

SANMINA-SCI CORP  
Form DEF 14A  
August 18, 2008

[QuickLinks](#) -- Click here to rapidly navigate through this document

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Sanmina-SCI Corporation**

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

---

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:

Edgar Filing: SANMINA-SCI CORP - Form DEF 14A

- o Fee paid previously with preliminary materials.
  - o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
    - (1) Amount Previously Paid:
    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
    - (4) Date Filed:
-

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON SEPTEMBER 29, 2008**

Notice is hereby given that a Special Meeting of Stockholders of Sanmina-SCI Corporation will be held on September 29, 2008, at 11:00 a.m., Pacific Daylight Time, at Sanmina-SCI Corporation's corporate offices, located at 30 E. Plumeria Drive, San Jose, California 95134, for the following purposes (as more fully described in the Proxy Statement accompanying this Notice):

To approve an amendment to our restated certificate of incorporation to effect a reverse stock split of our common stock pursuant to which any whole number of outstanding shares between and including Three (3) and Ten (10) would be combined into one share of our common stock and to concurrently decrease the authorized number of shares of common stock on a proportional basis and to authorize our Board of Directors to select and file one such amendment.

This item of business is more fully described in the Proxy Statement accompanying this Notice of Special Meeting. Pursuant to our Bylaws, no other matters may properly come before the Special Meeting.

Pursuant to the Internet proxy rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials over the Internet. Accordingly, stockholders of record at the close of business on August 8, 2008 will receive a Notice of Internet Availability of Proxy Materials and may vote at the Special Meeting and any adjournment or postponement of the meeting. We expect to mail the Notice of Internet Availability of Proxy Materials on or about August 20, 2008.

All stockholders are cordially invited to attend the Special Meeting in person. You should bring a brokerage statement or other evidence of your Company shareholdings for entrance to the Special Meeting. Even if you plan to attend the Special Meeting, please vote, as instructed in the Notice of Internet Availability of Proxy Materials, via the Internet or the telephone as promptly as possible to ensure that your vote is recorded. Alternatively, you may follow the procedures outlined in the Notice of Internet Availability of Proxy Materials to request a paper proxy card to submit your vote by mail. Any stockholder attending the Special Meeting may vote in person even if he or she previously voted by another method.

BY ORDER OF THE BOARD OF DIRECTORS

Michael R. Tyler,  
*Executive Vice President, General Counsel  
and Corporate Secretary*

San Jose, California  
August 20, 2008

---

**SANMINA-SCI CORPORATION  
30 E. Plumeria Drive  
San Jose, California 95134**

**PROXY STATEMENT  
FOR THE SPECIAL MEETING OF STOCKHOLDERS**

**QUESTIONS AND ANSWERS ABOUT PROCEDURAL MATTERS**

**Q1: Why am I receiving these proxy materials?**

A: The Board of Directors of Sanmina-SCI Corporation ("Sanmina-SCI" or the "Company") is providing these proxy materials to you in connection with the solicitation of proxies for use at the Special Meeting of Stockholders to be held on September 29, 2008 at 11:00 a.m., Pacific Daylight Time, and at any adjournment or postponement thereof, for the purpose of considering and acting upon the matters described in this document.

**Q2: What is the Notice of Internet Availability of Proxy Materials?**

A: In accordance with rules and regulations adopted by the Securities and Exchange Commission (the "SEC"), instead of mailing a printed copy of our proxy materials to all stockholders entitled to vote at the Special Meeting, we are furnishing the proxy materials to our stockholders over the Internet. If you received a Notice of Internet Availability of Proxy Materials (the "Notice of Internet Availability") by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice of Internet Availability will instruct you as to how you may access and review the proxy materials and submit your vote via the Internet. If you received a Notice of Internet Availability by mail and would like to receive a printed copy of the proxy materials, please follow the instructions included in the Notice of Internet Availability for requesting printed materials. We expect to mail the Notice of Internet Availability on or about August 20, 2008, to all stockholders entitled to vote at the Special Meeting. On the date of mailing of the Notice of Internet Availability, all stockholders and beneficial owners will have the ability to access all of our proxy materials, and to vote, on a website referred to in the Notice of Internet Availability. These proxy materials will be available free of charge.

**Q3: Where is the Special Meeting?**

A: The Special Meeting will be held at our corporate offices, located at 30 E. Plumeria Drive, San Jose, California 95134. The telephone number at the meeting location is (408) 964-3500.

**Q4: Can I attend the Special Meeting?**

A: You are invited to attend the Special Meeting if you were a stockholder of record or a beneficial owner as of August 8, 2008. You should bring a brokerage statement or other evidence of your Company shareholdings for entrance to the Special Meeting. The meeting will begin promptly at 11:00 a.m., Pacific Daylight Time.

**Stock Ownership**

**Q5: What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

A: *Stockholders of Record.* If your shares are registered directly in your name with Sanmina-SCI's transfer agent, Wells Fargo Shareowner Services, you are considered, with respect to those shares, the stockholder of record, and the Notice of Internet Availability has been sent directly to you.

## Edgar Filing: SANMINA-SCI CORP - Form DEF 14A

*Beneficial Owners.* Most stockholders hold their shares through a broker, trustee or other nominee, rather than directly in their own name. If your shares are held in a brokerage account or by a bank or another nominee, you are considered the "beneficial owner" of shares held in "street name." The Notice of Internet Availability should be forwarded to you by your broker, trustee or nominee who is considered, with respect to those shares, the stockholder of record.

As the beneficial owner, you have the right to direct your broker, trustee or other nominee on how to vote your shares. For directions on how to vote shares beneficially held in street name, please refer to the voting instruction card provided by your broker, trustee or nominee. Because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the Special Meeting unless you obtain a "legal proxy" from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the Special Meeting.

### Quorum and Voting

#### **Q6: Who is entitled to vote at the Special Meeting?**

A: Holders of record of our common stock at the close of business on August 8, 2008, are entitled to receive notice of and to vote their shares at the Special Meeting. Such stockholders are entitled to cast one vote for each share of common stock held as of August 8, 2008.

As of the close of business on August 8, 2008, there were 530,971,114 shares of common stock outstanding and entitled to vote at the Special Meeting.

#### **Q7: How many shares must be present or represented to conduct business at the Special Meeting?**

A: The presence of the holders of a majority of the shares of our common stock entitled to vote at the Special Meeting is necessary to constitute a quorum at the Special Meeting. Stockholders are counted as present at the meeting if they are present in person at the Special Meeting or have properly submitted a proxy.

Under the General Corporation Law of the State of Delaware, abstentions and broker "non-votes" are counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the Special Meeting.

#### **Q8: What is a broker "non-vote"?**

A: If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on "discretionary" matters but cannot vote on "non-discretionary" matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a "non-discretionary" matter, the organization that holds your shares will inform our Inspector of Election that it does not have the authority to vote on this matter with respect to your shares. This is generally referred to as a "broker non-vote." Proposal 1 (amendment of our restated certificate of incorporation) is considered a "discretionary" matter, meaning that a broker may vote your shares held in street name in its discretion in the absence of your voting instructions, which vote could be "For" or "Against" as indicated by the broker.

#### **Q9: Can I vote my shares in person at the Special Meeting?**

A: Yes. Whether you hold shares directly as the stockholder of record or beneficially in street name, you may vote your shares at the Special Meeting, as summarized below.

*Stockholders of Record.* Shares held in your name as the stockholder of record may be voted in person at the Special Meeting even if previously voted by another method.

*Beneficial Owners.* Shares held beneficially in street name may be voted in person at the Special Meeting only if you obtain a legal proxy from the broker, trustee or other nominee that holds your shares giving you the right to vote the shares.

**Even if you plan to attend the Special Meeting, we recommend that you submit your vote as described in the Notice of Internet Availability and below, so that your vote will be counted if you later decide not to attend the Special Meeting.**

**Q10: Can I vote my shares without attending the Special Meeting?**

A: Yes. Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Special Meeting, as summarized below.

*Internet.* Stockholders of record with Internet access may submit proxies by following the "Vote by Internet" instructions on the Notice of Internet Availability until 8:59 p.m., Pacific Daylight Time, on September 28, 2008 or by following the instructions at [www.proxyvote.com](http://www.proxyvote.com). Most of our stockholders who hold shares beneficially in street name may vote by accessing the website specified in the voting instructions provided by their brokers, trustees or nominees. A large number of banks and brokerage firms are participating in the Broadridge Financial Solutions, Inc. ("Broadridge") online program. This program provides eligible stockholders the opportunity to vote over the Internet or by telephone. Voting forms will provide instructions for stockholders whose bank or brokerage firm is participating in the Broadridge program.

*Telephone.* Depending on how your shares are held, you may be able to vote by telephone. If this option is available to you, you will have received information with the Notice of Internet Availability explaining this procedure.

*Mail.* If you are a record holder (i.e. you own your Company shares directly and not through a broker), you may request a proxy card from Sanmina-SCI on which you can indicate your vote by completing, signing and dating the card where indicated and by returning it in the prepaid envelope that will be included with the proxy card. If you hold your shares in street name, the voting instructions provided by your broker, trustee or nominee will indicate whether and how you may vote by mail.

**Q11: How will my shares be voted if I submit a proxy via the Internet, by telephone or by mail and do not make specific choices?**

A: If you submit a proxy via the Internet, by telephone or by mail and do not make voting selections, the shares represented by that proxy will be voted "FOR" the proposal to approve an amendment to our restated certificate of incorporation.

**Q12: Can the Special Meeting be adjourned or postponed?**

A: Yes, management may adjourn or postpone the Special Meeting at any time prior to the time a vote is taken on the proposal to amend the Company's certificate of incorporation to a later time or different place and for any reason, including for the solicitation of additional proxies.

**Q13: Can I change or revoke my vote?**

A: Yes.

