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 March 31, 2002

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 ☒ No ☐

Number of shares of common stock outstanding at May 17, 2002: 1,000

Registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10‑Q 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)

	March 31, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Current assets:		
Cash, cash equivalents and restricted cash	$ 28.9	$ 66.0
Marketable securities	53.0	53.6
Receivables:		
Trade	16.3	12.5
Receivables from MAXXAM	3.4	8.5
Other	1.6	2.1
Inventories	45.7	51.4
Prepaid expenses and other current assets	15.2	17.5
Total current assets	164.1	211.6
Property, plant and equipment, net of accumulated depreciation of $103.7 and $100.1, respectively	223.0	224.9
Timber and timberlands, net of accumulated depletion of $196.4 and $193.7, respectively	233.5	235.0
Note receivable from MAXXAM	193.2	183.1
Deferred financing costs, net	22.2	22.8
Deferred income taxes	15.7	13.4
Restricted cash, marketable securities and other investments	56.8	89.8
Other assets	9.2	6.8
	$ 917.7	$ 987.4
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current liabilities:		
Accounts payable	$ 5.9	$ 5.7
Accrued interest	13.0	30.5
Accrued compensation and related benefits	10.4	12.4
Deferred income taxes	8.3	6.8
Other accrued liabilities	6.8	8.0
Short-term borrowings and current maturities of long-term debt, excluding $2.4 and $2.3, respectively, of repurchased Timber Notes held in the SAR Account	17.7	35.5
Total current liabilities	62.1	98.9
Long-term debt, less current maturities and excluding $53.5 and $55.4, respectively, of repurchased Timber Notes held in the SAR Account	933.0	962.7
Deferred income taxes	19.0	19.5
Other noncurrent liabilities	29.3	28.3
Total liabilities	1,043.4	1,109.4
Contingencies (See Note 7)		
Stockholder's deficit:		
Common stock, $1.00 par value; 3,000 shares authorized; 1,000 shares issued and outstanding	–	–
Additional capital	123.2	123.2
Accumulated deficit	(248.6)	(245.5)
Accumulated other comprehensive income (loss)	(0.3)	0.3
Total stockholder's deficit	(125.7)	(122.0)
	$ 917.7	$ 987.4

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 March 31, 2002	Three Months Ended March 31, 2001
	(Unaudited)	
Net sales:		
Lumber and logs	$ 44.5	$ 37.8
Other	5.6	7.0
	50.1	44.8
Operating expenses:		
Cost of goods sold	35.4	40.0
Selling, general and administrative expenses	5.0	4.4
Depletion and depreciation	6.7	4.9
	47.1	49.3
Operating income (loss)	3.0	(4.5)
Other income (expense):		
Equity in earnings of Kaiser	–	42.0
Investment, interest and other income (expense), net	8.5	9.3
Interest expense	(19.7)	(18.6)
Income (loss) before income taxes and extraordinary item	(8.2)	28.2
Benefit in lieu of income taxes	3.3	5.5
Income (loss) before extraordinary item	(4.9)	33.7
Extraordinary item:		
Gains on repurchases of debt, net of provision in lieu of income taxes of $1.0 for each period	1.8	1.9
Net income (loss)	$ (3.1)	$ 35.6

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)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ (3.1)	$ 35.6
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depletion and depreciation	6.7	4.9
Extraordinary gains on repurchases of debt	(1.8)	(1.9)
Equity in undistributed earnings of Kaiser	–	(42.0)
Amortization of deferred financing costs	0.6	0.5
Net gain on marketable securities	(0.2)	(0.7)
Deferral of interest payment on note receivable from MAXXAM.	(10.1)	(9.0)
Increase (decrease) in cash resulting from changes in:		
Receivables	1.7	1.1
Inventories, net of depletion	5.4	8.1
Prepaid expenses and other current assets	1.2	(0.3)
Accounts payable	(1.2)	(2.2)
Accrued interest	(17.4)	(19.1)
Accrued and deferred income taxes	(3.3)	(6.8)
Other liabilities	1.0	2.4
Long-term assets and long-term liabilities	(3.0)	(2.2)
Net cash used for operating activities	(23.5)	(31.6)
Cash flows from investing activities:		
Proceeds from dispositions of property and investments	0.9	–
Net sales (purchases) of marketable securities	1.4	(39.6)
Capital expenditures	(2.5)	(3.0)
Net cash used for investing activities	(0.2)	(42.6)
Cash flows from financing activities:		
Borrowings (repayments) under revolving credit agreements	(18.3)	(37.0)
Redemptions, repurchases of and principal payments on long-term debt	(26.3)	(24.2)
Restricted cash withdrawals (deposits), net	31.2	9.7
Net cash used for financing activities	(13.4)	(51.5)
Net decrease in cash and cash equivalents and restricted cash	(37.1)	(125.7)
Cash, cash equivalents and restricted cash at beginning of period	66.0	201.7
Cash, cash equivalents and restricted cash at end of period	$ 28.9	$ 76.0
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	$ 36.5	$ 37.1
Tax allocation payments to MAXXAM	–	1.3

