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, 2003

Commission File Number 1-3924

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

Delaware (State or other jurisdiction of incorporation or organization)	**95-2078752** (I.R.S. Employer Identification Number)
5847 San Felipe, Suite 2600 **Houston, Texas** (Address of Principal Executive Offices)	**77057** (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter: $40.3 million.

Number of shares of common stock outstanding at May 9, 2003: 6,527,671

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MAXXAM INC. AND SUBSIDIARIES

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

	March 31, 2003	December 31, 2002
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 31.1	$ 45.6
Marketable securities	109.0	105.7
Receivables:		
Trade, net of allowance for doubtful accounts of $3.0 and $2.9, respectively	13.3	11.4
Other	12.4	4.6
Inventories:		
Lumber	23.9	22.2
Logs	10.6	12.4
Prepaid expenses and other current assets	39.8	41.8
Total current assets	240.1	243.7
Property, plant and equipment, net of accumulated depreciation of $146.7 and $140.4, respectively	371.1	375.2
Timber and timberlands, net of accumulated depletion of $207.1 and $204.5, respectively	224.9	227.3
Deferred income taxes	82.4	82.4
Restricted cash, marketable securities and other investments	51.5	63.6
Long-term receivables and other assets	110.8	115.1
	$ 1,080.8	$ 1,107.3
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 10.8	$ 12.2
Accrued interest	11.9	26.0
Accrued compensation and related benefits	18.1	14.0
Other accrued liabilities	21.5	27.6
Short-term borrowings and current maturities of long-term debt, excluding $2.9 and $2.6, respectively, of repurchased Timber Notes held in the SAR Account	43.5	30.5
Total current liabilities	105.8	110.3
Long-term debt, less current maturities and excluding $50.6 and $52.8, respectively, of repurchased Timber Notes held in the SAR Account	969.5	982.3
Accrued postretirement medical benefits	10.2	10.3
Losses in excess of investment in Kaiser	516.2	516.2
Other noncurrent liabilities	71.8	70.7
Total liabilities	1,673.5	1,689.8
Commitments and contingencies (see Note 8)		
Stockholders' deficit:		
Preferred stock, $0.50 par value; $0.75 liquidation preference; Class A $0.05 Non-Cumulative Participating Convertible Preferred Stock; 12,500,000 shares authorized; 669,235 shares issued; 668,390 shares outstanding	0.3	0.3
Common stock, $0.50 par value; 28,000,000 shares authorized; 10,063,359 shares issued; 6,527,671 shares outstanding	5.0	5.0
Additional capital	225.3	225.3
Accumulated deficit	(618.7)	(608.2)
Accumulated other comprehensive loss	(88.9)	(89.2)
Treasury stock, at cost (shares held: preferred – 845; common – 3,535,688)	(115.7)	(115.7)
Total stockholders' deficit	(592.7)	(582.5)
	$ 1,080.8	$ 1,107.3

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

MAXXAM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
(In millions of dollars, except per share information)

	Three Months Ended March 31, 2003	2002
	(Unaudited)	
Net sales:		
Forest products	$ 45.3	$ 47.9
Real estate	14.0	15.1
Racing	9.4	9.8
Aluminum	–	167.5
	68.7	240.3
Cost and expenses:		
Cost of sales and operations:		
Forest products	32.4	35.4
Real estate	6.6	5.5
Racing	6.0	5.5
Aluminum	–	158.7
Selling, general and administrative expenses	15.3	37.5
Depreciation, depletion and amortization	9.1	18.1
	69.4	260.7
Operating income (loss):		
Forest products	1.3	2.5
Real estate	(0.7)	2.4
Racing	0.6	1.1
Aluminum	–	(23.6)
Corporate	(1.9)	(2.8)
	(0.7)	(20.4)
Other income (expense):		
Investment, interest and other income (expense), net	9.5	0.3
Interest expense	(18.7)	(32.2)
Amortization of deferred financing costs	(0.6)	(1.1)
Loss before income taxes and minority interests	(10.5)	(53.4)
Provision for income taxes	–	(1.7)
Minority interests	–	0.9
Net loss	$ (10.5)	$ (54.2)
Basic and diluted loss per common and common equivalent share	$ (1.61)	$ (8.30)

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

MAXXAM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of dollars)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (10.5)	$ (54.2)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation, depletion and amortization	9.1	18.1
Losses (gains) on sales of assets	0.5	(5.2)
Net gains on marketable securities	(0.5)	(1.1)
Minority interests	–	(0.9)
Amortization of deferred financing costs and discounts on long-term debt	0.6	1.1
Equity in earnings (loss) of unconsolidated affiliates, net of dividends received	(0.4)	0.9
Increase (decrease) in cash resulting from changes in:		
Receivables	(9.5)	11.6
Inventories	–	6.2
Prepaid expenses and other assets	2.8	51.1
Accounts payable	(1.4)	8.5
Accrued and deferred income taxes	–	(3.9)
Payable to affiliates and other accrued liabilities	(2.2)	(51.3)
Accrued interest	(14.1)	(7.2)
Long-term assets and long-term liabilities	2.9	(22.3)
Other	1.0	0.1
Net cash used for operating activities	(21.7)	(48.5)
Cash flows from investing activities:		
Net proceeds from dispositions of property and investments	0.7	5.4
Net sales (purchases) of marketable securities and other investments	(0.4)	1.4
Capital expenditures	(3.5)	(7.8)
Decrease in cash attributable to deconsolidation of Kaiser	–	(130.4)
Other	–	0.1
Net cash used for investing activities	(3.2)	(131.3)
Cash flows from financing activities:		
Proceeds from issuances of long-term debt	0.2	1.8
Redemptions, repurchases of and principal payments on long-term debt	(14.7)	(27.6)
Borrowings (repayments) under revolving and short-term credit facilities	14.7	(19.9)
Restricted cash withdrawals, net	10.2	31.2
Net cash provided by (used for) financing activities	10.4	(14.5)
Net decrease in cash and cash equivalents	(14.5)	(194.3)
Cash and cash equivalents at beginning of period	45.6	272.2
Cash and cash equivalents at end of period	$ 31.1	$ 77.9
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	$ 32.8	$ 39.4

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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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 Inc. and its majority and wholly owned subsidiaries (but exclusive of Kaiser and its subsidiaries), unless otherwise indicated or the context indicates otherwise. All references to "Kaiser," "MGHI," "Pacific Lumber," "MPC" and "SHRP, Ltd." refer to the respective companies and their subsidiaries, unless otherwise indicated or the context indicates otherwise. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire year.

The consolidated financial statements included herein are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair presentation of the consolidated financial position of the Company at March 31, 2003, and the consolidated results of operations and cash flows for the three months ended March 31, 2003 and 2002.

Reclassifications

The adoption of SFAS No. 145 resulted in the inclusion of $2.8 million of gains on repurchases of debt for the period ended March 31, 2002, in investment, interest and other income rather than as an extraordinary item in the accompanying financial statements (see Note 2).

Deconsolidation of Kaiser

Under generally accepted accounting principles, consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee, except when control is not held by the majority owner. Under these rules, legal reorganization or bankruptcy represent conditions which can preclude consolidation in instances where control rests with the bankruptcy court, rather than the majority owner. As discussed below, on February 12, 2002, Kaiser and certain of its subsidiaries filed for reorganization under Chapter 11 of the Code. As a result, the Company discontinued consolidating Kaiser's financial results beginning February 12, 2002, and the Company began reporting its investment in Kaiser using the cost method, under which the investment is reflected as a single amount on the Company's balance sheet of $(516.2) million, and the recording of earnings or losses from Kaiser was discontinued after February 11, 2002.

Through February 11, 2002, under generally accepted principles of consolidation, the Company had recognized losses in excess of its investment in Kaiser of $516.2 million. Since Kaiser's results are no longer consolidated and the Company believes that it is not probable that it will be obligated to fund losses related to its investment in Kaiser, any adjustments reflected in Kaiser's financial statements subsequent to February 12, 2002 (relating to the recoverability and classification of recorded asset amounts and classification of liabilities or the effects on existing stockholders' deficit as well as adjustments made to Kaiser's financial information for loss contingencies and other matters), are not expected to affect the Company's financial results.

The Company expects it will consider reversal of its losses in excess of its investment in Kaiser when either: (1) Kaiser's bankruptcy is resolved and the amount of the Company's remaining investment in Kaiser is determined or (2) the Company disposes of its shares of Kaiser common stock. Accordingly, these consolidated financial statements do not reflect any adjustments related to the deconsolidation of Kaiser other than presenting the Company's investment in Kaiser using the cost method. When either of the events described above occurs, the Company will re-evaluate the appropriate accounting treatment of its investment in Kaiser based upon the facts and circumstances at such time. It is likely that the Company's ownership interest in Kaiser will be diluted or cancelled as a result of a plan of reorganization applicable to Kaiser. See Note 5 for further discussion of the Company's investment in Kaiser.

