been presented because the Company does not believe that it would be informative when related to the balance sheet, as of December 31, 1983, which reflects the fair valuing of assets and liabilities in connection with the Merger and the fact that future operations of the Company will be significantly different as a result of the discontinuance of steelmaking and finishing operations described in Note B and the effects of the purchase accounting in Note C.

**NOTE S — Subsequent Event**

On April 12, 1984, Pacific Steel Corporation ("Pacific") and Companhia Vale do Rio Doce ("CVRD") signed a letter of intent with the Company whereby Pacific would acquire a substantial portion of the Company's discontinued steel manufacturing facilities, the related land and the Company's 51 percent interest in Kaiser Pipe & Casing, Inc. The letter of intent contemplates that a definitive purchase agreement will be signed within approximately thirty days and that the purchase of the assets will occur as soon as possible after execution of the purchase agreement. The sales price approximates the fair value, as discussed in Note C, of the assets to be sold.

Pacific is controlled by the beneficial owner of 49 percent of Kaiser Pipe & Casing. The letter of intent also states that, should the purchase be completed, CVRD, a Brazilian mining company with whom the Company has a contract for the supply of iron ore pellets, intends to become a stockholder of Pacific.

**Quarterly Financial Data (Unaudited)**
(thousands of dollars)

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | Mar. 31 | June 30 | Sept. 30 | Dec. 31 | Year |
| Net sales as previously reported | $134,305 | $165,475 | $164,753 | $ — | $ — |
| Effects of discontinued operations | 82,395 | 106,458 | 102,070 | | |
| Net sales as restated | $ 51,910 | $ 59,017 | $ 62,683 | $ 53,374 | $226,984 |
| Gross profit as previously reported | $ 10,803 | $ 3,198 | $ 22,178 | $ — | $ — |
| Effects of discontinued operations | 7,111 | ( 2,196) | 15,845 | | |
| Gross profit as restated | $ 3,692 | $ 5,394 | $ 6,333 | $ 1,445 | $ 16,864 |
| Earnings (loss) from continuing operations as previously reported | ($ 9,889) | ($ 12,969) | $ 5,603 | $ — | $ — |
| Effects of discontinued operations | ( 10,110) | ( 15,629) | 4,547 | — | — |
| Earnings (loss) from continuing operations as restated | 221 | 2,660 | 1,056 | ( 10,761) | ( 6,824) |
| Discontinued operations | ( 10,110) | ( 15,629) | 4,547 | ( 400,170) | ( 421,362) |
| Extraordinary item | | 5,306 | 110 | | 5,416 |
| Net earnings (loss) | $( 9,889) | ($ 7,663) | $ 5,713 | ($410,931) | ($422,770) |

**Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

## PART III

### Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

*Directors.* The Company's Certificate of Incorporation, as amended pursuant to the Agreement of Merger, provides that the Board of Directors shall consist of eleven members, nine of whom are to be elected by the holders of the Common Stock and two of whom are to be elected by the holders of the Series A Preferred Stock and Series B Preferred Stock, voting as a single class. In accordance with the Agreement of Merger, upon consummation of the Merger on February 29, 1984 the following individuals were elected as directors of the Company: J. A. Frates; Robert E. Merrick; Charles S. Holmes; Stan P. Doyle; Clifford V. Brokaw, III; Howard H. Samuels; Joseph Hansen; Stephen A. Girard; Richard N. Gary; William R. Gould; and Garfield O. Anderson. Messrs. Gould and Anderson were elected as representatives of the holders of the Company's Series A Preferred Stock and Series B Preferred Stock. Mr. Anderson died on April 8, 1984. Under the Company's Certificate of Incorporation, the remaining director representing the holders of the Preferred Stock, Mr. Gould, has the authority to fill the vacancy. Mr. Gould has not yet appointed Mr. Anderson's successor.

The Perma Agreement provides that the Acquisition Group will cause the Board of Directors to consist of a total of eleven directors, three of whom are designated by each of the Acquisition Group and the Perma Group, two of whom are nominated by the holders of the Company's Preferred Stock in accordance with the Company's Certificate of Incorporation, two of whom are selected from the management of the Company (one of whom is subject to the approval of each of the Acquisition Group and the Perma Group) and one of whom is designated by mutual agreement of the Acquisition Group and the Perma Group. Pursuant to an Agreement, dated February 29, 1984, between the Acquisition Group and the Perma Group, immediately following the Merger Messrs. Doyle, Hansen, Brokaw and Samuels resigned as directors and Monty H. Rial, Charles S. McNeil, Dr. Eustace H. Winn, Jr. and Charles H. Black were elected in their stead by the holders of Common Stock.

The present directors of the Company and certain information with respect to them as of March 12, 1984, is given below. All directors are elected annually. Unless otherwise indicated in the footnotes to the following table, each of the directors has been employed by the respective organizations listed under "Principal Occupation" below for at least the past five years. There is no family relationship between any director or executive officer of the Company. None of the companies listed below is a parent, subsidiary or affiliate of the Company except as otherwise indicated in the notes below. The information regarding the respective directors has been supplied by them.

| Name | Age | Served As Director Since | Principal Occupation and Other Directorships |
|---|---|---|---|
| J. A. Frates | 63 | February 29, 1984 | Chairman of the Company, February 29, 1984 to present; investor and financier, 1963 to present; Chairman, Fracorp, Inc. (a real estate development and management company), Tulsa, Oklahoma, since before 1978 to present (2); Partner of Equivest Associates (a general investment partnership), Tulsa, Oklahoma, January 1983 to present (3); Director of Emerson Electric Co. and Context Industries Inc. (1). |
| Monty H. Rial | 42 | February 29, 1984 | Vice Chairman of the Company, February 29, 1984 to present; Founder, President and Director of Perma Resources Corporation, Colorado Springs, Colorado, 1977 to present (4); Chairman, since 1981, and Director, since 1979, of FCD Oil Corporation, Oklahoma City, Oklahoma (5). |

| Name | Age | Served As Director Since | Principal Occupation and Other Directorships |
|---|---|---|---|
| Charles S. Holmes ..... | 38 | February 29, 1984 | Attorney and partner of Doyle & Holmes (a law firm), Tulsa, Oklahoma, 1971 to present. |
| Robert E. Merrick ..... | 41 | February 29, 1984 | Managing partner of Equivest Management and Financial Services Ltd. (a management services and consulting firm), Tulsa, Oklahoma, January 1983 to present (2); Partner of Equivest Associates, January 1983 to present (3); Executive Vice President of Fracorp Inc. (a real estate development and management company), Tulsa, Oklahoma, since before 1978 to December 1982 (2). |
| Dr. Eustace H. Winn, Jr. . | 62 | February 29, 1984 | Practicing General Surgeon; Owner and stockholder of various private businesses; Director of Perma Resources Corporation, Colorado Springs, Colorado (4); Director of FCD Oil Corporation, Oklahoma City, Oklahoma, 1979 to present (5); Co-founder and Director of Hollandale Agricultural Services Company (an exporter of cotton seed); Director of Commonwealth National Life Insurance Company (a life and casualty insurance company), since before 1978 to present (1). |
| Charles S. McNeil ...... | 35 | February 29, 1984 | Vice President, Coal Group, of the Company, February 29, 1984 to present; Executive Vice President and Director of Perma Resources Corporation, Colorado Springs, Colorado, 1977 to present(4); President and Director of Perma Mining Corporation, 1982 to present (5); Secretary and Director, FCD Oil Corporation, Oklahoma City, Oklahoma, 1982 to present (5). |
| William R. Gould ...... | 64 | 1977 | Chairman of the Board and Chief Executive Officer, Southern California Edison Company (a public utility), Rosemead, California; Director of Southern California Edison Company, Union Bancorporation, Inc., and Beckman Instruments, Inc (1). |
| Charles H. Black ....... | 57 | February 29, 1984 | Senior Vice President, Finance, of the Company, 1982 to present; Executive Vice President and Chief Financial Officer, Great Western Financial Corporation and Great Western Savings and Loan Association, 1980 to 1982; Vice President and Treasurer, Litton Industries, Inc., 1971 to 1980; Director, Investment Company of America; Director, Fundamental Investors, Inc.; Director, Interdyne Company; Trustee, American Pathway Fund; Board of Governors, Pacific Stock Exchange. |
| Stephen A. Girard ...... | 70 | 1972 | Chairman and Chief Executive Officer of the Company and Chairman of the Executive Committee, 1981 to February 29, 1984; President of the Company, March to November 1982; Vice Chairman of the Board of the Company, 1979 to 1981; President, Chief Executive Officer and a member of the Board of Liquidating Trustees, Kaiser Industries Corporation, 1978 to 1980 (7); Director of American Motors Corporation (1). |
| Richard N. Gary ....... | 40 | 1982 | President of the Company, November 1982 to March 5, 1984; Executive Vice President of the Company, 1982; Vice President, General Counsel and Secretary of the Company, 1980 to 1982; Secretary of the Company, 1979; Assistant General Counsel of the Company, 1978 to 1979; Attorney and partner of Thelen, Marrin, Johnson & Bridges, 1972 to 1978 and January to March 1982 (6). |

(1) Indicates directorships held by the respective directors in any other company with a class of securities registered pursuant to Section 12 of the Securities and Exchange Act of 1934 or subject

to the requirements of Section 15(d) thereof or any company registered as an investment company under the Investment Company Act of 1940.

(2) Members of the Acquisition Group, which owns all of the Common Stock of the Company, have a controlling interest in Fracorp, Inc. and Equivest Management and Financial Services Ltd. Accordingly, such companies may be deemed affiliates of Kaiser Steel Corporation.

(3) Equivest Associates, a general investment partnership composed of J. A. Frates, Robert E. Merrick, P. Peter Prudden, III, J. Anthony Frates and Stephen I. Frates, owns 4,500,000 shares (45 percent) of the Common Stock of the Company.