*Stockholders of Record.* If you are a stockholder of record, you may change your vote by

Delivering to Sanmina-SCI's Corporate Secretary, prior to your shares being voted at the Special Meeting, a written notice of revocation or a duly executed proxy card, in either case dated later than the prior proxy relating to the same shares; or

by attending the Special Meeting and voting in person (although attendance at the Special Meeting will not, by itself, revoke a proxy).

Any written notice of revocation or subsequent proxy card must be received by Sanmina-SCI prior to the taking of the vote at the Special Meeting. Such written notice of revocation or subsequent proxy card should be sent to Sanmina-SCI Corporation, attention Corporate Secretary, 30 E. Plumeria Drive, San Jose, California 95134.

A stockholder of record who has voted via the Internet or by telephone may also change his or her vote by making a timely and valid Internet or telephone vote no later than 8:59 p.m., Pacific Daylight Time, on September 28, 2008.

*Beneficial Owners.* If you are a beneficial owner of shares held in street name, you may change your vote, subject to any rules your broker, trustee or nominee may have, by submitting new voting instructions to your broker, trustee or other nominee, or, if you have obtained a legal proxy from your broker, trustee or other nominee that holds your shares giving you the right to vote the shares, by attending the Special Meeting and voting in person.

**Q14: What proposal will be voted on at the Special Meeting?**

A: At the Special Meeting, stockholders will be asked to consider and approve a proposed amendment to our restated certificate of incorporation to effect a reverse stock split of our common stock pursuant to which any whole number of outstanding shares between and including Three (3) and Ten (10) would be combined into one share of our common stock and to concurrently decrease the authorized number of shares of common stock on a proportional basis and to authorize our Board of Directors to select and file one such amendment.

**Q15: What is the voting requirement to approve the proposal?**

A: Approval and adoption of the proposed the amendment of our restated certificate of incorporation requires the affirmative vote of at least a majority of our issued and outstanding shares of common stock. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes.

**Q16: How does the Board of Directors recommend that I vote?**

A: The Board of Directors unanimously recommends that the stockholders vote FOR the approval of proposed amendment to our restated certificate of incorporation. See "**AMENDMENT TO RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT** Reasons for the Reverse Stock Split."

**Q17: Who will bear the cost of soliciting votes for the Special Meeting?**

A: Sanmina-SCI will bear all expenses of soliciting proxies. We must reimburse brokerage firms, custodians, nominees, fiduciaries and other persons representing beneficial owners of common stock for their reasonable expenses in forwarding solicitation material to such beneficial owners. Directors, officers and employees of Sanmina-SCI may also solicit proxies in person or by other means of communication. Such directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation. We may engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. Sanmina-SCI's costs for such services, if retained, will not be significant.

**Q18: Where can I find the voting results of the Special Meeting?**

A: We intend to announce preliminary voting results at the Special Meeting and will publish final results in our Annual Report on Form 10-K for the fiscal year ending September 27, 2008.

**Q19: How many votes do I have?**

A: You have one vote for each share of common stock you own as of August 8, 2008.

**Q20: How are votes counted?**

A: Votes will be counted by the inspector of election appointed for the meeting, who will separately count "For" and "Against" votes and abstentions. Abstentions will be counted towards the vote total for the proposal, but will have the same effect as "Against" votes.

**Stockholder Proposals and Director Nominations**

**Q21: What is the deadline to propose actions for consideration at next year's Annual Meeting of Stockholders or to nominate individuals to serve as directors?**

A: You may submit proposals, including director nominations, for consideration at future stockholder meetings. All notices of proposals by stockholders should be sent to Sanmina-SCI Corporation, attention Corporate Secretary, 30 E. Plumeria Drive, San Jose, California 95134.

*Requirements for stockholder proposals to be considered for inclusion in our proxy materials.* Stockholders may present proper proposals for inclusion in Sanmina-SCI's proxy statement and for consideration at the next Annual Meeting of Stockholders by submitting their proposals in writing to our Corporate Secretary in a timely manner. In order to be included in the proxy statement for the 2009 Annual Meeting of Stockholders, stockholder proposals must have been received by Sanmina-SCI's Corporate Secretary no later than August 16, 2008, and must otherwise comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

*Requirements for stockholder proposals to be brought before an annual meeting.* In addition, our bylaws establish an advance notice procedure for stockholders who wish to present certain matters before an annual meeting of stockholders, even though such proposals are not included in the proxy materials. To be timely for the 2009 Annual Meeting of Stockholders, a stockholder's notice must be delivered to or mailed and received by our Corporate Secretary at our principal executive offices between September 30, 2008 and October 30, 2008. For all matters that a stockholder proposes to bring before the annual meeting, the notice must set forth:

the name and record address of the stockholder proposing such business;

the class and number of shares of Sanmina-SCI which are beneficially owned by the stockholder;

a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; and

as to the stockholder giving the notice, on whose behalf the nomination or proposal is made:

whether such stockholder intends to deliver a proxy statement to holders of at least the percentage of Sanmina-SCI's voting shares required to carry the proposal or, in the case of a nomination, a sufficient number of holders of

Sanmina-SCI's voting shares to elect such nominee; and

any material interest of the stockholder in such business.



## Edgar Filing: SANMINA-SCI CORP - Form DEF 14A

Please be advised that in connection with the preparation for this special meeting, we determined that the dates reflected in our 2008 Annual Meeting proxy statement for inclusion in the proxy materials for our 2009 Annual Meeting of Stockholders and for presentation at such meeting were incorrect. The dates above reflect the correct dates for inclusion in our proxy materials and for presentation at our 2009 Annual Meeting of Stockholders.

### Additional Information

**Q22: What should I do if I receive more than one Notice of Internet Availability or set of proxy materials?**

A: If you received more than one Notice of Internet Availability or set of proxy materials, your shares are registered in more than one name or brokerage account. Please follow the voting instructions on each Notice of Internet Availability or voting instruction card that you receive to ensure that all of your shares are voted.

**Q23: How may I obtain a separate copy of the Notice of Internet Availability?**

A: If you share an address with another stockholder, each stockholder may not receive a separate copy of the Notice of Internet Availability because some brokers and other nominee record holders may be participating in the practice of "householding," which reduces duplicate mailings and saves printing and postage costs. If your Notice of Internet Availability is being househanded and you would like to receive separate copies, or if you are receiving multiple copies and would like to receive a single copy, please contact our Investor Relations Department at (408) 964-3610 or write to us at 30 E. Plumeria Drive, San Jose, California 95134, attention: Investor Relations.

**Q24: Can I access Sanmina-SCI's proxy materials over the Internet?**

A: All stockholders and beneficial owners will have the ability to access our proxy materials, and to vote, free of charge, at [www.proxyvote.com](http://www.proxyvote.com) with their control number referred to in the Notice of Internet Availability. The proxy statement relating to the Special Meeting is also posted on our website, [www.sanmina-sci.com](http://www.sanmina-sci.com).

**Q25: What is the mailing address for Sanmina-SCI's principal executive offices?**

A: Our principal executive offices are located at 30 E. Plumeria Drive, San Jose, California 95134. Any written requests for additional information, copies of the proxy materials, notices of stockholder proposals, communications to the Board of Directors or any other communications should be sent to 30 E. Plumeria Drive, San Jose, California 95134.

**NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS PROXY STATEMENT, AND, IF GIVEN OR MADE, SUCH INFORMATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED AND THE DELIVERY OF THIS PROXY STATEMENT SHALL, UNDER NO CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE OF THIS PROXY STATEMENT.**

**PROPOSAL 1:**

**AMENDMENT TO RESTATED  
CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT**

**Overview**

Our Board of Directors has unanimously approved an amendment to our certificate of incorporation to effect a reverse stock split of all outstanding shares of our common stock at an exchange ratio ranging from one-for-three (1:3) to one-for-ten (1:10) and to concurrently decrease the authorized number of shares of common stock on a proportional basis. You are now being asked to vote upon this amendment to our certificate of incorporation. Should we receive the required stockholder approval, the Board will have the sole authority to elect, at any time prior to the first anniversary of this Special Meeting: (1) whether or not to effect a reverse stock split, and (2) if so, the number of whole shares of our common stock between and including three (3) and ten (10) which will be combined into one share of our common stock with a proportional reduction in the number of authorized shares of common stock. The Board believes that providing the flexibility for the Board to choose an exact split ratio based on then-current market conditions is in the best interests of Samina-SCI and its stockholders.

The text of the form of proposed amendment to our certificate of incorporation is attached to this proxy statement as *Appendix A*. Such form provides that any whole number of outstanding shares between and including three and ten would be combined into one share of our common stock. If approved by the stockholders, and following such approval, the Board determines that a reverse stock split is in the best interests of Sanmina-SCI and its stockholders, the reverse stock split will become effective upon filing the amendment with the Secretary of State of the State of Delaware. The amendment will contain the number of shares selected by the Board within the limits set forth in this proposal to be combined into one share of our common stock. Upon filing of the amendment, the number of our authorized and issued and outstanding shares of common stock would be reduced in accordance with the split ratio determined by the Board.

Except for adjustments that may result from the treatment of fractional shares as described below, each stockholder will hold the same percentage of our outstanding common stock immediately following the reverse stock split as such stockholder held immediately prior to the reverse stock split.

**Recommendation of the Board of Directors**

**IN ORDER TO BROADEN THE RANGE OF INSTITUTIONS WHICH CAN INVEST IN OUR STOCK, INCREASE ANALYST AND BROKER INTEREST IN OUR STOCK, POTENTIALLY REDUCE VOLATILITY IN OUR STOCK PRICE AND REDUCE THE NUMBER OF OUTSTANDING SHARES, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE IN FAVOR OF THE AMENDMENT TO THE COMPANY'S CERTIFICATE OF INCORPORATION TO PERMIT THE PROPOSED REVERSE STOCK SPLIT.**

**Reasons for the Reverse Stock Split**

The Board believes that a reverse stock split is desirable and should be approved by stockholders for a number of reasons, including:

*Increase in Eligible Investors.* A reverse stock split would allow a broader range of institutions to invest in our stock (namely, funds that are prohibited from buying stocks whose price is below a certain threshold), potentially increasing trading volume and liquidity.