The following financial information is presented for comparison purposes. The financial information for the three months ended March 31, 2002, is condensed pro forma financial information which reflects the results of operations of the Company excluding Kaiser (in millions, except share data).

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net sales	$ 68.7	$ 72.8
Costs and expenses	(69.4)	(69.6)
Operating income (loss)	(0.7)	3.2
Other income (expenses), net	9.5	8.4
Interest expense and amortization of deferred financing costs	(19.3)	(20.6)
Loss before income taxes	(10.5)	(9.0)
Income tax benefit	–	3.1
Net loss	$ (10.5)	$ (5.9)
Basic and diluted loss per share	$ (1.61)	$ (0.88)

2. New Accounting Standards

Accounting for Asset Retirement Obligations

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 adopted SFAS No. 143 effective 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 result from the acquisition, construction, or development and/or 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 adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial statements.

Classification of Gains and Losses from Extinguishment of Debt

In April 2002, the FASB issued SFAS No. 145, which, among other things, rescinds the previous guidance for debt extinguishments. 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 are not prohibited from extraordinary item classification if they meet the criteria in APB Opinion 30. Applying the provisions of APB Opinion No. 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. The Company adopted SFAS No. 145 effective January 1, 2003. The adoption of SFAS No. 145 resulted in the inclusion of gains on repurchases of debt in investment, interest and other income rather than as an extraordinary item in the financial statements.

Accounting for Costs Associated with Exit and Disposal Activities

In July 2002, the FASB issued SFAS No. 146. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This statement is applicable to exit or disposal activities initiated after December 31, 2002.

Accounting for Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company has not changed to the fair value based method of accounting for stock-based employee compensation. The disclosures required under SFAS No. 148 are reflected in Note 9.

Accounting for and Disclosure of Guarantees

In November 2002, the FASB issued FIN 45, which elaborates on the disclosures required to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's financial position or results of operations.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN 46, which establishes criteria to identify and assess a company's interest in variable interest entities and for consolidating those entities. FIN 46 is currently effective for variable interest entities created or obtained after January 2003, and will be effective for all variable interest entities for interim periods beginning after June 15, 2003. The adoption of FIN 46 is not expected to require the consolidation by the Company of any additional entities.

3. Segment Information and Other Items

Net sales and operating income (loss) for each reportable segment is presented in the Consolidated Statement of Operations. Operating income (loss) for "Corporate" represents general and administrative expenses not directly attributable to the reportable segments. The amounts reflected in the "Corporate" column also serve to reconcile the total of the reportable segments' amounts to totals in the Company's consolidated financial statements.

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

	Reportable Segments				Consolidated		
	Forest Products	Real Estate	Racing	Corporate	Total Excluding Aluminum	Aluminum	Consolidated Total
Depreciation, depletion and amortization for the three months ended:							
March 31, 2003	$ 5.1	$ 3.6	$ 0.4	$ –	$ 9.1	$ –	$ 9.1
March 31, 2002	5.3	2.6	0.4	0.1	8.4	9.7 [1]	18.1
Total assets as of:							
March 31, 2003	502.5	368.5	33.9	175.9	1,080.8	– [2]	1,080.8
December 31, 2002	525.3	377.1	36.4	168.5	1,107.3	– [2]	1,107.3

[1] Amounts attributable to the aluminum segment are for the period from January 1, 2002, through February 11, 2002.

[2] As a result of the deconsolidation of Kaiser, the aluminum segment's balance sheet amounts are not included in the consolidated totals.

Other Items

Real Estate

The real estate segment's investment, interest and other income (expense) includes the following (in millions):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Equity in earnings from real estate joint ventures	$ 0.4	$ 0.1

Corporate

Corporate investment, interest and other income (expense) for the three months ended March 31, 2003, includes $8.0 million of insurance recoveries related to the *OTS* and *FDIC actions* discussed in Note 8.

4. Restricted Cash, Cash Equivalents, Marketable Securities and Other Investments

The following amounts are restricted (in millions):

	March 31, 2003	December 31, 2002
Current assets:		
Restricted cash and cash equivalents	$ 2.8	$ 9.9
Marketable securities, restricted:		
Amounts held in SAR Account	21.3	19.3
Long-term restricted cash, marketable securities and other investments:		
Amounts held in SAR Account	87.0	101.6
Other amounts restricted under the Timber Notes Indenture	2.6	2.6
Other long-term restricted cash	10.5	10.7
Less: Amounts attributable to repurchased Timber Notes held in SAR Account	(48.6)	(51.3)
	51.5	63.6
Total restricted cash, cash equivalents, marketable securities and other investments	$ 75.6	$ 92.8

5. Investment in Kaiser

Kaiser, its principal operating subsidiary, KACC, and 24 of KACC's wholly owned subsidiaries have filed separate voluntary petitions in the Bankruptcy Court for reorganization under Chapter 11 of the Code. The Original Debtors filed petitions on February 12, 2002. Additional subsidiaries of KACC filed petitions in the first quarter of 2003. The Cases are being jointly administered with the Debtors managing their businesses in the ordinary course as debtors-in-possession subject to the control and administration of the Bankruptcy Court.

The necessity for filing the Cases by the Original Debtors 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 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.

Kaiser has indicated that its objective in the Cases is to achieve the highest possible recoveries for all creditors and stockholders consistent with the Debtors' abilities to pay, and to continue the operation of its businesses. However, there can be no assurance that the Debtors will be able to attain these objectives or achieve a successful reorganization. While valuation of the Debtors' assets and pre-Filing Date claims at this stage of the Cases is subject to inherent uncertainties, Kaiser has indicated that the Debtors believe that it is likely that their liabilities will be found to exceed the fair value of their assets. The Debtors therefore believe that it is likely that pre-Filing Date claims will be paid at less than 100% of their face value and the equity of Kaiser's stockholders, including the Company, will be diluted or cancelled.

As provided by the Code, the Original Debtors had the exclusive right to propose a plan of reorganization for 120 days following the initial Filing Date. The Bankruptcy Court has subsequently approved several extensions of the exclusivity period for all Debtors. A motion to extend the exclusivity period through July 31, 2003, was filed by the Debtors in late April 2003, and the Debtors expect the motion to be approved by the Bankruptcy Court. Kaiser has related that additional extensions are likely to be sought. However, no assurance can be given that any future extension requests will be granted by the Bankruptcy Court. If the Debtors fail to file a plan of reorganization during the exclusivity period, or if such plan is not accepted by the requisite number of creditors and equity holders entitled to vote on the plan, other parties in interest in the Cases may be permitted to propose their own plan(s) of reorganization for the Debtors.

In April 2002, Kaiser filed a motion seeking an order of the Bankruptcy Court prohibiting the Company (or MGHI), without first seeking Bankruptcy 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 Bankruptcy 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. In July 2002, the Company and MGHI agreed with Kaiser that they would not dispose of any of their Kaiser shares prior to a hearing on the April 2002 motion. The parties also agreed that the Company (or MGHI) may upon 10 days written notice to Kaiser (a) request the Bankruptcy Court to hear the matter at a special hearing or (b) have the matter heard at one of Kaiser's scheduled monthly bankruptcy hearings.

As of May 9, 2003 the Company owns 50,000,000 shares of the common stock of Kaiser directly and through MGHI. Kaiser's common stock is publicly traded on the OTC Bulletin Board under the trading symbol "KLUCQ." The market value for the Kaiser Shares based on the price per share quoted at the close of business on May 9, 2003 was $2.0 million. There can be no assurance that such value would be realized should the Kaiser shares owned by the Company be sold.

The financial information of Kaiser contained herein has been prepared in accordance with SOP 90-7, and on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. However, as a result of the Cases, such realization of assets and liquidation of liabilities are subject to a significant number of uncertainties. Since Kaiser's results are no longer consolidated with the Company's results, and the Company believes it is not probable that it will be obligated to fund losses related to its investment in Kaiser under principles of consolidation, any material uncertainties related to Kaiser are not expected to impact the Company's financial results.

The following tables contain summarized financial information of Kaiser (in millions).

