

MAXXAM INC

FORM 10-Q (Quarterly Report)

Filed 11/14/95 for the Period Ending 09/30/95

Address	1330 POST OAK BOULEVARD SUITE 2000 HOUSTON, TX, 77056-3058
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SIC Code	0800 - Forestry
Industry	Real Estate Development & Operations
Sector	Financials
Fiscal Year	12/31

MAXXAM INC

FORM 10-Q (Quarterly Report)

Filed 11/14/1995 For Period Ending 9/30/1995

Address	1330 POST OAK BOULEVARD SUITE 2000 HOUSTON, Texas 77056-3058
Telephone	713-975-7600
CIK	0000063814
Industry	Conglomerates
Sector	Conglomerates
Fiscal Year	12/31

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1995

Commission File Number 1-3924

MAXXAM INC.

(Exact name of Registrant as Specified in its Charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

95-2078752
(I.R.S. Employer
Identification Number)

5847 SAN FELIPE, SUITE 2600
HOUSTON, TEXAS
(Address of Principal Executive
Offices)

77057
(Zip Code)

Registrant's telephone number, including area code: (713) 975-7600

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No //

Number of shares of common stock outstanding at November 1, 1995: 8,707,792

MAXXAM INC.

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CONSOLIDATED BALANCE SHEET

	September 30, 1995	December 31, 1994
	-----	-----
	(Unaudited)	
	(In millions of dollars)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 100.2	\$ 84.6
Marketable securities	30.4	40.3
Receivables:		
Trade, net of allowance for doubtful accounts of \$4.9 and \$4.4 at September 30, 1995 and December 31, 1994, respectively	234.6	176.8
Other	72.0	62.9
Inventories	609.9	541.4
Prepaid expenses and other current assets	99.0	185.3
	-----	-----
Total current assets	1,146.1	1,091.3
Property, plant and equipment, net of accumulated depreciation of \$653.7 and \$579.9 at September 30, 1995 and December 31, 1994, respectively	1,190.9	1,231.6
Timber and timberlands, net of depletion of \$135.6 and \$123.9 at September 30, 1995 and December 31, 1994, respectively	315.5	325.2
Investments in and advances to unconsolidated affiliates	197.1	169.7
Deferred income taxes	438.1	425.6
Long-term receivables and other assets	479.4	447.4
	-----	-----
	\$ 3,767.1	\$ 3,690.8
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 156.5	\$ 161.8
Accrued interest	25.9	62.0
Accrued compensation and related benefits	122.4	138.3
Other accrued liabilities	164.6	200.2
Payable to affiliates	87.5	81.8
Long-term debt, current maturities	29.7	33.7
	-----	-----
Total current liabilities	586.6	677.8
Long-term debt, less current maturities	1,620.3	1,582.5
Accrued postretirement benefits	747.6	743.1
Other noncurrent liabilities	698.2	618.4
	-----	-----
Total liabilities	3,652.7	3,621.8
	-----	-----
Commitments and contingencies		
Minority interests	218.2	344.3
Stockholders' deficit:		
Preferred stock, \$.50 par value; 12,500,000 shares authorized; Class A \$.05 Non- Cumulative Participating Convertible Preferred Stock; shares issued: September 30, 1995 - 669,756 and December 31, 1994 - 669,957	.3	.3
Common stock, \$.50 par value; 28,000,000 shares authorized; shares issued: 10,063,359	5.0	5.0
Additional capital	153.4	53.2
Accumulated deficit	(231.6)	(302.9)
Pension liability adjustment	(11.4)	(11.4)
Treasury stock, at cost (shares held: preferred - 845; common: September 30, 1995 - 1,355,567 and December 31, 1994 - 1,355,768)	(19.5)	(19.5)
	-----	-----
Total stockholders' deficit	(103.8)	(275.3)
	-----	-----
	\$ 3,767.1	\$ 3,690.8
	=====	=====

CONSOLIDATED STATEMENT OF OPERATIONS
(IN MILLIONS OF DOLLARS, EXCEPT SHARE AMOUNTS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
	(Unaudited)			
Net sales:				
Aluminum operations	\$ 550.3	\$ 461.1	\$1,646.7	\$1,335.7
Forest products operations	63.3	60.7	180.9	180.4
Real estate operations	24.4	23.1	65.0	61.6
	638.0	544.9	1,892.6	1,577.7
Costs and expenses:				
Costs of sales and operations (exclusive of depreciation and depletion):				
Aluminum operations	439.3	416.0	1,329.8	1,222.8
Forest products operations	33.5	31.6	96.0	95.8
Real estate operations	20.0	18.2	48.4	46.4
Selling, general and administrative expenses	50.7	41.4	140.5	122.3
Depreciation and depletion	30.1	28.7	91.0	89.9
	573.6	535.9	1,705.7	1,577.2
Operating income	64.4	9.0	186.9	.5
Other income (expense):				
Investment, interest and other income (expense)	(.4)	4.5	8.7	(3.2)
Interest expense	(45.3)	(44.3)	(136.1)	(132.0)
	18.7	(30.8)	59.5	(134.7)
Income (loss) before income taxes, minority interests and extraordinary item	18.7	(30.8)	59.5	(134.7)
Credit (provision) for income taxes	(1.8)	22.2	(4.6)	58.0
Minority interests	(6.2)	(6.3)	(19.8)	(15.9)
	10.7	(14.9)	35.1	(92.6)
Income (loss) before extraordinary item	10.7	(14.9)	35.1	(92.6)
Extraordinary item:				
Loss on early extinguishment of debt, net of related benefit for income taxes of \$2.9	-	-	-	(5.4)
	10.7	(14.9)	35.1	(98.0)
Net income (loss)	\$ 10.7	\$ (14.9)	\$ 35.1	\$ (98.0)
	=====	=====	=====	=====
Per common and common equivalent share:				
Income (loss) before extraordinary item	\$ 1.13	\$ (1.58)	\$ 3.71	\$ (9.80)
Extraordinary item	-	-	-	(.57)
	1.13	(1.58)	3.71	(10.37)
Net income (loss)	\$ 1.13	\$ (1.58)	\$ 3.71	\$ (10.37)
	=====	=====	=====	=====

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN MILLIONS OF DOLLARS)