*Increased Analyst and Broker Interest.* A reverse stock split would help increase analyst and broker interest in our stock as their policies can discourage them from following or

## Edgar Filing: SANMINA-SCI CORP - Form DEF 14A

recommending companies with lower stock prices. Because of the trading volatility often associated with lower-priced stocks, many brokerage houses and institutional investors have adopted internal policies and practices that either prohibit or discourage them from investing in such stocks or recommending them to their customers. Some of those policies and practices may also function to make the processing of trades in lower-priced stocks economically unattractive to brokers. Additionally, because brokers' commissions on transactions in lower-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of our common stock can result in individual stockholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher.

*Decrease in Number of Outstanding Shares.* The Company currently has approximately 531 million shares outstanding. A reverse stock split would reduce the number of our outstanding shares to a level more appropriate for a company with our market capitalization.

*Decreased Stock Price Volatility.* By potentially increasing our stock price proportionately to the reduction in the number of outstanding shares, a reverse split could decrease price volatility, as small price movements now cause relatively large percentage changes in our stock price.

*Reduced Risk of Nasdaq Delisting.* By potentially increasing our stock price, the reverse stock split would reduce the risk that our stock could be delisted from the Nasdaq Global Select Market, which requires issuers to maintain a closing bid price of at least \$1.00 per share.

### **Effects of the Reverse Stock Split**

*Reduction of Shares Held by Individual Stockholders.* After the effective date of the proposed reverse stock split, each stockholder will own fewer shares of our common stock. However, the proposed reverse stock split will affect all of our stockholders uniformly and will not affect any stockholder's percentage ownership interests in us, except to the extent that the reverse split results in any of our stockholders owning a fractional share as described below. Proportionate voting rights and other rights and preferences of the holders of our common stock will not be affected by the proposed reverse stock split (other than as a result of the payment of cash in lieu of fractional shares). For example, a holder of 2% of the voting power of the outstanding shares of common stock immediately prior to reverse stock split would continue to hold 2% of the voting power of the outstanding shares of common stock immediately after the reverse stock split. The number of stockholders of record will not be affected by the proposed reverse stock split (except to the extent that any stockholder holds only a fractional share interest and receives cash for such interest after the proposed reverse stock split). However, if the proposed reverse stock split is implemented, it will increase the number of stockholders of Sanmina-SCI who own "odd lots" of less than 100 shares of our common stock. Brokerage commissions and other costs of transactions in odd lots may be higher than the costs of transactions of more than 100 shares of common stock.

*Reduction in Total Outstanding and Authorized Shares.* The proposed reverse split will reduce the total number of authorized and outstanding shares of common stock by the split ratio determined by the Board within the limits set forth in this proposal. The following table contains approximate

information relating to our common stock under certain of the possible split ratios based on share information as of June 28, 2008 (in thousands):

	<b>Pre Reverse Split</b>	<b>1-for-Three</b>	<b>1-for-Five</b>	<b>1-for-Seven</b>	<b>1-for-Ten</b>
Authorized	1,000,000	333,333	200,000	142,857	100,000
Outstanding	530,943	176,981	106,189	75,849	53,094
Stock held in treasury	19,072	6,357	3,814	2,725	1,907
Reserved for future issuance pursuant to outstanding equity grants	53,227	17,742	10,645	7,604	5,323
Reserved for future issuance pursuant to employee stock option and restricted stock plans	2,928	976	586	418	293
Reserved for future issuance pursuant to employee purchase plans	6,133	2,044	1,227	876	613
Authorized and unreserved	387,697	129,233	77,539	55,385	38,770

*Change in Number and Exercise Price of Employee and Director Equity Awards.* The proposed reverse stock split will reduce the number of shares of common stock available for issuance under our employee and director equity plans in proportion to the exchange ratio selected by the Board within the limits set forth in this proposal. Under the terms of our outstanding equity awards, the proposed reverse stock split will cause a reduction in the number of shares of common stock issuable upon exercise or vesting of such awards in proportion to the exchange ratio of the reverse stock split and will cause a proportionate increase in the exercise price of such awards to the extent they are stock options. The number of shares authorized for future issuance under our equity plans will also be proportionately reduced. The number of shares of common stock issuable upon exercise or vesting of outstanding equity awards will be rounded to the nearest whole share and no cash payment will be made in respect of such rounding.

*Regulatory Effects.* Our common stock is currently registered under Section 12(b) of the Exchange Act, and we are subject to the periodic reporting and other requirements of the Exchange Act. The proposed reverse stock split will not affect the registration of the common stock under the Exchange Act or our obligation to publicly file financial and other information with the SEC. If the proposed reverse stock split is implemented, our common stock will continue to trade on The Nasdaq Global Select Market under the symbol "SANM" (although Nasdaq would likely add the letter "D" to the end of the trading symbol for a period of 20 trading days to indicate that the reverse stock split has occurred).

*No Going Private Transaction.* Notwithstanding the decrease in the number of outstanding shares following the proposed reverse stock split, the Board of Directors does not intend for this transaction to be the first step in a series of plans or proposals of a "going private transaction" within the meaning of Rule 13e-3 of the Exchange Act.

### **Risks of Proposed Reverse Split**

*The proposed reverse stock split may not increase our stock price, which would prevent the Company from realizing some of the anticipated benefits of the reverse stock split.*

The Board expects that the reverse split will increase the price per share of our common stock, which in turn would, among other things, broaden the class of investors who invest in our stock, help increase analyst and broker interest in our stock and reduce the possibility that our stock trades below \$1.00 per share for an extended period of time, which could cause our stock to be delisted from the Nasdaq Global Select Market. While the Board expects that a reverse stock split of our common stock will increase the market price of our common stock, the effect of a reverse split upon the market price

of our common stock cannot be predicted with any certainty. The market price of our common stock is primarily driven by other factors unrelated to the number of shares outstanding, including our current and expected future performance, conditions in the EMS industry and stock market conditions generally. Therefore, it is possible that the per share price of our common stock after the reverse split will not rise in proportion to the reduction in the number of shares of our common stock outstanding resulting from the reverse stock split, which could cause the Company to fail to realize the anticipated benefits of the reverse stock split.

*The proposed reverse stock split may decrease the liquidity of our stock.*

The liquidity of our common stock may be harmed by the proposed reverse split given the reduced number of shares that would be outstanding after the reverse stock split, particularly if the stock price does not increase as a result of the reverse stock split.

#### **Board Discretion to Implement the Reverse Stock Split**

If the reverse stock split is approved by our stockholders, it will be effected, if at all, only upon a determination by the Board that a reverse stock split is in the best interests of Sanmina-SCI and our stockholders. Such determination shall be based upon certain factors, including our then current stock price, the existing and expected marketability and liquidity of our common stock, prevailing market conditions, the likely effect on the market price of our common stock and desire to continue to meet the listing requirements for The Nasdaq Global Select Market. Notwithstanding approval of the reverse stock split by the stockholders, the Board may, in its sole discretion, abandon the proposed amendment to our certificate of incorporation and determine not to effect the reverse stock split as permitted under Section 242(c) of the Delaware General Corporation Law. If the Board fails to implement the reverse stock split prior to the one year anniversary of this Special Meeting of Stockholders, stockholder approval again would be required prior to implementing any reverse stock split.

#### **Effective Date**

The proposed reverse stock split would become effective on the date of filing of a certificate of amendment to our restated certificate of incorporation with the office of the Secretary of State of the State of Delaware. Except as explained below with respect to fractional shares, on the effective date, shares of common stock issued and outstanding immediately prior thereto will be combined and converted, automatically and without any action on the part of the stockholders, into new shares of common stock in accordance with the reverse stock split ratio determined by the Board within the limits set forth in this proposal and the authorized number of shares of common stock will be reduced on a proportional basis to the exchange ratio implemented.

#### **Payment for Fractional Shares**

No fractional shares of common stock will be issued as a result of the proposed reverse stock split. Instead, stockholders who otherwise would be entitled to receive fractional shares, upon surrender to the exchange agent of such certificates representing such fractional shares, will be entitled to receive cash in an amount equal to the product obtained by multiplying (a) the closing sales price of our common stock on the effective date as reported on The Nasdaq Global Select Market by (b) the number of shares of our common stock held by such stockholder that would otherwise have been exchanged for such fractional share interest. As of June 28, 2008, 530,943,115 shares of our common stock were issued and held of record by approximately 1,812 stockholders. As a result of the reverse stock split, we estimate that cashing out fractional stockholders could reduce the number of stockholders of record to approximately 1,733 (assuming a split ratio of one for seven, the mid-point of the range of possible split ratios).

### Exchange of Stock Certificates

As soon as practicable after the effective date, stockholders will be notified that the reverse split has been effected. Our transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates for record holders (i.e. stockholders who hold their shares directly in their own name and not through a broker). Record holders of pre-reverse split shares will be asked to surrender to the exchange agent certificates representing pre-reverse split shares in exchange for a book entry with the transfer agent or certificates representing post-reverse split shares in accordance with the procedures to be set forth in a letter of transmittal to be sent by us. No new certificates will be issued to a stockholder until such stockholder has surrendered such stockholder's outstanding certificate(s) together with the properly completed and executed letter of transmittal to the exchange agent. **RECORD STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY CERTIFICATE(S) UNTIL REQUESTED TO DO SO.**

For beneficial holders of pre-reverse split shares (i.e., stockholders who hold their shares through a broker), your broker will make the appropriate adjustment to the number of shares held in your account following the effective date of the reverse split.

