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, 2001

Commission File Number 333-18723

MAXXAM GROUP HOLDINGS INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**76-0518669** (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 12, 2001: 1,000

Registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10SQ and is therefore filing this Form with the reduced disclosure format.

TABLE OF CONTENTS

MAXXAM GROUP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(In millions of dollars, except share information)

	September 30, 2001 (Unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44.8	$ 201.7
Marketable securities and other investments	54.0	28.9
Receivables:		
Trade	14.9	10.4
Receivables from MAXXAM.	2.5	6.6
Other	3.2	4.0
Inventories	56.3	55.1
Prepaid expenses and other current assets	23.2	14.2
Total current assets	198.9	320.9
Property, plant and equipment, net of accumulated depreciation of $111.2 and $102.9, respectively	229.6	100.0
Timber and timberlands, net of accumulated depletion of $190.9 and $183.8, respectively	240.1	244.3
Note receivable from MAXXAM.	183.1	164.5
Investment in Kaiser	80.4	27.6
Deferred financing costs, net	23.4	19.8
Deferred income taxes	22.8	27.3
Restricted cash, marketable securities and other investments	90.1	96.6
Other assets	7.2	7.9
	$ 1,075.6	$ 1,008.9
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current liabilities:		
Accounts payable	$ 5.9	$ 6.2
Accrued interest	13.6	32.4
Accrued compensation and related benefits	10.2	8.2
Deferred income taxes	1.2	10.0
Other accrued liabilities	6.8	3.6
Short-term borrowings and current maturities of long-term debt	37.4	53.5
Total current liabilities	75.1	113.9
Long-term debt, less current maturities	960.9	886.6
Deferred income taxes	31.5	31.2
Other noncurrent liabilities	24.0	26.6
Total liabilities	1,091.5	1,058.3
Contingencies (See Note 8)		
Stockholder's deficit:		
Common stock, $1.00 par value; 3,000 shares authorized; 1,000 shares issued	–	–
Additional capital	123.2	123.2
Accumulated deficit	(149.5)	(172.6)
Accumulated other comprehensive loss	10.4	–
Total stockholder's deficit	(15.9)	(49.4)
	$ 1,075.6	$ 1,008.9

The accompanying notes are an integral part of these financial statements.

MAXXAM GROUP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
(In millions of dollars)

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
	(Unaudited)			
Net sales:				
Lumber and logs	$ 39.5	$ 43.0	$ 124.4	$ 137.7
Other	7.5	6.4	20.7	15.0
	47.0	49.4	145.1	152.7
Operating expenses:				
Cost of goods sold	36.9	40.5	119.6	112.3
Selling, general and administrative expenses	5.1	3.5	13.9	11.3
Impairment of assets	0.7	–	0.7	–
Depletion and depreciation	5.5	5.3	15.7	14.8
	48.2	49.3	149.9	138.4
Operating income (loss)	(1.2)	0.1	(4.8)	14.3
Other income (expense):				
Equity in earnings (loss) of Kaiser	23.7	(5.9)	43.3	2.1
Investment, interest and other income (expense), net	7.1	10.6	25.5	34.6
Interest expense	(20.2)	(19.7)	(56.7)	(59.8)
Income (loss) before income taxes	9.4	(14.9)	7.3	(8.8)
Benefit in lieu of income taxes	3.2	2.1	12.2	2.9
Income (loss) before extraordinary item	12.6	(12.8)	19.5	(5.9)
Extraordinary item:				
Gains on repurchases of debt, net of income tax provisions of $0.3, $2.0 and $1.3, respectively	–	0.6	3.6	2.0
Net income (loss)	$ 12.6	$ (12.2)	$ 23.1	$ (3.9)

The accompanying notes are an integral part of these financial statements.

MAXXAM GROUP HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of dollars)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 23.1	$ (3.9)
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depletion and depreciation	15.7	14.8
Non-cash impairment charge	0.7	–
Extraordinary gains on repurchases of debt	(3.6)	(2.0)
Equity in undistributed earnings of Kaiser	(43.3)	(2.1)
Amortization of deferred financing costs	1.8	1.7
Net gain on marketable securities	(2.7)	(11.1)
Deferral of interest payment on note receivable from MAXXAM.	(18.6)	(16.7)
Increase (decrease) in cash resulting from changes in:		
Receivables	0.9	2.4
Inventories, net of depletion	(0.9)	(13.6)
Prepaid expenses and other assets	(2.6)	(5.4)
Accounts payable	(0.3)	(0.6)
Accrued interest	(18.8)	(20.4)
Accrued and deferred income taxes	(13.5)	(2.4)
Other liabilities	5.4	3.2
Long-term assets and long-term liabilities	(2.8)	1.2
Net cash used for operating activities	(59.5)	(54.9)
Cash flows from investing activities:		
Net purchases of marketable securities	(21.6)	(6.1)
Capital expenditures	(141.6)	(11.0)
Restricted cash withdrawals used to acquire timberlands	–	0.8
Net proceeds from dispositions of property and investments	–	0.3
Net cash used for investing activities	(163.2)	(16.0)
Cash flows from financing activities:		
Proceeds from issuances of long-term debt	122.5	–
Borrowings (repayments) under revolving credit agreements	(19.0)	25.9
Redemptions, repurchases of and principal payments on long-term debt	(39.7)	(21.8)
Incurrence of deferred financing costs	(5.3)	–
Restricted cash (deposits) withdrawals, net	18.4	10.3
Dividends paid to stockholder	–	(45.0)
Other	(11.1)	–
Net cash provided by (used for) financing activities	65.8	(30.6)
Net decrease in cash and cash equivalents	(156.9)	(101.5)
Cash and cash equivalents at beginning of period	201.7	189.8
Cash and cash equivalents at end of period	$ 44.8	$ 88.3
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	$ 73.7	$ 78.4
Tax allocation payments to MAXXAM	1.3	0.5
Supplemental disclosure of non-cash investing and financing activities:		
Repurchases of debt using restricted cash and marketable securities	$ –	$ 36.1

The accompanying notes are an integral part of these financial statements.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Form 10-K. Any capitalized terms used but not defined in these Condensed Notes to Consolidated Financial Statements are defined in the "Glossary of Defined Terms" contained in Appendix A. All references to the "Company" include MAXXAM Group Holdings Inc. and its subsidiary companies unless otherwise noted 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 for a fair presentation of the consolidated financial position of the Company at September 30, 2001, and the consolidated results of operations for the three and nine months ended September 30, 2001 and 2000, and the consolidated cash flows for the nine months ended September 30, 2001 and 2000. The Company is a wholly owned subsidiary of MAXXAM.