	Nine Months Ended September 30,	
	1995	1994
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 35.1	\$ (98.0)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and depletion	91.0	89.9
Minority interests	19.8	15.9
Amortization of deferred financing costs and discounts on long-term debt	14.3	14.6
Net sales (purchases) of marketable securities	8.9	(6.5)
Amortization of excess investment over equity in net assets of unconsolidated affiliates	8.7	8.7
Equity in losses (income) of unconsolidated affiliates	(17.1)	2.8
Net gains on marketable securities	(6.0)	(2.6)
Extraordinary loss on early extinguishment of debt, net	-	5.4
Decrease in prepaid expenses and other assets	78.2	2.7
Increase in payable to affiliates and other liabilities	9.0	6.3
Decrease (increase) in receivables	(72.9)	16.1
Decrease (increase) in inventories	(68.6)	10.3
Decrease in accrued interest	(33.1)	(25.4)
Increase in accrued and deferred income taxes	(11.1)	(57.1)
Increase (decrease) in accounts payable	(4.8)	.9
Other	5.6	(2.6)
	57.0	(18.6)
Net cash provided by (used for) operating activities	57.0	(18.6)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds from disposition of property and investments	24.8	8.5
Capital expenditures	(63.9)	(53.1)
Other	(.6)	(4.7)
	(39.7)	(49.3)
Net cash used for investing activities	(39.7)	(49.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) under revolving credit agreements	53.0	(193.9)
Proceeds from issuance of long-term debt	7.2	225.5
Repurchase of and principal payments on long-term debt	(35.3)	(31.0)
Dividends paid to Kaiser's minority preferred stockholders	(18.4)	(13.8)
Redemption of preference stock	(8.8)	(8.5)
Incurrence of financing costs	(1.1)	(19.4)
Proceeds from issuance of Kaiser preferred stock	-	100.4
Other	1.7	.9
	(1.7)	60.2
Net cash provided by (used for) financing activities	(1.7)	60.2
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15.6	(7.7)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	84.6	83.9
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 100.2	\$ 76.2
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Net margin borrowings (repayments) for marketable securities	\$ (6.9)	\$ 10.0
Reduction of stockholders' deficit due to		

redemption of Kaiser preferred stock	134.3
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid, net of capitalized interest	\$ 154.8	\$ 142.8
Income taxes paid, net	21.4	12.0

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN MILLIONS OF DOLLARS, EXCEPT SHARE AMOUNTS)

1. GENERAL

The information contained in the following notes to the consolidated financial statements is condensed from that which would appear in the annual consolidated financial statements; accordingly, the consolidated financial statements included herein should be reviewed in conjunction with the consolidated financial statements and related notes thereto contained in the Annual Report on Form 10-K filed by MAXXAM Inc. with the Securities and Exchange Commission for the fiscal year ended December 31, 1994 (the "Form 10-K"). All references to the "Company" include MAXXAM Inc. and its subsidiary companies unless otherwise indicated or the context indicates otherwise. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire year.

The consolidated financial statements included herein are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 1995, the consolidated results of operations for the three and nine months ended September 30, 1995 and 1994 and consolidated cash flows for the nine months ended September 30, 1995 and 1994. Certain reclassifications of prior period information have been made to conform to the current presentation.

2. CASH AND CASH EQUIVALENTS

At September 30, 1995 and December 31, 1994, cash and cash equivalents includes \$4.7 and \$19.4, respectively, which is restricted for debt service payments on the 7.95% Timber Collateralized Notes due 2015.

3. INVENTORIES

Inventories consist of the following:

	September 30, 1995	December 31, 1994
	-----	-----
Aluminum Operations:		
Finished fabricated products	\$ 70.1	\$ 49.4
Primary aluminum and work in process	207.3	203.1
Bauxite and alumina	134.1	102.3
Operating supplies and repair and maintenance parts	119.1	113.2
	-----	-----
	530.6	468.0
	-----	-----
Forest Products Operations:		
Lumber	64.2	61.3
Logs	15.1	12.1
	-----	-----
	79.3	73.4
	-----	-----
	\$ 609.9	\$ 541.4
	=====	=====

4. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 1995	December 31, 1994
	-----	-----
Corporate:		
14% Senior Subordinated Reset Notes due May 20, 2000	\$ 25.0	\$ 25.0
12 1/2% Subordinated Debentures due December 15, 1999, net of discount	16.4	20.9
Other	.2	.2
Aluminum Operations:		
1994 Credit Agreement	62.4	6.7
9 7/8% Senior Notes due February 15, 2002, net of discount	223.8	223.6
Alpart CARIFA Loan	60.0	60.0
12 3/4% Senior Subordinated Notes due February 1, 2003	400.0	400.0

Other	64.4	69.2
Forest Products Operations:		
7.95% Timber Collateralized Notes due July 20, 2015	350.2	363.8
11 1/4% Senior Secured Notes due August 1, 2003	100.0	100.0
12 1/4% Senior Secured Discount Notes due August 1, 2003, net of discount	89.7	82.8
10 1/2% Senior Notes due March 1, 2003	235.0	235.0
Other	.8	.9
Real Estate Operations:		
Secured notes due December 31, 1999, interest at prime plus 3%	8.0	10.0
Other notes and contracts, secured by receivables, buildings, real estate and equipment	14.1	18.1
	-----	-----
	1,650.0	1,616.2
Less: current maturities	(29.7)	(33.7)
	-----	-----
	\$1,620.3	\$1,582.5
	=====	=====

5. CREDIT (PROVISION) FOR INCOME TAXES

The provision for income taxes for the three and nine months ended September 30, 1995 includes a credit relating to the revision of prior years' tax estimates and other changes in valuation allowances.

6. PER SHARE INFORMATION

Per share calculations are based on the weighted average number of common shares outstanding in each period and, if dilutive, weighted average common equivalent shares assumed to be issued from the exercise of common stock options based upon the average price of the Company's common stock during the period.

7. CONTINGENCIES

Environmental Contingencies

Kaiser Aluminum Corporation ("Kaiser," a majority owned subsidiary of the Company) and its principal operating subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"), are subject to a wide variety of environmental laws and regulations and to fines or penalties assessed for alleged breaches of the environmental laws and to claims and litigation based on such laws. KACC is currently subject to a number of lawsuits under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments Reauthorization Act of 1986 ("CERCLA") and, along with certain other entities, has been named as a potentially responsible party for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA.

Based on Kaiser's evaluation of these and other environmental matters, Kaiser has established environmental accruals primarily related to potential solid waste disposal and soil and groundwater remediation matters. At September 30, 1995, the balance of such accruals, which is primarily included in other noncurrent liabilities, was \$39.7. These environmental accruals represent Kaiser's estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, currently available facts, existing technology and Kaiser's assessment of the likely remediation action to be taken. Kaiser expects that these remediation actions will be taken over the next several years and estimates that annual expenditures to be charged to these environmental accruals will be approximately \$3.0 to \$12.0 for the years 1995 through 1999 and an aggregate of approximately \$11.0 thereafter.

As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, changes in these and other factors may result in actual costs exceeding the current environmental accruals. Kaiser believes that it is reasonably possible that costs associated with these environmental matters may exceed current accruals by amounts that could range, in the aggregate, up to approximately \$22.0. While uncertainties are inherent in the final outcome of these environmental matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties should not have a material adverse effect on the Company's consolidated financial position or results of operations.

Asbestos Contingencies

KACC is a defendant in a number of lawsuits in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not manufactured for at least 15 years. At October 31, 1995, the number of such lawsuits pending was approximately 58,200, as compared to 31,700 at June 30, 1995. KACC has been advised by its regional counsel that, although there can be no assurance, the recent increase in pending lawsuits may be attributable in part to tort reform legislation in Texas which was passed by the legislature in March 1995 and which became effective on September 1, 1995. The legislation, among other things, is designed to restrict, beginning September 1, 1995, the filing of cases in Texas that do not have a sufficient nexus to that jurisdiction, and to impose, generally as of September 1, 1996, limitations relating to joint and several liability in tort cases. A substantial portion of the asbestos-related lawsuits that were filed and served on KACC between June 30, 1995, and October 31, 1995, were filed in Texas

prior to September 1, 1995.