The accompanying notes are an integral part of these 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 March 31, 2002, and the consolidated results of operations and cash flows for the three months ended March 31, 2002 and 2001. The Company is a wholly owned subsidiary of MAXXAM.

Liquidity and Cash Resources

Pacific Lumber's 2001 cash flows from operations were adversely affected by operating inefficiencies, lower lumber prices, an inadequate supply of logs and a related slowdown in lumber production. During 2001, comprehensive external and internal reviews were conducted of Pacific Lumber's business operations. These reviews were conducted in an effort to identify ways in which Pacific Lumber could operate on a more efficient and cost effective basis. Based upon the results of these reviews, Pacific Lumber, among other things, indefinitely idled two of its four sawmills, eliminated certain of its operations, including its soil amendment and concrete block activities, began utilizing more efficient harvesting methods and adopted certain other cost saving measures. Most of these changes were implemented by Pacific Lumber in the last quarter of 2001, or the first quarter of 2002. Pacific Lumber also ended its internal logging operations (which performed approximately half of its logging operations) as of March 31, 2002, and intends to rely exclusively on third party contract loggers to conduct these activities in the future. In connection with these changes, the Company recorded an impairment charge to operating costs of $2.2 million in the fourth quarter of 2001.

The $29.4 million release from the SAR Account discussed in Note 3 improved Pacific Lumber's liquidity. However, Pacific Lumber may require funds available under the Pacific Lumber 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 long-term liquidity, although MGI and its subsidiaries expect that their existing cash and cash equivalents, lines of credit and ability to generate cash flows from operations should provide sufficient funds to meet their debt service, working capital and capital expenditure requirements, 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.

Comprehensive Income (Loss)

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net income (loss)	$ (3.1)	$ 35.6
Cumulative effect of accounting change	–	0.7
Unrealized net losses on derivative instruments arising during the period	–	(1.1)
Less reclassification adjustment for realized net gains on derivative instruments included in net income	–	(4.0)
Change in value of available-for-sale investments, net of income tax (provision) benefit of $0.5 and $(0.2), respectively	(0.6)	0.3
Comprehensive income (loss)	$ (3.7)	$ 31.5

Investment in Kaiser

The Company's investment in Kaiser consists of a 34.6% equity interest at March 31, 2002. As of December 31, 2001, the Company's investment in Kaiser was accounted for under the equity method. On February 12, 2002, Kaiser filed a voluntary petition under Chapter 11 of the Code. As a result of such filing, the Company began reporting its investment in Kaiser under the cost method with no further recognition of equity in earnings or losses until such time as the shares are disposed of or a plan of reorganization is implemented. See Note 5 for further discussion of the Company's investment in Kaiser.

New Accounting Standards

In June 2001, the FASB 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. In general, SFAS No. 143 requires the recognition of a liability resulting from anticipated asset retirement obligations, offset by an increase in the value of the associated productive asset for such anticipated costs. Over the life of the asset, depreciation expense is to include the ratable expensing of the retirement cost included with the asset value. The statement applies to all legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, or development and (or) the normal operation of a long-lived asset, except for certain lease obligations. Excluded from this statement are obligations arising solely from a plan to dispose of a long-lived asset and obligations that result from the improper operation of an asset (i.e., certain types of environmental obligations). The Company is continuing its evaluation of SFAS No. 143. However, the Company does not currently expect the adoption of SFAS No. 143 to have a material impact on its future financial statements.