	March 31, 2003	December 31, 2002
Current assets	$ 533.3	$ 516.6
Investments in and advances to unconsolidated affiliates	73.4	69.7
Property, plant and equipment, net	990.8	1,009.9
Other assets	547.5	629.2
	$ 2,145.0	$ 2,225.4
Current liabilities	$ 329.5	$ 333.6
Other long-term liabilities	83.3	86.9
Long-term debt	42.6	42.7
Liabilities subject to compromise	2,719.8	2,726.0
Minority interests	122.2	121.8
Stockholders' deficit	(1,152.4)	(1,085.6)
	$ 2,145.0	$ 2,225.4

	Three Months Ended March 31,	
	2003	2002
Net sales	$ 339.4	$ 370.6
Costs and expenses	(398.5)	(405.5)
Other income (expenses), net	(11.3)	(21.0)
Loss before income taxes, minority interests and discontinued operations	(70.4)	(55.9)
Provision for income taxes	(4.7)	(8.0)
Minority interests	1.9	1.5
Loss from continuing operations	(73.2)	(62.4)
Discontinued operations	8.1	(1.7)
Net loss	$ (65.1)	$ (64.1)

6. Short-term Borrowings

The Pacific Lumber Credit Agreement provides for a two-year revolving line of credit expiring on August 13, 2004, with an aggregate commitment of $45.0 million. At March 31, 2003, $15.1 million of letters of credit and no borrowings were outstanding under this facility. Unused availability was limited to $15.9 million at March 31, 2003.

The Scotia LLC Line of Credit allows Scotia LLC to borrow up to one year's interest on the Timber Notes. On May 31, 2002, the Scotia LLC Line of Credit was extended for an additional year to July 11, 2003. Annually, Scotia LLC will request that the Scotia LLC Line of Credit be extended for a period of not less than 364 days. 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. At March 31, 2003, Scotia LLC could have borrowed a maximum of $58.9 million under the Scotia LLC Line of Credit, and there was $14.7 million outstanding under the Scotia LLC Line of Credit.

7. Long-term Debt

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

	March 31, 2003	December 31, 2002
6.55% Scotia LLC Timber Notes due July 20, 2028	$ 89.2	$ 103.2
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	119.0	119.5
7.03% Motel Notes due May 1, 2018	49.2	49.4
6.08% Beltway Notes due November 9, 2024	30.8	30.9
7.12% Palmas Country Club Notes due December 20, 2030	30.0	30.0
Other notes and contracts, primarily secured by receivables, buildings, real estate and equipment	27.1	28.7
	1,051.8	1,068.2
Less: current maturities	(28.8)	(30.5)
Timber Notes held in SAR Account	(53.5)	(55.4)
	$ 969.5	$ 982.3

The amount attributable to the Timber Notes held in the SAR Account of $48.6 million as of March 31, 2003, reflected in Note 4 above represents the amount paid to acquire $53.5 million principal amount of Timber Notes.

In April 2003, $3.4 million of funds from the SAR Account were used to repurchase $4.0 million principal amount of Timber Notes, as permitted under the Indenture, resulting in a gain of $0.4 million (net of unamortized deferred financing costs) on extinguishment of debt.

8. Contingencies

Forest Products Operations

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 growth 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 the Permits allow incidental "take" of certain species located on the Company's timberlands which species have been listed by government entities 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. 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 could continue for several more 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 many 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 two water courses. The North

Coast Water Board has begun the process of establishing the TMDL requirements applicable to two other water courses on the Company's timberlands, with a targeted completion of spring 2004 for these two water courses. The final TMDL requirements applicable to the Company's timberlands may require aquatic protection measures that are different from or in addition to those in the HCP or that result from the prescriptions to be developed pursuant to the watershed analysis process provided for in the HCP.

Effective January 1, 2003, a California statute eliminates a waiver previously granted to, among others, timber companies. This waiver had been in effect for a number of years and waived the requirement under California water quality regulations for timber companies to follow certain waste discharge requirements in connection with their timber harvesting and related operations. The new statute provides, however, that regional water boards such as the North Coast Water Board are authorized to renew the waiver. The North Coast Water Board has renewed the waiver for timber companies through December 31, 2003. Should the North Coast Water Board decide not to extend this or another waiver beyond December 31, 2003, it may thereafter notify a company that the North Coast Water Board will require such company to follow certain waste discharge requirements in order to conduct harvesting operations on a THP. The waste discharge requirements may include aquatic protection measures that are different from or in addition to those provided for in the THP approved by the CDF. Accordingly, harvesting activities could be delayed and/or adversely affected as these waste discharge requirements are developed and implemented.

Beginning with the 2002-2003 winter operating period, Pacific Lumber has been required to submit "Reports of Waste Discharge" to the North Coast Water Board in order to conduct winter harvesting activities in the Freshwater Creek and Elk River watersheds. After consideration of these reports, the North Coast Water Board imposed requirements on Pacific Lumber to implement additional mitigation and erosion control practices in these watersheds. These additional requirements have somewhat increased operating costs. The North Coast Water Board issued the Elk River Order for the Elk River watershed. In addition, the North Coast Water Board has initiated the process which could result in similar orders for the Freshwater and Bear Creek watersheds, and is contemplating similar actions for the Jordan and Stitz Creeks watersheds. The Elk River Order is aimed at addressing existing sediment production sites through clean up actions. The order, as well as additional orders in the other watersheds (should they be issued), could result in significant costs to Pacific Lumber beginning in 2003 and extending over a number of years. Pacific Lumber has appealed the Elk River Order to the State Water Board, but the appeal is being held in abeyance while the matter is discussed with the North Coast Water Board and its staff.

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.

In March 1999, the *EPIC-SYP/Permits lawsuit* was filed. This action alleges, among other things, various violations of the CESA and the California Environmental Quality Act, and challenges, among other things, the validity and legality of the SYP and the Permits issued by California. The plaintiffs seek, among other things, injunctive relief to set aside California's approval of the SYP and the Permits issued by California. In March 1999, the *USWA lawsuit* was filed challenging the validity and legality of the SYP. In connection with the *EPIC-SYP/Permits lawsuit*, the trial judge has issued a stay of the effectiveness of the Permits for approval of new THPs, but released from the stay, and refused to enjoin, operations under THPs that were previously approved consistent with the Permits. In addition, on November 26, 2002, the Court exempted from the stay all in-process THPs submitted through mid-October 2002. Although the stay prevents the CDF from approving new THPs that rely upon the Permits, Pacific Lumber is obtaining review and approval of new THPs under a procedure provided for in the forest practice rules that does not depend upon the Permits. Because certain THPs will not qualify for this procedure, there could be a reduction in 2003 harvest levels which could have an adverse impact on the Company. These two cases were consolidated for trial, which concluded on March 28, 2003. The judge has indicated that he expects to rule no earlier than July 2003. The Company believes that appropriate procedures were followed throughout the public review and approval process concerning the Environmental Plans and is working with the relevant government agencies to defend these challenges. The Company does not believe the resolution of these matters should result in a material adverse effect on its financial condition, results of operations or liquidity. However, in addition to the potential short-term adverse impacts described above, these matters could have a long-term negative impact if they are decided adversely to the Company.

In July 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, and is seeking to enjoin these activities until such permit has been obtained. The plaintiff also seeks civil penalties of up to $27,500 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 impact on the Company's consolidated financial condition, results of operations and/or liquidity.

On November 20, 2002, the *HWC lawsuit*, naming Pacific Lumber as real party in interest, was filed. The suit seeks to enjoin timber operations in the Elk and Freshwater watersheds of the Company's timberlands until and unless the regional and state water boards impose on those operations waste discharge requirements that meet standards demanded by the plaintiff. The Company believes that Pacific Lumber and the regional and state boards have valid defenses to this action. However, an adverse ruling could result in a delay of timber operations that could have a material adverse impact on the Company's consolidated financial position, results of operations and/or liquidity.

On February 24, 2003, the recently elected District Attorney of Humboldt County filed the *Humboldt DA action*. The suit was filed under the California unfair competition law and alleges that Pacific Lumber, Scotia LLC and Salmon Creek used certain unfair business practices in connection with completion of the Headwaters Agreement, and that this resulted in the ability to harvest significantly more trees under the Environmental Plans than would have otherwise been the case. The suit seeks a variety of remedies including a civil penalty of $2,500 for each additional tree that has been or will be harvested due to this alleged increase in harvest, as well as restitution and an injunction in respect of the additional timber harvesting allegedly being conducted. On March 27, 2003, the Company filed a motion for sanctions and requested dismissal of the case. A hearing has been scheduled for May 23, 2003. The Company believes that this suit is without merit; however, there can be no assurance that the Company will prevail or that an adverse outcome would not be material to the Company's consolidated financial position, results of operations and/or liquidity.