Based on past experience and reasonably anticipated future activity, KACC has established an accrual for estimated asbestos-related costs for claims filed and estimated to be filed and settled through 2008. KACC's accrual was calculated based on the current and anticipated number of asbestos-related claims, the prior timing and amounts of asbestos-related payments, the current state of case law related to asbestos claims, and the advice of counsel. Accordingly, an asbestos-related cost accrual of \$155.3 (\$134.6 at June 30, 1995), before considerations for insurance recoveries, is included primarily in other noncurrent liabilities at September 30, 1995. KACC estimates that annual future cash payments in connection with such litigation will be approximately \$11.0 to \$19.0 for each of the years 1995 through 1999, and an aggregate of approximately \$90.8 thereafter through 2008. KACC does not presently believe there is a reasonable basis for estimating such costs beyond 2008 and, accordingly, no accrual has been recorded for such costs which may be incurred beyond 2008.

KACC believes that it has insurance coverage available to recover a substantial portion of its asbestos-related costs. While claims for recovery from some of KACC's insurance carriers are currently subject to pending litigation and other carriers have raised certain defenses, KACC believes, based on prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies, and the advice of counsel, that substantial recoveries from the insurance carriers are probable. Accordingly, an estimated aggregate insurance recovery of \$134.7 (\$120.6 at June 30, 1995), determined on the same basis as the asbestos-related cost accrual, is recorded primarily in long-term receivables and other assets at September 30, 1995.

While uncertainties are inherent in the final outcome of these asbestos matters and it is presently impossible to determine the actual costs that ultimately may be incurred and the insurance recoveries that will be received, management currently believes that, based on the factors discussed in the preceding paragraphs, the resolution of the asbestos-related uncertainties and the incurrence of asbestos-related costs net of related insurance recoveries should not have a material adverse effect on the Company's consolidated financial position or results of operations.

Other Contingencies

By letter dated November 1, 1995, the Enforcement Office of the United States Department of Treasury's Office of Thrift Supervision ("OTS") advised that, subject to final approval by the acting director of the OTS, the OTS intends to issue a notice of charges against the Company after 30 days from the date of the letter. It is the Company's understanding that other individuals and entities involved in the investigation of the failure of United Savings Association of Texas ("USAT"), a wholly owned subsidiary of United Financial Group Inc. ("UFG"), have received similar notices from the OTS. Although the OTS has not formally articulated any claims against the Company, the Enforcement Office of the OTS has stated that the charges may include, among other things, claims that the Company had a duty to maintain the net worth of USAT and that the Company is liable for the alleged unsafe and unsound practices of others. The Company denies these charges and believes it has meritorious defenses in this matter. It is premature to assess the impact, if any, the outcome of this matter may have on the Company's consolidated financial position or results of operations.

The Company is involved in various other claims, lawsuits and other proceedings relating to a wide variety of matters. While uncertainties are inherent in the final outcome of such matters and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties and the incurrence of such costs should not have a material adverse effect on the Company's consolidated financial position or results of operations.

8. DERIVATIVE FINANCIAL INSTRUMENTS AND RELATED HEDGING PROGRAMS

KACC enters into primary metal hedging transactions with off-balance sheet risk in the normal course of business. The prices realized by Kaiser under certain sales contracts for alumina, primary aluminum and fabricated aluminum products as well as the costs incurred by Kaiser on certain items, such as aluminum scrap, rolling ingot, power and bauxite, fluctuate with the market price of primary aluminum, together resulting in a "net exposure" of earnings. The primary metal hedging transactions are designed to mitigate the net exposure of earnings to declines in the market price of primary aluminum, while retaining the ability to participate in favorable environments that may materialize. KACC has developed strategies which include forward sales of primary aluminum at fixed prices and the purchase or sale of options for primary aluminum. In this regard, in respect of its remaining 1995 anticipated net exposure, at September 30, 1995, KACC had net forward sales contracts for 53,875 tons (all references to tons in this report refer to metric tons of 2,204.6 pounds) of primary aluminum at fixed prices, had purchased call options in respect of 17,250 tons of primary aluminum, had purchased put options to establish a minimum price for 48,375 tons of primary aluminum, and had entered into option contracts that established a price range for 22,500 tons of primary aluminum. In respect of its 1996 anticipated net exposure, at September 30, 1995, KACC had sold forward 11,100 tons of primary aluminum at fixed prices.

KACC also enters into hedging transactions in the normal course of business that are designed to reduce its exposure to fluctuations in foreign exchange rates. At September 30, 1995, KACC had net forward foreign exchange contracts totaling approximately \$125.9 for the purchase of 174.0 Australian dollars through April 1997.

At September 30, 1995, the net unrealized gain on KACC's position in aluminum forward sales and option contracts (based on a market price of \$1,773 per ton of primary aluminum) and forward foreign exchange contracts was \$9.1.

KACC has established margin accounts with its counterparties related to forward aluminum sales and option contracts. KACC is entitled to receive advances from counterparties related to unrealized gains and, in turn, is required to make margin deposits with counterparties to cover unrealized losses related to these contracts. At September 30, 1995, KACC had \$2.5, compared with \$50.5 at December 31, 1994, on deposit with a counterparty in respect of such contracts. These amounts are recorded in prepaid expenses and other current assets.

9. STOCKHOLDERS' DEFICIT

On September 19, 1995, Kaiser redeemed all 1,938,295 of its Series A Mandatory Conversion Premium Dividend Preferred Stock (the "Series A Shares"). Redemption of the Series A Shares resulted in the simultaneous redemption of all 19,382,950 \$.65 Depository Shares (the "Depository Shares") in exchange for (i) 13,126,521 shares of Kaiser's common stock, (ii) an amount in cash equal to all accrued and unpaid dividends up to and including the day immediately prior to the redemption date, and (iii) cash in lieu of any fractional shares of common stock that would have otherwise been issuable.

In May of 1995, the Company sold the remaining Depository Shares that it owned on December 31, 1994. As a result, the shares of Kaiser's common stock which were issued upon redemption of the Series A Shares are held by minority stockholders. The Company has recorded 100% of the losses attributable to Kaiser's common stock since July 1993, as Kaiser's cumulative losses through that date had eliminated Kaiser's equity with respect to its common stock. The redemption of Kaiser's Series A Shares decreased Kaiser's preferred equity, and reduced Kaiser's deficit in common equity, by \$134.3. Accordingly, the Company recorded an adjustment to reduce the minority interests reflected on its consolidated balance sheet for that same amount, with an offsetting decrease in the Company's stockholders' deficit.

MAXXAM INC.

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

The following should be read in conjunction with the response to Part I, Item 1 of this Report and Items 7 and 8 of the Form 10-K. Any capitalized terms used but not defined in this Item have the same meaning given to them in the Form 10-K.

RESULTS OF OPERATIONS

The Company operates in three industries: aluminum, through its majority owned subsidiary Kaiser, a fully integrated aluminum producer; forest products, through MAXXAM Group Inc. ("MGI") and its wholly owned subsidiaries, principally The Pacific Lumber Company ("Pacific Lumber") and Britt Lumber Co., Inc. ("Britt"); and real estate investment and development, principally through MAXXAM Property Company and various other wholly owned subsidiaries.