### Accounting Consequences

The par value per share of our common stock will remain unchanged at \$0.01 per share after the reverse stock split. As a result, on the effective date of the reverse split, the stated capital on our consolidated balance sheet attributable to common stock will be reduced and the additional paid-in-capital account will be increased by the amount by which the stated capital is reduced. Per share net income or loss will be increased because there will be fewer shares of our common stock outstanding. We do not anticipate that any other accounting consequences, including changes to the amount of stock-based compensation expense to be recognized in any period, will arise as a result of the reverse stock split.

### No Appraisal Rights

Under the Delaware General Corporation Law, our stockholders are not entitled to dissenter's rights with respect to the proposed amendment to our restated certificate of incorporation to effect the reverse split.

### Material Federal U.S. Income Tax Consequences of the Reverse Stock Split

The following is a summary of important tax considerations of the proposed reverse stock split. It addresses only stockholders who hold the pre-reverse split shares and post-reverse split shares as capital assets. It does not purport to be complete and does not address stockholders subject to special rules, such as financial institutions, tax-exempt organizations, insurance companies, dealers in securities, mutual funds, foreign stockholders, stockholders who hold the pre-reverse split shares as part of a straddle, hedge, or conversion transaction, stockholders who hold the pre-reverse split shares as qualified small business stock within the meaning of Section 1202 of the Internal Revenue Code of 1986, as amended (the "Code"), stockholders who are subject to the alternative minimum tax provisions of the Code, and stockholders who acquired their pre-reverse split shares pursuant to the exercise of employee stock options or otherwise as compensation. This summary is based upon current law, which may change, possibly even retroactively. It does not address tax considerations under state, local, foreign, and other laws. Furthermore, we have not obtained a ruling from the Internal Revenue Service or an opinion of legal or tax counsel with respect to the consequences of the reverse stock split. Each stockholder is advised to consult his or her tax advisor as to his or her own situation.

The reverse stock split is intended to constitute a reorganization within the meaning of Section 368 of the Code. Assuming the reverse split qualifies as a reorganization, a stockholder generally will not

recognize gain or loss on the reverse stock split, except to the extent of cash, if any, received in lieu of a fractional share interest in the post-reverse split shares. The aggregate tax basis of the post-reverse split shares received will be equal to the aggregate tax basis of the pre-reverse split shares exchanged therefor (excluding any portion of the holder's basis allocated to fractional shares), and the holding period of the post-reverse split shares received will include the holding period of the pre-reverse split shares exchanged.

A holder of the pre-reverse split shares who receives cash will generally recognize gain or loss equal to the difference between the portion of the tax basis of the pre-reverse split shares allocated to the fractional share interest and the cash received. Such gain or loss will be a capital gain or loss and will be short term if the pre-reverse split shares were held for one year or less and long term if held more than one year. No gain or loss will be recognized by Sanmina-SCI as a result of the reverse stock split.

**SECURITY OWNERSHIP OF  
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our common stock as of June 30, 2008, as to: (i) each person (or group of affiliated persons) who is known to us to beneficially own more than five percent of the outstanding shares of our common stock; (ii) each director; (iii) each of our named executive officers; and (iv) all directors and executive officers as a group.

Name	Shares Beneficially Owned(20)	Approximate Percent Owned(20)
AXA Financial, Inc. and certain affiliated entities(1) 1290 Avenue of the Americas New York, NY 10104	55,220,938	10.40%
Barclays Global Investors, NA(2) 45 Fremont Street San Francisco, CA 94105	40,719,268	7.68%
Brandes Investment Partners, LP. and certain affiliated entities(3) 11988 El Camino Real, Suite 500 San Diego, CA 92130	37,788,129	7.13%
Columbia Wanger Asset Management, LP(4) 227 West Monroe Street, Suite 3000 Chicago, IL 60606	71,491,000	13.49%
Jure Sola(5)	8,576,092	1.62%
David White(6)	710,632	*%
Joseph R. Bronson(7)	300,000	*%
Hari Pillai(8)	1,458,960	*%
Michael Tyler(9)	125,000	*%
Dennis Young(10)	514,792	*%
Neil R. Bonke(11)	348,156	*%
Alain Couder(12)	322,451	*%
John Goldsberry (13)	25,000	*
Joseph G. Licata, Jr.(14)	105,827	*

\*quity. Income statement accounts are translated at the average exchange rates during the reporting period. As a result of the change in the value of the Canadian dollar relative to the U.S. dollar, the Company reported non-cash

10

currency translation gains/(losses) of \$499,000 and (\$43,000) for the six months ended June 30, 2002 and 2001, respectively.

*Comprehensive Income* The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income includes net income and certain items recorded directly to stockholders' equity which are classified as other comprehensive income. The following table sets forth the calculation of comprehensive income for the six months ended June 30, 2002 and 2001:

Six Months Ended June 30,	
2002	2001



Six Months Ended  
June 30,

(in thousands)

Net income (loss)	\$ (14,621)	\$ 2,320
Other comprehensive income (loss), net of tax:		
Currency translation adjustment	499	(43)
Cumulative effect of change in accounting principle January 1, 2001	(2,768)	
Reclassification adjustment for settled hedging contracts	(130)	1,093
Changes in fair value of outstanding hedge positions	(279)	1,360
	<u>90</u>	<u>(358)</u>
Other comprehensive income (loss)	90	(358)
	<u>\$ (14,531)</u>	<u>\$ 1,962</u>
Comprehensive income (loss)	\$ (14,531)	\$ 1,962

In 2001, the Company entered into certain commodity derivative contracts with Enron North America Corp. (ENAC), a subsidiary of Enron Corp. (Enron). On December 2, 2001, Enron and ENAC filed for Chapter 11 bankruptcy, and the Company determined that the ENAC contracts no longer qualified for cash flow hedge accounting under Statement of Financial Accounting Standards No. 133 (SFAS No. 133). Consequently, the Company recorded a loss for the year ended December 31, 2001, based on the estimated fair value of the derivative contracts based on future commodity prices and deferred a corresponding amount in accumulated other comprehensive income.

The amount deferred in accumulated other comprehensive income at June 30, 2002 will be reclassified to earnings during the remainder of 2002 based on the originally scheduled settlement periods of the contracts. Amounts expected to be reclassified to earnings in the second half of 2002 are \$124,000. Marketing and other revenue for the three and six months ended June 30, 2002 include \$70,000 and \$122,000, respectively, of amounts reclassified out of accumulated other comprehensive income related to these contracts.

*Earnings (Loss) Per Share* The Company uses the weighted average number of shares outstanding to calculate earnings per share data. When dilutive, options are included as share equivalents using the treasury stock method and are included in the calculation of diluted per share data. Due to the Company's net loss for the quarter and six months ended June 30, 2002, basic and diluted earnings per share are the same, as all potentially dilutive

securities would be anti-dilutive.

*Accounting Estimates* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and the accompanying notes. The actual results could differ from those estimates.

*Recent Accounting Pronouncements* In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," which addresses financial accounting and reporting for business combinations. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's financial position or results of operations.

11

---

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses, among other things, the financial accounting and reporting for goodwill subsequent to an acquisition. The new standard eliminates the requirement to amortize acquired goodwill; instead, such goodwill shall be reviewed at least annually for impairment. SFAS No. 142 is effective for the Company in 2002. The adoption of SFAS No. 142 did not have a material impact on the Company's financial position or results of operations.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The asset retirement liability will be allocated to operating expense by using a systematic and rational method. The statement is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating what effect the adoption of this statement will have on its financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which provides a single accounting model for long-lived assets to be disposed of and changes the criteria that would have to be met to classify an asset as held-for-sale. The statement also requires expected future operating losses from discontinued operations to be recognized in the periods in which the losses are incurred, which is a change from the current requirement of recognizing such operating losses as of the measurement date. SFAS No. 144 is effective for the Company in 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's financial position or results of

operations.

### 3. Acquisition and Disposition of Assets

*Acquisition of CEC Resources Ltd.* In February 2000, Carbon completed an offer to exchange shares of Carbon for shares of CEC, an Alberta, Canada company. The exchange offer resulted in the issuance of 1,482,826 shares of Carbon stock in exchange for over 97% of the outstanding CEC shares. The acquisition closed on February 17, 2000 and was accounted for as a purchase. In November 2000, CEC initiated an offer to purchase additional shares of CEC. The offer was completed in February 2001 with the acquisition of approximately 34,000 shares of CEC stock. Carbon currently owns 99.7% of the stock of CEC. See Note 1 to the Consolidated Financial Statements for additional information.

*Disposition of Oil and Gas Assets* In January 2001, the Company sold its entire working interests and related leasehold rights in the San Juan Basin, receiving net proceeds of approximately \$6.8 million. Proceeds from the sale were credited directly to the full cost pool and no gain or loss was recognized.

### 4. Long-term Debt

*U.S. Credit Facility* The Company's credit facility is an oil and gas reserve based line-of-credit with Wells Fargo Bank West National Association (Wells Fargo). At June 30, 2002, the borrowing base was \$20.0 million with outstanding borrowings of \$17.7 million. The facility is secured by certain U.S. oil and gas properties of the Company. The facility bears interest at a rate equal to LIBOR plus 1.75% or Wells Fargo Prime, at the option of the Company. The Company's weighted average effective interest rate was approximately 3.8% at June 30, 2002. The borrowing base is based upon the lender's evaluation of the Company's proved oil and gas reserves, generally determined semi-annually.

In August 2002, the Company and Wells Fargo amended the credit facility to provide for a reduction to the borrowing base of \$400,000 per month from September 2002 through January 2003, at which time the borrowing base will be \$18.0 million. The amended facility has a maturity date of July 1, 2005 with no principal payments required until that date.

As a result of the full cost ceiling impairment discussed previously, as of June 30, 2002 the Company was not in compliance with the tangible net worth covenant under the credit facility. In conjunction with the amendment discussed above, no default was asserted by Wells Fargo and the covenant was amended to reduce the minimum tangible net worth requirement. As of June 30,

2002, the Company would have had a "cushion" of approximately \$900,000 based on the amended tangible net worth requirement. Based on the Company's net income projections, management expects to be in compliance with the revised tangible net worth through at least the next twelve months.