In November 2001, Pacific Lumber filed the *THP No. 520 lawsuit* alleging that the State Water Board had no legal authority to impose mitigation measures that were requested by the staff of the North Coast Water Board during the THP review process and rejected by the CDF. When the staff of the North Coast Water Board attempted to impose these mitigation measures in spite of the CDF's decision, Pacific Lumber appealed to the State Water Board, which imposed certain of the requested mitigation measures and rejected others. Pacific Lumber filed the *THP No. 520 lawsuit* challenging the State Water Board's decision, and on January 24, 2003, the Court granted Pacific Lumber's request for an order invalidating the imposition of these additional measures. Other claims included in this action have been dismissed by Pacific Lumber without prejudice to its future rights. On March 25, 2003, the State Water Board appealed this decision. While the Company believes the Court's decision will be sustained, a reversal could result in increased demands by the regional and state water boards and their staffs to impose controls and limitations on timber harvesting on Pacific Lumber's timberlands beyond those provided for by the Environmental Plans.

Pacific Lumber, Scotia LLC and certain of their affiliates are the defendants in the *Cook action* and the *Cave action*. On April 4, 2003, the plaintiffs in these actions filed amended complaints and served the defendants with notice of the actions. The *Cook action* alleges, among other things, that defendants' logging practices have contributed to an increase in flooding along Freshwater Creek (which runs through Pacific Lumber's timberlands), resulting in personal injury and damages to the plaintiffs' properties. Plaintiffs further allege that in order to have THPs approved in the affected areas, the defendants engaged in certain unfair business practices. The plaintiffs seek, among other things, compensatory and exemplary damages, injunctive relief, and appointment of a receiver to ensure that the watershed is restored. The *Cave action* contains similar allegations and requests similar relief with respect to the Elk River watershed (a portion of which is contained on Pacific Lumber's timberlands). The Company does not believe the resolution of these actions should result in a material adverse effect on its financial condition, results of operations or liquidity.

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.

OTS Contingency and Related Matters

On December 26, 1995, the OTS initiated the *OTS action* against the Company and others alleging, among other things, misconduct by the Respondents and others with respect to the failure of USAT. The OTS sought damages ranging from $326.6 million to $821.3 million under various theories. On October 17, 2002, the *OTS action* was settled for $0.2 million and with no admission of wrongdoing on the part of the Respondents.

On August 2, 1995, the FDIC filed the *FDIC action*. The original complaint was against Mr. Hurwitz and alleged damages in excess of $250.0 million based on the allegation that Mr. Hurwitz was a controlling shareholder, *de facto* senior officer and director of USAT, and was involved in certain decisions which contributed to the insolvency of USAT. The *FDIC action* has been dismissed as a result of the settlement of the *OTS action*. This dismissal does not affect the *FDIC counterclaim* or motion for sanctions described in the following paragraph.

On May 31, 2000, the Company, Federated and Mr. Hurwitz filed the *FDIC counterclaim* to the *FDIC action*. The *FDIC counterclaim* states that the FDIC illegally paid the OTS to bring claims against the Company, Federated and Mr. Hurwitz. The plaintiffs are seeking reimbursement of attorneys' fees and damages from the FDIC. As of March 31, 2003, such fees, which have been recorded in the Company's Consolidated Statement of Operations as incurred, were in excess of $39.0 million. On November 8, 2002, the Company, Federated and Mr. Hurwitz filed an amended counterclaim and amended motion for sanctions. The Company, Federated and Mr. Hurwitz are pursuing the *FDIC counterclaim* vigorously.

In September 1997, the Company filed suit against a group of its insurers after unsuccessful negotiations with certain of the insurers regarding coverage, under the terms of certain directors and officers liability policies, of expenses incurred in connection with the *OTS* and *FDIC actions*. The insurers requested arbitration, and as a result the lawsuit was dismissed in April 1998. Following binding arbitration with the primary carrier in October 2002, on February 20, 2003, the arbitration panel determined that the insurer should pay the Company approximately $6.5 million plus interest. The Company and the insurer subsequently agreed to settle this matter for $8.0 million, and such amount is reflected in investment, interest and other income (expense) for the three months ended March 31, 2003. As the limits of the primary policy were not reached by the arbitration panel's award, the Company does not expect to be able to recover any amounts from the other insurers.

The Company's bylaws provide for indemnification of its officers and directors to the fullest extent permitted by Delaware law. The Company is obligated to advance defense costs to its officers and directors, subject to the individual's obligation to repay such amount if it is ultimately determined that the individual was not entitled to indemnification. In addition, the Company's indemnity obligation can, under certain circumstances, include amounts other than defense costs, including judgments and settlements.

On January 16, 2001, the *Kahn lawsuit* was filed. The plaintiff purports to bring this action as a stockholder of the Company derivatively on behalf of the Company. The lawsuit concerns the *OTS* and *FDIC action*s, and the Company's advancement of fees and expenses on behalf of Federated and certain of the Company's directors in connection with these actions. It alleges that the defendants have breached their fiduciary duties to the Company, and have wasted corporate assets, by allowing the Company to bear all of the costs and expenses of Federated and certain of the Company's directors related to the *OTS* and *FDIC* actions. The plaintiff seeks to require Federated and certain of the Company's directors to reimburse the Company for all costs and expenses incurred by the Company in connection with the *OTS* and *FDIC actions*, and to enjoin the Company from advancing to Federated or certain of the Company's directors any further funds for costs or expenses associated with these actions. The parties to the *Kahn lawsuit* have agreed to an indefinite extension of the defendants' obligations to respond to the plaintiffs' claims. Although it is impossible to assess the ultimate outcome of the *Kahn lawsuit*, the Company believes that the resolution of this matter should not result in a material adverse effect on its consolidated financial position, results of operations or liquidity.

Other Matters

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

9. Stock-Based Compensation Plans

Stock options issued to employees and outside directors are accounted for under the intrinsic value method of accounting as defined by APB Opinion No. 25 and related interpretations. The Company has not changed to the fair value based method of accounting for stock-based employee compensation. The following table illustrates the effect on net income and earnings per share had the Company accounted for its stock options under the fair value method of accounting under SFAS 123, as amended by SFAS 148 (in millions, except per share information):

	Three Months Ended March 31,	
	2003	2002
Net loss, as reported	$ (10.5)	$ (54.2)
Add: Stock-based employee compensation expenses included in reported net income, net of related tax effects	–	–
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(0.4)	(0.3)
Pro forma net income (loss)	$ (10.9)	$ (54.5)
Basic and diluted loss per share:		
As reported	$ (1.61)	$ (8.30)
Pro forma	(1.68)	(8.35)

The fair value of stock options granted were estimated at the grant date using a Black-Scholes option pricing model and the following weighted average assumptions:

	Three Months Ended March 31,	
	2003	2002
Dividend yield	–	–
Expected volatility	0.38	0.36
Risk-free interest rate	4.92%	5.32%
Expected life (years)	6.63	6.59
Weighted average fair value	$ 10.65	$ 13.65

10. Income Taxes

The Company generated a loss before income taxes of $10.5 million for the quarter ended March 31, 2003; however, the Company has recorded no tax benefit associated with the loss for the period. Each period, the Company evaluates the appropriate factors in determining the realizability of the deferred tax assets attributable to losses and credits generated in the current period and those being carried forward. These factors are discussed further in Note 12 to the Company's consolidated financial statements included in the Form 10-K. Based on this evaluation, the Company provided valuation allowances with respect to the deferred tax assets attributable to losses and credits generated during the three months ended March 31, 2003. This valuation allowance was in addition to the valuation allowances which were provided in prior years.

11. Per Share Information

Basic earnings per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period, including the weighted average impact of the shares of Common Stock issued and treasury stock acquired during the period from the date of issuance or repurchase and the dilutive effect of Class A Preferred Stock which is convertible into Common Stock. Diluted earnings per share calculations also include the dilutive effect of common and preferred stock options.

	Three Months Ended March 31,	
	2003	2002
Weighted average shares outstanding:		
Common Stock	6,527,671	6,527,671
Effect of dilution:		
Class A Preferred Stock [(1)]	–	–
Weighted average number of common and common equivalent shares - Basic	6,527,671	6,527,671
Effect of dilution:		
Stock options [(1)]	–	–
Weighted average number of common and common equivalent shares - Diluted	6,527,671	6,527,671

(1) The Class A Preferred Stock and options were not included in the computation of basic or diluted earnings per share because the Company had a loss for the three months ended March 31, 2003 and 2002, respectively.

12. Comprehensive Loss

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net loss:	$ (10.5)	$ (54.2)
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale investments	0.3	(1.1)
Applicable income taxes	–	0.5
Total comprehensive loss	$ (10.2)	$ (54.8)

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 Condensed Notes to Consolidated Financial Statements included herein.