In August 2001, the FASB issued SFAS No. 144 which sets forth new guidance for accounting and reporting for impairment or disposal of long-lived assets. The provisions of SFAS No. 144 were effective for the Company beginning on January 1, 2002. Based on presently available estimates, the new impairment and disposal rules did not result in the recognition of material impairment losses in 2002 beyond those reported as of December 31, 2001 (see Note 2). In addition to the new guidance on impairments, SFAS No. 144 broadens the applicability of the provisions of Accounting Principles Board Opinion 30 for the presentation of discontinued operations in the income statement to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Effective after December 31, 2001, when the Company commits to a plan of sale of a component of an entity, such component will be presented as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component. Although this provision will not affect the total amount reported for net income, the income statements of prior periods will be reclassified to report the results of operations of the component separately when a component of an entity is reported as a discontinued operation. The Company does not currently expect the adoption of SFAS No. 144 to have a material impact on its financial statements.

In April 2002, the FASB issued SFAS No. 145 which rescinds the previous guidance for debt extinguishments. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe applicability under changed conditions. SFAS No. 145 eliminates the requirement that gains and losses from extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. However, transactions would not be prohibited from extraordinary item classification if they meet the criteria in APB Opinion 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Applying the provisions of APB 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. This statement is effective for fiscal years beginning after May 15, 2002. The Company does not expect the adoption of SFAS No. 145 to have a material impact on its financial statements.

2. Segment Information and Special Items

The following table presents unaudited financial information by reportable segment (in millions).

	Forest Products	Real Estate	Corporate and Other	Consolidated Total
Net sales for the three months ended:				
March 31, 2002	$ 47.9	$ 2.2	$ –	$ 50.1
March 31, 2001	44.8	–	–	44.8
Operating income (loss) for the three months ended:				
March 31, 2002	2.5	0.8	(0.3)	3.0
March 31, 2001	(4.5)	–	–	(4.5)
Other income (expense), net for the three months ended:				
March 31, 2002	(11.8)	(2.4)	3.0	(11.2)
March 31, 2001	(11.3)	–	44.0	32.7
Total assets as of:				
March 31, 2002	559.8	132.3	225.6	917.7
December 31, 2001	610.8	133.7	242.9	987.4

The column entitled "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.

Special Items

In connection with the operational changes described in Note 1, the Company identified machinery and equipment that it no longer needed for its current or future operations and committed to a plan in 2001 to dispose of it during 2002. As of March 31, 2002, machinery and equipment with a carrying value of $1.0 million had been sold, resulting in a gain of $1.3 million.

A $2.6 million restructuring charge was recorded in the fourth quarter of 2001 reflecting cash termination benefits associated with the separation of approximately 305 employees as part of an involuntary termination plan. As of March 31, 2002, 276 of the affected employees had left the Company. The remainder are expected to leave by the second quarter of 2002.

3. Cash, Marketable Securities and Other Investments

Restricted Cash, Marketable Securities and Other Investments

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

	March 31, 2002	December 31, 2001
Current assets:		
Cash and cash equivalents:		
Other restricted cash and cash equivalents	$ 6.1	$ 35.4
Marketable securities, restricted:		
Amounts held in SAR Account	17.7	17.1
Long-term restricted cash, marketable securities and other investments:		
Amounts held in SAR Account	102.5	137.8
Other amounts restricted under the Timber Notes Indenture	2.7	2.8
Other long-term restricted cash	2.2	2.2
Less: Amounts attributable to Timber Notes held in SAR Account	(50.6)	(53.0)
	56.8	89.8
Total restricted cash, marketable securities and other investments	$ 80.6	$ 142.3

On March 5, 2002, Scotia LLC notified the trustee for the Timber Notes that it had met all of the requirements of the SAR Reduction Date, as defined in the Timber Notes Indenture. Accordingly, on March 20, 2002, Scotia LLC released $29.4 million from the SAR Account and distributed this amount to Pacific Lumber.

Other Investments

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. This investment is not consolidated, but is accounted for under the equity method. 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).

	March 31, 2002	December 31, 2001
Investment in Equity Fund Partnership:		
Restricted	$ 7.7	$ 10.6
Unrestricted	25.9	36.5
	$ 33.6	$ 47.1
Percentage of ownership held	10.3%	13.7%

As of March 31, 2002, long-term restricted cash, marketable securities, and other investments also included $4.9 million related to an investment in a limited partnership which invests in, among other things, debt and equity securities associated with developed and emerging markets.