(4) Perma Resources Corporation is a member of the Perma Group which has an option, under certain circumstances, to purchase all of the Common Stock of the Company. See "Item 12, Security Ownership of Certain Beneficial Owners and Management, Changes in Control." Monty H. Rial owns 56 percent of the stock of Perma Resources Corporation; Dr. Eustace H. Winn, Jr. owns 26 percent; Charles S. McNeil owns 7 percent; and six others own the remaining 11 percent.

(5) Perma Mining Corporation and FCD Oil Corporation are wholly owned subsidiaries of Perma Resources Corporation. See Note (4) above.

(6) Thelen, Marrin, Johnson & Bridges is counsel to the Company.

(7) Kaiser Industries Corporation was an affiliate of the Company prior to its dissolution in 1977.

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On March 30, 1984, the Board of Directors approved the establishment of six advisory directors to the Board, three of whom are selected by the Acquisition Group and three of whom are selected by the Perma Group. The advisory directors are not members of the Board of Directors and have no voting power. The initial advisory directors have not been named, but will be selected by the Chairman and Vice Chairman of the Board of Directors.

*Executive Officers.* The following tables list as of March 30, 1984 the name and age of each of the executive officers of the Company, the year in which he first became an executive officer, all positions and offices with the Company held by him at March 30, 1984 and his business experience during the past five years. Executive officers are elected for indefinite terms of office. There is no family relationship between any of the executive officers. None of the companies listed below is a parent, subsidiary or other affiliate of the Company except as otherwise indicated below. Monty H. Rial was elected Vice Chairman of the Board of Directors on February 29, 1984 pursuant to an Agreement, dated February 29, 1984 between the Acquisition Group and the Perma Group. These tables do not include the following individuals who were executive officers on March 30, 1984 but who are retiring or who have resigned: William S. Barnum, Vice President and Treasurer, Gerald G. Ferro, Vice President, Industrial Relations, and James R. McCaughey, Vice President, Sales, Steel Manufacturing Group, who are retiring on April 30, 1984; Joe T. Taylor, Vice President, Coal Group, and W. Raymond Worman, Vice President, Operations, Steel Manufacturing Group, who retired on March 31, 1984; and Albert J. Melrose, Vice President, Public Affairs, who resigned effective March 31, 1984.

| Name | Age | Executive Officer Since | Current Position and Offices |
|---|---|---|---|
| J. A. Frates | 63 | 1984 | Chairman |
| Monty H. Rial | 42 | 1984 | Vice Chairman |
| Charles H. Black | 57 | 1982 | Senior Vice President, Finance |
| Robert J. Brignano | 45 | 1982 | Vice President, Planning and Controller |
| Kenneth L. Gibson | 42 | 1982 | Vice President, Corporate Development |
| Harold P. Halterman | 57 | 1983 | Vice President, Fabricating Operations, Fabricated Products Group |
| Patrick J. Hunt | 44 | 1984 | Vice President and Treasurer (Effective April 1, 1984) |
| Charles S. McNeil | 35 | 1984 | Vice President, Coal Group |
| Kevin J. Reidy | 46 | 1983 | Vice President and General Manager, Fabricated Products Group |

| Name | Business Experience During The Past Five Years |
|---|---|
| J. A. Frates | Investor and financier, 1963 to present; Chairman, Fracorp, Inc. (a real estate development and management company), Tulsa, Oklahoma, since before 1978 to present (1); Partner of Equivest Associates (a general investment partnership), Tulsa, Oklahoma, January 1983 to present (2); Chairman of the Company, February 1984 to present. |
| Monty H. Rial | Founder, President and Director of Perma Resources Corporation, Colorado Springs, Colorado, 1977 to present (3); Chairman, since 1981, and Director, since 1979, of FCD Oil Corporation, Oklahoma City, Oklahoma (4); Vice Chairman of the Company, February 29, 1984 to present. |
| Charles H. Black | Vice President and Treasurer, Litton Industries, Inc., 1971 to 1980; Executive Vice President and Chief Financial Officer, Great Western Financial Corporation and Great Western Savings and Loan Association, 1980 to 1982; Senior Vice President, Finance, of the Company, 1982 to present; Director of the Company, February 1984 to present. |
| Robert J. Brignano | Manager, Profit Planning and Analysis, of the Company, 1978 to 1979; Operations Controller of the Company, 1979; Corporate Controller of the Company, 1980 to 1982; Vice President, Planning and Controller of the Company, 1982 to present. |
| Kenneth L. Gibson | Assistant Manager, Tin Mill Product Sales, of the Company, 1977 to 1981; Manager, Plate Mill Product Sales, of the Company, 1981; Assistant to the Executive Vice President of the Company, 1981; Assistant to the President of the Company, 1981 to 1982; Assistant to Chairman and Chief Executive Officer of the Company, 1982; Vice President, Corporate Development, of the Company, 1982 to present. |
| Harold P. Halterman | Manager, Napa Fabricating Facilities, of the Company, 1974 to 1982; General Manager, Fabricated Products, of the Company, 1982 to September 1983; Vice President, Fabricating Operations, Fabricated Products Group, of the Company, September 1983 to present. |
| Patrick J. Hunt | Manager, Pension Fund Administration, of the Company, 1978 to 1981; Assistant Treasurer of the Company, 1981 to March 31, 1984; Vice President and Treasurer of the Company, effective April 1, 1984. |
| Charles S. McNeil | Executive Vice President and Director of Perma Resources Corporation, Colorado Springs, Colorado, 1977 to present (3); President and Director of Perma Mining Corporation, 1982 to present (4); Secretary and Director of FCD Oil Corporation, Oklahoma City, Oklahoma, 1982 to present (4); Vice President, Coal Group, of the Company, February 29, 1984 to present. |
| Kevin J. Reidy | General Manager, Offshore and Construction, Fabricated Products Group, of the Company, 1976 to August 1983; Vice President and Assistant General Manager, Fabricated Products Group, of the Company, August 1983 to January 1984; Vice President and General Manager, Fabricated Products Group, of the Company, January 1, 1984 to present. |

(1) Members of the Acquisition Group, which owns all of the Common Stock of the Company, have a controlling interest in Fracorp, Inc. and Equivest Management and Financial Services Ltd. Accordingly, such companies may be deemed affiliates of Kaiser Steel Corporation.

(2) Equivest Associates, a general investment partnership composed of J. A. Frates, Robert E. Merrick, P. Peter Prudden, III, J. Anthony Frates and Stephen I. Frates, owns 4,500,000 shares (45 percent) of the Common Stock of the Company.

(3) Perma Resources Corporation is a member of the Perma Group which has an option, under certain circumstances, to purchase all of the Common Stock of the Company. See "Item 12, Security Ownership of Certain Beneficial Owners and Management, Changes in Control." Monty H. Rial owns 56 percent of the stock of Perma Resources Corporation; Dr. Eustace H. Winn, Jr. owns 26 percent; Charles S. McNeil owns 7 percent; and six others own the remaining 11 percent.

(4) Perma Mining Corporation and FCD Oil Corporation are wholly owned subsidiaries of Perma Resources Corporation. See Note (3) above.

## Item 11. EXECUTIVE COMPENSATION

*Cash Compensation Table.* For the year ended December 31, 1983, the Company and its subsidiaries paid to each of its five most highly compensated executive officers, and to all executive officers as a group, the cash compensation shown in the following table. The information in the table and the footnotes thereto does not include compensation to executive officers for any period during which such persons were not executive officers of the Company.

| A<br>Name of Individual or Number in Group | B<br>Capacities in Which Served (1) | C<br>Cash Compensation (2) |
|---|---|---|
| Stephen A. Girard | Chairman and Chief Executive Officer (until February 29, 1984) | $ 531,000 |
| Richard N. Gary | President (until March 5, 1984) | $ 354,000 |
| Charles H. Black | Senior Vice President, Finance | $ 261,800 |
| W. Raymond Worman | Vice President, Operations, Steel Manufacturing Group (retired March 31, 1984) | $ 243,100 |
| James A. Maggetti | Vice President and General Manager, Fabricated Products Group (retired December 31, 1983) | $ 205,200 |
| All executive officers as a group (15 persons, including those named above) | — | $2,877,500 |

(1) No director received compensation as a director of the Company while also serving as an officer of the Company or any subsidiary.

(2) These figures include amounts paid under the 1983 Incentive Performance Plan, described below, for services rendered in 1983 and amounts deferred pursuant to Section 401(k) of the Internal Revenue Code during 1983 under the Company's Savings and Profit Sharing Plan, described below.

*1983 Incentive Performance Plan.* In 1983 the Company adopted the 1983 Incentive Performance Plan which provides for cash awards to key employees (including officers who may be directors but not persons who are only directors) based on certain performance standards related to the employee's performance in the achievement of important business objectives. The Executive Compensation and Stock Option Committee makes the final determination of the recipients of the awards and the amounts awarded. Amounts in Column C of the Cash Compensation Table include amounts awarded under the plan in 1983.

*Savings and Profit Sharing Plan.* The Company has a savings and profit sharing plan which provides for contributions out of the Company's current or retained earnings. Prior to February 29, 1984, the annual contribution was from two to ten percent of the annual salary of participants, with the annual percentage contribution determined under a formula relating annual earnings to stockholders' equity. Effective February 29, 1984, the plan was amended to provide for a minimum annual contribution of two percent of the annual salary of participants plus an additional contribution, up to a maximum of ten percent of the annual salary of participants, at the discretion of the Board of Directors. Participants are required to make a minimum contribution of two percent of annual salary with the right to contribute up to 12 percent of annual salary. All salaried employees are eligible to participate in the plan on the second January 1 following date of hire. The Company's contributions vest immediately. The Company's contribution in 1983 to this plan was two percent of the participant's annual salary. Amounts in Column C of the Cash Compensation Table include the Company's contributions under the plan.