ALUMINUM OPERATIONS

Kaiser's operating results are sensitive to changes in prices of alumina, primary aluminum and fabricated aluminum products, and also depend to a significant degree upon the volume and mix of all products sold and on hedging strategies. Kaiser, through its principal subsidiary KACC, operates in two business segments: bauxite and alumina, and aluminum processing. Aluminum operations account for a significant portion of the Company's revenues and operating results. The following table presents selected operational and financial information for the three and nine months ended September 30, 1995 and 1994. The information presented in the table is in millions of dollars except shipments and prices.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
Shipments: (1)				
Alumina	471.5	534.9	1,494.6	1,577.3
Aluminum products:				
Primary aluminum	73.0	48.4	184.5	175.8
Fabricated aluminum products	90.4	105.4	284.3	307.1
Total aluminum products	163.4	153.8	468.8	482.9
	=====	=====	=====	=====
Average realized sales price:				
Alumina (per ton)	\$ 206	\$ 171	\$ 203	\$ 162
Primary aluminum (per pound)	.83	.60	.82	.56
Net sales:				
Bauxite and alumina:				
Alumina	\$ 97.2	\$ 91.5	\$ 303.8	\$ 255.3
Other (2) (3)	22.3	19.8	65.3	60.6
Total bauxite and alumina	119.5	111.3	369.1	315.9
Aluminum processing:				
Primary aluminum	133.4	64.1	335.0	218.2
Fabricated aluminum products	293.0	281.9	929.0	790.8
Other (3)	4.4	3.8	13.6	10.8
Total aluminum processing	430.8	349.8	1,277.6	1,019.8
Total net sales	\$ 550.3	\$ 461.1	\$ 1,646.7	\$ 1,335.7
	=====	=====	=====	=====
Operating income (loss)	\$ 54.8	\$ (5.4)	\$ 153.9	\$ (42.2)
	=====	=====	=====	=====
Income (loss) before income taxes, minority interests and extraordinary item	\$ 23.1	\$ (28.4)	\$ 73.0	\$ (105.4)
	=====	=====	=====	=====
Capital expenditures	\$ 26.1	\$ 15.8	\$ 53.2	\$ 37.5
	=====	=====	=====	=====

- (1) Shipments are expressed in thousands of metric tons. A metric ton is equivalent to 2,204.6 pounds.
- (2) Includes net sales of bauxite.
- (3) Includes the portion of net sales attributable to minority interests in consolidated subsidiaries.

Net sales

Bauxite and alumina. Revenues from net sales to third parties for the bauxite and alumina segment were 7% higher in the third quarter of 1995 than in the third quarter of 1994, and were 17% higher in the nine months ended September 30, 1995 than in the nine months ended September 30, 1994. Revenues from alumina increased 6% in the third quarter of 1995 from the third quarter of 1994, and increased 19% in the nine months ended September 30, 1995 from the nine months ended September 30, 1994, due to higher average realized prices partially offset by lower shipments.

Aluminum processing. Revenues from net sales to third parties for the aluminum processing segment were 23% higher in the third quarter of 1995 than in the third quarter of 1994, and were 25% higher in the nine months ended September 30, 1995 than in the nine months ended September 30, 1994. Revenues from primary aluminum increased 108% in the third quarter of 1995 from the third quarter of 1994, and increased 54% in the nine months ended September 30, 1995 from the nine months ended September 30, 1994, due primarily to higher average realized prices and higher shipments. The increase in revenues for the first nine months of 1995 was partially offset by decreased shipments caused by the strike by the United Steelworkers of America ("USWA") discussed below. Shipments of primary aluminum to third parties were approximately 45% and 39% of total aluminum products shipments in the third quarter of 1995 and nine months ended September 30, 1995, respectively, compared with approximately 31% and 36% in the third quarter of 1994 and nine months ended September 30, 1994, respectively. Revenues from fabricated aluminum products increased 4% in the third quarter of 1995 from the third quarter of 1994, and increased 17% in the nine months ended September 30, 1995 from the nine months ended September 30, 1994, due to higher average realized prices partially offset by lower shipments for most of these products.

Operating income (loss)

Kaiser's corporate general and administrative expenses of \$20.5 million and \$18.0 million for the third quarter of 1995 and 1994, respectively, and \$57.9 million and \$53.4 million for the nine months ended September 30, 1995 and 1994, respectively, were allocated by the Company to the bauxite and alumina and aluminum processing segments based on those segments' ratio of sales to unaffiliated customers.

Improved operating results in the third quarter of 1995 were partially offset by expenditures related to Kaiser's joint venture in China (see -- Financial Condition and Investing and Financing Activities-- Aluminum Operations), accelerated expenditures on Kaiser's micromill technology, maintenance expenses as a result of an electrical lightning strike at Kaiser's Trentwood, Washington, facility, and a work slowdown at Kaiser's 49%-owned Kaiser Jamaica Bauxite Company prior to signing a new labor contract. The combined impact of these expenditures on the results for the third quarter of 1995 was approximately \$6.0 million (on a pre-tax basis). Improved operating results in the nine months ended September 30, 1995 were partially offset by (i) an eight-day strike at five major domestic locations by the USWA, (ii) a six-day strike by the National Workers Union at Kaiser's 65%-owned Alpart alumina refinery in Jamaica, and (iii) a four-day disruption of alumina production at Alpart caused by a boiler failure. The combined impact of these events on the results for the nine months ended September 30, 1995 was approximately \$17.0 million in the aggregate (on a pre-tax basis) principally from lower production volume and other related costs.

Bauxite and alumina. This segment had operating income of \$10.9 million for the third quarter of 1995, compared with \$4.1 million for the third quarter of 1994, principally due to higher revenue. Operating income for the nine months ended September 30, 1995 was \$25.1 million, compared with an operating loss of \$5.6 million for the nine months ended September 30, 1994, principally due to higher revenue, partially offset by the effect of the strikes and boiler failure.

Aluminum processing. This segment had operating income of \$43.9 million for the third quarter of 1995, compared with an operating loss of \$9.5 million for the third quarter of 1994, principally due to higher revenue. Operating income for the nine months ended September 30, 1995 was \$128.8 million, compared with an operating loss of \$36.6 million for the nine months ended September 30, 1994, principally due to higher revenue, partially offset by the effect of the strike by the USWA.

Income (loss) before income taxes, minority interests and extraordinary item

Income before income taxes, minority interests and extraordinary item for the three and nine months ended September 30, 1995, as compared to losses for the three and nine months ended September 30, 1994, resulted from the improvement in operating income previously described, partially offset by other charges in the third quarter of 1995, principally related to the establishment of additional litigation reserves.

FOREST PRODUCTS OPERATIONS

The Company's forest products operations are conducted by MGI through its principal operating subsidiaries. MGI's business is highly seasonal in that the forest products business generally experiences lower first and fourth quarter sales during the winter months due largely to the general decline in construction related activity. Accordingly, MGI's results for any one quarter are not necessarily indicative of results to be expected for the full year. The following table presents selected operational and financial information for the three and nine months ended September 30, 1995 and 1994. The information presented in the table is in millions of dollars except shipments and prices.