4. Inventories

Inventories consist of the following (in millions):

	March 31, 2002	December 31, 2001
Lumber	$ 29.9	$ 29.3
Logs	15.8	22.1
	$ 45.7	$ 51.4

Substantially all product inventories are stated at last-in, first-out (LIFO) cost, not in excess of market. Replacement cost is not in excess of LIFO cost.

5. Investment in Kaiser

As of May 16, 2002, the Company has 27,938,250 shares of the common stock of Kaiser, of which 20,553,418 shares are pledged as collateral for the MGHI Notes. Kaiser operates in several principal aspects of the aluminum industry—the mining of bauxite into alumina, (the major aluminum-bearing ore), the refining of bauxite into alumina (the intermediate material), the production of primary aluminum and the manufacture of fabricated and semi-fabricated aluminum products. Kaiser's common stock is publicly traded on the OTC Bulletin Board under the trading symbol "KLUCQ."

On February 12, 2002, Kaiser filed a voluntary petition for reorganization under Chapter 11 of the Code. The necessity for filing the Cases was attributable to the liquidity and cash flow problems of Kaiser arising in late 2001 and early 2002. Kaiser was facing significant near-term debt maturities at a time of unusually weak aluminum industry business conditions, depressed aluminum prices and a broad economic slowdown that was further exacerbated by the events of September 11, 2001. In addition, Kaiser had become increasingly burdened by the asbestos litigation and growing legacy obligations for retiree medical and pension costs. The confluence of these factors created the prospect of continuing operating losses and negative cash flow, resulting in lower credit ratings and an inability to access the capital markets.

For 2001 and prior years, the Company accounted for its investment in Kaiser using the equity method. As a result of the Cases, the Company began reporting its investment in Kaiser under the cost method with no further recognition of equity in earnings or losses until such time as the shares are disposed of or a plan of reorganization is implemented. No assurances can be given that the Company's ownership interest in Kaiser will not be significantly diluted or cancelled.

When and if Kaiser emerges from the jurisdiction of the Court, the subsequent accounting will be determined based upon the facts and circumstances at the time, including the terms of any plan of reorganization.

On April 12, 2002, Kaiser filed with the Court a motion seeking an order of the Court prohibiting the Company (or MAXXAM), without first seeking Court relief, from making any disposition of its stock of Kaiser, including any sale, transfer, or exchange of such stock or treating any of its Kaiser stock as worthless for federal income tax purposes. Kaiser indicated in its Court filing that it was concerned that such a transaction could have the effect of depriving Kaiser of the ability to utilize the full value of its net operating losses, foreign tax credits and minimum tax credits. The Company is in the process of analyzing the motion and other materials which were filed with the Court.

The market value for the Kaiser Shares based on the price per share quoted at the close of business on May 16, 2002, was $1.5 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).

	March 31, 2002	December 31, 2001
Current assets	$ 679.5	$ 759.2
Property, plant and equipment, net	1,201.6	1,215.4
Other assets	780.9	769.1
Total assets	$ 2,662.0	$ 2,743.7
Liabilities not subject to compromise:		
Current liabilities	$ 368.6	$ 803.4
Long-term debt, less current maturities	43.1	700.8
Other liabilities	102.1	1,562.1
Liabilities subject to compromise	2,554.9	–
Minority interests	118.7	118.5
Stockholders' deficit	(525.4)	(441.1)
Total liabilities and stockholders' deficit	$ 2,662.0	$ 2,743.7

	Three Months Ended March 31, 2002	2001
Net sales	$ 370.6	$ 480.3
Costs and expenses	(407.3)	(264.9)
Other income (expenses) - net	(20.9)	(20.6)
Income (loss) before income taxes and minority interests	(57.6)	194.8
Provision for income taxes	(8.0)	(76.0)
Minority interests	1.5	0.8
Net income (loss)	$ (64.1)	$ 119.6
Equity in earnings (loss) of Kaiser	$ –	$ 42.0

6. Debt

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

	March 31, 2002	December 31, 2001
12% MGHI Notes due August 1, 2003	$ 71.3	$ 88.2
Pacific Lumber Credit Agreement	–	17.7
6.55% Scotia LLC Timber Notes due July 20, 2028	106.9	120.3
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
7.56% Lakepointe Notes due June 8, 2021	121.2	121.7
Other	0.7	1.5
	1,006.6	1,055.9
Less: current maturities	(17.7)	(35.5)
Timber Notes held in SAR Account	(55.9)	(57.7)
	$ 933.0	$ 962.7

The amount attributable to the Timber Notes held in the SAR Account of $50.6 million as of March 31, 2002, reflected in Note 3 above represents the amount paid to acquire $55.9 million of principal amount of Timber Notes.