*Canadian Credit Facility* The Company's credit facility is an oil and gas reserve based line-of-credit with Canadian Imperial Bank of Commerce (CIBC). At June 30, 2002 the borrowing base was \$9.2 million with outstanding borrowings of \$5.5 million. The Canadian facility is secured by the Canadian oil and gas properties of the Company. The revolving phase of the Canadian facility expires on March 31, 2003. If the revolving commitment is not renewed, the loan will be converted into a term loan and will be reduced by consecutive monthly payments over a period not to exceed 24 months. Subject to possible changes in the borrowing base, CIBC has agreed that it will not require the Company to make principal payments under the term loan section of the facility until July 2003 at the earliest. As such, no amounts under the CIBC facility have been classified as current on the June 30, 2002 balance sheet. The Canadian facility bears interest at a rate equal to banker's acceptance rates plus 1.5% or at the CIBC Prime rate plus .5%. The Company's weighted average effective interest rate was approximately 4.75% at June 30, 2002.

The Canadian facility contains various covenants that limit the Company's ability to pay dividends, purchase treasury shares, incur indebtedness, sell properties, or merge with another entity.

The agreement with CIBC also provides for \$3.5 million of credit which can be utilized for financial derivative instruments used to hedge a portion of the Company's oil and gas production, currency exchange contracts and fixed price gas sales transactions with CIBC. The Company currently utilizes the swap facility to hedge a portion of its Canadian production as described in Note 2 to the Consolidated Financial Statements.

## **5. Business and Geographical Segments**

Segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Carbon has two reportable business and geographic segments: Carbon USA and CEC, representing oil and gas operations in the United States and Canada, respectively. The segments are business units that operate in unique geographic locations.

The segment data presented below for the three and six months ended June 30, 2002 and 2001 was prepared on the

same basis as Carbon's consolidated financial statements.

	Three Months Ended June 30, 2002			Six Months Ended June 30, 2002		
	United States	Canada	Total	United States	Canada	Total
<b>Revenues:</b>						
Oil and gas sales	\$ 2,188	\$ 1,848	\$ 4,036	\$ 4,087	\$ 3,497	\$ 7,584
Marketing and other, net	101		101	179		179
	2,289	1,848	4,137	4,266	3,497	7,763
<b>Expenses:</b>						
Oil and gas production costs	828	398	1,226	1,597	814	2,411
Depreciation, depletion, and amortization	1,034	663	1,697	2,116	1,321	3,437
Full cost ceiling impairment	12,003	1,215	13,218	12,003	1,215	13,218
General and administrative, net	746	415	1,161	1,624	866	2,490
Interest, net	207	53	260	370	83	453
Total operating expenses	14,818	2,744	17,562	17,710	4,299	22,009
Minority interest		1	1		1	1
Loss before income taxes	(12,529)	(895)	(13,424)	(13,444)	(801)	(14,245)
Income tax provision (benefit)	1,089	(424)	665	746	(370)	376
Net loss	\$ (13,618)	\$ (471)	\$ (14,089)	\$ (14,190)	\$ (431)	\$ (14,621)
Total assets	\$ 29,722	\$ 21,707	\$ 51,429	\$ 29,722	\$ 21,707	\$ 51,429
Capital expenditures	\$ 522	\$ 1,790	\$ 2,312	\$ 1,289	\$ 3,458	\$ 4,747

  

	Three Months Ended June 30, 2001			Six Months Ended June 30, 2001		
	United States	Canada	Total	United States	Canada	Total
<b>Revenues:</b>						

	Three Months Ended June 30, 2001			Six Months Ended June 30, 2001		
Oil and gas sales	\$ 2,469	\$ 3,282	\$ 5,751	\$ 6,270	\$ 7,097	\$ 13,367
Marketing and other, net	565		565	1,252		1,252
	3,034	3,282	6,316	7,522	7,097	14,619
Expenses:						
Oil and gas production costs	976	285	1,261	1,819	810	2,629
Depreciation, depletion and amortization	804	644	1,448	1,541	1,295	2,836
General and administrative, net	767	451	1,218	1,387	927	2,314
Interest, net	185	39	224	317	93	410
Total operating expenses	2,732	1,419	4,151	5,064	3,125	8,189
Minority interest		(3)	(3)		(25)	(25)
Income before income taxes	302	1,860	2,162	2,458	3,947	6,405
Income tax provision	113	745	858	922	1,653	2,575
Net income before cumulative effect of change in accounting principle	189	1,115	1,304	1,536	2,294	3,830
Cumulative effect of change in accounting principle, net of tax				(1,510)		(1,510)
Net income	\$ 189	\$ 1,115	\$ 1,304	\$ 26	\$ 2,294	\$ 2,320
Total assets	\$ 39,938	\$ 19,201	\$ 59,139	\$ 39,938	\$ 19,201	\$ 59,139
Capital expenditures	\$ 3,962	\$ 1,399	\$ 5,361	\$ 7,742	\$ 3,978	\$ 11,720

## 6. Subsequent Event

In July 2002, the Company closed the sale of certain overriding royalty interests in the Piceance and Permian Basins, receiving net proceeds of approximately \$700,000.

The proceeds were used to repay amounts outstanding under the Company's credit facilities.

14

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

### Results of Operations

The following table and discussion present comparative revenue, production volumes, average sales prices, expenses and percentage change between periods for the three months ended June 30, 2002 and June 30, 2001 (second quarter) for the Company's United States and Canadian operations.

All amounts are presented in U.S. dollars.

	United States Three Months Ended June 30,			Canada Three Months Ended June 30,		
	2002	2001	Change	2002	2001	Change
	(Dollars in thousands, except prices and per Mcf information)			(Dollars in thousands, except prices and per Mcf information)		
Revenues:						
Oil and gas revenues	\$ 2,188	\$ 2,469	-11%	\$ 1,848	\$ 3,282	-44%
Marketing and other, net	101	565	-82%			n/a
Total revenues	\$ 2,289	\$ 3,034	-25%	\$ 1,848	\$ 3,282	-44%
Daily production volumes:						
Natural gas (MMcf)	8.4	7.3	15%	6.4	6.6	-3%
Oil and liquids (Bbl)	242	215	13%	139	159	-13%
Equivalent production (MMcfe 6:1)	9.9	8.6	15%	7.2	7.6	-5%
Average price realized:						

	United States			Canada		
	Three Months Ended			Three Months Ended		
	June 30,			June 30,		
Natural gas (Mcf)	\$ 2.19	\$ 2.94	-26%	\$ 2.76	\$ 4.86	-43%
Oil and liquids (Bbl)	23.17	26.61	-13%	20.04	24.48	-18%
Direct lifting costs	\$ 373	\$ 489	-24%	\$ 382	\$ 285	34%
Average direct lifting costs/Mcfe	0.41	0.63	-35%	0.58	0.41	41%
Other production costs	455	487	-7%	16		n/a
General and administrative, net	746	767	-3%	415	451	-8%
Depreciation, depletion and amortization	1,034	804	29%	663	644	3%
Full cost ceiling impairment	12,003		n/a	1,215		n/a
Interest expense, net	207	185	12%	53	39	36%
Income tax provision (benefit)	1,089	113	864%	(424)	745	-157%

Revenues from oil and gas sales of Carbon USA for the second quarter of 2002 were \$2.2 million, an 11% decrease from 2001. The decrease was due primarily to decreased oil and natural gas prices, partially offset by increased oil, liquids and natural gas production.

Revenues from oil, liquids and gas sales of CEC for the second quarter of 2002 were \$1.8 million, a 44% decrease from 2001. The decrease was due primarily to decreased oil, liquids and natural gas prices and a decrease in oil, liquids and natural gas production.

Average production in the United States for the second quarter of 2002 was 242 barrels of oil and liquids per day and 8.4 million cubic feet (MMcf) of gas per day, an increase of 15% from the same period in 2001 on a Mcfe equivalent (Mcfe) basis where one barrel of oil or liquids is equal to six Mcfe of gas. The increase in oil, liquids and gas production was due to successful drilling activities conducted during 2001 in the Piceance and Permian Basins, partially offset by natural production declines. During the second quarter of 2002, Carbon USA participated in the drilling of one gross (.1 net) well which was completed as an oil well. During the second quarter of 2001, Carbon USA participated in the drilling of five gross (2.2 net) wells of which two gross (.3 net) wells were completed as oil wells and three gross (1.9 net) wells were completed as gas wells.



Average production in Canada for the second quarter of 2002 was 139 barrels of oil and liquids per day and 6.4 MMcf of gas per day, a decrease of 5% on a Mcfe basis from the same period in 2001.

15

---

The decrease was primarily due to natural production declines in all operating areas, partially offset by successful drilling activities in the Carbon and Rowley areas of Central Alberta. During the second quarter of 2002, CEC participated in the drilling of four gross (2.7 net) wells which were completed as gas wells. During the second quarter of 2001, CEC participated in the drilling of two gross (2.0 net) wells which were completed as gas wells.

Average oil and liquids prices realized by Carbon USA decreased 13% from \$26.61 per barrel for the second quarter of 2001 to \$23.17 for 2002. Average natural gas prices realized by Carbon USA decreased 26% from \$2.94 per Mcf for the second quarter of 2001 to \$2.19 for 2002. The average natural gas price includes hedge gains of \$13,000 for the second quarter of 2002 compared to hedge losses of \$757,000 for 2001.

Average oil and liquids prices realized by CEC decreased 18% from \$24.48 per barrel for the second quarter of 2001 to \$20.04 for 2002. Average natural gas prices realized by CEC decreased 43% from \$4.86 per Mcf for the second quarter of 2001 to \$2.76 for 2002. The average natural gas price includes hedge losses of \$79,000 for the second quarter of 2002 compared to hedge losses of \$202,000 for 2001.