Three Months Ended September 30,		Nine Months Ended September 30,	
1995	1994	1995	1994

Shipments:
Lumber: (1)

Redwood upper grades	11.5	12.5	35.0	38.2
Redwood common grades	48.3	55.8	164.2	160.9
Douglas-fir upper grades	1.8	1.7	5.0	6.1
Douglas-fir common grades and other	21.8	16.0	53.3	47.9
Total lumber	83.4	86.0	257.5	253.1
Logs (2)	4.8	1.6	6.9	12.0
Wood chips (3)	67.1	57.0	166.8	152.2
Average sales price:				
Lumber: (4)				
Redwood upper grades	\$ 1,514	\$ 1,434	\$ 1,510	\$ 1,436
Redwood common grades	499	472	476	460
Douglas-fir upper grades	1,261	1,431	1,308	1,402
Douglas-fir common grades	416	429	395	439
Logs (4)	453	515	462	638
Wood chips (5)	114	85	102	82
Net sales:				
Lumber, net of discount	\$ 52.3	\$ 53.5	\$ 158.0	\$ 156.6
Logs	2.2	.8	3.2	7.6
Wood chips	7.6	4.8	17.0	12.5
Cogeneration power	.9	1.2	1.7	2.7
Other	.3	.4	1.0	1.0
Total net sales	\$ 63.3	\$ 60.7	\$ 180.9	\$ 180.4
Operating income	\$ 19.1	\$ 19.8	\$ 53.7	\$ 56.3
Operating cash flow (6)	\$ 25.2	\$ 25.4	\$ 72.7	\$ 72.6
Income (loss) before income taxes, minority interests and extraordinary item	\$ 2.6	\$ 2.6	\$ 2.6	\$ (10.9)
Capital expenditures	\$ 2.1	\$ 3.5	\$ 6.6	\$ 10.0

(1) Lumber shipments are expressed in millions of board feet.

(2) Log shipments are expressed in millions of feet, net Scribner scale.

(3) Wood chip shipments are expressed in thousands of bone dry units of 2,400 pounds.

(4) Dollars per thousand board feet.

(5) Dollars per bone dry unit.

(6) Operating income before depletion and depreciation, also referred to as "EBITDA."

Shipments

Lumber shipments to third parties for the third quarter of 1995 decreased from the third quarter of 1994. Decreased shipments of both common and upper grade redwood lumber were partially offset by increased shipments of common grade Douglas-fir lumber. Log shipments for the third quarter of 1995 were 4.8 million feet (net Scribner scale), an increase from 1.6 million feet for the third quarter of 1994.

Lumber shipments to third parties for the nine months ended September 30, 1995 increased from the nine months ended September 30, 1994. Increased shipments of common grade Douglas-fir lumber and redwood common lumber were partially offset by decreased shipments of upper grade redwood lumber. Log shipments for the nine months ended September 30, 1995 were 6.9 million feet, a decrease from 12.0 million feet for the nine months ended September 30, 1994.

Net sales

Revenues from net sales for the third quarter of 1995 increased as compared to the third quarter of 1994. This increase was principally due to higher sales of wood chips, higher shipments of common grade Douglas-fir lumber, increased log shipments and an increase in the average realized price for redwood common lumber, partially offset by decreased shipments of common and upper grade redwood lumber.

Revenues from net sales for the nine months ended September 30, 1995 were essentially unchanged from the nine months ended September 30, 1994. Increased sales of wood chips, higher average realized prices for both upper and common grades of redwood lumber, and increased shipments of common grade Douglas-fir lumber and redwood common lumber were mostly offset by decreased shipments of logs and upper grade redwood lumber, lower average realized prices for logs and common grade Douglas-fir lumber, and lower sales of electrical power.

Operating income

Operating income for the third quarter of 1995 and the nine months ended September 30, 1995 decreased as compared to the same periods in 1994. The decrease for the third quarter of 1995 was primarily due to higher costs of lumber sales, partially offset by higher gross margins on wood chip sales and increased sales of logs. The decrease for the nine months ended September 30, 1995 was primarily due to lower sales of logs and higher costs of lumber sales, partially offset by higher gross margins on wood chip sales and higher sales of lumber. Costs of lumber

sales for both 1995 periods were unfavorably impacted by higher purchases of logs from third parties, partially offset by improved sawmill productivity. Cost of goods sold for the nine months ended September 30, 1995 was reduced by \$1.5 million of business interruption insurance proceeds for the settlement of claims related to the April 1992 earthquake.

Income (loss) before income taxes, minority interests and extraordinary item

Income (loss) before income taxes, minority interests and extraordinary item improved for the nine months ended September 30, 1995 as compared to the same period in 1994, and was unchanged for the third quarters of 1995 and 1994. Increases in investment, interest and other income were offset by the decreases in operating income as discussed above. Investment, interest and other income (expense) for the nine months ended September 30, 1994 included a pre-tax loss on the litigation settlement of \$21.2 million, along with a franchise tax refund of \$7.2 million (the substantial portion of which represented interest) from the State of California.

REAL ESTATE OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
	(In millions of dollars)			
Net sales	\$ 24.4	\$ 23.1	\$ 65.0	\$ 61.6
Operating loss	(2.8)	(2.6)	(6.4)	(6.0)
Income (loss) before income taxes, minority interests and extraordinary item	.6	(1.7)	(.9)	(3.8)

Net sales

Net sales for the third quarter of 1995 and the nine months ended September 30, 1995 increased as compared to the same periods in 1994. These increases were primarily due to a bulk sale of condominiums at the Company's Palmas del Mar resort in Puerto Rico. In addition, net sales for the nine months ended September 30, 1995 includes a bulk sale of acreage in Texas. Net sales for the 1994 periods included bulk acreage sales in New Mexico.

Operating loss

The operating losses for the third quarter of 1995 and the nine months ended September 30, 1995 increased slightly as compared to the same periods in 1994. Operating results for the year-to-date period were favorably impacted by the bulk sale of acreage in Texas, offset by higher overhead costs.

Income (loss) before income taxes, minority interests and extraordinary item

Income before income taxes, minority interests and extraordinary item for the third quarter of 1995, as compared to the loss for the third quarter of 1994, was primarily due to higher investment, interest and other income. The loss before income taxes, minority interests and extraordinary item for the nine months ended September 30, 1995 decreased from the nine months ended September 30, 1994. This decrease was primarily due to higher investment, interest and other income and lower interest expense. Investment, interest and other income for the nine months ended September 30, 1995 includes the sale of three real properties (two in the third quarter of 1995) from the RTC portfolio resulting in pre-tax gains of \$3.7 million.

OTHER ITEMS NOT DIRECTLY RELATED TO INDUSTRY SEGMENTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
	(In millions of dollars)			
Operating loss	\$ (6.7)	\$ (2.8)	\$ (14.3)	\$ (7.6)
Loss before income taxes, minority interests and extraordinary item	(7.6)	(3.3)	(15.2)	(14.6)

Operating loss

The operating losses represent corporate general and administrative expenses that are not allocated to the Company's industry segments. The operating losses for the third quarter of 1995 and the nine months ended September 30, 1995 increased as compared to the same periods in 1994. These increases were primarily due to accruals of \$2.3 million and \$1.1 million for certain contingencies the Company recorded during the second and third quarters of 1995, respectively, and higher overhead costs.