Comprehensive Income (Loss)

The following table sets forth comprehensive income (loss) (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net income (loss)	$ 12.6	$ (12.2)	$ 23.1	$ (3.9)
Cumulative effect of accounting change	–	–	0.6	–
Unrealized net gains on derivative instruments arising during the period	12.4	–	9.9	–
Less reclassification adjustment for realized net gains on derivative instruments included in net income	(0.1)	–	(1.0)	–
Change in value of available-for-sale investments, net of income tax provision of $0.4, $0.0, $0.6 and $0.0, respectively	0.7	0.6	0.9	0.6
Comprehensive income (loss)	$ 25.6	$ (11.6)	$ 33.5	$ (3.3)

Accounting Pronouncements for Derivative Financial Instruments - Kaiser

Effective January 1, 2001, Kaiser began reporting derivative activities pursuant to SFAS No. 133, which requires companies to recognize all derivative instruments as assets or liabilities in the balance sheet and to measure those instruments at fair value. Kaiser, the Company's equity investee, utilizes derivative financial instruments primarily to mitigate its exposure to changes in prices for certain of the products which Kaiser sells and consumes and, to a lesser extent, to mitigate its exposure to changes in foreign currency exchange rates. Changes in the market value of Kaiser's derivative instruments represent unrealized gains or losses. Such unrealized gains or losses will fluctuate, based on prevailing market prices at each subsequent balance sheet date, until the transaction occurs. Under SFAS No. 133, these changes are recorded as an increase or reduction in stockholders' equity through either other comprehensive income or net income, depending on the facts and circumstances with respect to the hedge and its documentation. To the extent that changes in the market values of Kaiser's hedging positions are initially recorded in other comprehensive income, such changes are reversed from other comprehensive income (offset by any fluctuations in other "open" positions) and are recorded in traditional net income upon the occurrence of the transactions to which the hedges relate. Under the equity method of accounting which the Company follows in accounting for its investment in Kaiser, the Company will reflect its equity share of Kaiser's adjustments through either other comprehensive income or traditional net income, as appropriate.

SFAS No. 133 requires that, as of the date of initial adoption, the difference between the market value of derivative instruments and the previous carrying amount of those derivatives recorded on Kaiser's consolidated balance sheet be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle. As previously discussed, this impact was reflected in Kaiser's first quarter 2001 financial statements, and in turn the Company's equity share of the impact was recorded in its first quarter 2001 financial statements.

New Accounting Standard

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 which addresses accounting and reporting standards for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The Company is required to adopt SFAS No. 143 beginning on January 1, 2003. Management is assessing the impact of the standard on its results of operations and financial position.

2. Segment Information

As a result of the acquisition of certain real estate in June 2001 which is described in Note 3 below, and beginning with the second quarter 2001 financial statements, the Company's financial results are reported in two business segments: forest products and real estate. The column corporate and other includes the results of the parent company and the investment in Kaiser, and also serves to reconcile the total of the reportable segments' amounts to the total in the Company's consolidated financial statements. The following table presents such unaudited financial information, consistent with the manner in which management reviews and evaluates the Company's business activities (in millions).

	Forest Products	Real Estate	Corporate and Other	Consolidated Total
Net sales for the three months ended:				
September 30, 2001	$ 44.8	$ 2.2	$ –	$ 47.0
September 30, 2000	49.4	–	–	49.4
Operating income (loss) for the three months ended:				
September 30, 2001	(1.9)	0.7	–	(1.2)
September 30, 2000	0.1	–	–	0.1
Other income (expense), net for the three months ended:				
September 30, 2001	(13.0)	(2.4)	26.0	10.6
September 30, 2000	(11.2)	–	(3.8)	(15.0)
Net sales for the nine months ended:				
September 30, 2001	142.8	2.3	–	145.1
September 30, 2000	152.7	–	–	152.7
Operating income (loss) for the nine months ended:				
September 30, 2001	(5.4)	0.8	(0.2)	(4.8)
September 30, 2000	14.5	–	(0.2)	14.3
Other income (expense), net for the nine months ended:				
September 30, 2001	(36.3)	(2.5)	50.9	12.1
September 30, 2000	(32.0)	–	8.9	(23.1)
Total assets as of:				
September 30, 2001	606.7	135.1	333.8	1,075.6
December 31, 2000	726.2	–	282.7	1,008.9

Non-recurring Items

As a result of management's ongoing evaluation of operations due to declines in harvest levels, increased logging costs, and continued difficulty obtaining approval of timber harvest plans, two of the Company's sawmills have been idled. In connection with the closure of one of these two mills, the Company recorded a charge to operating costs of $0.7 million to write-down the assets to estimated fair value. Further reductions or curtailments in sawmill or other operations may occur during the next year as MGI completes its evaluation process, and additional potentially significant writedowns of the investment in certain assets may be required.

3. Acquisition of Assets

In June 2001, Lakepointe Assets purchased Lake Pointe Plaza, an office complex located in Sugarland, Texas, for a purchase price of $131.3 million. The transaction was financed with proceeds of $122.5 million, net of $5.2 million in deferred financing costs, from the Lakepointe Notes ($122.5 million principal amount with a final maturity date of June 8, 2021, and an interest rate of 7.56%), and with a cash payment of $14.0 million. Lakepointe Assets acquired the property subject to two leases to existing tenants while simultaneously leasing a majority of the premises, representing all of the remaining space, to an affiliate of the seller. The office complex is fully leased for a period of 20 years under these three leases. Lakepointe Assets is accounting for these leases as operating leases. The Lakepointe Notes are secured by the leases, Lake Pointe Plaza and a $60.0 million residual value insurance contract.