This Quarterly Report on Form 10-Q contains statements which constitute "forward-looking statements" within the meaning of the PSLRA. 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 which could cause differences between such 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 operates in three industries: forest products, through MGI and its wholly owned subsidiaries, principally Pacific Lumber, Scotia LLC and Britt; real estate investment and development, managed through MPC; and racing operations through SHRP, Ltd. MGHI owns 100% of MGI and is a wholly owned subsidiary of the Company. In addition, the Company owns 62% of Kaiser, an integrated aluminum producer. All references to the "Company" include MAXXAM Inc. and its majority and wholly owned subsidiaries (but exclusive of Kaiser and its subsidiaries), unless otherwise indicated or the context indicates otherwise. All references to "Kaiser," "MGHI," "Pacific Lumber," "MPC" and "SHRP, Ltd." refer to the respective companies and their subsidiaries, unless otherwise indicated or the context indicates otherwise.

Deconsolidation of Kaiser

Under generally accepted accounting principles, consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee, except when control is not held by the majority owner. Under these rules, legal reorganization or bankruptcy represent conditions which can preclude consolidation in instances where control rests with the Bankruptcy Court, rather than the majority owner. As a result of Kaiser's filing for bankruptcy (as discussed in Note 1), Kaiser's financial results were deconsolidated beginning February 12, 2002, and the Company began reporting its investment in Kaiser using the cost method, under which the investment is reflected as a single amount on the Company's balance sheet of $(516.2) million, and the recording of earnings or losses from Kaiser was discontinued after February 11, 2002. Since Kaiser's results are no longer consolidated and the Company believes that it is not probable that it will be obligated to fund losses related to its investment in Kaiser, any adjustments reflected in Kaiser's financial statements subsequent to February 12, 2002 (relating to the recoverability and classification of recorded asset amounts and classification of liabilities or the effects on existing stockholders' deficit as well as adjustments made to Kaiser's financial information for loss contingencies and other matters), are not expected to affect the Company's financial results.

The following financial information is presented for comparison purposes. The financial information for the three months ended March 31, 2002, is condensed pro forma financial information which reflects the results of operations of the Company excluding Kaiser (in millions, except share data).

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net sales	$ 68.7	$ 72.8
Costs and expenses	(69.4)	(69.6)
Operating income (loss)	(0.7)	3.2
Other income (expenses), net	9.5	8.4
Interest expense and amortization of deferred financing costs	(19.3)	(20.6)
Loss before income taxes	(10.5)	(9.0)
Income tax benefit	–	3.1
Net loss	$ (10.5)	$ (5.9)
Basic and diluted loss per share	$ (1.61)	$ (0.88)

See Notes 1 and 5 for further discussion of Kaiser's reorganization proceedings and other information regarding the Company's investment in Kaiser.

Forest Products Operations

Industry Overview and Selected Operational Data

This section contains statements which constitute "forward-looking statements" within the meaning of the PSLRA. See this section and above for cautionary information with respect to such forward-looking statements.

The Company's forest products operations are conducted by MGI, through Pacific Lumber, Scotia LLC and Britt. The segment'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 MGI's revenues and cash flows will continue to be somewhat seasonal. Accordingly, MGI's results for any one quarter are not necessarily indicative of results to be expected for the full year.

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 8 for a discussion of these matters. Although Pacific Lumber experienced improvements in the rate of approvals of THPs in 2001 and 2002, regulatory compliance and related litigation may at times cause delays in obtaining approvals of THPs and delays in harvesting on THPs once they are approved. This could result in a decline in harvest, an increase in the cost of logging operations, and lower net sales, as well as increased costs related to timber harvest litigation. As discussed in Note 8, the North Coast Water Board is requiring Pacific Lumber to apply certain waste discharge requirements to approved THPs covering winter harvesting operations in the Freshwater, Elk River and Bear Creek watersheds, and the North Coast Water Board could require Pacific Lumber to follow waste discharge requirements before harvesting operations are conducted on THPs in other watersheds. This requirement could cause delays in harvesting. A stay issued in connection with the *EPIC-SYP/Permits lawsuit* requires Pacific Lumber to follow an alternative THP approval process for THPs submitted to the CDF after mid-October of 2002, which could result in a reduction in 2003 harvest levels.

Furthermore, there can be no assurance that certain other pending legal, regulatory and environmental matters or future governmental regulations, legislation or judicial or administrative decisions, adverse weather conditions, or low lumber or log prices, will not have a material adverse effect on the Company's financial position, results of operations or liquidity. See Note 8 for further information regarding regulatory and legal proceedings affecting the Company's forest products 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, closed 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. Further actions may be taken during the next year as a result of Pacific Lumber's continuing evaluation process, and additional writedowns of certain assets may be required.

The following table presents selected operational and financial information for the three months ended March 31, 2003 and 2002, for the Company's forest products operations.

	Three Months Ended March 31, 2003	2002
	(In millions of dollars, except shipments and prices)	
Shipments:		
Lumber: [1]		
Redwood upper grades	5.9	6.6
Redwood common grades	50.0	52.7
Douglas-fir upper grades	0.9	1.3
Douglas-fir common grades	9.6	2.4
Other	–	0.1
Total lumber	66.4	63.1
Wood chips [2]	21.1	15.3
Average sales price:		
Lumber: [3]		
Redwood upper grades	$ 1,266	$ 1,365
Redwood common grades	569	531
Douglas-fir upper grades	1,507	1,265
Douglas-fir common grades	331	341
Wood chips [4]	45	34
Net sales:		
Lumber, net of discount	$ 40.2	$ 39.1
Logs	0.9	5.4
Wood chips	1.0	0.5
Cogeneration power	2.6	2.3
Other	0.6	0.6
Total net sales	$ 45.3	$ 47.9
Operating income	$ 1.3	$ 2.5
Loss before income taxes and minority interests	$ (13.2)	$ (9.3)

[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.

Net Sales

Net sales for the forest products segment decreased for the three months ended March 31, 2003, from the comparable prior year period. Net sales from lumber increased $1.1 million primarily as a result of higher prices for redwood common grade lumber. This improvement in net sales was more than offset, however, by a decrease of $4.5 million in revenues from logs sold to third parties.

Operating Income

Operating income for the segment declined for the first quarter of 2003 as compared to the first quarter of 2002. A decrease in the cost of sales and operations for the forest products segment for the first quarter of 2003 versus the first quarter of 2002 more than offset the decline in net sales discussed above. However, the benefit of lower cost of sales was partially offset by an increase in selling, general and administrative expenses attributable primarily to increased costs related to various legal matters.

Loss Before Income Taxes and Minority Interests

The forest products segment's loss before income taxes and minority interests increased for the first quarter of 2003 as compared to the prior year first quarter. Results for the first quarter of 2002 included a gain on the sale of machinery and equipment. In addition, earnings on cash, cash equivalents and short-term investments were also higher in 2002. The decrease is also attributable to the factors which led to the decline in operating results discussed above.

Real Estate Operations

Industry Overview and Selected Operational Data

The Company, principally through its wholly owned subsidiaries, invests in and develops residential and commercial real estate primarily in Arizona, California, Puerto Rico, and Texas. The following table presents selected operational and financial information for the three months ended March 31, 2003 and 2002, for the Company's real estate operations.

	Three Months Ended March 31, 2003	2002
	(In millions of dollars)	
Net sales:		
Real estate:		
Fountain Hills	$ 1.4	$ 3.0
Mirada	1.2	–
Palmas del Mar	4.0	5.5
Other	–	0.3
Total	6.6	8.8
Resort, commercial and other:		
Fountain Hills	0.7	0.9
Mirada	–	–
Palmas del Mar	2.6	3.3
Commercial lease properties	4.0	2.1
Other	0.1	–
Total	7.4	6.3
Total net sales	$ 14.0	$ 15.1
Operating income (loss):		
Fountain Hills	$ (0.5)	$ 0.1
Mirada	–	(0.5)
Palmas del Mar	(1.5)	2.0
Commercial lease properties	1.5	0.8
Other	(0.2)	–
Total operating income (loss)	$ (0.7)	$ 2.4
Investment, interest and other income (expense), net:		
Equity in earnings from real estate joint ventures	$ 0.4	$ 0.1
Other	0.6	1.2
	$ 1.0	$ 1.3
Income (loss) before income taxes and minority interests	$ (4.4)	$ 0.5

Net Sales

Net sales for the real estate segment decreased for the three months ended March 31, 2003, from the comparable prior year period primarily due to lower real estate sales at the Company's Palmas del Mar and Fountain Hills developments. Palmas del Mar and Fountain Hills also experienced lower net sales from resort and commercial operations for the first quarter of 2003 versus the same period of 2002. Partially offsetting this decline in net sales of real estate and resort and commercial operations was an increase in real estate sales at the Company's Mirada development, as well as an increase in revenues realized from the segment's commercial lease properties (primarily attributable to the acquisition of the Cooper Cameron building and Motel Six properties in the fourth quarter of 2002).