Loss before income taxes, minority interests and extraordinary item The loss before income taxes, minority interests and extraordinary item includes operating losses, investment, interest and other income (expense) and interest expense, including amortization of deferred financing costs, that are not allocated to the Company's industry segments. The losses for the third quarter of 1995 and the nine months ended September 30, 1995 increased as compared to the same periods in 1994. The increase for the third quarter of 1995 was primarily due to the increased operating loss discussed above. The increase for the nine months ended September 30, 1995 was primarily due to the increased operating loss,

partially offset by higher investment, interest and other income. Investment, interest and other income (expense) for the 1994 periods includes the equity in losses of affiliates attributable to the Company's equity interest in Sam Houston Race Park.

Credit (provision) for income taxes The Company's credit (provision) for income taxes differs from the federal statutory rate due principally to (i) revision of prior years' tax estimates and other changes in valuation allowances, (ii) percentage depletion, and (iii) foreign taxes, net of related federal tax benefits. The Company's provision for income taxes as reflected in its consolidated statement of operations for the nine months ended September 30, 1995 reflects a benefit of approximately \$18.0 million relating to the revision of prior years' tax estimates and other changes in valuation allowances.

Minority interests

Minority interests represent the minority stockholders' interest in the Company's aluminum operations.

FINANCIAL CONDITION AND INVESTING AND FINANCING ACTIVITIES

PARENT COMPANY

Certain of the Company's subsidiaries, principally Kaiser and MGI, are restricted by their various debt agreements as to the amount of funds that can be paid in the form of dividends or loaned to the Company. KACC's 1994 Credit Agreement and the indentures governing the KACC Senior Notes and the KACC Notes contain covenants which, among other things, limit Kaiser's ability to pay cash dividends and restrict transactions between Kaiser and its affiliates. Under the most restrictive of these covenants, Kaiser is not currently permitted to pay dividends on its common stock. The indenture governing the MGI Notes contains various covenants which, among other things, limit the payment of dividends and restrict transactions between MGI and its affiliates. As of September 30, 1995, under the most restrictive of these covenants, approximately \$.6 million of dividends could be paid by MGI. On September 29, 1995, MGI paid dividends of \$4.8 million. Under the most restrictive covenants governing debt of the Company's real estate subsidiaries, approximately \$22.8 million could be paid as of September 30, 1995.

As of September 30, 1995, the Company (excluding its aluminum, forest products and real estate subsidiary companies) had cash and marketable securities of approximately \$35.7 million and available borrowings under its demand loan and pledge agreement of \$25.0 million. See also "-- Investment in Sam Houston Race Park" below. The Company believes that its existing cash and marketable securities (excluding its aluminum, forest products and real estate subsidiaries), together with the funds available to it, will be sufficient to fund its working capital requirements for the foreseeable future.

ALUMINUM OPERATIONS

In March 1995, the 1994 Credit Agreement was amended by the Second Amendment to Credit Agreement (the "Second Amendment"). The Second Amendment provided, among other things, for an increase in the revolving line of credit from \$275.0 million to \$325.0 million (of which \$125.0 million could be used for letters of credit). At September 30, 1995, \$210.0 million (of which \$72.4 million could have been used for letters of credit) was available to KACC under the 1994 Credit Agreement. As of July 20, 1995, the 1994 Credit Agreement was amended by the Third Amendment to Credit Agreement in connection with the investment by Kaiser Yellow River Investment Limited, a subsidiary of KACC, in Yellow River Aluminum Industry Company Limited, an aluminum smelter joint venture in the People's Republic of China.

Loans under the 1994 Credit Agreement bear interest at a rate per annum, at KACC's election, equal to a Reference Rate (as defined) plus 1 1/2% or LIBO Rate (Reserve Adjusted) (as defined) plus 3 1/4%. After June 30, 1995, the interest rate margins applicable to borrowings under the 1994 Credit Agreement may be reduced by up to 1 1/2% (non-cumulatively), based on a financial test, determined quarterly. As of September 30, 1995, the financial test permitted a reduction of 1% per annum in margins effective October 1, 1995.

Kaiser expects that cash flows from operations and borrowings under available sources of financing will be sufficient to satisfy its working capital and capital expenditures requirements for the foreseeable future.

FOREST PRODUCTS OPERATIONS

MGI anticipates that cash flows from operations, together with existing cash, marketable securities and available sources of financing, will be sufficient to fund the working capital and capital expenditures requirements of MGI and its respective subsidiaries for the foreseeable future; however, due to its highly leveraged condition, MGI is more sensitive than less leveraged companies to factors affecting its operations, including governmental regulation affecting its timber harvesting practices, increased competition from other lumber producers or alternative building products and general economic conditions.

As of September 30, 1995, \$18.1 million of borrowings was available under Pacific Lumber's Revolving Credit Agreement, of which \$3.1 million was available for letters of credit. No borrowings were outstanding as of September 30, 1995, and letters of credit outstanding amounted to \$11.9 million. In November 1995, the Revolving Credit Agreement was amended to extend its maturity date to May 31, 1998 and provide for an additional \$30.0 million of available borrowings which can be used for the acquisition of timberlands.

REAL ESTATE OPERATIONS

As of September 30, 1995, the Company's real estate subsidiaries had approximately \$28.9 million available for use under various credit agreements. A substantial portion of the availability was attributable to the credit availability pursuant to the loan agreement secured by real properties, and certain loans secured by income producing real property.

INVESTMENT IN SAM HOUSTON RACE PARK

In July 1993, the Company, through various subsidiaries, assumed control of the general partner of, and acquired an equity interest in, Sam Houston Race Park, Ltd. ("SHRP"), a Texas limited partnership, which owns and operates Sam Houston Race Park, a Texas Class 1 horse racing facility located within the greater Houston metropolitan area. On April 17, 1995, SHRP and its wholly owned subsidiary, SHRP Capital Corp., together with SHRP Acquisition, Inc. (collectively, the "Debtors"), a wholly owned subsidiary of the Company and SHRP's largest limited partner, filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware. The Delaware Court subsequently transferred the case to the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the "Bankruptcy Court"), Jointly Administered Case number 95- 43739-H3-11, each seeking to reorganize under the provisions of Chapter 11 of the United States Bankruptcy Code. On September 22, 1995, the Bankruptcy Court entered an order confirming the Sixth Amended Consolidated Plan of Reorganization of the Debtors (the "Plan"). The transactions called for by the Plan were completed on October 6, 1995. A new investor group (the "New SHRP Investor Group") made a capital contribution of cash in the aggregate amount of approximately \$5.9 million (affiliates of the Company contributed \$5.8 million). Additionally, an affiliate of the Company contributed to SHRP an adjoining approximately 87 acre tract of land (having a fair market value of \$2.3 million). The new managing general partner of the reorganized SHRP (the "SHRP Managing General Partner") is SHRP General Partner, Inc., a wholly owned subsidiary of the Company. The SHRP Managing General Partner was issued a 1% interest in the reorganized SHRP in exchange for contributing its pro rata share of the investment made by the New SHRP Investor Group. On October 20, 1995, an affiliate of the Company agreed to purchase, for approximately \$7.3 million, approximately \$14.6 million of SHRP's amended Senior Secured Notes and the corresponding shares of common stock of SHRP Equity, Inc. (a Delaware corporation and an additional general partner of the reorganized SHRP) to which one noteholder is entitled. Such shares of common stock represent approximately 39.0% of the shares of common stock of SHRP Equity, Inc. After giving effect to this transaction, affiliates of the Company hold, directly or indirectly, approximately 78.8% of the equity in the reorganized SHRP.