4. Cash, Marketable Securities and Other Investments

Cash, marketable securities and other investments include the following amounts which are restricted (in millions):

	September 30, 2001	December 31, 2000
Current assets:		
Cash and cash equivalents:		
Amounts held as security for short positions in marketable securities	$ –	$ 9.2
Other restricted cash and cash equivalents	13.8	29.2
	13.8	38.4
Marketable securities, restricted:		
Amounts held in SAR Account	17.1	16.3
Long-term restricted cash, marketable securities and other investments:		
Amounts held in SAR Account	137.0	144.4
Other amounts restricted under the Timber Notes Indenture	2.8	2.9
Other long-term restricted cash	2.2	2.0
Less: Amounts attributable to Timber Notes held in SAR Account	(51.9)	(52.7)
	90.1	96.6
Total restricted cash, marketable securities and other investments	$ 121.0	$ 151.3

Cash, marketable securities and other investments include a limited partnership interest in the Equity Fund Partnership, which invests in a diversified portfolio of common stocks and other equity securities whose issuers are involved in merger, tender offer, spin-off or recapitalization transactions. The following table shows the Company's investment in the Equity Fund Partnership, including restricted amounts held in the SAR Account, and the ownership interest (dollars in millions).

	September 30, 2001	December 31, 2000
Investment in Equity Fund Partnership:		
Restricted	$ 10.6	$ 10.1
Unrestricted	36.6	–
	$ 47.2	$ 10.1
Percentage of ownership held	13.7%	10.8%

5. Inventories

Inventories consist of the following (in millions):

	September 30, 2001	December 31, 2000
Lumber	$ 32.9	$ 34.0
Logs	23.4	21.1
	$ 56.3	$ 55.1

6. Investment in Kaiser

The Company owns the 27,938,250 Kaiser Shares, 23,443,953 shares of which are pledged as collateral for the MGHI Notes as of September 30, 2001. Kaiser operates in several principal aspects of the aluminum industry through the following business segments: bauxite and alumina, primary aluminum, flat-rolled products, engineered products and commodities marketing. Kaiser uses a portion of its bauxite, alumina and primary aluminum production for additional processing at certain downstream facilities. Kaiser's common stock is publicly traded on the New York Stock Exchange under the trading symbol "KLU." The Kaiser Shares represent a 34.6% equity interest in Kaiser at September 30, 2001.

The market value for the Kaiser Shares based on the price per share quoted at the close of business on November 13, 2001, was $54.5 million. There can be no assurance that such value would be realized should the Company dispose of the Kaiser Shares. The following tables contain summarized financial information for Kaiser (in millions).

	September 30, 2001	December 31, 2000
Current assets	$ 990.5	$ 1,012.1
Property, plant and equipment, net	1,228.5	1,176.1
Other assets	1,145.3	1,154.9
Total assets	$ 3,364.3	$ 3,343.1
Current liabilities	$ 860.4	$ 841.4
Long-term debt, less current maturities	698.7	957.8
Other liabilities	1,454.3	1,360.6
Minority interests	116.0	101.1
Stockholders' equity	234.9	82.2
Total liabilities and stockholders' equity	$ 3,364.3	$ 3,343.1

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net sales	$ 430.3	$ 545.2	$ 1,357.4	$ 1,673.7
Costs and expenses	(466.4)	(542.4)	(1,205.7)	(1,582.5)
Other expenses - net	152.7	(31.9)	53.3	(84.9)
Income (loss) before income taxes and minority interests	116.6	(29.1)	205.0	6.3
Benefit (provision) for income taxes	(49.4)	11.2	(83.9)	(2.5)
Minority interests	1.2	1.1	2.8	2.1
Net income (loss)	$ 68.4	$ (16.8)	$ 123.9	$ 5.9
Equity in earnings (loss) of Kaiser	$ 23.7	$ (5.9)	$ 43.3	$ 2.1

7. Debt

Long-term and short-term debt consists of the following (in millions):

	September 30, 2001	December 31, 2000
Pacific Lumber Credit Agreement	$ 18.0	$ 37.0
6.55% Scotia LLC Timber Notes due July 20, 2028	120.3	136.7
7.11% Scotia LLC Timber Notes due July 20, 2028	243.2	243.2
7.71% Scotia LLC Timber Notes due July 20, 2028	463.3	463.3
12% MGHI Notes due August 1, 2003	88.2	118.8
7.56% Lakepointe Notes (See Note 3)	122.2	–
Other	0.8	1.0
	1,056.0	1,000.0
Less: current maturities	(37.4)	(53.5)
Timber Notes held in SAR Account	(57.7)	(59.9)
	$ 960.9	$ 886.6

On August 14, 2001, the Pacific Lumber Credit Agreement was renewed. The new facility provides for a $50.0 million two-year revolving line of credit as compared to a $60.0 million line of credit under the expired facility. On each anniversary date (subject to the consent of the lender), the Pacific Lumber Credit Agreement may be extended by one year. The other terms and conditions are substantially the same as those under the expired facility. At September 30, 2001, $18.0 million of borrowings and $11.5 million of letters of credit were outstanding under the Pacific Lumber Credit Agreement. Unused availability was limited to $14.8 million at September 30, 2001.

The amount attributable to the Timber Notes held in the SAR Account of $51.9 million reflected in Note 4 above represents the amount paid to acquire $57.7 million of principal amount of Timber Notes.

8. Contingencies

Regulatory and environmental matters play a significant role in the Company's forest products business, which is subject to a variety of California and federal laws and regulations, as well as the HCP and SYP and Pacific Lumber's timber operator's license, dealing with timber harvesting practices, threatened and endangered species and habitat for such species, and air and water quality.