*Retirement Plan.* The Company maintains a contributory qualified retirement plan which provides retirement benefits to participants. All permanent salaried employees are eligible to participate in the plan at the time of employment with the Company. Participants are fully vested after ten years of service. Final benefits are based upon years of credited service and final average monthly compensation (as defined in the plan) for the highest 60 consecutive months of credited service during the last 120 months of credited service. Benefits under the plan are offset by a percentage of Social Security benefits. Amendments to the Employee Retirement Income Security Act have limited maximum annual benefits payable under the plan to $90,000 as of January 1, 1983, subject to adjustment for previously accrued benefit, employee contributions and for cost-of-living increases. Participants may choose among a number of alternative benefit payment options.

The following table shows estimated annual benefits payable upon retirement at age 65 to persons with the specified years of service and final average annual compensation. The benefits shown are based upon a single life annuity, but not less than five years and have not been adjusted to reflect the Social Security offset. The estimated annual benefits shown are based upon the assumptions that the plan continues in effect, that the participant retires at age 65, and that the participant receives payment for life, but not less than five years.

| Final Average Annual Compensation | Years of Service | | | | |
|---|---|---|---|---|---|
| | 15 | 20 | 25 | 30 | 35 |
| $ 50,000 | $12,000 | $16,000 | $20,000 | $24,000 | $28,000 |
| $ 75,000 | $18,000 | $24,000 | $30,000 | $36,000 | $42,000 |
| $100,000 | $24,000 | $32,000 | $40,000 | $48,000 | $56,000 |
| $125,000 | $30,000 | $40,000 | $50,000 | $60,000 | $70,000 |
| $150,000 | $36,000 | $48,000 | $60,000 | $72,000 | $84,000 |

In 1983, the total amount expensed by the Company as a contribution to the salaried employees' retirement plan was $4,131,000. All of the persons named in the Cash Compensation Table have resigned or are retiring except Mr. Black whose years of service and annual compensation for 1983 used for determining benefits under the retirement plan were 1.7 and $170,000, respectively. With respect to the other persons named in the Cash Compensation Table, Mr. Girard has already received his retirement benefits under the plan and has no further entitlements under it; however, he is entitled to a separate special retirement benefit in an amount equal to $100,000 per year. Mr. Gary resigned as President of the Company on March 5, 1984 and, under the terms of the retirement plan, is not entitled to any benefits under the plan. Mr. Worman is retiring as Vice President, Operations, Steel Manufacturing Group on March 31, 1984 and will be entitled to retirement benefits under the retirement plan in an amount equal to $55,300 per year. Mr. Maggetti retired as Vice President and General Manager, Fabricated Products Group, on December 31, 1983 and thereupon became entitled to retirement benefits under the retirement plan in an amount equal to $55,300 per year plus a supplemental benefit from Company funds in the amount of $8,200 per year.

*Special Incentive Award Plan.* During 1979, the Board of Directors approved a Special Incentive Award Plan ("Special Award Plan") pursuant to which the Executive Compensation and Stock Option Committee awarded key management employees Special Award Units based upon their efforts to plan and act in the best interests of the Company's stockholders. The value of each such unit was equal to the excess of the closing price of the Company's 66⅔ cents par Common Stock on March 30, 1983 (which was $39.625) over $34.625, the closing price of such stock on October 26, 1979, the date of commencement of the plan. The plan expired on March 31, 1983. Awards under the plan were prorated on the basis of a participant's length of participation in the plan.

The following tabulation shows, as to the executive officers named or included in the Cash Compensation Table, the amounts distributed on expiration of the plan on March 31, 1983.

| Name of Individual or Number of Persons in Group | Amounts Distributed on Expiration of the Plan on March 31, 1983 |
|---|---|
| Stephen A. Girard | $ 54,300 |
| Richard N. Gary | $ 37,200 |
| W. Raymond Worman | $ 50,000 |
| Charles H. Black | — |
| James A. Maggetti | — |
| All executive officers as a group (15 persons, including those named above) | $185,200 |

*Stock Appreciation Plan.* During 1981, the Board of Directors approved a Stock Appreciation Plan. Under this plan, the Executive Compensation and Stock Option Committee awarded key management employees Individual Award Units based upon their contributions to the profit, performance and growth of the Company. The value of each such unit was to be determined upon expiration of the plan on March 30, 1984, or on any earlier date on which the Company terminated the Stock Appreciation Plan. The plan as first adopted provided that the value of each Individual Award Unit would be equal to the excess, if any, of the average closing price for the Company's 66⅔ Cents Par Common Stock for the 30 trading days before March 30, 1984 over $42.00 (the "Base Price"), which was the closing price of such stock on July 23, 1981, the day before the commencement of the Stock Appreciation Plan. On August 10, 1982, the plan was amended to provide that the Base Price would be equal to the closing price of the 66⅔ Cents Par Common Stock on such date, $14.625, with respect to the Individual Award Units held by all participants in the plan who were active employees as of such date and all employees subsequently selected for participation in the plan. The Base Price of $42.00 was still applicable to all units held by participants who had retired or were terminated prior to August 10, 1982. Awards under the plan were prorated on the basis of a participant's length of participation in the plan. Pursuant to the terms of the Stock Appreciation Plan and action taken by the Board of Directors on October 17, 1983, amending the Stock Appreciation Plan, on the consummation of the Merger, the Stock Appreciation Plan terminated and all rights of participants vested immediately. Upon such vesting, the value of each Individual Award Unit was equal to the difference between $41.25, which was the price of the 66⅔ Cents Par Common Stock at the close of business on the day preceding the Merger, and the applicable Base Price.

The following tabulation shows, as to the executive officers named or included in the Cash Compensation Table, the amounts distributed upon consummation of the Merger on February 29, 1984:

| Name of Individual or Number of Persons in Group | Amounts Distributed Upon Consummation of the Merger on February 29, 1984 |
|---|---|
| Stephen A. Girard | $ 512,300 |
| Richard N. Gary | $ 406,500 |
| W. Raymond Worman | $ 308,900 |
| Charles H. Black | $ 261,700 |
| James A. Maggetti | $ 232,100 |
| All executive officers as a group (15 persons, including those named above) | $2,969,800 |

*1982 Stock Incentive Plan.* In 1982, the Executive Compensation and Stock Option Committee approved and adopted the Kaiser Steel Corporation 1982 Stock Incentive Plan ("1982 Plan"). The 1982 Plan was administered by the Executive Compensation and Stock Option Committee and provided for the award of stock or options to key management employees based upon their contributions to the Company by their loyalty, industry and invention. Under the 1982 Plan, the Company granted to certain employees, subject to stockholder approval of the 1982 Plan by August 10, 1983, incentive stock options to purchase 66⅔ Cents Par Common Stock of the Company. Stockholder approval is one of the requirements for favorable tax treatment generally given to incentive stock options under Section 422A of the Internal Revenue Code. Because of negotiations regarding the acquisition of the Company, the annual meeting of stockholders was postponed and, as a practical matter, stockholder approval could not be sought or obtained by August 10, 1983. Therefore, the Board determined on July 27, 1983, to amend the options granted pursuant to the 1982 Plan to delete the requirement of stockholder approval. As a result of that action, the possibility of favorable tax treatment to employees provided by Section 422A was eliminated, and the cost became deductible to the Company.

On July 27, 1983, in addition to deleting the requirement for stockholder approval, the Board authorized amendment of the options granted under the 1982 Plan, and all the options granted under the 1982 Plan were so amended. Under the July 27, 1983 amendment, if an acquisition of the Company or similar transaction had been consummated by December 31, 1983, the option holders who were in the employ of the Company on the effective date of the consummation of such an acquisition or transaction would have received the same distributions that a holder of an equivalent number of shares of 66⅔ Cents Par Common Stock would have received under such an acquisition or transaction, less the option price. The amendment also provided that if no acquisition or similar transaction were consummated before December 31, 1983, option holders who were in the employ of the Company on

December 31, 1983, would have received on January 6, 1984, cash payments equal to the amount, if any, that the average of the closing sales prices of the Company's 66⅔ Cents Par Common Stock for the 30 trading days immediately preceding December 31, 1983, exceeded the option price multiplied by the number of shares that would have been exercisable prior to December 31, 1983, had the 1982 Plan been approved by stockholders by August 10, 1983 (which was equal to one-third of the total number of options granted to each participant).

On October 17, 1983, the Board of Directors authorized a further amendment of the options granted under the 1982 Plan. This amendment provided that if the Merger was consummated within 90 days after the Annual Meeting, the option holders would receive, for each share of 66⅔ Cents Par Common Stock originally subject to an option, $7.375 in cash (the difference between $22.00 and $14.625, the option price), plus one share of Series A Preferred Stock and one share of Series B Preferred Stock. In addition, the amendment provided that if no acquisition or similar transaction had been consummated within 90 days after the 1983 Annual Meeting, the option holders would have received cash payments equal to the amount, if any, that the average of the closing sales prices of the Company's 66⅔ Cents Par Common Stock for the last 30 trading days immediately preceding December 31, 1983, exceeded the option price multiplied by the number of shares that would have been exercisable prior to December 31, 1983, had the 1982 Plan been approved by stockholders by August 10, 1983 (which was equal to one-third of the total number of options granted to each participant).