Operating Income (Loss) and Income (Loss) Before Income Taxes and Minority Interests

The real estate segment experienced an operating loss for the first quarter of 2003 as compared to operating income for the comparable prior year period as a result of the decrease in net sales discussed above. In addition, gross margins on the real estate acreage sold at Palmas del Mar were lower. Improved results for the segment's commercial lease properties partially offset the overall decline in operating results.

The real estate segment experienced a loss before income taxes and minority interests for the first quarter of 2003 as compared to income before income taxes and minority interests for the same period of 2002. In addition to the decreases in net sales and operating results discussed above, the loss before income taxes and minority interests reflected higher interest expense associated with the borrowings used to finance the acquisition of the Motel Six properties and the Cooper Cameron building in the fourth quarter of 2002.

Racing Operations

Industry Overview and Selected Operational Data

The Company indirectly owns SHRP, Ltd., a Texas limited partnership, which owns and operates Sam Houston Race Park, a Class 1 horse racing facility in Houston, Texas, and Valley Race Park, a greyhound racing facility located in Harlingen, Texas. Results of operations between periods are generally not comparable due to the timing, varying lengths and types of racing meets held. Historically, Sam Houston Race Park and Valley Race Park have derived a significant amount of their annual net pari-mutuel commissions from live racing and simulcasting. Net pari-mutuel commissions have typically been highest during the first and fourth quarters of the year, the time during which Sam Houston Race Park and Valley Race Park have historically conducted live thoroughbred and greyhound racing, respectively.

The following table presents selected operational and financial information for the three months ended March 31, 2003 and 2002, for the Company's racing operations.

	Three Months Ended March 31,	
	2003	2002
	(In millions of dollars)	
Number of live race days:		
Sam Houston Race Park	48	52
Valley Race Park	76	78
Handle:		
Sam Houston Race Park:		
On-track handle	$ 36.7	$ 39.0
Off-track handle	102.3	105.0
Total	$ 139.0	$ 144.0
Valley Race Park:		
On-track handle	$ 6.9	$ 7.3
Off-track handle	2.9	2.7
Total	$ 9.8	$ 10.0
Net sales:		
Sam Houston Race Park:		
Net parimutuel commissions	$ 5.6	$ 5.8
Other revenues	2.2	2.3
Total	7.8	8.1
Valley Race Park:		
Net parimutuel commissions	1.1	1.1
Other revenues	0.5	0.6
Total	1.6	1.7
Total net sales	$ 9.4	$ 9.8
Operating income (loss):		
Sam Houston Race Park	$ 0.7	$ 1.1
Valley Race Park	(0.1)	–
Total operating income (loss)	$ 0.6	$ 1.1
Income before income taxes and minority interests	$ 0.5	$ 1.2

Net Sales

Net sales for the racing segment decreased for the three months ended March 31, 2003, from the comparable prior year period primarily due to fewer live race days at both Sam Houston Race Park and Valley Race Park. Net pari-mutuel commissions decreased at both race parks period-over-period, as did average daily attendance.

Operating Income and Income Before Income Taxes and Minority Interests

The racing segment's operating income and income before taxes and minority interests both decreased for the first quarter of 2003 versus the year ago period primarily due to the decrease in net sales discussed above.

Other Items Not Directly Related to Industry Segments

	Three Months Ended March 31,	
	2003	2002
	(In millions of dollars)	
Operating loss	$ (1.9)	$ (2.8)
Income (loss) before income taxes and minority interests	6.6	(1.4)[1]

[1] Includes $2.8 million of gain on repurchases of debt as required by SFAS. No. 145 (see Note 2). These gains were previously reported as extraordinary items.

The operating losses represent corporate general and administrative expenses that are not allocated to the Company's industry segments. Results for the first quarter of 2002 reflect certain general and administrative expenses incurred as a result of Kaiser's Chapter 11 filing, whereas these expenses were significantly less in the first quarter of 2003. This led to a decrease in the operating loss from the first quarter of 2002. The losses before income taxes and minority interests include operating losses, investment, interest and other income (expense) and interest expense, including amortization of deferred financing costs, that are not attributable to the Company's industry segments. Included in the results for 2003 is income related to an $8.0 million reimbursement from an insurer for certain costs incurred in connection with the *OTS* and *FDIC actions* (see Note 8).

Financial Condition and Investing and Financing Activities

This section contains statements which constitute "forward-looking statements" within the meaning of the PSLRA. See this section and above for cautionary information with respect to such forward-looking statements.

Overview

The Company conducts its operations primarily through its subsidiaries. Creditors of subsidiaries of the Company have priority with respect to the assets and earnings of such subsidiaries over the claims of the creditors of the Company. Certain of the Company's subsidiaries, principally Pacific Lumber and Scotia LLC, are restricted by their various debt instruments as to the amount of funds that can be paid in the form of dividends or loaned to affiliates. Scotia LLC is highly leveraged and has significant debt service requirements. **"MAXXAM 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. As a result of the deconsolidation of Kaiser, the balances at March 31, 2003 and December 31, 2002 exclude amounts attributable to Kaiser. For comparison purposes, such amounts have also been excluded from the selected information related to changes in cash and cash equivalents for the three months ended March 31, 2002.

	Forest Products							
	Scotia LLC	Pacific Lumber	MGI and Other	Real Estate	Racing	MGHI	MAXXAM 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, 2003	$ 33.3	$ 0.2	$ –	$ 10.0	$ –	$ –	$ –	$ 43.5
December 31, 2002	16.7	0.3	–	13.5	–	–	–	30.5
Long-term debt, excluding current maturities:								
March 31, 2003	$ 723.8	$ 0.3	$ –	$ 245.2	$ 0.2	$ –	$ –	$ 969.5
December 31, 2002	737.7	0.4	–	244.0	0.2	–	–	982.3
Revolving credit facilities:								
Facility commitment amounts	$ 58.9	$ 45.0	$ 2.5	$ 14.0	$ –	$ –	$ –	$ 120.4
March 31, 2003:								
Borrowings	14.7	–	–	–	–	–	–	14.7
Letters of credit	–	15.1	–	2.5	–	–	–	17.6
Unused and available credit	44.1	15.9	1.9	1.5	–	–	–	63.4
Cash, cash equivalents, marketable securities and other investments								
March 31, 2003:								
Current amounts restricted for debt service	$ 21.3	$ –	$ –	$ 0.3	$ –	$ –	$ –	$ 21.6
Other current amounts	3.4	15.9	15.4	5.7	2.1	–	76.0	118.5
	24.7	15.9	15.4	6.0	2.1	–	76.0	140.1
Long-term amounts restricted for debt service	41.0	–	–	1.4	–	–	–	42.4
Other long-term restricted amounts	–	0.4	2.3	6.4	–	–	–	9.1
	41.0	0.4	2.3	7.8	–	–	–	51.5
	$ 65.7	$ 16.3	$ 17.7	$ 13.8	$ 2.1	$ –	$ 76.0	$ 191.6
December 31, 2002:								
Current amounts restricted for debt service	$ 24.5	$ –	$ –	$ 0.3	$ –	$ –	$ –	$ 24.8
Other current amounts	4.9	21.3	13.6	6.4	5.2	0.3	74.8	126.5
	29.4	21.3	13.6	6.7	5.2	0.3	74.8	151.3
Long-term amounts restricted for debt service	52.9	–	–	1.4	–	–	–	54.3
Other long-term restricted amounts	–	0.4	2.3	6.6	–	–	–	9.3
	52.9	0.4	2.3	8.0	–	–	–	63.6
	$ 82.3	$ 21.7	$ 15.9	$ 14.7	$ 5.2	$ 0.3	$ 74.8	$ 214.9

Table continued on next page

	Forest Products: Scotia LLC	Forest Products: Pacific Lumber	Forest Products: MGI and Other	Real Estate	Racing	MGHI	MAXXAM Parent	Total
	(In millions of dollars)							
<u>Changes in cash and cash equivalents</u>								
Capital expenditures:								
March 31, 2003	$ 1.6	$ 1.0	$ 0.4	$ 0.3	$ 0.2	$ –	$ –	$ 3.5
March 31, 2002	1.3	1.1	0.1	0.3	0.1	–	–	2.9
Net proceeds from dispositions of property and investments:								
March 31, 2003	$ 0.7	$ –	$ –	$ –	$ –	$ –	$ –	$ 0.7
March 31, 2002	–	0.9	–	–	–	–	–	0.9
Borrowings (repayments) of debt and credit facilities, net of financing costs:								
March 31, 2003	$ 2.6	$ (0.1)	$ –	$ (2.3)	$ –	$ –	$ –	$ 0.2
March 31, 2002	(11.6)	(17.7)	(0.7)	(1.6)	–	(14.1)	–	(45.7)
Dividends and advances received (paid):								
March 31, 2003	$ –	$ –	$ –	$ (2.0)	$ –	$ –	$ 2.0	$ –
March 31, 2002	(29.4)	29.4	–	(0.8)	–	–	0.8	–

MAXXAM Parent and MGHI

The Company may from time to time purchase shares of its Common Stock on national exchanges or in privately negotiated transactions. Subsequent to March 31, 2003, and through May 9, 2003, the Company purchased an aggregate of 7,100 shares of its Common Stock on national exchanges.