The SYP complies with the California Board of Forestry and Fire Protection regulations requiring timber companies to project timber growth and harvest on their timberlands over a 100-year planning period and to demonstrate that their projected average annual harvest for any decade within a 100-year planning period will not exceed the average annual harvest level during the last decade of the 100-year planning period. The SYP is effective for 10 years (subject to review after five years) and may be amended by Pacific Lumber, subject to approval by the CDF. Revised SYPs will be prepared every decade that address the harvest level based upon reassessment of changes in the resource base and other factors. The HCP and the Permits allow incidental "take" of certain species located on the Company's timberlands which species have been listed as endangered or threatened under the ESA and/or the CESA so long as there is no "jeopardy" to the continued existence of such species. The HCP identifies the measures to be instituted in order to minimize and mitigate the anticipated level of take to the greatest extent practicable. The SYP is also subject to certain of these provisions. The HCP and related Permits have a term of 50 years.

Under the CWA, the EPA is required to establish TMDLs in water courses that have been declared to be "water quality impaired." The EPA and the North Coast Water Board are in the process of establishing TMDLs for 17 northern California rivers and certain of their tributaries, including nine water courses that flow within the Company's timberlands. The Company expects this process to continue into 2010. In the December 1999 EPA report dealing with TMDLs on two of the nine water courses, the agency indicated that the requirements under the HCP would significantly address the sediment issues that resulted in TMDL requirements for these water courses. However, the September 2000 report by the staff of the North Coast Water Board proposed various actions, including restrictions on harvesting beyond those required under the HCP. Dates for hearings concerning these matters have not been scheduled. Establishment of the final TMDL requirements applicable to the Company's timberlands will be a lengthy process, and the final TMDL requirements applicable to the Company's timberlands may require aquatic protection measures that are different from or in addition to the prescriptions to be developed pursuant to the watershed analysis process provided for in the HCP.

Since the consummation of the Headwaters Agreement on March 1, 1999, there has been a significant amount of work required in connection with the implementation of the Environmental Plans, and this work is expected to continue for several more years. During the implementation period, government agencies have thus far failed to approve THPs in a timely manner. The rate of approvals of THPs during the nine months ended September 30, 2001, has improved over that for the prior year; however, it continues to be below what the Company requires to meet its targeted harvest levels under the SYP. Nevertheless, the Company anticipates that once the Environmental Plans are fully implemented, the process of preparing THPs will become more streamlined, and the time to obtain approval of THPs will potentially be shortened.

Lawsuits are pending and threatened which seek to prevent the Company from implementing the HCP and/or the SYP, implementing certain of the Company's approved THPs, or carrying out certain other operations. On January 28, 1997, the *ERF lawsuit* was filed. This action alleges that Pacific Lumber has discharged pollutants into federal waterways, and seeks to enjoin these activities, remediation, civil penalties of up to $25,000 per day for each violation, and other damages. This case was dismissed by the District Court on August 19, 1999, but the dismissal was reversed by the U.S. Ninth Circuit Court of Appeals on October 30, 2000, and the case was remanded to the District Court, but no further proceedings have occurred.

On December 2, 1997, the *Wrigley lawsuit* was filed. This action alleges, among other things, that the defendants' logging practices have contributed to an increase in flooding and damage to domestic water systems in a portion of the Elk River watershed. The Company believes that it has strong factual and legal defenses with respect to the *Wrigley lawsuit* and *ERF lawsuit*; however, there can be no assurance that they will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

On March 31, 1999, the *EPIC-SYP/Permits lawsuit* was filed alleging various violations of the CESA and the California Environmental Quality Act, and challenging, among other things, the validity and legality of the SYP and the Permits issued by California. On March 31, 1999, the *USWA lawsuit* was filed also challenging the validity and legality of the SYP. The Company believes that appropriate procedures were followed throughout the public review and approval process concerning the HCP and the SYP, and the Company is working with the relevant government agencies to defend these challenges. Although uncertainties are inherent in the final outcome of the *EPIC-SYP/Permits lawsuit* and the *USWA lawsuit*, the Company believes that the resolution of these matters should not result in a material adverse effect on its financial condition, results of operations or the ability to harvest timber.

In connection with a February 2001 notice of intent to sue Pacific Lumber, on July 24, 2001, the *Bear Creek lawsuit* was filed. The lawsuit alleges that Pacific Lumber's harvesting and other activities under certain of its approved and proposed THPs will result in discharges of pollutants in violation of the CWA. The plaintiff asserts that the CWA requires the defendants to obtain a permit from the North Coast Water Board before beginning timber harvesting and road construction activities in the Bear Creek watershed, and is seeking to enjoin these activities until such permit has been obtained. The plaintiff also seeks civil penalties of up to $27,000 per day for the defendant's alleged continued violation of the CWA. The Company believes that the requirements under the HCP are adequate to ensure that sediment and pollutants from its harvesting activities will not reach levels harmful to the environment. Furthermore, EPA regulations specifically provide that such activities are not subject to CWA permitting requirements. The Company believes that it has strong legal defenses in this matter; however, there can be no assurance that this lawsuit will not have a material adverse effect on its consolidated financial condition or results of operations.

While the Company expects environmentally focused objections and lawsuits to continue, it believes that the HCP, the SYP and the Permits should enhance its position in connection with these continuing challenges and, over time, reduce or minimize such challenges.

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

The following should be read in conjunction with the financial statements in Part I, Item 1 of this Report and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statements and Supplementary Data" of the Form 10-K. Any capitalized terms used but not defined in this Item are defined in the "Glossary of Defined Terms" contained in Appendix A. Except as otherwise noted, all references to notes represent the Notes to the Condensed Consolidated Financial Statements included in Item 1.