The following tabulation shows, as to the executive officers named or included in the Cash Compensation Table, the amounts of cash and number of shares of both Series A Preferred Stock and Series B Preferred Stock distributed under the plan upon the consummation of the Merger on February 29, 1984:

| | Amounts of Cash Distributed Upon Consummation Of the Merger | Number of Shares of Series A and Series B Preferred Stock Distributed Upon Consummation Of the Merger |
|---|---|---|
| Stephen A. Girard | $ 221,300 | 30,000 |
| Richard N. Gary | $ 132,800 | 18,000 |
| W. Raymond Worman | $ 88,500 | 12,000 |
| Charles H. Black | $ 88,500 | 12,000 |
| James A. Maggetti | $ 88,500 | 12,000 |
| All executive officers as a group (15 persons, including those named above) | $1,180,000 | 160,000 |

*TRASOP.* As of January 1, 1980, the Company adopted a Tax Reduction Act Stock Ownership Plan ("TRASOP") designed to invest primarily in the Company's common stock. Under the TRASOP, the Company was entitled to contribute annually an amount equal to one percent of its investment in property eligible for the investment tax credit for such year, and under the federal income tax law, was entitled to an additional investment tax credit reducing its Federal income tax liability by the amount contributed. The Company's plan was amended as of January 1, 1983, conforming to an amendment in the federal income tax law, to provide that the permitted contribution (and related tax credit) would be equal to one-half of one percent of the aggregate compensation of all participating employees. Generally, salaried employees who were employed for all of 1980 or who are employed for one full calendar year thereafter are eligible to participate in the plan. No contribution was made to the plan in 1983 and the Company does not expect to make a contribution to the plan in 1984. The Company's contributions prior to 1983 were used to purchase shares of the Company's 66⅔Cents Par Common Stock, which shares were allocated to the individual accounts of the participants on a per capita basis. Each participant's interest in his account is fully vested. Upon consummation of the Merger on February 29, 1984, each share of 66⅔ Cents Par Common Stock credited to the account of a participant was converted into $22.00 plus one share of Series A Preferred Stock and one share of Series B Preferred Stock. Distributions from the plan may be made only upon a participant's retirement, death or other separation from service with the Company, or upon the termination of the plan by the Company.

*Transaction Incentive Program.* On March 30, 1984, the Board of Directors authorized the establishment of a Transaction Incentive Program pursuant to which the Company will pay to a bonus pool an amount equal to three percent of the cash received by the Company from (a) the sale of certain real property, the Fontana steel mill or any portion thereof, and certain of the Company's other assets, (b) certain development and joint venture activities, and (c) certain financings and refinancings. The Compensation Committee will determine which specific transactions are eligible for inclusion in the program. Bonuses from such pool will be paid as follows: ½ of 1 percent of such cash received to each of Messrs. Charles S. Holmes, Robert E. Merrick and Monty H. Rial and the remaining 1½ percent of such cash received to those persons who, in the discretion of the Compensation Committee, have had an important role in the transactions. Employees participating in the Transaction Incentive Program will not be entitled to participate in the Company's 1983 Incentive Performance Plan. The specific terms and provisions of the program have not yet been approved.

*Other Compensation.* During 1983 the Company provided certain executive officers of the Company with the use of automobiles and club memberships primarily for business use. The Company is being reimbursed by officers in an amount deemed to represent the value of personal use of automobiles. The Company also provided officers with certain other benefits including financial counseling services and excess life insurance. The value of these benefits during 1983 with respect to each officer named in the Cash Compensation Table did not exceed the lesser of $25,000 or 10 percent of such officer's cash compensation for such year. Similarly, the value of such benefits during 1983 with respect to all executive officers as a group did not exceed the lesser of $25,000 times the number of persons in the group or 10 percent of the compensation reported for the group in the Cash Compensation Table.

*Compensation of Directors.* During 1983, each director of the Company who was not an officer or employee of the Company or an affiliated corporation received as total compensation for his services as a director (1) $12,000 per annum; (2) $500 for the first Board or committee meeting attended in any one day (including the combined meetings of the Board or committees of the Company and its wholly owned subsidiaries), plus $250 for attendance at each subsequent Board or committee meeting held on the same day (again, each combined meeting was treated for this purpose as a single meeting); (3) $300 for every full day reasonably necessary for travel to and from such meetings; and (4) reimbursement for all travel and out-of-pocket expenses necessarily incurred in attending the Board or committee meetings. In addition, $5,000 per annum was paid to each director who served on the Executive Committee, and $2,000 per annum was paid to each director who served as chairman of the Nominating Committee, the Audit Committee, the Executive Compensation and Stock Option Committee, or the Conflict of Interest Committee.

Beginning in March 1984, each director of the Company, including those who are also officers or employees of the Company or affiliated companies, receives compensation as a director of (1) $25,000 per annum; (2) $2,000 for each meeting of the Board or of any committee thereof attended by such director; (3) $1,000 for each day (other than a meeting day) spent in whole or in part traveling to or from such meeting; and (4) reimbursement of all expenses reasonably incurred in connection with the performance of his duties. Each advisory director will receive $25,000 per annum, plus reimbursement for all travel and out-of-pocket expenses reasonably incurred in attending Board meetings.

*Agreements.* In April 1982, the Company entered into separate agreements with Richard N. Gary and George M. Perry which provide that if the employee's employment with the Company is terminated at any time, either by the Company for any reason other than willful misconduct or by the employee for any reason, the Company will pay the employee as a special severance allowance an amount equal to his annual base salary in effect at the time of termination. On March 5, 1984, Messrs. Gary and Perry resigned and will receive the severance benefits to which they are entitled under their respective agreements.

The Company also entered into an employment agreement in April 1982 with Charles H. Black providing for a base salary of $170,000, subject to adjustment after December 31, 1982. The agreement has a three-year term which is automatically extended by one year after completion of each of the first two years of employment. After expiration of the fixed term as so extended, the agreement continues at will. The agreement provides for a supplemental retirement benefit, commencing at age 65, in an annual amount such that this benefit plus the benefits under the Company's retirement plan described above will equal up to 40 percent of Mr. Black's final base salary, depending on the circumstances of his termination and the number of years he has been employed by the Company. The agreement also provides for a special severance allowance if Mr. Black's employment with the Company is terminated at any time, either by the Company for any reason other then Mr. Black's disability or his willful misconduct, or by Mr. Black for good reason as defined, including a change in control of the Company. The amount of such special severance allowance is the greater of the aggregate base salary which would have been payable during the remaining term of the agreement, one year's base salary, or, if Mr. Black terminates his employment following a change in control, two years' base salary.

In August 1982, the Company entered into an employment agreement with Stephen A. Girard providing for an annual base salary of $300,000 through December 31, 1983, and a base salary commensurate with his responsibilities as mutually agreed upon (but not less than $120,000 per annum) for the period from January 1, 1984, through December 31, 1985. The agreement also provides that after completion of the term ending on December 31, 1985, Mr. Girard will be entitled to receive a supplemental retirement benefit of $100,000 per year. On February 29, 1984, Mr. Girard resigned as Chairman of the Board and Chief Executive Officer of the Company. He is, however, continuing in the employ of the Company and is receiving compensation in accordance with the employment agreement.

The Company also entered into an employment agreement in August 1982 with Albert J. Melrose providing a beginning annual salary of $90,000, an award of approximately 2,800 Individual Award Units under the Stock Appreciation Plan, and options for 6,000 shares of the Company's 66⅔ Cents Par Common Stock under the 1982 Stock Incentive Plan. Upon consummation of the Merger on February 29, 1984, Mr. Melrose received the cash and Series A Preferred Stock and Series B Preferrred Stock under such plans to which he was entitled pursuant to his employment agreement. The agreement also provides that if Mr. Melrose's employment is terminated within three years either by him as a result of a material diminution by the Company of his responsibilities or by the Company for any reason other than willful misconduct, then the Company will pay as a special severance allowance an amount equal to his annual base salary at the time of termination. Mr. Melrose resigned effective March 31, 1984.

In January 1983, the Company entered into an employment agreement with W. Raymond Worman which provides a minimum annual salary of $150,000 for two years. Under the terms of the employment agreement, if Mr. Worman is terminated by the Company other than for cause, or by Mr. Worman after the end of the two year period, then Mr. Worman will be entitled to full early pension under mutually satisfactory terms and post-retirement medical and life insurance benefits comparable to those generally available to executive employees on December 31, 1982. Mr. Worman retired as Vice President, Operations, Steel Manufacturing Group effective March 31, 1984, but will continue as a consultant for a period of time which is now under discussion.

*Indebtedness of Management.* In connection with the relocation of the Company's administrative offices to southern California, the Company has extended home mortgage loans to certain relocated salaried employees of the Company, including certain officers. Home mortgage loans are repayable in monthly installments over a 30 year term and bear interest at 15 percent per annum. The Company extended home mortgage loans of $200,000 to W. S. Barnum, $148,000 to R. J. Brignano, $79,000 to J. R. McCaughey and $140,000 to K. L. Gibson. Substantially the full amounts of these loans remained outstanding at March 12, 1984, except the loan to K. L. Gibson which was repaid in full.

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As discussed below under "Changes in Control," the Acquisition Group and the Perma Group have entered into an Agreement, dated as of November 12, 1983 (the "Perma Agreement"), providing for 50 percent of the Common Stock to be controlled by the Acquisition Group and 50 percent to be controlled by the Perma Group. Under the Perma Agreement, all of the Common Stock owned by the Acquisition Group would be contributed to a new entity referred to as "Newco" which would be jointly owned by the Acquisition Group and the Perma Group. In connection with the Citibank Credit Agreement, the Acquisition Group agreed with Citibank to obtain Citibank's consent prior to transferring any interest in the Company to the Perma Group. The consent of Citibank has not yet been obtained and therefore none of the shares of Common Stock have been transferred to Newco or the Perma Group.