TRENDS

ALUMINUM OPERATIONS

Hedging Programs

In respect of its remaining 1995 anticipated net exposure, at October 31, 1995, KACC had net forward sales contracts for 25,950 tons of primary aluminum at fixed prices, had purchased call options in respect of 11,500 tons of primary aluminum, had purchased put options to establish a minimum price for 32,250 tons of primary aluminum, and had entered into option contracts that established a price range for 15,000 tons of primary aluminum. In respect of its 1996 anticipated net exposure, at October 31, 1995, KACC had sold forward 6,100 tons of primary aluminum at fixed prices (see Note 8 of the Condensed Notes to Consolidated Financial Statements contained herein).

Pacific Northwest

On November 6, 1996, KACC announced that it has signed new agreements with each of the Bonneville Power Administration (the "BPA") and the Washington Water Power Company (the "WWP"), each ending September 30, 2001, with respect to its electric power requirements in the Pacific Northwest. The agreement with the BPA is for the purchase of electric power and the agreement with the WWP is for power management services. These new arrangements contemplate a reduction in the amount of power which KACC will purchase from BPA in the future and the replacement of such power with power purchased from other suppliers under a variety of terms. Contemporaneously with entering into these agreements, KACC entered into a one-year power supply contract with BPA, ending September 30, 1996, in connection with the restart of idled capacity at its Mead smelter in Spokane, Washington. The restart began in late October 1995, and KACC expects to return the Mead smelter to full production by early 1996.

FOREST PRODUCTS OPERATIONS

In recent developments, on June 30, 1995, the United States Supreme Court issued the Sweet Home v. Babbitt decision finding that under the federal Endangered Species Act (the "ESA") the use of private property can be restricted in a manner to prevent significant modification to habitat for endangered or threatened species. Also, in July 1995, in a case entitled Marbled Murrelet v. Babbitt (Case No. C-91-522R), a U.S. District Court in Seattle ordered the U.S. Fish and Wildlife Service (the "USFWS") to make its final designation of critical habitat for the marbled murrelet by January 29, 1996 and to issue its proposed final designation of critical habitat by August 1, 1995. On August 10, 1995, the USFWS published its proposed final designation of critical habitat for the marbled murrelet, designating over four million acres as critical habitat for the marbled murrelet, including approximately 33,000 acres of Pacific Lumber's timberlands. The proposed designation was subject to a 60-day comment period and Pacific Lumber filed comments vigorously opposing the proposed designation. It is impossible to determine the potential adverse impact of such designation on the Company's consolidated financial position or results of operations until such time as the proposed designation is finalized and related regulatory and legal issues are fully resolved. However, if Pacific Lumber is unable to harvest, or is severely limited in harvesting, on timberlands designated as marbled murrelet critical habitat, such restrictions could have a material adverse effect on the Company's consolidated financial position and results of operations. If Pacific Lumber is unable to harvest or is severely limited in harvesting, Pacific Lumber intends to seek full compensation from the appropriate governmental agencies on the grounds that such restrictions constitute a regulatory taking.

There continue to be other regulatory actions and lawsuits seeking to have various species listed as threatened or endangered under the ESA

and/or the California Endangered Species Act and to designate critical habitat for such species. It is uncertain what impact, if any, such listings and/or designations of critical habitat will have on the Company's consolidated financial position or results of operations.

During the first five months of 1995, a combination of severe weather conditions, seasonally low log inventories, the issuance of a temporary restraining order ("TRO") (which required Pacific Lumber to cease all timber harvesting operations on one of the few all-season harvest sites from which it had been able to supplement its log inventories), and other regulatory delays forced Pacific Lumber to curtail operations at one of its four sawmills and to temporarily idle another sawmill from April 17 to May 2, 1995. During late May, the weather improved and the TRO was lifted, thereby allowing Pacific Lumber to resume operations on such harvesting site. Accordingly, Pacific Lumber has since been able to secure an adequate supply of logs in order to resume normal operations of its sawmills.

Additional judicial or regulatory actions adverse to Pacific Lumber, further regulatory delays and inclement weather in northern California, independently or collectively, could again impair Pacific Lumber's ability to maintain adequate log inventories and force Pacific Lumber to temporarily idle or curtail operations at certain of its lumber mills from time to time.

RECENT ACCOUNTING PRONOUNCEMENT

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS 121"). SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the estimated future cash flows expected to result from the use and eventual disposition of an asset is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss is based on the fair value of the asset. SFAS 121 requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The Company is required to adopt SFAS 121 no later than January 1, 1996. The Company is currently evaluating certain of its real estate properties with respect to application of SFAS 121; accordingly, the effect of SFAS 121 on the Company's financial statements is not known at this time.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Item 3 of the Form 10-K and Part II, Item 1 of the Company's Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 1995 and June 30, 1995 (the "Forms 10-Q") for information concerning material legal proceedings with respect to the Company. The following material developments have occurred with respect to such legal proceedings. Any capitalized or italicized terms used but not defined in this Item have the same meaning given to them in the Form 10-K and the Forms 10-Q.

In connection with the Kayes/Miller action, on October 10, 1995, the U.S. Supreme Court denied defendants' petition for writ of certiorari. The U.S. District Court is expected to reassume jurisdiction of this case. A status conference is scheduled for November 17, 1995 in this case and the DOL civil action.

KAISER ENVIRONMENTAL LITIGATION

With respect to the Catellus Development Corporation v. Kaiser Aluminum & Chemical Corporation and James L. Ferry & Sons, Inc. action, on June 2, 1995, the United States District Court for the Northern District of California (the "District Court") issued an Order stating its preliminary findings on the remaining claims in that action. On October 12, 1995, the District Court issued final Findings of Fact and Conclusions of Law on those claims concluding that KACC is liable for various costs and interest through August 30, 1995, aggregating approximately \$2.2 million, fifty percent (50%) of the future costs of cleaning up certain parts of the Property and certain fees and costs. Entry of judgment is pending.

With respect to the United States of America v. Kaiser Aluminum & Chemical Corporation action, KACC and the Environmental Protection Agency (the "EPA"), without adjudication of any issue of fact or law, and without any admission of the violations alleged in the underlying complaint, have entered into a Consent Decree, which on October 31, 1995, was filed for approval in United States District Court for the Eastern District of Washington. If approved, this Consent Decree would settle the underlying disputes and require KACC to (i) pay a \$.5 million civil penalty, (ii) complete a program of plant improvements and operational changes that began in 1990 at its Trentwood facility, including the installation of an emission control system to capture particulate emissions from certain furnaces, and (iii) achieve and maintain furnace compliance with the opacity standard in the SIP by no later than February 28, 1997. The Company anticipates that capital expenditures for the environmental upgrade of the furnace operation at its Trentwood facility, including the improvements and changes required by the Consent Decree, will be approximately \$20.0 million.