This Quarterly Report on Form 10-Q contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this section, in Item 3. "Quantitative and Qualitative Disclosures About Market Risk," and in Part II. Item 1. "Legal Proceedings." Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, new or modified statutory or regulatory requirements, and changing prices and market conditions. This Form 10-Q and the Form 10-K identify other factors that could cause such differences between the forward-looking statements and actual results. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

Results of Operations

The Company's wholly owned subsidiary, MGI, and its operating subsidiaries, Pacific Lumber and Britt, are engaged in forest products operations. The Company's business is somewhat seasonal, and its net sales have been historically higher in the months of April through November than in the months of December through March. Management expects that the Company's revenues and cash flows will continue to be somewhat seasonal. Accordingly, the Company's results for any one quarter are not necessarily indicative of results to be expected for the full year.

In recent years, MGI has experienced reduced harvests on its properties, and as a result, production of lumber has decreased. The decline in harvest levels is a result of the difficulties with THPs described under "—Trends." Furthermore, logging costs have increased due to the harvest of smaller diameter logs and compliance with environmental regulations and the Environmental Plans. MGI's management is currently reevaluating MGI's operations in view of these continuing challenges. In connection with the closure of one of its mills, MGI recognized a writedown of $0.7 million (see Note 2). A second mill has also been idled; however, a decision has not been made as to whether this mill will close permanently. Further reductions or curtailments in sawmill or other operations may occur during the next year as MGI completes its evaluation process, and additional potentially significant writedowns of the investment in certain assets may be required.

The following table presents selected operational and financial information for the three and nine months ended September 30, 2001 and 2000.

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
	(In millions of dollars, except shipments and prices)			
Shipments:				
Lumber: (1)				
Redwood upper grades	3.6	4.0	12.1	11.3
Redwood common grades	41.5	33.4	123.6	110.0
Douglas-fir upper grades	2.0	2.7	6.7	8.4
Douglas-fir common grades	11.4	20.1	44.2	59.0
Other	1.0	0.5	3.6	5.2
Total lumber	59.5	60.7	190.2	193.9
Wood chips (2)	29.6	48.8	90.2	133.3
Average sales price:				
Lumber: (3)				
Redwood upper grades	$ 1,739	$ 1,820	$ 1,788	$ 1,760
Redwood common grades	570	719	595	740
Douglas-fir upper grades	1,287	1,374	1,341	1,340
Douglas-fir common grades	357	356	343	383
Wood chips (4)	64	70	67	68
Net sales:				
Lumber, net of discount	$ 36.5	$ 42.0	$ 119.2	$ 135.8
Wood chips	1.9	3.4	6.1	9.0
Cogeneration power	2.0	1.6	9.4	3.2
Other	6.6	2.4	10.4	4.7
Total net sales	$ 47.0	$ 49.4	$ 145.1	$ 152.7
Operating income (loss)	$ (1.2)	$ 0.1	$ (4.8)	$ 14.3
Operating cash flow (5)	$ 5.0	$ 5.4	$ 11.6	$ 29.1
Income (loss) before income taxes	$ 9.4	$ (14.9)	$ 7.3	$ (8.8)
Net income (loss) (6)	$ 12.6	$ (12.2)	$ 23.1	$ (3.9)

(1) Lumber shipments are expressed in millions of board feet.
(2) Wood chip shipments are expressed in thousands of bone dry units of 2,400 pounds.
(3) Dollars per thousand board feet.
(4) Dollars per bone dry unit.
(5) Operating income before depletion and depreciation, also referred to as "EBITDA."
(6) 2001 results include an after-tax extraordinary gain of $3.6 million for the nine month period on the repurchase of MGHI Notes. 2000 results for the three and nine month periods include after-tax extraordinary gains of $0.6 million and $2.0 million, respectively, on the repurchase of Timber Notes.

Net Sales

Net sales for the third quarter and first nine months of 2001 were negatively impacted by lower lumber prices, with lower prices for common grade redwood lumber being the primary contributor to the decline. In addition, shipments of lumber declined slightly for the third quarter and nine months ended September 30, 2001, versus the comparable prior year periods. The Company had higher sales volumes for redwood common grade lumber; however, this was more than offset by lower shipments of common grade Douglas fir lumber.

Operating Income (Loss)

The Company experienced operating losses for the third quarter and first nine months of 2001 compared to operating income for the same periods of 2000. With respect to the third quarter results, despite the decline in net sales, gross margins on lumber sales were flat period to period as a result of a decline in cost of sales. The operating loss for the third quarter of 2001 was primarily due to lower gross margins on other products, higher general and administrative expenses, and a $0.7 million asset impairment charge (see Note 2). In addition to the items impacting the third quarter, results for the nine months ended September 30, 2001, reflect higher costs associated with lumber production and logging operations.

Income (Loss) Before Income Taxes

The Company had losses before income taxes for the third quarter and first nine months of 2000 as compared to income before income taxes for the comparable current year periods. This was primarily due to increases in equity of earnings (loss) of Kaiser from $(5.9) million for the third quarter of 2000 to $23.7 million for the third quarter of 2001, and from $2.1 million for the nine months ended September 30, 2000, to $43.3 million for the nine months ended September 30, 2001. Kaiser's results improved largely as a result of non-recurring gains on power sales in addition to a gain from the sale of an interest in an alumina partnership during the third quarter of 2001.

Benefit in Lieu of Income Taxes

The effective benefit in lieu of income taxes differs from the statutory rate primarily due to disallowance of a portion of the Company's net operating loss carryforwards for state tax purposes, and the exclusion of equity in earnings (loss) of Kaiser from taxable income.

Financial Condition and Investing and Financing Activities

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See above for cautionary information with respect to such forward-looking statements.

Note 7 to the Consolidated Financial Statements in the Form 10-K contains additional information concerning the Company's indebtedness and information concerning certain restrictive debt covenants. **"MGHI Parent"** is used in this section to refer to the Company on a stand-alone basis without its subsidiaries.

The following table summarizes certain data related to financial condition and to investing and financing activities of the Company and its subsidiaries.