In an Option Agreement, dated February 28, 1984, by and among the Acquisition Group and the Perma Group (the "Perma Option Agreement"), the Acquisition Group granted to the Perma Group an option (the "Perma Option") to purchase all the issued and outstanding Common Stock of the Company. In general, the Perma Option is exercisable only if (a) Citibank does not consent by April 30, 1984 to the transfer of all of the Common Stock to Newco as contemplated by the Perma Agreement or 50 percent of the Common Stock to the Perma Group and such transfer does not occur, and (b) a new financing commitment permitting such transfer and replacing the Citibank Credit Agreement is not obtained by April 30, 1984 or if such financing commitment is not funded by May 31, 1984. The Perma Option is exercisable for a five-month period. In the Perma Option Agreement, the Perma Group also granted to the Acquisition Group an option (the "Frates Option") to purchase all its interest in the Company under the Perma Agreement (including the SPS Agreement). The Frates Option becomes exercisable only if the Perma Option has become effective and the Perma Group has not exercised its option within the time period prescribed, and is exercisable during a five-month period. See "Changes in Control" below.

*Security Ownership of Certain Beneficial Owners.* The following table identifies, to the knowledge of the Company as of March 12, 1984, the beneficial owners of five percent or more of the Company's Common Stock, Series A Preferred Stock, and Series B Preferred Stock. For the purpose of this disclosure and the disclosure of ownership of shares by management below, shares are considered to be "beneficially" owned if the person has or shares the power to vote or direct the voting of the shares, the power to dispose of or direct the disposition of the shares or the right to acquire beneficial ownership (as so defined) within 60 days of March 12, 1984.

| Name and Address of Beneficial Owner | Title of Class and Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|
| Equivest Associates (1)<br>Tulsa, Oklahoma | 4,500,000 shares<br>Common Stock(2) | 45.0(2) |
| Charles S. Holmes<br>Tulsa, Oklahoma | 2,250,000 shares<br>Common Stock(2) | 22.5(2) |
| Stan P. Doyle<br>Tulsa, Oklahoma | 2,250,000 shares<br>Common Stock(2) | 22.5(2) |
| Clifford V. Brokaw, III<br>Tulsa, Oklahoma | 500,000 shares<br>Common Stock(2) | 5.0(2) |
| Howard H. Samuels<br>New York, New York | 500,000 shares<br>Common Stock(2) | 5.0(2) |
| Perma Group<br>Colorado Springs, Colorado | 5,000,000 shares<br>Common Stock with the right to acquire, under certain circumstances, an additional 5,000,000 shares(2) | 100.0(2) |
| Jacobs Group<br>Minneapolis, Minnesota | 1,181,100 shares Series A<br>Preferred Stock(3) | 15.8 |
| | 1,181,100 shares Series B<br>Preferred Stock(3) | 15.8 |

*(See notes on following page)*

*(Notes from preceding page)*

(1) Equivest Associates is a general investment partnership composed of J. A. Frates, Robert E. Merrick, P. Peter Prudden, III, J. Anthony Frates, and Stephen I. Frates. The partners of Equivest Associates share voting and investment power with respect to the shares held by Equivest Associates.

(2) The Acquisition Group and the Perma Group have entered into an Agreement, dated as of November 12, 1983 (the "Perma Agreement"), pursuant to which 50 percent of the Common Stock of the Company would be controlled by the Acquisition Group and 50 percent by the Perma Group. The Perma Group and the Acquisition Group have also entered into an Option Agreement, dated February 28, 1984 (the "Perma Option Agreement"), pursuant to which the Perma Group has acquired an option, under certain circumstances, to acquire all of the Common Stock of the Company. Under the Perma Option Agreement, the Acquisition Group also has acquired an option, under certain circumstances, to acquire all of the Perma Group's interest in the Company. For a description of the Perma Agreement and the Perma Option Agreement, see "Changes in Control" below. The 10,000,000 shares that the Perma Group has an interest in under the Perma Agreement or a potential right to acquire under the Perma Option Agreement are listed in the table as beneficially owned by the Perma Group. These 10,000,000 shares are now owned by Equivest Associates and Messrs. Holmes, Doyle, Brokaw and Samuels. For a listing of the members of the Perma Group, see "Changes in Control" below.

(3) According to two Schedule 13Ds, both dated March 20, 1984, filed by Irwin L. Jacobs, Daniel T. Lindsay, Dennis M. Mathisen, and Gerald A. Schwalbach (the "Jacobs Group"), those persons had voting and dispositive power as to 1,181,100 shares of both the Company's Series A Preferred Stock and Series B Preferred Stock. According to the Schedule 13Ds, Irwin L. Jacobs had sole voting and dispositive power as to 718,300 shares of both the Series A Preferred Stock and the Series B Preferred Stock; Daniel T. Lindsay and Gerald A. Schwalbach both had sole voting and dispositive power as to 154,300 shares of both the Series A Preferred Stock and the Series B Preferred Stock; and Dennis M. Mathisen had sole voting and dispositive power as to 154,200 shares of both the Series A Preferred Stock and the Series B Preferred Stock.

*Security Ownership of Management.* The following table shows the number of shares and the percentage of the Company's Common Stock, Series A Preferred Stock, and Series B Preferred Stock beneficially owned (as defined above) by each of the Company's directors, and by all directors and officers as a group, as of March 12, 1984. Information as to such beneficial ownership has been furnished by the respective directors and officers.

| Name of Beneficial Owner | Title of Class and Amount and Nature of Beneficial Ownership(1) | Percent of Class(2) |
|---|---|---|
| J. A. Frates | 4,500,000 shares Common Stock(3)(4) | 45.0(3)(4) |
| Monty H. Rial | 5,000,000 shares Common Stock with the right to acquire, under certain circumstances, an additional 5,000,000 shares(4) | 100.0(4) |
| | 25 shares Series A Preferred Stock(5) | — |
| | 25 shares Series B Preferred Stock(5) | — |
| Charles S. Holmes | 2,250,000 shares Common Stock(4) | 22.5(4) |
| Robert E. Merrick | 4,500,000 shares Common Stock(3)(4) | 45.0(3)(4) |
| Dr. Eustace H. Winn, Jr. | 5,000,000 shares Common Stock with the right to acquire, under certain circumstances, an additional 5,000,000 shares(4) | 100.0(4) |
| | 25 shares Series A Preferred Stock(5) | — |
| | 25 shares Series B Preferred Stock(5) | — |
| Charles S. McNeil | 5,000,000 shares Common Stock with the right to acquire, under certain circumstances, an additional 5,000,000 shares(4) | 100.0(4) |
| | 25 shares Series A Preferred Stock(5) | — |
| | 25 shares Series B Preferred Stock(5) | — |
| William R. Gould | 200 shares Series A Preferred Stock | — |
| | 200 shares Series B Preferred Stock | — |
| Charles H. Black | 15,000 shares Series A Preferred Stock(6) | — |
| | 15,000 shares Series B Preferred Stock(6) | — |
| Stephen A. Girard | 30,830 shares Series A Preferred Stock(7) | — |
| | 30,830 shares Series B Preferred Stock(7) | — |
| Richard N. Gary | 18,412 shares Series A Preferred Stock(7) | — |
| | 18,412 shares Series B Preferred Stock(7) | — |
| 25 directors and officers as a group (including those named above) | 10,000,000 shares Common Stock(4) | 100.0(4) |
| | 145,629 shares Series A Preferred Stock(7)<br>19,239 shares Series A Preferred Stock(8) | 2.2 |
| | 145,629 shares Series B Preferred Stock(7)<br>19,239 shares Series B Preferred Stock(8) | 2.2 |

*(See notes on following page)*

*(Notes from preceding page)*

(1) Named persons have sole voting and investment power except as otherwise indicated. Except as indicated in the table, directors own no stock of the Company.

(2) Ownership percentages of less than one percent are not shown. The percentages shown include both shares actually owned and those which such person has the right to acquire within 60 days of March 12, 1984. In calculating the percentage of ownership, shares which the indicated person has the right to acquire within 60 days of March 12, 1984 by exercise of options and conversion of privileges are deemed to be outstanding for the purpose of computing each person's ownership percentage, but are not deemed outstanding for the purpose of computing the percentage of the class owned by another person.

(3) All of the shares of Common Stock set forth for both Mr. Frates and Mr. Merrick are owned by Equivest Associates, a general investment partnership composed of J. A. Frates, Robert E. Merrick, P. Peter Prudden, III, J. Anthony Frates, and Stephen I. Frates. The partners of Equivest Associates share voting and investment power with respect to these shares.

(4) The Perma Group, which is comprised of certain entities in which Mr. Rial, Dr. Winn and Mr. McNeil all have a beneficial interest, and the Acquisition Group have entered into an Agreement, dated as of November 12, 1983 (the "Perma Agreement"), pursuant to which the Perma Group would acquire control of 50 percent of the Common Stock of the Company. The Perma Group and the Acquisition Group have also entered into an Option Agreement, dated February 28, 1984 (the "Perma Option Agreement"), pursuant to which the Perma Group has an option, under certain circumstances, to acquire all of the Common Stock of the Company. Under the Perma Option Agreement, the Acquisition Group also has an option, under certain circumstances, to acquire all of the Perma Group's interest in the Company. For a description of the Perma Agreement and the Perma Option Agreement, see "Changes in Control" below. The 10,000,000 shares that the Perma Group has an interest in under the Perma Agreement or a potential right to acquire under the Perma Option Agreement are listed as beneficially owned by Mr. Rial, Dr. Winn and Mr. McNeil because of their interests in such shares. These 10,000,000 shares are now owned by Equivest Associates and Messrs. Holmes, Doyle, Brokaw and Samuels.

(5) The 25 shares of Series A Preferred Stock and Series B Preferred Stock set forth for Mr. Rial, Dr. Winn and Mr. McNeil are owned by Perma Resources Corporation. Mr. Rial, Dr. Winn, Mr. McNeil, and others share voting and investment power with respect to such shares.