MAXXAM Parent and MGHI own the 50,000,000 Kaiser Shares, representing an approximate 62% interest. As a result of the Cases, the value of Kaiser common stock has declined substantially, and the market value of the Kaiser Shares based on the price per share quoted at the close of business on May 9, 2003, was $2.0 million. There can be no assurance that such value would be realized should the Kaiser shares owned by the Company be sold, and it is likely that the Company's ownership interest in Kaiser will be diluted or cancelled as a result of a plan of reorganization. See also Notes 1 and 5.

MAXXAM Parent believes that its existing resources will be sufficient to fund its working capital requirements for the next year. With respect to long-term liquidity, MAXXAM Parent believes that its existing cash and cash resources, together with distributions from the real estate and racing segments, should be sufficient to meet its working capital requirements. However, there can be no assurance that this will be the case.

Forest Products Operations

On May 31, 2002, the Scotia LLC Line of Credit was extended for an additional year to July 11, 2003. Annually, Scotia LLC will request that the Scotia LLC Line of Credit be extended for a period of not less than 364 days. 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. At March 31, 2003, Scotia LLC could have borrowed a maximum of $58.9 million under the Scotia LLC Line of Credit, and there was $14.7 million outstanding under the Scotia LLC Line of Credit.

On the note payment date in January 2003, Scotia LLC had $5.6 million set aside in the note payment account to pay the $27.9 million of interest due. Scotia LLC used $22.3 million (in addition to $1.6 million which was borrowed in respect of Timber Notes held by Scotia LLC) of the funds available under the Scotia LLC Line of Credit to pay the remaining amount of interest due. Scotia LLC repaid $12.1 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

In April 2003, $3.4 million of funds from the SAR Account were used to repurchase $4.0 million principal amount of Timber Notes, as permitted under the Timber Notes Indenture, resulting in a gain of $0.4 million (net of unamortized deferred financing costs) on extinguishment of debt.

With respect to the note payment date in July 2003, Scotia LLC expects to use $27.4 million (in addition to $2.0 million which would be borrowed in respect of Timber Notes held by Scotia LLC) of the funds available under the Scotia LLC Line of Credit to pay the entire amount of interest due. Scotia LLC expects to repay $4.4 million of principal on the Timber Notes (an amount equal to Scheduled Amortization) using funds held in the SAR Account.

The Pacific Lumber Credit Agreement provides for a two-year revolving line of credit expiring on August 13, 2004, with an aggregate commitment of $45.0 million. At March 31, 2003, $15.1 million of letters of credit and no borrowings were outstanding under the Pacific Lumber Credit Agreement. Unused availability was limited to $15.9 million at March 31, 2003.

Pacific Lumber's cash flows from operations may be adversely affected by diminished availability of logs from Scotia LLC, lower lumber prices, adverse weather conditions, or pending legal, regulatory and environmental matters. See "—Results of Operations—Forest Products Operations" above as well as Note 8 for further discussion of the regulatory and environmental factors affecting harvest levels. Pacific Lumber may require funds available under the Pacific Lumber Credit Agreement and/or additional prepayments by MGI of an intercompany loan in order to meet its working capital and capital expenditure requirements for the next year.

Due to its highly leveraged condition, Scotia LLC is more sensitive than less leveraged companies to factors affecting its operations, including low log prices, governmental regulation and litigation affecting its timber harvesting practices (see "—Results of Operations—Forest Products Operations—Industry Overview and Selected Operational Data" above and Note 8), and general economic conditions. Scotia LLC's cash flows from operations are significantly impacted by harvest volumes and log prices. The Master Purchase Agreement between Scotia LLC and Pacific Lumber contemplates that all sales of logs by Scotia LLC to Pacific Lumber will be at fair market value (based on stumpage prices) for each species and category of timber. The Master Purchase Agreement provides that if the purchase price equals or exceeds the SBE Price and a structuring price set forth in a schedule to the Timber Notes Indenture, the purchase price is deemed to be at fair market value. If the purchase price equals or exceeds the SBE Price, but is less than the structuring price, then Scotia LLC is required to engage an independent forestry consultant to confirm that the purchase price reflects fair market value.

In January 2003, Scotia LLC engaged a consultant with respect to establishing the purchase prices of logs to be sold to Pacific Lumber in the first half of 2003. The consultant determined that with respect to certain categories of logs, the fair market value was higher than the comparable SBE Price. The prices for redwood logs are expected to be on average approximately 20% higher for the first half of 2003 than those for the second half of 2002. There was relatively no price change for Douglas-fir logs.

With respect to short-term liquidity, Scotia LLC believes that existing cash available for principal payments from the SAR Account, and funds available under the Scotia LLC Line of Credit, together with cash flows from operations, should provide sufficient funds to meet its working capital, capital expenditures and required debt service obligations through 2003. With respect to long-term liquidity, although the Company expects that cash flows from operations and funds available under the SAR Account and the Scotia LLC Line of Credit should be adequate to meet Scotia LLC's debt service, working capital and capital expenditure requirements, unless log prices continue to improve there can be no assurance that this will be the case. In addition, cash flows from operations may continue to be adversely affected if harvest levels decline as a result of the factors discussed in "—Results of Operations—Forest Products Operations—Industry Overview and Selected Operational Data" above and Note 8.

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. Cash flows from operations in the long-term may continue to be adversely affected by the same factors discussed above which are affecting short-term cash flows from operations.

Real Estate Operations

In March 2003, the Company's casino facility at its Palmas del Mar operation in Puerto Rico ceased operations due to the closure of a hotel which was owned and operated by a third party from whom the casino leased space adjacent to the hotel. It is currently unclear when or whether the casino or hotel will reopen, and if reopened, who will be the operator(s). Net cash flows from the casino's operations for 2002 were approximately $0.8 million. Furthermore, PDMPI benefitted from the revenues generated as a result of guests of the hotel using PDMPI's golf course and other resort related assets, and the hotel's closure could adversely affect the performance of PDMPI in other ways which are not able to be quantified.

The Company believes that the existing cash and credit facilities of its real estate subsidiaries, excluding PDMPI, are sufficient to fund the working capital and capital expenditure requirements of such subsidiaries for the next year. With respect to the long-term liquidity of such subsidiaries, the Company believes that their ability to generate cash from the sale of their existing real estate, together with their ability to obtain financing and joint venture partners, should provide sufficient funds to meet their working capital and capital expenditure requirements. PDMPI and its subsidiaries, however, have required advances from MAXXAM Parent during 2002 and prior years to fund their operations, and it is expected that PDMPI will require such advances in the future.

Racing Operations

With respect to short-term and long-term liquidity, SHRP, Ltd's management expects that SHRP, Ltd. will generate cash flows from operations.

Kaiser's Operations

As a result of the filing of the Cases, claims against the Debtors for principal and accrued interest on secured and unsecured indebtedness existing on the Filing Date are stayed while the Debtors continue business operations as debtors-in-possession, subject to the control and supervision of the Bankruptcy Court. At this time, it is not possible to predict the effect of the Cases on the businesses of the Debtors. With respect to the Company's interest in Kaiser, the Debtors believe that it is likely that the equity of Kaiser's stockholders will be diluted or cancelled. See Note 5 for further information.

Trends

The Texas legislature, which convenes every other year and is currently in session until June 2, 2003, is considering a variety of alternatives to address a projected budget shortfall, including enhancing state revenues through additional forms of gaming. A bill has been introduced in the Texas Legislature allowing for the installation of video lottery terminals at existing horse and dog racing tracks, including Sam Houston Race Park and Valley Race Park. Racing industry participants have proposed a substitute bill that would furnish greater economic incentives to all affected parties, including the Company and the State of Texas. In addition, a number of other bills have been introduced in the Texas Legislature allowing other forms of gaming in Texas such as gaming on Indian reservations, keno, and full casinos.