	Scotia LLC	Pacific Lumber	MGI and Other	MGHI Parent	Total
	(In millions of dollars)				
Debt and credit facilities (excluding intercompany notes)					
Short-term borrowings and current maturities of long-term debt:					
September 30, 2001	$ 17.2	$ 18.1	$ 2.1	$ –	$ 37.4
December 31, 2000	16.4	37.1	–	–	53.5
Long-term debt, excluding current maturities:					
September 30, 2001	$ 752.2 (1)	$ 0.5	$ 120.0 (3)	$ 88.2 (1)	$ 960.9
December 31, 2000	767.2	0.6	–	118.8	886.6
Revolving credit facilities:					
Facility commitment amounts	$ 60.9	$ 50.0	$ 2.5	$ –	$ 113.4
September 30, 2001:					
Borrowings	–	18.0	–	–	18.0
Letters of credit	–	11.5	–	–	11.5
Unused and available credit	60.9	14.8	2.5	–	78.2
Cash, cash equivalents, marketable securities and other investments					
September 30, 2001:					
Current amounts restricted for debt service	$ 30.8	$ –	$	$ –	$ 30.8
Other current amounts	2.5	0.6	28.9	36.0	68.0
	33.3	0.6	28.9	36.0	98.8
Long-term amounts restricted for debt service	87.9	–	–	–	87.9
Other long-term restricted amounts	–	–	2.2	–	2.2
	87.9	–	2.2	–	90.1
	$ 121.2	$ 0.6	$ 31.1	$ 36.0	$ 188.9

Table and Notes continued on next page

	Scotia LLC	Pacific Lumber	MGI and Other	MGHI Parent	Total
	(In millions of dollars)				
December 31, 2000:					
Current amounts restricted for debt service	$ 45.8	$ –	$ –	$ –	$ 45.8
Other current amounts	68.6	0.2	61.7	54.3	184.8
	114.4	0.2	61.7	54.3	230.6
Long-term amounts restricted for debt service	92.1	–	–	–	92.1
Other long-term restricted amounts	2.5	–	2.0	–	4.5
	94.6	–	2.0	–	96.6
	$ 209.0	$ 0.2	$ 63.7	$ 54.3	$ 327.2
Changes in cash and cash equivalents					
Capital expenditures:					
September 30, 2001	$ 4.2	$ 4.9	$ 132.5 [3]	$ –	$ 141.6
September 30, 2000	6.1	3.3	1.6	–	11.0
Net proceeds from dispositions of property and investments:					
September 30, 2001	$ –	$ –	$ –	$ –	$ –
September 30, 2000	–	0.3	–	–	0.3
Borrowings (repayments) of debt and credit facilities, net of financing costs:					
September 30, 2001	$ (14.2) [1]	$ (19.2)	$ 117.0 [3]	$ (25.1) [1]	$ 58.5
September 30, 2000	(11.3)	21.2	7.3	(13.1)	4.1
Dividends and advances received (paid):					
September 30, 2001	$ (77.4) [2]	$ 83.8 [2]	$ (23.5) [2]	$ 17.1 [2]	$ –
September 30, 2000	–	50.0	(158.4)	63.4	(45.0)

(1) The decrease in Scotia LLC's long-term debt between December 31, 2000, and September 30, 2001, was the result of principal payments on the Timber Notes of $14.2 million during the nine months ended September 30, 2001. The decrease in MGHI Parent's long-term debt was due primarily to repurchases of debt.

(2) For the nine months ended September 30, 2001, $77.4 million of dividends were paid by Scotia LLC to Pacific Lumber, $63.9 million of which was made using proceeds from the sale of the Scotia LLC's Owl Creek grove. In addition to the $77.4 million of dividends from Scotia LLC, Pacific Lumber received $6.4 million from MGI related to repayment of intercompany debt. For the nine months ended September 30, 2000, $90.0 million of the dividends paid from MGI to MGHI were made using proceeds from the sale of the Headwaters Timberlands. MGHI in turn paid a $45.0 million dividend to MAXXAM Parent.

(3) The increase in debt and capital expenditures for MGI and other subsidiaries is attributable to the Lake Pointe Plaza acquisition and related borrowings described in Note 3.

MGHI Parent expects that interest payments on the $88.2 million of MGHI Notes outstanding as of September 30, 2001, will be paid with its existing cash.

On August 14, 2001, the Pacific Lumber Credit Agreement was renewed. The new facility provides for a $50.0 million two-year revolving line of credit as compared to a $60.0 million line of credit under the expired facility. On each anniversary date (subject to the consent of the lender), the Pacific Lumber Credit Agreement may be extended by one year. The other terms and conditions are substantially the same as those under the expired facility. At September 30, 2001, $18.0 million of borrowings and $11.5 million in letters of credit were outstanding under the Pacific Lumber Credit Agreement. Unused availability was limited to $14.8 million at September 30, 2001.

The Scotia LLC Line of Credit allows Scotia LLC to borrow up to one year's interest on the Timber Notes. On June 1, 2001, this facility was extended for an additional year to July 12, 2002.

During the nine months ended September 30, 2001, Scotia LLC used $67.3 million set aside in the note payment account to pay the $57.4 million of interest due as well as $9.9 million of principal. Scotia LLC repaid an additional $4.3 million of principal on the Timber Notes using funds held in the SAR Account, resulting in total principal payments of $14.2 million, an amount equal to Scheduled Amortization. In addition, Scotia LLC made distributions in the amount of $77.4 million to its parent, Pacific Lumber, $63.9 million of which was made using funds from the December 2000 sale of the Owl Creek grove and $13.5 million of which was made using excess funds released from the SAR Account.

In June 2001, Lakepointe Assets purchased Lake Pointe Plaza, an office complex located in Sugarland, Texas, for a purchase price of $131.3 million. The transaction was financed with proceeds of $122.5 million, net of $5.2 million in deferred financing costs, from the Lakepointe Notes ($122.5 million principal amount with a final maturity date of June 8, 2021, and an interest rate of 7.56%), and with a cash payment of $14.0 million. Lakepointe Assets acquired the property subject to two leases to existing tenants while simultaneously leasing a majority of the premises, representing all of the remaining space, to an affiliate of the seller. The office complex is fully leased for a period of 20 years under these three leases.