(6) Two thousand shares of both the Series A Preferred Stock and Series B Preferred Stock set forth for Mr. Black are held in trusts for Charles H. Black, Jr. and Richard S. Black, over which Mr. Black has sole voting and investment power but in which he has no economic interest, and 1,000 shares of both the Series A Preferred Stock and Series B Preferred Stock are held in a trust for Charles H. Black, Jr., Richard S. Black, and Mr. Black, over which Mr. Black has sole voting and investment power and in which he has a one third economic interest.

(7) Thirty of the shares included for both Mr. Girard and Mr. Gary and 365 of the shares included for all directors and officers as a group are shares held in TRASOP accounts.

(8) Shares held by Wells Fargo Bank, N.A. as Trustee for the Company's contributory savings and profit sharing plan. The members of the Investment Committee under the plan (who, as of March 30, 1984, were Monty H. Rial, Robert E. Merrick, Charles S. Holmes, Charles H. Black and Patrick J. Hunt) have the authority to direct the Trustee to vote shares held by the plan and accordingly share voting power.

*Changes in Control.* Prior to the Merger, the Acquisition Group and the Perma Group entered into an Agreement, dated as of November 12, 1983 (the "Perma Agreement"), providing for the joint ownership of the Common Stock, the joint management of the business of the Company, and the joint selection of the directors of the Company. See "Item 10, Directors and Executive Officers of the Registrant." The Perma Agreement provides that immediately following the Merger all of the Common Stock owned by the members of the Acquisition Group would be contributed to a new entity referred to as "Newco." The Perma Agreement further provides that Newco would be owned 50 percent by the members of the Acquisition Group, in the ratio set forth below, and 50 percent by the members of the Perma Group. Under the Perma Agreement, the interests of the members of the Acquisition Group in Newco would be as follows:

| Acquisition Group Member | Percent |
|---|---|
| Equivest Associates | 22.5 |
| Charles S. Holmes | 11.25 |
| Stan P. Doyle | 11.25 |
| Clifford V. Brokaw, III | 2.5 |
| Howard H. Samuels | 2.5 |

The members of the Perma Group are Chimney Rock Coal, a New Mexico limited partnership; Colorado Coal Resources Company, a Colorado limited partnership; Energy Capital, Ltd., a Colorado limited partnership (also known as Colorado Pacific Energy); Aztec, Ltd., a Colorado limited partnership (also known as Colorado Pacific Aztec); Perma Resources Corporation, a Colorado corporation; Perma Mining Corporation, a Colorado corporation; Perma Pacific, Inc., a Delaware corporation; and Monty H. Rial. The members of the Perma Group anticipate that Monty H. Rial would have approximately a 27 percent beneficial interest in Newco, Dr. Eustace H. Winn, Jr. would have approximately a 13 percent beneficial interest, Charles S. McNeil would have approximately a 3 percent beneficial interest, and certain other individuals affiliated with the Perma Group would have the remaining 7 percent beneficial interest.

Pursuant to a Guaranty, dated February 29, 1984, between the Acquisition Group and Citibank entered into in connection with the Citibank Credit Agreement, the Acquisition Group agreed, among other things, to obtain the consent of Citibank prior to taking any action that would have the effect of transferring any interest in the Company to the Perma Group. None of the shares of Common Stock owned by the Acquisition Group have been contributed to Newco as contemplated by the Perma Agreement because the consent of Citibank has not yet been obtained.

In an Option Agreement, dated February 28, 1984, by and among the Acquisition Group and the Perma Group (the "Perma Option Agreement"), the Acquisition Group granted to the Perma Group an option (the "Perma Option") to purchase all the issued and outstanding Common Stock of the Company. In general, the Perma Option is exercisable only if (a) Citibank does not consent by April 30, 1984 to the transfer of all of the Common Stock to Newco as contemplated by the Perma Agreement or 50 percent of the Common Stock to the Perma Group and such transfer does not occur, and (b) a new financing commitment permitting such transfer and replacing the Citibank Credit Agreement is not obtained by April 30, 1984 or if such financing commitment is not funded by May 31, 1984. The Perma Option is exercisable for a five-month period. In the Perma Option Agreement, the Perma Group also granted to the Acquisition Group an option (the "Frates Option") to purchase all its interest in the Company under the Perma Agreement (including the SPS Agreement). The Frates Option becomes exercisable only if the Perma Option has become effective and the Perma Group has not exercised its option within the time period prescribed, and is exercisable during a five-month period.

### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

*Transactions With the Acquisition Group and the Perma Group.* Described below are certain transactions and agreements between the Company and the Acquisition Group and the Perma Group relating to the Merger. Members of the Acquisition Group who are directors of the Company include J. A. Frates, Chairman; Charles S. Holmes; and Robert E. Merrick. Members of the Acquisition Group who were elected directors of the Company on February 29, 1984, but who subsequently resigned, include Stan P. Doyle, Clifford V. Brokaw, III, and Howard H. Samuels. Members of the Perma Group who are directors include Monty H. Rial, Vice Chairman; Dr. Eustace H. Winn, Jr.; and Charles S. McNeil.

In connection with the Merger, the Company entered into an Agreement of Merger, dated as of October 4, 1983, and amended as of October 20, 1983 and November 3, 1983, by and among the Company, Kaiser Steel Corporation, a Nevada corporation (the corporate predecessor to the Company), and KAC (all the shares of which were owned by the Acquisition Group prior to its merger into the Company). Pursuant to the Agreement of Merger, KAC was merged into the Company on February 29, 1984.

In December 1983, the Company loaned KAC $1,250,000 for the purpose of making a nonrefundable prepayment to Citibank of a portion of the closing fee for the loan provided in connection with the Merger. The prepayment to Citibank made by KAC was in exchange for Citibank's agreement to amend its September 28, 1983 loan commitment letter for the financing of the Merger to extend the expiration date of Citibank's commitment from March 1, 1984 to April 15, 1984, to permit additional borrowings by the Company under certain circumstances, and to make certain other changes. In connection with the loan by the Company to KAC, the Company received a promissory note from KAC and the personal guaranty of four members of the Acquisition Group, J. A. Frates, Robert E. Merrick, Charles S. Holmes and Stan P. Doyle. The loan was extinguished upon the Merger of KAC into the Company on February 29, 1984.

The Company has paid or agreed to pay to the Acquisition Group and the Perma Group the following amounts in connection with the Merger: (a) $1,459,000 to the Acquisition Group pursuant to the Agreement of Merger for expenses incurred in connection with the Merger; (b) $1,510,000 to the Perma Group for expenses incurred in connection with the Merger; (c) $1,440,000 to members of the Acquisition Group as a guarantor's fee for a guaranty entered into by members of the Acquisition Group in connection with the loan agreement between the Company and Citibank; and (d) $2,750,000 to Equivest Associates on behalf of the members of the Acquisition Group for investment banking services provided to KAC in connection with the Merger. Bodkin Securities Corporation, of which Charles S. Homes is a director and stockholder, also was paid for certain investment banking services provided to the Company in connection with the Merger.

The Acquisition Group and the Perma Group have entered into an Agreement, dated as of November 12, 1983 (the "Perma Agreement"), which, among other things, provides for the creation of a joint venture (the "Coal Venture") between the Company and a newly formed entity for the development, mining and marketing of coal from certain coal properties of the Company and of the Perma Group. The Perma Group also entered into an Agreement, dated as of November 12, 1983 (the "SPS Agreement"), with Southwestern Public Service Company ("SPS") pursuant to which SPS would enter into a long-term coal supply contract with the Company or the Coal Venture for coal shipments beginning in the early 1990's. For a discussion of the Perma Agreement and the SPS Agreement, see "Item 1, Business, Coal Group."

On March 30, 1984, the Board of Directors authorized management to enter into a contract with Perma Mining Corporation for the management of certain of the Company's properties. Under the proposed management contract, Perma Mining Corporation or its assigns would manage the mining and marketing of coal from all of the Company's coal properties in Utah and New Mexico and would manage the Company's properties at Cushenbury and Eagle Mountain, California. In return for such management services, Perma Mining Corporation would receive a fee of five percent of the gross sales in the ordinary course of business of coal and other minerals mined at such properties. The Company is now engaged in discussions with Perma Mining Corporation with respect to the terms of the proposed management contract. Perma Mining Corporation presently is a wholly-owned subsidiary of Perma Resources Corporation, which is owned 56 percent by Monty H. Rial, 26 percent by Dr. Eustace H. Winn, Jr., 7 percent by Charles S. McNeil and a total of 11 percent by six others. Mr. McNeil is also the President and a Director of Perma Mining Corporation. The Acquisition Group will acquire a 50 percent interest in the company providing services under the proposed management contract upon the formation of Newco.

The Board also authorized the Company to enter into agreements with Asset Management Inc. for consulting services for a fee of $350,000 per year and office support services in New York, New York and Tulsa, Oklahoma for $200,000 per year; Equivest Management and Financial Services Ltd. for consulting services for a fee of $350,000 per year and office support services in Tulsa, Oklahoma for $200,000 per year; and Stan P. Doyle for legal and consulting services for a fee of $120,000 per year. The Board also authorized the Company to pay $200,000 a year for office support services provided by Winria Management Services in Oklahoma City, Oklahoma and Colorado Springs, Colorado. Asset Management Inc. is owned 50 percent by each of Charles S. Holmes and Stan P. Doyle; Equivest Management and Financial Services Ltd. is owned by the partners of Equivest Associates other than J. A. Frates; and Winria Management Services is wholly owned by the stockholders of Perma Resources Corporation.

On March 30, 1984, the Board also authorized the establishment of a Transaction Incentive Program pursuant to which bonuses will be paid as an incentive for the sale of certain of the Company's properties, certain development and joint venture activities, and contain financings and refinancings. Messrs. Holmes, Merrick and Rial have certain entitlements to bonuses under this program. See "Item 11, Executive Compensation."