Marketing and other revenues in the United States were \$101,000 for the second quarter of 2002 compared to \$565,000 for 2001. Marketing revenue for the second quarter of 2001 included mark to market gains of \$451,000 related to a derivative contract that did not qualify for hedge accounting treatment under Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In conjunction with the adoption of SFAS No. 133, the Company recorded a derivative loss (net of tax) of \$1.5 million as the cumulative effect of a change in accounting principle related to the derivative contract.

Direct lifting costs incurred by Carbon USA were \$373,000 or \$.41 per Mcfe for the second quarter of 2002 compared to \$489,000 or \$.63 per Mcfe for 2001. The decrease in direct lifting costs was primarily due to more efficient field operating practices as well as a decrease in the number of well workovers and equipment repairs compared to the second quarter of 2001.

Other production costs incurred by Carbon USA, consisting primarily of severance taxes and production

overhead, were \$455,000 for the second quarter of 2002 compared to \$487,000 for 2001. The decrease was primarily due to lower severance taxes as a result of lower oil, liquids and gas prices and a credit for prior period ad valorem taxes, partially offset by increased oil, liquids and gas production.

Direct lifting costs incurred by CEC were \$382,000 or \$.58 per Mcfe for the second quarter of 2002 compared to \$285,000 or \$.41 per Mcfe for 2001. The higher per Mcfe expense in the second quarter of 2002 was primarily due to higher compression expenses associated with the production of natural gas in Alberta and a change of estimate of certain operating expenses related to non-operated properties which were recorded in the second quarter of 2002.

Other production costs incurred by CEC, consisting primarily of severance taxes, were \$16,000 for the second quarter of 2002. There were no such other production costs incurred during the second quarter of 2001. The increase was primarily due to production during the second quarter of 2002 from wells subject to severance taxes.

General and administrative expenses (net of overhead reimbursements on operated wells) incurred by Carbon USA decreased 3% from \$767,000 for the second quarter of 2001 to \$746,000 for 2002.

General and administrative expenses (net of overhead reimbursements on operated wells) incurred by CEC decreased 8% from \$451,000 for the second quarter of 2001 to \$415,000 for 2002.

16

---

Interest expense incurred by Carbon USA increased 12% from \$185,000 for the second quarter of 2001 to \$207,000 for 2002. The increase was due primarily to increased average debt balances in the second quarter of 2002 relative to 2001, partially offset by a decline in interest rates.

Interest expense incurred by CEC increased 36% from \$39,000 for the second quarter of 2001 to \$53,000 for 2002. The increase was due primarily to increased average debt balances in the second quarter of 2002 relative to 2001, partially offset by a decline in interest rates.

Depreciation, depletion and amortization (DD&A) of oil and gas assets is calculated using the units of production method. DD&A is typically determined by using historical capitalized costs incurred to find, develop and recover oil and gas reserves. However, the Company's DD&A rate has been determined primarily by the purchase price incurred by the Company in its acquisitions

of Carbon USA and CEC and the volume of proved reserves the Company acquired in the acquisitions.

DD&A expense incurred by Carbon USA was \$1.0 million or \$1.15 per Mcfe for the second quarter of 2002 compared to \$804,000 or \$1.03 per Mcfe for 2001. The increased rate is due to the capitalized cost per Mcfe of reserves added to the Company's proved reserves during 2001 compared to the rate established at the time of the acquisition of Carbon USA.

DD&A expense incurred by CEC was \$663,000 or \$1.01 per Mcfe compared to \$644,000 or \$.94 per Mcfe for 2001. The increased rate is due to the capitalized cost per Mcfe of reserves added to the Company's proved reserves during 2001 compared to the rate established at the time of the acquisition of CEC.

For purposes of calculating the ceiling test at June 30, 2002, the Company used mainline prices of \$1.10/mmbtu in Colorado and Utah and \$1.43/mmbtu in Central Alberta. The negative differential of these prices when compared to a U.S. reference price set at Henry Hub at June 30, 2002, was \$2.32/mmbtu for Colorado and Utah and \$1.99/mmbtu for Central Alberta. This compares to a 36 month historical negative differential of \$.37/mmbtu for Colorado and \$.29/mmbtu for Central Alberta. Due to these large pricing differentials when compared to a U.S. reference price set at Henry Hub at June 30, 2002, the Company's capitalized costs exceeded the ceiling limitation in the United States and Canada by \$14.0 million and \$2.4 million, respectively. When pricing at June 30, 2002 is adjusted for oil and natural gas hedges in place at June 30, 2002, the Company's capitalized costs exceeded the ceiling limitation in the United States and Canada by \$12.0 million and \$1.2 million, respectively. Accordingly, the Company recorded a \$12.0 million and \$1.2 million non-cash charge in the United States and Canada, respectively, to reflect these impairments. See Note 2 to the Consolidated Financial Statements for additional information.

Income tax expense recorded by Carbon USA was \$1.1 million for the second quarter of 2002, an effective tax rate of (9%), compared to an expense of \$113,000 and an effective tax rate of 37% for 2001. Due primarily to the low commodity prices resulting in the full cost ceiling impairment recorded during the second quarter of 2002, the Company recorded a deferred tax asset valuation allowance of \$5.5 million during the second quarter of 2002.

Income tax benefit incurred by CEC was \$424,000 for the second quarter of 2002, an effective tax rate of 47%, compared to an expense of \$745,000 and an effective tax rate of 40% for 2001. The increase in the effective tax rate for the second quarter of 2002 was due to an adjustment of deferred taxes related to changes in the statutory tax rates. The income tax benefit related to the above mentioned full cost ceiling impairment was \$517,000.

The following table and discussion present comparative revenue, production volumes, average sales prices, expenses and the percentage change between periods for the six months ended June 30, 2002 and 2001 for the Company's United States and Canadian operations.

17

All amounts are presented in U.S. dollars.

	United States Six Months Ended June 30,			Canada Six Months Ended June 30,		
	2002	2001	Change	2002	2001	Change
	(Dollars in thousands, except prices and per Mcf information)			(Dollars in thousands, except prices and per Mcf information)		
<b>Revenues:</b>						
Oil and gas revenues	\$ 4,087	\$ 6,270	-35%	\$ 3,497	\$ 7,097	-51%
Marketing and other, net	179	1,252	-86%			n/a
<b>Total revenues</b>	<b>4,266</b>	<b>7,522</b>	<b>-43%</b>	<b>3,497</b>	<b>7,097</b>	<b>-51%</b>
<b>Daily sales volumes:</b>						
Natural gas (MMcf)	8.8	7.0	26%	6.3	6.8	-7%
Oil and liquids (Bbl)	244	227	7%	147	165	-11%
Equivalent production (MMcfe 6:1)	10.3	8.4	23%	7.2	7.8	-8%
<b>Average price realized:</b>						
Natural gas (Mcf)	\$ 2.01	\$ 4.04	-50%	\$ 2.66	\$ 5.16	-48%
Oil and liquids (Bbl)	20.53	27.86	-26%	17.70	26.37	-33%
Direct lifting costs	\$ 761	\$ 780	-2%	\$ 732	796	-8%
Average direct lifting costs/Mcfe	0.41	0.51	-20%	0.56	0.57	-2%
Other production costs	836	1,039	-20%	82	14	486%

	United States Six Months Ended June 30,			Canada Six Months Ended June 30,		
General and administrative, net	1,624	1,387	17%	866	927	-7%
Depreciation, depletion and amortization	2,116	1,541	37%	1,321	1,295	2%
Full cost ceiling impairment	12,003		n/a	1,215		n/a
Interest expense, net	370	317	17%	83	93	-11%
Income tax provision (benefit)	746	922	19%	(370)	1,653	-122%

Revenues from oil and gas sales of Carbon USA for the first six months of 2002 were \$4.1 million, a 35% decrease from 2001. The decrease was due primarily to decreased oil and natural gas prices, partially offset by increased oil, liquids and natural gas production.

Revenues from oil, liquids and gas sales of CEC for the first six months of 2002 were \$3.5 million, a 51% decrease from 2001. The decrease was due primarily to decreased oil, liquids and natural gas prices and a decrease in oil, liquids and natural gas production.

Average production in the United States for the first six months of 2002 was 244 barrels of oil and liquids per day and 8.8 million cubic feet (MMcf) of gas per day, an increase of 23% from the same period in 2001 on a Mcf equivalent (Mcf) basis where one barrel of oil or liquids is equal to six Mcf of gas. The increase in oil, liquids and gas production was due to successful drilling activities conducted during 2001 in the Piceance and Permian Basins, partially offset by natural production declines. During the first six months of 2002, Carbon USA participated in the drilling of three gross (.2 net) wells which were completed as oil wells. During the first six months of 2001, Carbon USA participated in the drilling of fourteen gross (7.5 net) wells of which four gross (.7 net) wells were completed as oil wells, eight gross (5.3 net) were completed as gas wells and two gross (1.5 net) were abandoned as dry holes.

Average production in Canada for the first six months of 2002 was 147 barrels of oil and liquids per day and 6.3 MMcf of gas per day, a decrease of 8% on a Mcf basis from the same period in 2001. The decrease was primarily due to comparatively large production volumes for the first six months of 2001 related to the initial production from the Company's fourth quarter 2000 drilling program and natural production declines in all operating areas, partially offset by subsequent successful drilling activities in the Carbon and Rowley areas of Central Alberta. During the first six months of 2002, CEC participated in the drilling of six gross (4.2 net) wells of which five gross (3.7 net) were completed as gas wells and one gross (.5

net) was abandoned as a dry hole. During the first six months of 2001, CEC participated in the drilling of five gross (5.0 net) wells which were completed as gas wells.