MGHI Parent believes that its existing resources, together with the cash available from subsidiaries, will be sufficient to fund its debt service and working capital requirements for the next year. With respect to its long-term liquidity, MGHI Parent believes that its existing cash and cash resources, together with payments by MAXXAM on the MAXXAM Note, should be sufficient to meet its debt service and working capital requirements. However, there can be no assurance that this will be the case. The regulatory and environmental matters described under "—Trends" below have adversely affected cash available from subsidiaries and therefore the distributions to MGHI Parent. Distributions from subsidiaries may continue to be minimal, if any, over the next one to two years.

Due to its highly leveraged condition, MGI is more sensitive than less leveraged companies to factors affecting its operations, including governmental regulation and litigation affecting its timber harvesting practices (see "—Trends" below and Note 8), increased competition from other lumber producers or alternative building products and general economic conditions. MGI and its subsidiaries anticipate that existing cash, cash equivalents, marketable securities, funds available from the SAR Account and available sources of financing will be sufficient to fund their working capital, debt service and capital expenditure requirements for the next year. With respect to Pacific Lumber, its liquidity improved significantly as a result of $78.7 million in distributions paid by Scotia LLC, and $6.4 million in repayments on an intercompany loan by MGI during the period from January 1, 2001 to October 31, 2001. Nevertheless, Pacific Lumber expects that near-term cash flows from operations will be adversely affected by lower lumber prices, an inadequate supply of logs and a related slowdown in lumber production. Pacific Lumber may require funds available under Pacific Lumber's revolving credit agreement, additional repayments by MGI of an intercompany loan and/or capital contributions from MGI to enable it to meet its working capital and capital expenditure requirements for the next year. With respect to their long-term liquidity, MGI and its subsidiaries believe that their existing cash and cash equivalents should provide sufficient funds to meet their debt service and working capital requirements. However, until such time as Pacific Lumber has adequate cash flows from operations and/or dividends from Scotia LLC, there can be no assurance that this will be the case.

Trends

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See above for cautionary information with respect to such forward-looking statements.

The Company's forest products operations are conducted by MGI through Pacific Lumber and Britt. Regulatory and environmental matters play a significant role in Pacific Lumber's operations. See Note 8 and Item 1. "Business—Forest Products Operations—Regulatory and Environmental Factors" of the Form 10-K for a discussion of these matters. Regulatory compliance and related litigation have caused delays in obtaining approvals of THPs and delays in harvesting on THPs once they are approved. This has resulted in a decline in harvest, an increase in the cost of logging operations, and lower net sales.

Since the consummation of the Headwaters Agreement on March 1, 1999, there has been a significant amount of work required in connection with the implementation of the Environmental Plans, and this work is expected to continue for several more years. During the implementation period, government agencies have thus far failed to approve THPs in a timely manner. The rate of approvals of THPs during the nine months ended September 30, 2001, has improved over that for the prior year; however, it continues to be below what Pacific Lumber requires to meet its targeted harvest levels under the SYP. Nevertheless, Pacific Lumber anticipates that once the Environmental Plans are fully implemented, the process of preparing THPs will become more streamlined, and the time to obtain approval of THPs will potentially be shortened.

There can be no assurance that Pacific Lumber will not continue to experience difficulties in receiving approvals of its THPs similar to those it has been experiencing. Furthermore, there can be no assurance that certain pending legal, regulatory and environmental matters or future governmental regulations, legislation or judicial or administrative decisions, or adverse weather conditions, would not have a material adverse effect on the Company's financial position, results of operations or liquidity. See Part II. Item 1. "Legal Proceedings" and Note 8 for further information regarding regulatory and legal proceedings affecting the Company's operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for cautionary information with respect to such forward-looking statements.

This item is not applicable for the Company and its subsidiaries; however, Kaiser, the Company's equity investee, utilizes hedging transactions to lock-in a specified price or range of prices for certain products which it sells or consumes and to mitigate its exposure to changes in foreign currency exchange rates. See Item 3. "Quantitative and Qualitative Disclosures about Market Risk" from Kaiser's Quarterly Report on Form 10-Q filed for the period ended September 30, 2001, included as Exhibit 99.1 hereto, for information relative to Kaiser's hedging activities.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Item 3 of the Form 10-K for information concerning material legal proceedings with respect to the Company. The following material developments have occurred with respect to such legal proceedings subsequent to the filing of the Form 10-K.

Timber Harvesting Litigation

With respect to the *EPIC-SYP Permits lawsuit* and the *USWA lawsuit*, the November 2001 trial date for each of these lawsuits has been postponed, and no new trial date for either of these lawsuits has been set.

With respect to a February 2001 notice of intent to sue Pacific Lumber, on July 24, 2001, the *Bear Creek lawsuit* was filed. The lawsuit alleges that Pacific Lumber's harvesting and other activities under certain of its approved and proposed THPs will result in discharges of pollutants in violation of the CWA. The plaintiff asserts that the CWA requires the defendants to obtain a permit from the North Coast Water Board before beginning timber harvesting and road construction activities in the Bear Creek watershed, and is seeking to enjoin these activities until such permit has been obtained. The plaintiff also seeks civil penalties of up to $27,000 per day for the defendant's alleged continued violation of the CWA. The Company believes that the requirements under the HCP are adequate to ensure that sediment and pollutants from its harvesting activities will not reach levels harmful to the environment. Furthermore, EPA regulations specifically provide that such activities are not subject to CWA permitting requirements. The Company continues to believe that it has strong legal defenses in this matter; however, there can be no assurance that this lawsuit will not have a material adverse effect on its consolidated financial condition or results of operations.

Hunsaker Action

With respect to the *Hunsaker action*, on July 9, 2001, the U.S. Ninth Circuit Court of Appeals affirmed the District Court's dismissal of the case.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:

- *4.1 Amended and Restated Credit Agreement, dated as of August 14, 2001, between Pacific Lumber and Bank of America, N.A.
- *99.1 Item 3. to Kaiser's Form 10-Q for the quarterly period ended September 30, 2001

* Included with this filing.

b. Reports on Form 8-K:

None.