During the three months ended March 31, 2002, the Company repurchased $16.9 million of the MGHI Notes, resulting in an extraordinary gain of $1.8 million (net of tax). Subsequent to March 31, 2002, the Company repurchased $10.0 million of the MGHI Notes resulting in an extraordinary gain of $0.3 million (net of tax).

With respect to the MAXXAM Note which is pledged to secure the MGHI Notes, the Company expects MAXXAM to pay the amount of the MAXXAM Note necessary to retire the MGHI Notes.

7. 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, dealing with timber harvesting practices, threatened and endangered species and habitat for such species, and air and water quality.

The SYP complies with regulations of the California Board of Forestry and Fire Protection 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 assessment of changes in the resource base and other factors. The HCP and incidental take permits related to the HCP 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 December 1999, the EPA issued a 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. The North Coast Water Board has begun the process of establishing the final TMDL requirements applicable to the Company's timberlands. This 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 in March 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 had until recently failed to approve THPs in a timely manner. The rate of approvals of THPs during 2001 improved over that for the prior year, and further improvements have been experienced thus far in 2002. Although delays in the approvals of THPs may from time to time continue to impact the Company's ability to meet its harvesting goals, 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 against Pacific Lumber. 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. On September 26, 2001, the plaintiffs sent Pacific Lumber a 60 day notice alleging that Pacific Lumber violated the CWA by discharging pollutants into certain waterways. Pacific Lumber has taken certain remedial actions since its receipt of the notice. The Company believes that it has strong factual and legal defenses with respect to the *ERF lawsuit*; however, there can be no assurance that it will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

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*; however, there can be no assurance that it 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, among other things, 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. August 5, 2002, has been set as the trial date. On March 31, 1999, the *USWA lawsuit* was filed also challenging the validity and legality of the SYP. June 10, 2002, has been set as the trial date. 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.

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 EPA has been joined as a defendant in this case. 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," 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 primarily in forest products operations. In addition, the Company added real estate operations to its business with the June 2001 acquisition of Lake Pointe Plaza, an office complex located in Sugar Land, Texas. The Company's forest products 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 this segment's revenues and cash flows will continue to be somewhat seasonal. Accordingly, the segment's results for any one quarter are not necessarily indicative of results to be expected for the full year. Real estate operations do not have any seasonality elements impacting the quarterly results.

Regulatory and environmental matters play a significant role in the Company's forest products operations. See Item 1. "Business—Forest Products Operations—Regulatory and Environmental Factors" of the Form 10-K and Note 7 to the Condensed Consolidated Financial Statements 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 in March 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 had until recently failed to approve THPs in a timely manner. The rate of approvals of THPs during 2001 improved over that for the prior year, and further improvements have been experienced thus far in 2002. Although delays in the approvals of THPs may from time to time continue to impact the Company's ability to meet its harvesting goals, 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.

While the Company has experienced recent improvements in the THP approval process, there can be no assurance that Pacific Lumber will not in the future have difficulties in receiving approvals of its THPs similar to those experienced in the past. Furthermore, there can be no assurance that certain pending legal, regulatory and environmental matters or future governmental regulations, legislation or judicial or administrative decisions, adverse weather conditions or low selling prices, 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 7 to the Condensed Consolidated Financial Statements for further information regarding regulatory and legal proceedings affecting the Company's operations.

During 2001, comprehensive external and internal reviews were conducted of Pacific Lumber's business operations. These reviews were conducted in an effort to identify ways in which Pacific Lumber could operate on a more efficient and cost effective basis. Based upon the results of these reviews, Pacific Lumber, among other things, indefinitely idled two of its four sawmills, eliminated certain of its operations, including its soil amendment and concrete block activities, began utilizing more efficient harvesting methods and adopted certain other cost saving measures. Most of these changes were implemented by Pacific Lumber in the last quarter of 2001, or the first quarter of 2002. Pacific Lumber also ended its internal logging operations (which performed approximately half of its logging operations) as of March 31, 2002, and intends to rely exclusively on third party contract loggers to conduct these activities in the future. Results for the three months ended March 31, 2002, met management's expectations; however, if business performance does not continue to improve, additional restructuring charges may be necessary.