It is impossible to determine whether or not the Texas legislature will enact any of this legislation, or what the terms might be of any such legislation. Furthermore, it is impossible to determine the effect of any such legislation on the Company. Certain types of legislation would be favorable to the Company and other types would be adverse to the Company's interests.

Certain forms of expanded gaming would also require an amendment to the Texas Constitution, which must be approved by two-thirds of each legislative house and a majority of the state's voters. The Texas Attorney General has been requested to opine on whether legislation allowing video lottery terminals would necessitate such an amendment. It is unclear when the Texas Attorney General will issue the requested opinion or what the opinion will say. However, were he to rule that a constitutional amendment is required, the passage of such legislation would become less likely.

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 2 for a discussion of new accounting pronouncements and their potential impact on the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in interest rates primarily under the Scotia LLC Line of Credit and the Pacific Lumber Credit Agreement, as well as certain other debt facilities used to finance real estate development activities. These facilities bear interest at either the prime interest rate or LIBOR plus a specified percentage point spread. The Scotia LLC Line of Credit was established in conjunction with the offering of the Timber Notes. The Company's objective in maintaining its other variable rate borrowings is flexibility in borrowing funds and making repayments without penalties. As of March 31, 2003, there were $32.6 million in borrowings outstanding under all variable rate facilities. Based on the amount of borrowings outstanding under these facilities during the three months ended March 31, 2003, a 1.0% change in interest rates effective from the beginning of the year would have resulted in an increase or decrease in interest expense for the period of $0.1 million.

All of the Company's other debt is fixed-rate, and therefore, does not expose the Company to the risk of higher interest payments due to changes in market interest rates. The Company does not utilize interest rate swaps or similar hedging arrangements.

ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 8 is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:

* 99.1	Section 906 Certification of Chief Executive Officer
* 99.2	Section 906 Certification of Chief Financial Officer

* Included with this filing

b. Reports on Form 8-K:

On February 25, 2003, the Company filed a current report on Form 8-K (under Item 5), related to the *Humboldt DA action.*

On April 1, 2003, the Company filed a current report on Form 8-K (under Item 9), related to a press release regarding its 2002 results.

On April 16, 2003, the Company filed a current report on Form 8-K (under Item 5), related to arbitration proceedings, pending legislation and the closing of the Palmas hotel and casino.

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 INC.

Date: May 15, 2003

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

Date: May 15, 2003

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

CERTIFICATIONS

I, Charles E. Hurwitz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MAXXAM Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /S/ CHARLES E. HURWITZ
Charles E. Hurwitz
Chairman of the Board and
Chief Executive Officer

I, Paul N. Schwartz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MAXXAM Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

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

Glossary of Defined Terms

APB Opinion No. 25: Accounting Principles Board Opinion 25, “Accounting for Stock Issued to Employees”

APB Opinion No. 30: Accounting Principles Board Opinion 30, “Reporting the Results of Operations - Reporting Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions”

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

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

Beltway Notes: Beltway Assets LLC’s 6.31% notes due in November, 2024

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

Cases: The Chapter 11 proceedings of the Debtors

Cave action: An action entitled *Steve Cave, et al. v. Gary Clark, et al.* (No. DR0220719) pending in the Superior Court of Humboldt County, California

CDF: California Department of Forestry and Fire Protection

CESA: California Endangered Species Act

Class A Preferred Stock: Class A $.05 Non-Cumulative Participating Convertible Preferred Stock of the Company

Code: The United States Bankruptcy Code

Common Stock: $0.50 par value common stock of the Company

Company: MAXXAM Inc. and its majority and wholly owned subsidiaries, unless otherwise indicated or the context indicates otherwise

Cook action: An action entitled *Alan Cook, et al. v. Gary Clark, et al.* (No. DR020718) pending in the Superior Court of Humboldt County

Cooper Cameron building: Office building located in Houston, Texas, acquired by Beltway Assets LLC in November 2002

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

CWA: Federal Clean Water Act

Debtors: Kaiser, KACC and the subsidiaries of KACC which have filed petitions for reorganization

Elk River Order: Clean up and abatement order issued to Pacific Lumber by the North Coast Water Board for the Elk River watershed

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.* pending in Humboldt County Superior Court (No. CV990452)

ESA: The federal Endangered Species Act

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

FDIC action: An action filed by the FDIC on August 2, 1995 entitled *Federal Deposit Insurance Corporation, as manager of the FSLIC Resolution Fund v. Charles E. Hurwitz* (No. H-95-3956) in the U.S. District Court for the Southern District of Texas

FDIC counterclaim: A counterclaim to the *FDIC action* filed on May 31, 2000, by the Company, Federated and Mr. Hurwitz

Federated: Federated Development Company, a principal stockholder of the Company now known as Giddeon Holdings, Inc.

Filing Date: With respect to any particular Debtor, the date on which such Debtor filed its Case

FIN 45: Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”

FIN 46: Interpretation No. 46, “Consolidation of Variable Interest Entities”

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, 2002

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 1996 agreement between Pacific Lumber, Scotia LLC, Salmon Creek Corporation, 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 Untied States and California on March 1, 1999

Humboldt DA action: A civil suit filed in the Superior Court of Humboldt County by the District Attorney of Humboldt County entitled *The People of the State of California v. Pacific Lumber, Scotia Pacific Holding Company and Salmon Creek Corporation* (No. DR030070)

HWC lawsuit: An action entitled *Humboldt County Watershed Council, et al. v. North Coast Regional Water Quality Control Board, et al.* (No. CPF02-502062), naming Pacific Lumber as real party in interest, pending in the Superior Court of San Francisco County, California

KACC: Kaiser Aluminum & Chemical Corporation, Kaiser’s principal operating subsidiary

Kahn lawsuit: An action entitled *Alan Russell Kahn v. Federated Development Co., MAXXAM Inc., et. al.* (Civil Action 18623NC) pending in the Delaware Court of Chancery

Kaiser: Kaiser Aluminum Corporation, a subsidiary of the Company engaged in aluminum operations

Kaiser Shares: 50,000,000 shares of the common stock of Kaiser owned by the Company and MGHI

Lakepointe Notes: Lakepointe Assets Holdings LLC and its subsidiaries' 7.56% notes due June 8, 2021

LIBOR: London Inter Bank Offering Rate

Master Purchase Agreement: The agreement entered into between Pacific Lumber and Scotia LLC that governs all purchases of logs by Pacific Lumber from Scotia LLC

Mbfe: A concept developed for use in structuring the Timber Notes; under this concept one thousand board feet, net Scribner scale, of residual old growth redwood timber equates to one Mbfe

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

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

Motel Notes: Motel Assets Holdings LLC and its subsidiaries' 7.03% notes due May 1, 2018

Motel Six properties: Portfolio of sixteen motel properties located in ten different states acquired by Motel Assets Holdings LLC in December 2002

MPC: MAXXAM Property Company, a wholly-owned subsidiary of the Company

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

Original Debtors: Kaiser, KACC and the 15 subsidiaries of KACC that filed petitions for reorganization on February 12, 2002

OTS: The United States Department of Treasury's Office of Thrift Supervision

OTS action: A formal administrative proceeding initiated by the OTS against the Company and others on December 26, 1995

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 $45.0 million

Palmas Country Club Notes: Palmas Country Club Inc.'s 7.12% notes due December 20, 2030

PDMPI: Palmas del Mar Properties, Inc., a wholly owned subsidiary of the Company

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

PSLRA: Private Securities Litigation Reform Act of 1995

Respondents: The Company, Federated, Mr. Charles Hurwitz and others

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

SAR Account: Funds held in a reserve account titled the Scheduled Amortization Reserve Account and used to support principal payments on the Timber Notes

SBE Price: The applicable stumpage price for a particular species and size of log, as set forth in the most recent Harvest Value Schedule

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 Scotia LLC may borrow in order to pay up to one year's interest on the Timber Notes

SFAS No. 123: Statement of Financial Accounting Standards No. 123, "Accounting and Disclosure of Stock-Based Compensation"

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

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"

SFAS No. 146: Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities"

SFAS No. 148: Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation"

SFAS No. 149: Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

SHRP, Ltd.: Sam Houston Race Park, Ltd., a wholly-owned subsidiary of the Company

SOP 90-7: American Institute of Certified Public Accountants Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code"

State Water Board: California State Water Resources Control Board

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

THP No. 520 lawsuit: An action entitled *The Pacific Lumber Company, et al. v. California State Water Resources Control Board* (No. DR010860) pending in the Superior Court of Humboldt County

Timber Notes: Scotia LLC's 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

USAT: United Savings Association of Texas

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) pending in the Superior Court of Sacramento County, California