18

---

Average oil and liquids prices realized by Carbon USA decreased 26% from \$27.86 per barrel for the first six months of 2001 to \$20.53 for 2002. Average natural gas prices realized by Carbon USA decreased 50% from \$4.04 per Mcf for the first six months of 2001 to \$2.01 for 2002. The average natural gas price includes hedge gains of \$64,000 for the first six months of 2002 compared to hedge losses of \$1.3 million for 2001.

Average oil and liquids prices realized by CEC decreased 33% from \$26.37 per barrel for the first six months of 2001 to \$17.70 for 2002. The average oil price includes hedge gains of \$11,000 for the first six months of 2002. There was no oil hedge activity for the first six months of 2001. Average natural gas prices realized by CEC decreased 48% from \$5.16 per Mcf for the first six months of 2001 to \$2.66 for 2002. The average natural gas price includes hedge gains of \$16,000 for the first six months of 2002 compared to hedge losses of \$921,000 for 2001.

Marketing and other revenues in the United States were \$179,000 for the first six months of 2002 compared to \$1.3 million for 2001. Marketing revenue for the first six months of 2002 included mark to market gains of \$1.1 million related to a derivative contract that did not qualify for hedge accounting treatment under Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In conjunction with the adoption of SFAS No. 133, the Company recorded a derivative loss (net of tax) of \$1.5 million as the cumulative effect of a change in accounting principle related to the derivative contract.

Direct lifting costs incurred by Carbon USA were \$761,000 or \$.41 per Mcfe for the first six months of 2002 compared to \$780,000 or \$.51 per Mcfe for 2001. The decrease in direct lifting costs was primarily due to more efficient field operating practices as well as a decrease in the number of well workovers and equipment repairs compared to the first six months of 2001.

Other production costs incurred by Carbon USA, consisting primarily of severance taxes and production overhead, were \$836,000 for the first six months of 2002 compared to \$1.0 million for 2001. The decrease was primarily due to lower severance taxes as a result of lower oil, liquids and gas prices and a credit for prior period ad valorem taxes, partially offset by increased oil, liquids and gas production.

Direct lifting costs incurred by CEC were \$732,000 or \$.56 per Mcfe for the first six months of 2002 compared to \$796,000 or \$.57 per Mcfe for 2001. Higher compression expenses associated with the production of natural gas in Alberta during the first six months of 2002 were offset by prior period credits for gas processing received during the first six months of 2001.

Other production costs incurred by CEC, consisting primarily of severance taxes, were \$82,000 for the first six months of 2002 compared to \$14,000 for 2001. The increase was primarily due to increased production during the first six months of 2002 from wells subject to severance taxes.

General and administrative expenses (net of overhead reimbursements on operated wells) incurred by Carbon USA increased 17% from \$1.4 million for the first six months of 2001 to \$1.6 million for 2002. The increase was primarily due to legal expenses of \$160,000 related to the case of Bonneville Fuels Corporation, as plaintiff, vs. Williams Production RMT Company, which proved unsuccessful. For more information regarding this case, see Part II, Item 1 to the Form 10-Q for the quarter ended March 31, 2002.

General and administrative expenses (net of overhead reimbursements on operated wells) incurred by CEC decreased 7% from \$927,000 for the first six months of 2001 to \$866,000 for 2002.

Interest expense incurred by Carbon USA increased 17% from \$317,000 for the first six months of 2001 to \$370,000 for 2002. The increase was due primarily to increased average debt balances in the first six months of 2002 relative to 2001, partially offset by a decline in interest rates.

19

---

Interest expense incurred by CEC decreased 11% from \$93,000 for the first six months of 2001 to \$83,000 for 2002. The decrease was due primarily to a decline in interest rates, partially offset by increased average debt balances in the first six months of 2002 relative to 2001.

Depreciation, depletion and amortization (DD&A) of oil and gas assets is calculated using the units of production method. DD&A is typically determined by using historical capitalized costs incurred to find, develop and recover oil and gas reserves. However, the Company's DD&A rate has been determined primarily by the purchase price incurred by the Company in its acquisitions of Carbon USA and CEC and the volume of proved reserves the Company acquired in the acquisitions.

DD&A expense incurred by Carbon USA was \$2.1 million or \$1.14 per Mcfe for the first six months of

2002 compared to \$1.5 million or \$1.02 per Mcfe for 2001. The increased rate is due to the capitalized cost per Mcfe of reserves added to the Company's proved reserves during 2001 compared to the rate established at the time of the acquisition of Carbon USA.

DD&A expense incurred by CEC was \$1.3 million or \$1.02 per Mcfe compared to \$1.3 million or \$.92 per Mcfe for 2001. The increased rate is due to the capitalized cost per Mcfe of reserves added to the Company's proved reserves during 2001 compared to the rate established at the time of the acquisition of CEC.

For purposes of calculating the ceiling test at June 30, 2002, the Company used mainline prices of \$1.10/mmbtu in Colorado and Utah and \$1.43/mmbtu in Central Alberta. The negative differential of these prices when compared to a U.S. reference price set at Henry Hub at June 30, 2002, was \$2.32/mmbtu for Colorado and Utah and \$1.99/mmbtu for Central Alberta. This compares to a 36 month historical negative differential of \$.37/mmbtu for Colorado and \$.29/mmbtu for Central Alberta. Due to these large pricing differentials when compared to a U.S. reference price set at Henry Hub at June 30, 2002, the Company's capitalized costs exceeded the ceiling limitation in the United States and Canada by \$14.0 million and \$2.4 million, respectively. When pricing at June 30, 2002 is adjusted for oil and natural gas hedges in place at June 30, 2002, the Company's capitalized costs exceeded the ceiling limitation in the United States and Canada by \$12.0 million and \$1.2 million, respectively. Accordingly, the Company recorded a \$12.0 million and \$1.2 million non-cash charge in the United States and Canada, respectively, to reflect these impairments. See Note 2 to the Consolidated Financial Statements for additional information.

Income tax expense recorded by Carbon USA was \$746,000 for the first six months of 2002, an effective tax rate of (6%), compared to an expense of \$922,000 and an effective tax rate of 38% for 2001. Due primarily to the low commodity prices resulting in the full cost ceiling impairment recorded during the second quarter of 2002, the Company recorded a deferred tax asset valuation allowance of \$5.5 million during the second quarter of 2002.

Income tax benefit incurred by CEC was \$370,000 for the first six months of 2002, an effective tax rate of 46%, compared to an expense of \$1.7 million and an effective tax rate of 42% for 2001. The increase in the effective tax rate was due to an adjustment of deferred taxes related to a change in the statutory tax rates. The income tax benefit related to the above mentioned full cost ceiling impairment was \$517,000.

#### **Liquidity and Capital Resources**

At June 30, 2002, the Company had \$51.4 million of assets. Total capitalization was \$42.8 million, consisting of 46% of stockholders' equity and 54% of debt.



For a discussion of the Company's credit facilities, see Note 4 to the Consolidated Financial Statements in this report.

20

---

For the six months ended June 30, 2002, net cash used in operations was \$511,000 compared to \$7.5 million provided by operating activities in 2001. Net cash provided by operations prior to changes in working capital for the six months ended June 30, 2002 was \$2.3 million compared to \$6.7 million in 2001. The decrease in operating cash flow was primarily due to declines in oil, liquids, and natural gas prices in all regions, partially offset by increased oil, liquids and natural gas production in the United States.

For the six months ended June 30, 2002, net cash used in investing activities was \$4.8 million compared to \$5.2 million in 2001. For the six months ended June 30, 2002, net cash provided by financing activities was \$5.3 million compared to \$2.3 million used in financing activities in 2001. For the six months ended June 30, 2002, the Company spent approximately \$1.3 million in the United States primarily to fund development and exploration activities in the Piceance Basin and approximately \$3.5 million in Canada primarily to fund development and exploration activities in the Carbon area and for the acquisition of properties in the Rowley area of Central Alberta. For the six months ended June 30, 2001, the Company spent approximately \$7.7 million in the United States primarily to fund development and exploration activities in the Permian and Piceance Basins. The Company also received \$6.8 million in proceeds related to the disposition of the Company's working interest and related leasehold rights in the San Juan Basin. For the six months ended June 30, 2001, the Company spent \$4.0 million primarily to fund development activities in the Carbon area of Central Alberta.

Carbon's primary cash requirements will be to fund exploration and development expenditures, finance acquisitions, repay debt, and for general working capital needs. At June 30, 2002, the Company had no cash balances as all available cash is used to pay down the Company's long-term debt and working capital deficit. The Company anticipates that capital expenditures for the remainder 2002, exclusive of acquisitions or divestitures which may occur subsequent to June 30, 2002, to be approximately \$3.5 million. Carbon believes that available borrowings under its credit agreements and projected operating cash flows will be sufficient to cover its working capital, planned capital expenditures, and debt service requirements for the next 12 months. Carbon is currently in discussions regarding possible acquisitions of oil and gas properties in Alberta, Canada, which if consummated, would require significant additional financing. There is no assurance that any such transaction will be completed or whether any financing can be accomplished on terms that

are acceptable to the Company.

The Company's future cash flow is subject to a number of variables, including the level of production, commodity prices and unplanned capital expenditures. Also, borrowings under Carbon's credit facilities are subject to a number of conditions, including compliance with various covenants and borrowing base calculations. As a result, there can be no assurance that operating cash flows and other capital resources will provide cash in sufficient amounts to maintain planned levels of capital expenditures or to meet other cash needs.