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 have signed this report on behalf of the Registrant and as the principal financial and accounting officers of the Registrant, respectively.

MAXXAM GROUP HOLDINGS INC.

Date: November 13, 2001

By: /S/ PAUL N. SCHWARTZ
Paul N. Schwartz
Vice President, Chief Financial Officer and Director
(Principal Financial Officer)

Date: November 13, 2001

By: /S/ ELIZABETH D. BRUMLEY
Elizabeth D. Brumley
Controller
(Principal Accounting Officer)

APPENDIX A

Glossary of Defined Terms

Bear Creek lawsuit: An action entitled *Environmental Protection Information Association v. Pacific Lumber, Scotia Pacific Company LLC* (No. C01-2821), filed July 24, 2001, in the U.S. District Court in the Northern District of California

Britt: Britt Lumber Co., Inc., a wholly owned subsidiary of MGI

CDF: California Department of Forestry and Fire Protection

CESA: California Endangered Species Act

Company: MAXXAM Group Holdings Inc., a wholly owned subsidiary of MAXXAM

CWA: Federal Clean Water Act

Environmental Plans: The HCP and the SYP

EPA: Environmental Protection Agency

EPIC–SYP/Permits lawsuit: An action entitled *Environmental Protection Information Association, Sierra Club v. California Department of Forestry and Fire Protection, California Department of Fish and Game, The Pacific Lumber Company, Scotia Pacific Company LLC, Salmon Creek Corporation, et al.* (No. 99CS00639) filed March 31, 1999 in the Superior Court of Sacramento County

Equity Fund Partnership: A partnership investing in equity securities in which the Company holds a limited partnership interest

ERF lawsuit: An action entitled *Ecological Rights Foundation, Mateel Environmental v. Pacific Lumber* (No. 97-0292) which was filed in the U.S. District Court in the Northern District of California on January 28, 1997

ESA: The federal Endangered Species Act

Form 10-K: The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2000

HCP: The habitat conservation plan covering multiple species approved on March 1, 1999, in connection with the consummation of the Headwaters Agreement

Headwaters Agreement: The September 28, 1996, agreement between Pacific Lumber, Scotia LLC, Salmon Creek, the United States and California which provided the framework for the acquisition by the United States and California of the Headwaters Timberlands

Headwaters Timberlands: Approximately 5,600 acres of Pacific Lumber timberlands consisting of two forest groves commonly referred to as the Headwaters Forest and the Elk Head Springs Forest which were sold to the United States and California on March 1, 1999

Hunsaker action: An action entitled *William Hunsaker, et al. v. Charles E. Hurwitz, Pacific Lumber, MAXXAM Group Inc., MXM Corp., Federated Development Company and Does 1-50* (No. C 98-4515) filed in the United States District Court for the Northern District of California on November 24, 1998

Kaiser: Kaiser Aluminum Corporation, an equity investee of the Company engaged in aluminum operations

Kaiser Shares: 27,938,250 shares of the common stock of Kaiser, of which 23,443,953 shares are pledged as collateral for the MGHI Notes

Lakepointe Assets: Lakepointe Assets Holdings LLC, a limited liability company, and its subsidiaries, all of which are indirect wholly owned subsidiaries of the Company

Lakepointe Notes: Lakepointe Assets' $122.5 million of 7.56% notes due June 8, 2021

MAXXAM: MAXXAM Inc.

MAXXAM Note: Intercompany note issued by MAXXAM to the Company for an initial principal amount of $125.0 million

MGHI Notes: 12% Senior Secured Notes of the Company due August 1, 2003

MGI: MAXXAM Group Inc., a wholly owned subsidiary of the Company

North Coast Water Board: North Coast Regional Water Quality Control Board

Pacific Lumber: The Pacific Lumber Company, a wholly-owned subsidiary of MGI

Pacific Lumber Credit Agreement: The revolving credit agreement between Pacific Lumber and a bank which provides for borrowings of up to $50.0 million

Permits: The incidental take permits issued by the United States and California pursuant to the HCP

Salmon Creek: Salmon Creek LLC, a wholly owned subsidiary of Pacific Lumber

SAR Account: Funds held in a reserve account to support principal payments on the Timber Notes

Scheduled Amortization: The amount of principal which Scotia LLC must pay through each Timber Note payment date in order to avoid prepayment or deficiency premiums

Scotia LLC: Scotia Pacific Company LLC, a limited liability company wholly owned by Pacific Lumber

Scotia LLC Line of Credit: The agreement between a group of lenders and Scotia LLC pursuant to which it may borrow in order to pay up to one year's interest on the Timber Notes

SFAS No. 133: Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities"

SFAS No. 143: Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations"

SYP: The sustained yield plan approved on March 1, 1999, in connection with the consummation of the Headwaters Agreement

THP: Timber harvesting plan required to be filed with and approved by the CDF prior to the harvesting of timber

Timber Notes: Scotia LLC's $867.2 million original aggregate principal amount of 6.55% Series B Class A-1 Timber Collateralized Notes, 7.11% Series B Class A-2 Timber Collateralized Notes and 7.71% Series B Class A-3 Timber Collateralized Notes due July 20, 2028

Timber Notes Indenture: The indenture governing the Timber Notes

TMDLs: Total maximum daily load limits

USWA lawsuit: An action entitled *United Steelworkers of America, AFL-CIO, CLC, and Donald Kegley v. California Department of Forestry and Fire Protection, The Pacific Lumber Company, Scotia Pacific Company LLC and Salmon Creek Corporation* (No. 99CS00626) filed March 31, 1999 in the Superior Court of Sacramento County

Wrigley lawsuit: An action entitled *Kristi Wrigley, et al. v. Charles Hurwitz, John Campbell, Pacific Lumber, MAXXAM Group Holdings Inc., Scotia Pacific Holding Company, MAXXAM Group Inc., MAXXAM Inc., Scotia Pacific Company LLC and Federated Development Company* (No. 9700399) filed December 2, 1997 in the Superior Court of Humboldt County