With respect to the asbestos-related litigation described in the Form 10-K, see Note 7 of the Condensed Notes to Consolidated Financial Statements contained herein.

RANCHO MIRAGE LITIGATION

In connection with the In re MAXXAM Inc./Federated Development Shareholders Litigation, the Court recently rescheduled the trial date to January 22, 1996.

ITEM 5. OTHER INFORMATION

PARENT COMPANY

In connection with FDIC v. Hurwitz (No. H-95-3936), defendant's motion to dismiss this case is expected to be considered by the Court in December 1995.

In connection with the OTS investigation, by letter dated November 1, 1995, the Enforcement Office of the OTS advised that, subject to final approval by the acting director of the OTS, the OTS intends to issue a notice of charges against the Company after 30 days from the date of the letter. It is the Company's understanding that other individuals and entities involved in the investigation of the failure of USAT have received similar notices from the OTS. Although the OTS has not formally articulated any claims against the Company, the Enforcement Office of the OTS has stated that the charges may include, among other things, claims that the Company had a duty to maintain the net worth of USAT and that the Company is liable for the alleged unsafe and unsound practices of others.

In January 1995, an action entitled U.S., ex rel., Martel v. Hurwitz, et al. was filed in the U.S. District Court for the Northern District of California (No. C950322) against Charles Hurwitz, MGI, Federated Development Company, UFG and a former director of the Company. The action was unsealed in September 1995 but to date has not been served. In October 1995, plaintiff filed an amended complaint which adds the Company as a defendant. The suit alleges that defendants made false statements and claims in violation of the Federal False Claims Act in connection with USAT. Plaintiff alleges, among other things, that defendants used the federally insured assets of USAT to acquire junk bonds from Michael Milken and Drexel, Burnham, Lambert Inc. ("Drexel") and that, in exchange, Mr. Milken and Drexel arranged financing for defendants' various business ventures, including the acquisition of Pacific Lumber. Plaintiff alleges that USAT became insolvent in 1988 and that defendants should be required to pay \$1.6 billion (subject to trebling) to cover USAT's losses. Plaintiff seeks, among other things, that the Court impose a constructive trust upon the fruits of the alleged improper use of USAT funds. This action is purportedly brought by plaintiff on behalf of the U.S. government; however, it is the Company's understanding that the U.S. government has declined to participate in the suit.

FOREST PRODUCTS OPERATIONS

A variety of bills are currently pending in the California legislature and the U.S. Congress which relate to the business of the Company, including the protection and acquisition of old growth and other timberlands, environmental protection and the restriction, regulation and administration of timber harvesting practices. For example, a bill is pending in the California legislature which would, among other things, initiate negotiations by the California Resources Agency with Pacific Lumber for the public acquisition of approximately 4,700 acres of Pacific Lumber's timberlands, 3,000 acres of which is a contiguous block of virgin old growth redwood forest often referred to as the "Headwaters Forest." Since this bill and the other bills are subject to amendment, it is premature to assess the ultimate content of these bills, the likelihood of any of the bills passing, or the impact of these bills on the financial position or results of operations of Pacific Lumber or the Company. Furthermore, any bills which are passed are subject to executive veto and court challenge.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS:

4.1 Amended and Restated Credit Agreement (incorporated herein by reference to Exhibit 4.1 to Pacific Lumber's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, File No. 1-9204)

4.2 Form of Deed of Trust, Assignment of Rents, Grant of Easement and Fixture Filing (incorporated herein by reference to Exhibit 4.2 to Pacific Lumber's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, File No. 1-9204)

4.3 Third Amendment to Credit Agreement, dated as of July 20, 1995, amending the Credit Agreement, dated as of February 17, 1994, as amended, among Kaiser, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated herein by reference to Exhibit 4.1 to Kaiser's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, File No. 1-9447)

4.4 Fourth Amendment to Credit Agreement, dated as of October 17, 1995, amending the Credit Agreement, dated as of February 17, 1994, as amended, among Kaiser, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated herein by reference to Exhibit 4.1 to Kaiser's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, File No. 1-9447)

11 Computation of Net Income (Loss) Per Common and Common Equivalent Share

27 Financial Data Schedule

B. REPORTS ON FORM 8-K:

On October 6, 1995, the Company filed a Current Report on Form 8-K, dated October 6, 1995, providing, pursuant to Item 5, press releases announcing a private placement by the Company and a subsequent deferral of the private placement.

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, who has signed this report on behalf of the Registrant and as the principal accounting officer of the Registrant.

MAXXAM INC.

Date: November 14, 1995

By: /TERRY L. FREEMAN/
Terry L. Freeman
Assistant Controller

EXHIBIT 11

MAXXAM INC.

**COMPUTATION OF NET INCOME (LOSS) PER COMMON AND
COMMON EQUIVALENT SHARE
(IN MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
Weighted average common and common equivalent shares outstanding during each period	9,376,703	9,376,703	9,376,703	9,376,703
Common equivalent shares attributable to stock options and convertible securities	102,229	71,175	81,526	71,175
Total common and common equivalent shares	9,478,932	9,447,878	9,458,229	9,447,878
Income (loss) before extraordinary item	\$ 10.7	\$ (14.9)	\$ 35.1	\$ (92.6)
Extraordinary item	-	-	-	(5.4)
Net income (loss)	\$ 10.7	\$ (14.9)	\$ 35.1	\$ (98.0)
Per common and common equivalent share:				
Income (loss) before extraordinary item	\$ 1.13	\$ (1.58)	\$ 3.71	\$ (9.80)
Extraordinary item	-	-	-	(.57)
Net income (loss)	\$ 1.13	\$ (1.58)	\$ 3.71	\$ (10.37)

ARTICLE 5

This schedule contains summary financial information extracted from the Company's consolidated balance sheet and consolidated statement of operations and is qualified in its entirety by reference to such consolidated financial statements together with the related footnotes thereto.

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 01 1995
PERIOD END	SEP 30 1995
EXCHANGE RATE	1
CASH	100,200
SECURITIES	30,400
RECEIVABLES	239,500
ALLOWANCES	4,900
INVENTORY	609,900
CURRENT ASSETS	1,146,100
PP&E	1,844,600
DEPRECIATION	653,700
TOTAL ASSETS	3,767,100
CURRENT LIABILITIES	586,600
BONDS	1,650,000
COMMON	5,000
PREFERRED MANDATORY	0
PREFERRED	300
OTHER SE	(109,100)
TOTAL LIABILITY AND EQUITY	3,767,100
SALES	1,892,600
TOTAL REVENUES	1,892,600
CGS	1,474,200
TOTAL COSTS	1,474,200
OTHER EXPENSES	231,500
LOSS PROVISION	0
INTEREST EXPENSE	136,100
INCOME PRETAX	59,500
INCOME TAX	4,600
INCOME CONTINUING	35,100
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	35,100
EPS PRIMARY	3.71
EPS DILUTED	3.71

End of Filing

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