The table below sets forth the Company's contractual obligations at June 30, 2002 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	<b>Payments Due By Period</b>		
	<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>4 - 5 Years</b>
<b>Contractual Obligations</b>			
Revolving credit facility	\$	\$ 4,476	\$ 17,872
Operating leases/management agreements	683	656	
	<b>\$ 683</b>	<b>\$ 5,132</b>	<b>\$ 17,872</b>

#### **Certain Factors That May Affect Future Results**

All statements contained in this filing that are not historical facts are forward-looking statements. Such statements address activities, events or developments that the Company expects, believes, projects,

intends or anticipates will or may occur, including such matters as future capital, development and exploration expenditures, reserve estimates (including estimates of future net revenues associated with such reserves and the present value of such future net revenues), future production of oil and natural gas, business strategies, expansion and growth of the Company's operations, cash flow and anticipated liquidity, prospect development and property acquisition, obtaining financial or industry partners for prospect or program development, or marketing of oil and natural gas. Although the Company believes that the expectation reflected in the forward-looking statements and the assumptions upon which such forward-looking statements are based are reasonable, it can give no assurance that such expectations and assumptions will prove to be correct. Factors that

could cause actual results to differ materially are described, among other places, in the Marketing, Competition, Government Regulation, Environmental Regulation and Operating Hazards sections of the Company's 2001 Form 10-K and under "Management's Discussion and Analysis of Financial Condition and Results of Operations." These factors include, but are not limited to, general economic conditions, the market price of oil and natural gas, the risks associated with exploration, the Company's ability to find, acquire, market, develop and produce new properties, operating hazards attendant to the oil and natural gas business, uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures, the strength and financial resources of the Company's competitors, the Company's ability to find and retain skilled personnel, climatic conditions, labor relations, availability and cost of material and equipment, environmental risks, the results of financing efforts, and regulatory developments. All written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Company undertakes no obligation to update any forward-looking statements to reflect future events or developments.

#### **Critical Accounting Policies**

The following summarizes several of our critical accounting policies. See a complete list of significant accounting policies in Note 2 to the Consolidated Financial Statements in this report.

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

*Property and Equipment* The Company follows the full cost method of accounting for its oil and gas properties. All costs incurred in the acquisition, exploration and development of properties (including costs of surrendered and abandoned leaseholds, delay lease rentals, dry holes and direct overhead related to exploration and development activities) are capitalized.

Capitalized costs are accumulated for the United States and Canada as separate cost centers and are depleted using the units of production method based on proved reserves of oil and gas. For purposes of the depletion calculation, oil and gas reserves are converted to an equivalent unit of measure where six thousand cubic feet of gas is equal to one barrel of oil. The estimated future cost of site restoration, dismantlement and abandonment activities is provided for as a component of depletion. Investments in unproved properties are recorded

at the lower of cost or fair market value and are not depleted pending the determination of the existence of proved reserves.

Pursuant to full cost accounting rules, total capitalized costs less related accumulated depletion and deferred income taxes may not exceed the sum of the present value of future net revenues from estimated production of proved oil and gas reserves using a 10% discount factor and un-escalated oil and gas prices and costs as of the end of the period; plus the cost of properties not being amortized, if any; plus the lower of cost or estimated fair value of unproved properties included in the costs being

22

---

amortized, if any; less related income tax effects. For purposes of calculating the ceiling test at June 30, 2002, the Company used mainline prices of \$1.10/mmbtu in Colorado and Utah and \$1.43/mmbtu in Central Alberta. The negative differential of these prices when compared to a U.S. reference price set at Henry Hub at June 30, 2002, was \$2.32/mmbtu for Colorado and Utah and \$1.99/mmbtu for Central Alberta. This compares to a 36 month historical negative differential of \$.37/mmbtu for Colorado and Utah and \$.29/mmbtu for Central Alberta. Due to these large pricing differentials when compared to a U.S. reference price set at Henry Hub at June 30, 2002, the Company's capitalized costs exceeded the ceiling limitation in the United States and Canada by \$14.0 million and \$2.4 million, respectively. When pricing at June 30, 2002 is adjusted for oil and natural gas hedges in place at June 30, 2002, the Company's capitalized costs exceeded the ceiling limitation in the United States and Canada by \$12.0 million and \$1.2 million, respectively. Accordingly, the Company recorded a \$12.0 million and \$1.2 million non-cash charge in the United States and Canada, respectively, to reflect the impairments. The impairments are included as additional accumulated DD&A in the accompanying balance sheet. Due to the volatility of commodity prices, should natural gas and crude oil prices decline in the future, even if only for a brief period of time, it is possible that additional impairments of oil and gas properties could occur.

#### *Derivative Instrument and Hedging*

*Activities* Pursuant to Company guidelines, the Company is to engage in these activities only as a hedging mechanism and may not enter into speculative transactions. The Company has a Risk Management Committee to administer and approve all hedging transactions. Gains or losses from financial instruments that qualify for hedge accounting treatment are recognized as an adjustment to sales revenue in the period in which the financial instrument matures. Gains or losses from financial instruments that do not qualify for hedge accounting treatment are recognized currently as other income or expense. The cash flows from such agreements are

included in operating activities in the consolidated statements of cash flows.

The Company follows SFAS No. 133, which provides accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. It also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risk**

The Company is exposed to interest rate risk. Interest rate risk is estimated as the potential change in the fair value of interest sensitive investments resulting from an immediate hypothetical change in interest rates. The sensitivity analysis presents the change in fair value of these instruments and changes in the Company's earnings and cash flows assuming an immediate one percent change in floating interest rates. At June 30, 2002, the Company had \$17.7 million of floating rate debt through its facility with Wells Fargo and \$5.5 million through its facility with CIBC. In addition, the Company currently has interest rate swap agreements that effectively convert a portion of its variable rate borrowings to fixed rate debt as described in Note 2 to the Consolidated Financial Statements in this report. Assuming constant debt levels, the impact on earnings and cash flow for the twelve month period beginning July 1, 2002, from a one percent change in interest rates would be approximately \$132,000 before taxes.

23

---

#### **Foreign Currency Risk**

The Canadian dollar is the functional currency of CEC. The Company is subject to foreign currency exchange rate risk on cash flows relating to sales, expenses, financing and investing transactions. The Company has not entered into foreign currency forward contracts or other similar financial investments to manage this risk.

#### **Commodity Price Risk**

Oil and gas commodity markets are influenced by global as well as regional supply and demand. Worldwide political events can also impact commodity prices. The Company may use certain financial instruments including swaps, collars, futures and other contracts in an attempt to reduce exposure to the market fluctuations in the price of oil and natural gas. Hedging the Company's oil and natural gas production may limit the Company's exposure to price declines or limit the benefit of price increases. Hedging is subject to a number of risks, including credit risk of the counterparty to the hedge. For additional information, see Note 2 to the Consolidated Financial Statements in this report. In addition, quantitative and qualitative disclosures about market risk were included in the Company's Form 10-K (Item 7A) and the financial statements included therein for the fiscal year ended December 31, 2001.

24

---

## PART II OTHER INFORMATION

**Item 1-2** Not applicable.

**Item 3** Please see information on Carbon's U.S. Credit Facility contained in Note 4 of Notes to Consolidated Financial Statements in this report, which information is incorporated herein by reference, regarding the non-compliance and subsequent amendment (where the Company is in compliance) of a covenant regarding the maintenance of a certain tangible net worth level.

**Item 4** On June 13, 2002, the Company held its 2002 Annual Meeting of Shareholders. At that meeting, the six existing directors were nominated and re-elected as directors of the Company. The six persons constitute all members of the Board of Directors of the Company. These directors and the votes for and withheld for each of them were as follows:

	<b>For</b>	<b>Withheld</b>	<b>Broker Non-Votes</b>
Patrick R. McDonald	6,076,749		
Cortlandt S. Dietler	6,076,749		
David H. Kennedy	6,076,749		
Bryan H. Lawrence	6,076,749		
Peter A. Leidel	6,076,749		
Harry A. Trueblood, Jr.	6,076,749		

**Item 5** Not applicable.

**Item 6** (a) Exhibits

10.1 Credit agreement dated as of May 9, 2002 between CEC Resources Ltd. and Canadian Imperial Bank of Commerce \*

99 Section 906 Certification\*

(b) Reports on Form 8-K

(i) A report on Form 8-K, filed with the Securities and Exchange Commission on July 12, 2002, regarding changes in the Company's independent public accountants.

(ii) A report on Form 8-K/A, filed with the Securities and Exchange Commission on July 25, 2002, regarding changes in the Company's independent public accountants.

---

\* Filed herewith  
25

## SIGNATURES

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

CARBON ENERGY  
CORPORATION  
Registrant

Date: August 19, 2002 By: /s/ Patrick R. McDonald

---

*President and  
Chief Executive  
Officer*

Date: August 19, 2002 By: /s/ Kevin D. Struzeski

---

*Treasurer and  
Chief Financial  
Officer*

26

---

## QuickLinks

[CARBON ENERGY CORPORATION INDEX](#)  
[PART I FINANCIAL INFORMATION](#)  
[CARBON ENERGY CORPORATION](#)  
[CONSOLIDATED BALANCE SHEETS \(in thousands\)](#)  
[\(unaudited\)](#)

[CARBON ENERGY CORPORATION](#)  
[CONSOLIDATED BALANCE SHEETS \(in thousands\)](#)  
[\(unaudited\)](#)

[CARBON ENERGY CORPORATION](#)  
[CONSOLIDATED STATEMENTS OF OPERATIONS](#)  
[\(in thousands, except per share data\) \(unaudited\)](#)

[CARBON ENERGY CORPORATION](#)  
[CONSOLIDATED STATEMENTS OF CASH FLOWS](#)  
[\(in thousands\) \(unaudited\)](#)

[CARBON ENERGY CORPORATION NOTES TO](#)  
[CONSOLIDATED FINANCIAL STATEMENTS](#)  
[\(Unaudited\)](#)

[Item 2. MANAGEMENT'S DISCUSSION AND](#)  
[ANALYSIS OF FINANCIAL CONDITION AND](#)  
[RESULTS OF OPERATIONS](#)

[Item 3. QUANTITATIVE AND QUALITATIVE](#)  
[DISCLOSURES ABOUT MARKET RISK](#)

[PART II OTHER INFORMATION](#)  
[SIGNATURES](#)