The Company owns 27,938,250 shares of Kaiser common stock, representing a 34.6% interest in Kaiser on a fully diluted basis as of March 31, 2002. For 2001 and prior years, the Company's investment in Kaiser was accounted for under the equity method. On February 12, 2002, Kaiser filed a voluntary petition for reorganization under Chapter 11 of the Code in the Court. As a result of such filing, the Company began reporting its investment in Kaiser under the cost method with no further recognition of equity in earnings or losses until such time as the shares are disposed of or a plan of reorganization is implemented. See Notes 1 and 5 of the Condensed Consolidated Notes to the Financial Statements for further information, including summarized financial information of Kaiser.

The following table presents selected operational and financial information for the three months ended March 31, 2002 and 2001.

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	(In millions of dollars, except shipments and prices)	
Shipments:		
Lumber: [1]		
Redwood upper grades	6.6	4.1
Redwood common grades	52.7	37.2
Douglas-fir upper grades	1.3	2.0
Douglas-fir common grades	2.4	13.0
Other	0.1	0.5
Total lumber	63.1	56.8
Wood chips [2]	15.3	26.6
Average sales price:		
Lumber: [3]		
Redwood upper grades	$ 1,365	$ 1,845
Redwood common grades	531	614
Douglas-fir upper grades	1,265	1,385
Douglas-fir common grades	341	322
Wood chips [4]	34	70
Net sales:		
Lumber, net of discount	$ 39.1	$ 37.1
Logs	5.4	0.7
Wood chips	0.5	1.9
Cogeneration power	2.3	4.4
Other	0.6	0.7
Total forest products	47.9	44.8
Real estate	2.2	–
Total net sales	$ 50.1	$ 44.8
Operating income (loss)	$ 3.0	$ (4.5)
Operating cash flow [5]	$ 9.6	$ 0.4
Income (loss) before income taxes and extraordinary item	$ (8.2)	$ 28.2
Net income (loss) [6]	$ (3.1)	$ 35.6

(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) 2002 and 2001 results include after-tax extraordinary gains of $1.8 million and $1.9 million, respectively, on the repurchase of MGHI Notes.

Net Sales

Net sales for the three months ended March 31, 2002, increased over the comparable prior year period due to higher shipments of common grade redwood lumber, partly offset by lower prices for redwood lumber, and to a lesser degree, lower shipments of Douglas-fir lumber.

Operating Income (Loss)

The Company had operating income for the three months ended March 31, 2002, as compared to an operating loss for the comparable period of 2001. In addition to the increase in net sales discussed above, costs associated with lumber production and logging operations decreased as a result of benefits realized from the Company’s restructuring and performance improvement initiatives. More specifically, reductions in employees and lower harvesting and operating costs contributed to the improvement in operating results.

Income (Loss) Before Income Taxes and Extraordinary Item

The Company had a loss before income taxes and extraordinary item for the first quarter of 2002 as compared to income in the comparable prior year period. Results for the first quarter of 2001 included equity in earnings from Kaiser of $42.0 million. This decline was offset in part as a result of the increase in operating income discussed above.

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 8 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, Lakepointe Assets 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:					
March 31, 2002	$ 15.4	$ 0.1 (2)	$ 2.2	$ –	$ 17.7
December 31, 2001	14.9	17.8	2.8	–	35.5
Long-term debt, excluding current maturities:					
March 31, 2002	$ 742.3 (1)	$ 0.5	$ 118.9	$ 71.3 (1)	$ 933.0
December 31, 2001	754.5	0.5	119.5	88.2	962.7
Revolving credit facilities:					
Facility commitment amounts	$ 60.0	$ 50.0	$ 2.5	$ –	$ 112.5
March 31, 2002:					
Borrowings	–	–	–	–	–
Letters of credit	–	11.5	–	–	11.5
Unused and available credit	60.0	32.1	2.5	–	94.6
Cash, cash equivalents, marketable securities and other investments					
March 31, 2002:					
Current amounts restricted for debt service	$ 6.0	$ –	$ 0.1	$ –	$ 6.1
Other current amounts	19.7	10.3	29.4	16.4	75.8
	25.7	10.3	29.5	16.4	81.9
Long-term amounts restricted for debt service	54.6 (2)	–	–	–	54.6
Other long-term restricted amounts	–	–	2.2	–	2.2
	54.6	–	2.2	–	56.8
	$ 80.3	$ 10.3	$ 31.7	$ 16.4	$ 138.7