*Transactions With the Jacobs Group.* On July 27, 1983, the Company entered into agreements pursuant to which it would have been acquired by a holding company owned by a stockholder group led by Irwin L. Jacobs (the "Jacobs Group"). Under these agreements, each holder of the 66⅔ Cents Par Common Stock of the Company, other than the Jacobs Group, would have received $19.50 in cash and one share of a series A preferred stock and one share of a series B preferred stock. The Jacobs Group's holding company would have received $23,031,450 in cash (equal to $19.50 for each share of Common Stock then owned by the Jacobs Group) and all the common stock of the Company.

At a meeting of the Company's Board of Directors on September 30, 1983, the Board concluded that the acquisition proposal from the Acquisition Group was more favorable to stockholders of the Company than either the transaction contemplated by the agreements with the Jacobs Group or a new offer which was received from the Jacobs Group. The Board, therefore, resolved to accept the Acquisition Group's proposal and to terminate the Jacobs agreements. As a result of the termination of the Jacobs agreements, the Company was obligated to and has reimbursed the Jacobs Group in the amount of $3,767,000 for its expenses incurred in investigating the Company and proceeding with its proposed transaction.

On October 27, 1983 the Company entered into an option agreement (the "Jacobs Option Agreement") with the Jacobs Group. The Jacobs Option Agreement provides that if the Company's stockholders approved the Merger, the Company would acquire an option (the "Jacobs Option") to purchase shares of the 66⅔ Cents Par Common Stock, up to a total of 1,181,100 shares, held by the Jacobs Group on the date of the 1983 Annual Meeting. The price of the Jacobs Option was $12.00 per share (or a total of $14,173,200), plus interest at the prime rate announced by Bank of America N.T. & S.A., payable upon stockholder approval of the Merger, whether or not the Merger was consummated. Pursuant to the Jacobs Option Agreement, upon stockholder approval of the Merger on January 18, 1984, the Company purchased the Jacobs Option for a total purchase price of $14,532,000. In accordance with the Jacobs Option Agreement, upon payment of the option price, the Company acquired the transferable right to purchase the shares of 66⅔ Cents Par Common Stock subject to the option for $40.00 per share between January 11, 1984 and May 1, 1984. Upon consummation of the Merger, the Jacobs Option was converted into the right to acquire the Series A Preferred Stock and Series B Preferred Stock issued to the Jacobs Group in exchange for 1,181,100 shares of 66⅔ Cents Par Common Stock held by them, at a price of $18.00 for each pair consisting of one share of Series A Preferred Stock and one share of Series B Preferred Stock. The members of the Jacobs Group agreed not to dispose of the 1,181,100 shares subject to the option at any time before the Merger was approved by the Company's stockholders, except that they could tender all or any of their shares of Common Stock in the event that a tender offer was commenced prior to the 1983 Annual Meeting. In addition, each member of the Jacobs Group agreed, upon request, to grant (and in January 1984 granted) the Company an irrevocable directed proxy to vote all shares held by him on the date of the 1983 Annual Meeting in favor of the reincorporation of the Company from Nevada to Delaware, the Merger, and the election of the directors nominated by the Board if, but only if, a majority of the other shares voted were voted in favor of such transactions or nominees.

## Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

### (a) List of Documents Filed As Part Of This Report:

#### (1) Financial Statements



#### (2) Financial Statement Schedules



Schedules I, III, IV, VII, IX, XI, XII and XIII have been omitted because they are not required or not applicable or the required information is presented in the financial statements.

Separate financial statements of Kaiser Steel Corporation without its consolidated subsidiaries have not been filed since Kaiser Steel Corporation is primarily an operating company and all consolidated subsidiaries of Kaiser Steel Corporation are majority owned and, considered in the aggregate, do not have long-term debt outstanding in an amount which is material in relationship to total consolidated assets.

### (3) Exhibits

| Exhibit Number | Exhibit |
|---|---|
| (3)(a) | —Certificate of Incorporation of Kaiser Steel Corporation (composite copy). |
| (3)(b) | —Restated Bylaws of Kaiser Steel Corporation. |
| (10)(a) | —Kaiser Steel Corporation 1983 Incentive Performance Plan. |
| (10)(b) | —Kaiser Steel Corporation Bonus Plan.* |
| (10)(c) | —Kaiser Steel Corporation 1982 Stock Incentive Plan.** |
| (10)(d) | —Stock Appreciation Plan for Officers and Employees of Kaiser Steel Corporation.** |
| (10)(e) | —Employment Agreement with Stephen A. Girard dated August 10, 1982.** |
| (10)(f) | —Letter agreement regarding employment with Richard N. Gary dated April 20, 1982.** |
| (10)(g) | —Employment Agreement with Charles H. Black dated April 19, 1982.** |
| (10)(h) | —Letter agreement regarding employment with George M. Perry dated April 30, 1982.** |
| (10)(i) | —Employment Agreement with W. Raymond Worman dated as of January 1, 1983.** |
| (10)(j) | —Letter agreement regarding employment with Albert J. Melrose dated August 23, 1982.** |
| (10)(k) | —Agreement between Kaiser Steel Corporation and The First Boston Corporation dated March 24, 1983 and letter pertaining thereto dated September 29, 1983.*** |
| (10)(l) | —Liability Insurance Policy.*** |
| (10)(m) | —Citibank financing commitment.*** |
| (10)(n) | —Form of amendment to agreement with stock option holders under 1982 Stock Incentive Plan.*** |
| (10)(o) | —Form of amendment to agreement with stock option holders under 1982 Stock Incentive Plan.*** |
| (10)(p) | —Form of amendment to agreement with stock option holders under 1982 Stock Incentive Plan and Stock Appreciation Plan.*** |
| (10)(q) | —Form of Acquisition Credit Agreement, dated as of January 27, 1984, between Kaiser Steel Corporation and Citibank, N.A.*** |
| (10)(r) | —Form of Disbursing Agent Agreement between Kaiser Steel Corporation and Bank of America N.T.&S.A.*** |
| (10)(s) | —Form of further amendment to agreement with stock option holders under 1982 Stock Incentive Plan.*** |
| (10)(t) | —Agreement, made as of October 27, 1983, by and among Kaiser Steel Corporation, Irwin L. Jacobs, Daniel T. Lindsay, Dennis M. Mathisen, and Gerald A. Schwalbach.*** |
| (10)(u) | —Agreement, dated as of November 12, 1983, by and among Equivest Associates, *et al.*, ("Acquisition Group") and Chimney Rock Coal, *et al.* ("Perma Group").*** |
| (10)(v) | —Agreement, dated as of November 12, 1983, by and among Southwestern Public Service Company, Perma Resources Corporation, and Colorado Coal Resources Company.*** |
| (10)(w) | —Consent Agreement, dated as of November 12, 1983, by and among Southwestern Public Utilities Corporation, Perma Resources Corporation, Colorado Coal Resources Company, and Acquisition Group.*** |
| (10)(x) | —Reincorporation Merger Agreement, dated as of October 4, 1983, between Kaiser Steel Corporation, a Nevada corporation, and Kaiser Steel (Delaware), Inc.*** |
| (10)(y) | —Agreement of Merger, dated as of October 4, 1983, and amended as of October 20, 1983 and as of November 3, 1983, by and among Kaiser Steel Corporation, a Nevada corporation, Kaiser Steel (Delaware), Inc. and Kaiser Acquisition Corporation.*** |

(10)(z) —Amendment dated as of October 20, 1983 to Agreement of Merger, dated as of October 4, 1983, by and among Kaiser Steel Corporation, a Nevada corporation, Kaiser Steel (Delaware), Inc., Kaiser Transfer Corporation, and Kaiser Acquisition Corporation.***

(10)(aa) —Second Amendment to Agreement of Merger, dated as of November 3, 1983, by and among Kaiser Steel Corporation, a Nevada corporation, Kaiser Steel (Delaware), Inc., and Kaiser Acquisition Corporation.***

(10)(bb) —Certificate of Merger of Kaiser Steel Corporation, a Nevada corporation, into Kaiser Steel (Delaware), Inc., including Amendment of Certificate of Incorporation of Kaiser Steel (Delaware), Inc. changing its name to Kaiser Steel Corporation.***

(10)(cc) —Escrow Deposit Agreement, dated as of February 29, 1984, by and among Kaiser Steel Corporation, Kaiser Acquisition Corporation, Crocker National Bank, and the California Pollution Control Financing Authority.

(10)(dd) —Certificate of Merger of Kaiser Acquisition Corporation into Kaiser Steel Corporation.

(10)(ee) —Option Agreement, dated February 28, 1984, by and among the Acquisition Group and the Perma Group.

(10)(ff) —Agreement, dated February 29, 1984, by and among the Acquisition Group and the Perma Group.

(10)(gg) —Agreement, dated February 29, 1984, by and among the Acquisition Group and the Perma Group.

(22) —Subsidiaries of the Registrant.***

* Exhibit 10(b) is incorporated by reference to Exhibit 10(i) to Kaiser Steel Corporation's Annual Report on Form 10-K for the year ended December 31, 1980.

** Exhibits (10)(c), (10)(d), (10)(e), (10)(f), (10)(g), (10)(h), (10)(i), and (10)(j) are incorporated by reference to Exhibits (10)(iii), (10)(iv), (10)(v), (10)(vi), (10)(vii), (10)(viii), (10)(ix) and (10)(x), respectively, to Kaiser Steel Corporation's Annual Report on Form 10-K for the year ended December 31, 1982.