Table and Notes continued on next page

	Scotia LLC	Pacific Lumber	MGI, Lakepointe Assets and Other	MGHI Parent	Total
			(In millions of dollars)		
December 31, 2001:					
Current amounts restricted for debt service	$ 35.3	$ –	$ 0.1	$ –	$ 35.4
Other current amounts	19.6	2.3	26.6	35.7	84.2
	54.9	2.3	26.7	35.7	119.6
Long-term amounts restricted for debt service	87.6	–	–	–	87.6
Other long-term restricted amounts	–	–	2.2	–	2.2
	87.6	–	2.2	–	89.8
	$ 142.5	$ 2.3	$ 28.9	$ 35.7	$ 209.4
<u>Changes in cash and cash equivalents</u>					
Capital expenditures:					
March 31, 2002	$ 1.3	$ 1.1	$ 0.1	$ –	$ 2.5
March 31, 2001	0.7	1.7	0.6	–	3.0
Net proceeds from dispositions of property and investments:					
March 31, 2002	$ –	$ 0.9	$ –	$ –	$ 0.9
March 31, 2001	–	–	–	–	–
Borrowings (repayments) of debt and credit facilities, net of financing costs:					
March 31, 2002	$ (11.6)[1]	$ (17.7)	$ (1.2)	$ (14.1)[1]	$ (44.6)
March 31, 2001	(11.4)	(37.0)	–	(12.8)	(61.2)
Dividends and advances received (paid):					
March 31, 2002	$ (29.4)[2]	$ 29.4[2]	$ –	$	$ –
March 31, 2001	(73.1)[3]	73.1[3]	(17.1)	17.1	–

(1) The decrease in Scotia LLC's long-term debt between December 31, 2001, and March 31, 2002, was the result of principal payments on the Timber Notes of $11.6 million during the three months ended March 31, 2002. The decrease in MGHI Parent's long-term debt between December 31, 2001 and March 31, 2002, was the result of repurchases of debt.

(2) In March 2002, Scotia LLC released $29.4 million from the SAR Account and distributed this amount to Pacific Lumber. Pacific Lumber used these funds to repay the borrowings outstanding under the Pacific Lumber Credit Agreement.

(3) For the three months ended March 31, 2001, $73.1 million of dividends were paid by Scotia LLC to Pacific Lumber using proceeds from the sale of the Owl Creek grove.

During the three months ended March 31, 2002, the Company repurchased $16.9 million of the MGHI Notes, resulting in an extraordinary gain of $1.8 million (net of tax). Subsequent to March 31, 2002, MGHI repurchased $10.0 million of the MGHI Notes resulting in an extraordinary gain of $0.3 million (net of tax). MGHI expects that interest payments on the remaining $61.3 million of MGHI Notes will be paid with its existing cash and/or payments by MAXXAM Parent on the MAXXAM Note.

MGHI owns 27,938,250 shares of the common stock of Kaiser, representing a 34.6% interest. As a result of the Cases, the value of Kaiser common stock has declined substantially. The market value of the Kaiser shares owned by MGHI based on the price per share quoted at the close of business on May 16, 2002, was $1.5 million. There can be no assurance that such value would be realized should MGHI dispose of its investment in these shares, and it is possible that all or a portion of MGHI's interest may be diluted or cancelled as a part of a plan of reorganization.

The Scotia LLC Line of Credit allows Scotia LLC to borrow up to one year's interest on the Timber Notes. Scotia LLC has requested that the Scotia LLC Line of Credit be extended for a period of not less than 364 days beginning July 12, 2002. If not extended, Scotia LLC may draw upon the full amount available. The amount drawn would be repayable in 12 semiannual installments on each note payment date (after the payment of certain other items, including the Aggregate Minimum Principal Amortization Amount, as defined, then due), commencing approximately two and one-half years following the date of the draw.

On March 5, 2002, Scotia LLC notified the trustee for the Timber Notes that it had met all of the requirements of the SAR Reduction Date, as defined in the Timber Notes Indenture. Accordingly, on March 20, 2002, Scotia LLC released $29.4 million from the SAR Account and distributed this amount to Pacific Lumber.

On the note payment date in January 2002, Scotia LLC had $33.9 million set aside in the note payment account to pay the $28.4 million of interest due as well as $5.5 million of principal. Scotia LLC repaid an additional $6.1 million of principal on the Timber Notes using funds held in the SAR Account, resulting in a total principal payment of $11.6 million, an amount equal to Scheduled Amortization (as defined in the Timber Notes Indenture).