*** Exhibits (10)(k), (10)(l), (10)(m), (10)(n),(10)(o), (10)(p), (10)(q), (10)(r), (10)(s), (10)(t), (10)(u), (10)(v), (10)(w), (10)(x), (10)(y), (10)(z), (10)(aa), (10)(bb) and (22) are incorporated by reference to Exhibits (10)(k), (10)(l), (10)(m), (10)(n), (10)(o), (10)(p), (10)(q), (10)(r), (10)(s), (10)(t), (10)(u), (10)(v), (10)(w), (2)(a), (2)(b), (2)(c), (2)(d), (2)(e) and (22), respectively, to the Registration Statement on Form S-14 filed by Kaiser Steel Corporation (formerly known as Kaiser Steel (Delaware), Inc.) and Kaiser Steel Corporation, a Nevada corporation, with respect to the registration of the Series A Preferred Stock, $1 par value, and Series B Preferred Stock, $1 par value, of Kaiser Steel Corporation (Registration No. 2-86783).

**The Company will furnish to stockholders a copy of any exhibit listed above, but not contained herein, upon written request to the Treasurer, Kaiser Steel Corporation, P. O. Box 5050, Fontana, California 92335, and the payment to the Company of 25¢ per page.**

**(b) Reports on Form 8-K**

The following reports on Form 8-K were filed by the Company during the fourth quarter of 1983 and the first quarter of 1984:

1. Report on Form 8-K, dated October 27, 1983, regarding an agreement for the Company to acquire an option to purchase certain of the shares of the Company's 66⅔ Cents Par Common Stock held by an investor group led by Irwin L. Jacobs.
2. Report on Form 8-K, dated January 18, 1984, regarding (a) results of the Annual Meeting held on January 18, 1984, (b) a standstill agreement with respect to the Company's Pollution Control Revenue Bonds, and (c) the reincorporation of the Company in Delaware.
3. Report on Form 8-K, dated February 29, 1984, regarding (a) the consummation of the Merger of Kaiser Acquisition Corporation into the Company, (b) the Credit Agreement with Citibank, and (c) the election of new directors and officers of the Company.

Schedule II

## KAISER STEEL CORPORATION AND SUBSIDIARIES

## AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES

### Year Ended December 31, 1983

| Name of Debtor | Balance at Beginning of Period | Additions | Deductions: Amounts Collected | Deductions: Amounts Written Off | Balance At End of Period: Current | Balance At End of Period: Not Current |
|---|---|---|---|---|---|---|
| | (Thousands of Dollars) | | | | | |
| Employees (A) | | | | | | |
| S. S. Bandy | $ 95 | $ — | $ 95 | $ — | $ — | $ — |
| W. S. Barnum | 200 | | 1 | | | 199 |
| R. J. Brignano | 148 | | | | | 148 |
| D. A. Catterlin | 105 | | | | | 105 |
| G. C. Childs | 140 | | 1 | | | 139 |
| E. B. Couture | 105 | | 1 | | | 104 |
| K. I. Gibson | 140 | | 140 | | | |
| J. R. McCaughey | 130 | | | | | 130 |
| S. Nakazawa | 70 | | 70 | | | |
| H. K. Nangia | 128 | | 128 | | | |
| G. W. Seplak | 81 | | | | | 81 |
| I. Timmins | 100 | | 100 | | | |
| Total | $1,442 | $ — | $536 | $ — | $ — | $906 |

(A) The Company makes available to relocated salaried employees short-term non-interest-bearing advances for temporary financial assistance for the purpose of acquiring housing in the new location. Such advances were or will be repaid to the Company within one year or upon the sale of the employee's former residence, whichever comes first. In connection with the move of the Company's administrative offices to Fontana, the Company has extended both bridge loans and home mortgage loans to certain relocated salaried employees of the Company. Bridge loans are interest-free one, two or three year loans repayable upon maturity, termination of employment or the sale of the employee's former residence, whichever comes first. Home mortgage loans are repayable in monthly installments over a 30-year term and bear interest at 15 percent per annum.

Schedule V

## KAISER STEEL CORPORATION AND SUBSIDIARIES
## PROPERTY, PLANT AND EQUIPMENT AND COAL RESERVES
### Year Ended December 31, 1983

| Classification | Balance at Beginning of Period | Additions At Cost | Retirements | Other Changes Add (Deduct) (A) | (B) | (C) | Balance at End of Period |
|---|---|---|---|---|---|---|---|
| | | (thousands of dollars) | | | | | |
| Continuing operations: | | | | | | | |
| Coal reserves | $ — | $— | $ — | $214,027 | $ — | $— | $214,027 |
| Land | 12,666 | 1,603 | | 128,700 | ( 1,510) | | 141,459 |
| Buildings and improvements | 56,619 | 4,724 | 368 | 3,236 | ( 25,009) | ( 55) | 39,147 |
| Machinery and equipment | 148,159 | 9,350 | 11,163 | 53,076 | ( 74,701) | 3,030 | 127,751 |
| Construction in progress | 10,968 | ( 9,456) | | | | 234 | 1,746 |
| | 228,412 | 6,221 | 11,531 | 399,039 | ( 101,220) | 3,209 | 524,130 |
| Discontinued operations: | | | | | | | |
| Land | 4,811 | | | | ( 2,716) | | 2,095 |
| Buildings and improvements | 130,470 | 734 | | | ( 89,940) | | 41,264 |
| Machinery and equipment | 371,366 | 2,913 | | | ( 306,635) | ( 3,223) | 64,421 |
| Construction in progress | 12,279 | ( 2,105) | | | | 14 | 10,188 |
| | 518,926 | 1,542 | | | ( 399,291) | ( 3,209) | 117,968 |
| | $747,338 | $7,763 | $11,531 | $399,039 | ($500,511) | $— | $642,098 |

(A) Write-up of coal reserves, land, and machinery and equipment of continuing operations to fair value based on independent appraisals. (See Note C to consolidated financial statements.)

(B) Reclassification of accumulated depreciation to offset cost and reflect fair value of property, plant and equipment based on independent appraisals. (See Notes B and C to consolidated financial statements.)

(C) Reclassification of property, plant and equipment from discontinued operations to continuing operations.

Schedule VI

## KAISER STEEL CORPORATION AND SUBSIDIARIES
## ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT AND COAL RESERVES
### Year Ended December 31, 1983

| Classification | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Retirements | Other (A) | Other (B) | Balance at End of Period |
|---|---|---|---|---|---|---|
| | (thousands of dollars) | | | | | |
| Continuing operations: | | | | | | |
| Coal reserves | $ — | $ — | $— | $ — | $ — | $ — |
| Land | 1,479 | 31 | | | ( 1,510) | |
| Buildings and improvements | 24,030 | 1,222 | 243 | | ( 25,009) | |
| Machinery and equipment | 72,243 | 10,823 | 8,365 | | ( 74,701) | |
| | 97,752 | 12,076 | 8,608 | | ( 101,220) | |
| Discontinued operations: | | | | | | |
| Land | 2,699 | 17 | | | ( 2,716) | |
| Buildings and improvements | 83,694 | 5,784 | | 462 | ( 89,940) | |
| Machinery and equipment | 271,146 | 17,393 | | 18,096 | ( 306,635) | |
| | 357,539 | 23,194 | | 18,558 | ( 399,291) | |
| | $455,291 | $35,270 | $8,608 | $18,558 | ($500,511) | $ — |

(A) Write-down of buildings and improvements and machinery and equipment of discontinued operations to fair value based on independent appraisals. (See Note B to consolidated financial statements.)

(B) Reclassification of accumulated depreciation to offset cost and reflect fair value of property, plant and equipment based on independent appraisals. (See Notes B and C to consolidated financial statements.)

## KAISER STEEL CORPORATION AND SUBSIDIARIES
## VALUATION AND QUALIFYING ACCOUNTS
### Year Ended December 31, 1983

| | | Additions (thousands of dollars) | | | |
|---|---|---|---|---|---|
| Description | Balance of Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts | Deductions(A) | Balance of End of Period |
| Year ended December 31, 1983 ............ | $5,850 | $3,066 | $— | $(1,260) | $10,176 |

(A) Represents uncollectible accounts charged off during the year, less recoveries on accounts previously charged off.

Schedule X

**KAISER STEEL CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY INCOME STATEMENT INFORMATION**
**Year Ended December 31, 1983**
**(thousands of dollars)**

| | |
|---|---|
| Continuing operations: | |
| Maintenance and repairs | $11,942 |

Categories not disclosed are less than 1% of sales.

## SIGNATURES

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

Date: April 13, 1984

KAISER STEEL CORPORATION

By: /s/ MONTY H. RIAL
Name: Monty H. Rial
Title: Vice Chairman

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

| Signature | Title | Date |
|---|---|---|
| **1. Principal Executive Officer** | | |
| /s/ JOSEPH A. FRATES<br>**Joseph A. Frates** | Chairman and Director | April 13, 1984 |
| **2. Principal Financial and Accounting Officer** | | |
| /s/ CHARLES H. BLACK<br>**Charles H. Black** | Senior Vice President, Chief Financial Officer and Director | April 13, 1984 |
| **3. Directors** | | |
| /s/ MONTY H. RIAL<br>**Monty H. Rial** | Vice Chairman and Director | April 13, 1984 |
| /s/ CHARLES S. HOLMES<br>**Charles S. Holmes** | Director | April 13, 1984 |
| /s/ ROBERT E. MERRICK<br>**Robert E. Merrick** | Director | April 13, 1984 |
| /s/ DR. EUSTACE H. WINN, JR.<br>**Dr. Eustace H. Winn, Jr.** | Director | April 13, 1984 |
| /s/ CHARLES S. MCNEIL<br>**Charles S. McNeil** | Director | April 13, 1984 |
| /s/ WILLIAM R. GOULD<br>**William R. Gould** | Director | April 13, 1984 |
| /s/ STEPHEN A. GIRARD<br>**Stephen A. Girard** | Director | April 13, 1984 |
| /s/ RICHARD N. GARY<br>**Richard N. Gary** | Director | April 13, 1984 |