With respect to the note payment due in July 2002, Scotia LLC expects that it will require funds from the Scotia LLC Line of Credit to pay a portion of the interest due and that all of the funds used to pay the Scheduled Amortization amount will be provided from the SAR Account.

MGHI Parent believes that its existing resources and payments on the MAXXAM Note 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 on the MAXXAM Note, should be sufficient to meet its debt service and working capital requirements, although there can be no assurance that this will be the case. MGHI Parent expects MAXXAM to pay the amount of the MAXXAM Note necessary to retire the MGHI Notes which are due in 2003. The regulatory and environmental matters described under "—Results of Operations – Forest Products Operations" above 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 "—Results of Operations" above and Note 7 to the Condensed Consolidated Financial Statements), increased competition from other lumber producers or alternative building products and general economic conditions.

Pacific Lumber's 2001 cash flows from operations were adversely affected by operating inefficiencies, lower lumber prices, an inadequate supply of logs and a related slowdown in lumber production. During 2001, comprehensive external and internal reviews were conducted of Pacific Lumber's business operations. These reviews were conducted in an effort to identify ways in which Pacific Lumber could operate on a more efficient and cost effective basis. Based upon the results of these reviews, Pacific Lumber, among other things, indefinitely idled two of its four sawmills, eliminated certain of its operations, including its soil amendment and concrete block activities, began utilizing more efficient harvesting methods and adopted certain other cost saving measures. Most of these changes were implemented by Pacific Lumber in the last quarter of 2001, or the first quarter of 2002. Pacific Lumber also ended its internal logging operations (which performed approximately half of its logging operations) as of March 31, 2002, and intends to rely exclusively on third party contract loggers to conduct these activities in the future.

The $29.4 million release from the SAR Account discussed above improved Pacific Lumber's liquidity during the three months ended March 31, 2002, and operating results for the period met management's expectations. However, Pacific Lumber may require funds available under the Pacific Lumber 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 long-term liquidity, although MGI and its subsidiaries expect that their existing cash and cash equivalents, lines of credit and ability to generate cash flows from operations should provide sufficient funds to meet their debt service, working capital and capital expenditure requirements, 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.

Critical Accounting Policies

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" of the Form 10-K for a discussion of the Company's critical accounting policies.

New Accounting Pronouncements

See Note 1 to the Condensed Consolidated Financial Statements for a discussion of new accounting pronouncements and their potential impact on the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable for the Company and its subsidiaries.

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. No material developments have occurred with respect to such legal proceedings subsequent to the filing of the Form 10-K.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:

None.

b. Reports on Form 8-K:

On January 15, 2002, the Company filed a current report on Form 8-K dated January 15, 2002 (under Item 5), related to discussions between Kaiser and its noteholders.

On January 31, 2002, the Company filed a current report on Form 8-K dated January 31, 2002 (under Item 5), related to the deferral of the release of 2001 fourth quarter earnings for Kaiser and MAXXAM, Kaiser's decision not to make an interest payment on a series of notes, and a related matter.

On February 12, 2002, the Company filed a current report on Form 8-K dated February 12, 2002 (under Item 5), in connection with Kaiser's filing for Chapter 11 bankruptcy protection.

On May 2, 2002, the Company filed a current report on Form 8-K dated as of April 30, 2002 (under Item 4), related to the change of Registrant's certifying accountant..

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: May 20, 2002

By: /S/ PAUL N. SCHWARTZ

Paul N. Schwartz
Vice President, Chief Financial Officer and Director
(Principal Financial Officer)

Date: May 20, 2002

By: /S/ ELIZABETH D. BRUMLEY

Elizabeth D. Brumley
Controller
(Principal Accounting Officer)

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

Cases: The Chapter 11 proceedings of Kaiser and 16 of its subsidiaries

CDF: California Department of Forestry and Fire Protection

CESA: California Endangered Species Act

Code: The United States Bankruptcy Code

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

Court: The United States Bankruptcy Court for the District of Delaware

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

FASB: Financial Accounting Standards Board

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, 2001

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

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 20,553,418 shares are pledged as collateral for the MGHI Notes as of the date hereof

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: The 7.56% notes of Lakepointe Assets 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. 143: Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"

SFAS No. 144: Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets"

SFAS No. 145: Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections"

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