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KAISER COAL

KAISER COAL CORPORATION
102 SOUTH TEJON STREET, SUITE 800 ■ P.O. BOX 2679
COLORADO SPRINGS, COLORADO 80901-2679
(303) 475-7005 ■ TELEX 289 909

RECEIVED
MAR 21 1986

DIVISION OF
OIL, GAS & MINING

March 19, 1986

Ms. Pamela Grubaugh-Littig
State of Utah Natural Resources
Oil, Gas & Mining
3 Triad Center, Suite 350
355 W. North Temple
Salt Lake City, UT 84180-1203

Dear Ms. Littig:

Pursuant to your request of February 3, 1986 directed to Denise Dragoo, enclosed please find Kaiser Steel Corporation Form 10-Q for quarter ending September 30, 1985.

Kaiser Steel's 1985 10-K is in the process of being printed, and we will provide you a copy in mid-April.

If we can be of further assistance in the meantime, please do not hesitate to call.

Very truly yours,

Pam Simpson

Pamela K. Simpson
Manager of Leases and Records

PKS6/pp:67

Enclosure

cc: Denise A. Dragoo
Thomas L. Hopkins

FILE COPY

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 1985

Commission File Number 1-7651

KAISER STEEL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

94-0594733
(I.R.S. Employer Identification No.)

9400 CHERRY AVENUE, P. O. BOX 5050, FONTANA, CALIFORNIA 92335
(Address of principal executive offices and zip code)

(714) 350-5199
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date.

Class	Outstanding at November 10, 1985
Common Stock, 10 cents par value	10,000,000
Series A Preferred Stock, $1 par value	7,478,256
Series B Preferred Stock, $1 par value	7,478,256

KAISER STEEL CORPORATION
FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 1985

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

KAISER STEEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Thousands of Dollars)

	September 30, 1985 (Unaudited)	December 31, 1984
Current Assets:		
Cash and short-term investments, including restricted cash of $1,268 at September 30, 1985	$ 13,088	$ 3,310
Notes and accounts receivable	31,142	28,777
Refundable income taxes	1,941	
Inventories	23,894	14,063
Other current assets	15,204	11,776
Assets held for sale	11,443	
Current assets - discontinued operations	4,646	33,858
Total current assets	101,358	91,784
Restricted cash	4,356	25,000
Property, plant and equipment and coal reserves - net	509,791	485,738
Notes receivable, less current portion	5,000	74,594
Other assets	55,369	42,828
Long-term assets - discontinued operations	23,615	40,909
Excess of purchase price over fair value of net assets acquired, net of accumulated amortization	33,234	33,885
	$ 732,723	$ 794,738
Current Liabilities:		
Current portion of long-term debt	$ 14,370	$ 4,356
Accounts payable	12,176	10,233
Payroll and related charges	14,781	18,632
Income taxes		4,727
Other current liabilities	7,078	4,207
Current liabilities - discontinued operations	36,292	75,801
Total current liabilities	84,697	117,956
Long-term debt	93,711	75,070
Income taxes	23,673	20,616
Other liabilities	59,981	56,271
Long-term liabilities - discontinued operations	323,396	345,868
Commitments and contingencies		
Series A preferred stock - redeemable	57,584	54,083
Series B preferred stock - redeemable	20,451	18,794
Series B preferred stock	6,275	6,372
Common stock	1,000	1,000
Capital surplus	70,491	72,051
Retained earnings (deficit), subsequent to December 31, 1983	(8,536)	26,657
	$ 732,723	$ 794,738

See accompanying notes to consolidated condensed financial statements.

KAISER STEEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(Thousands of Dollars)

	Three Months Ended September 30, 1985	Three Months Ended September 30, 1984 (Restated)	Nine Months Ended September 30, 1985	Nine Months Ended September 30, 1984 (Restated)
Net sales	$ 54,929	$ 40,306	$ 146,005	$ 109,411
Cost of products sold	48,430	37,780	130,965	103,516
	6,499	2,526	15,040	5,895
Costs and expenses:				
Selling and administrative expenses	15,112	8,630	40,608	21,649
Interest expense	3,627	3,880	9,601	10,091
Interest and other income	(3,496)	(2,723)	(17,275)	(8,110)
	15,243	9,787	32,934	23,630
Loss from continuing operations, before income tax credits	(8,744)	(7,261)	(17,894)	(17,735)
Income tax (credits)			(4,654)	
Loss from continuing operations	(8,744)	(7,261)	(13,240)	(17,735)
Discontinued operations:				
Earnings (loss) from operations	(58)	47	(1,208)	446
Earnings (loss) on discontinuance	(3,800)	8,561	(2,533)	21,442
	(3,858)	8,608	(3,741)	21,888
Earnings (loss) before cumulative effect on prior years of accounting changes	(12,602)	1,347	(16,981)	4,153
Cumulative effect on prior years of accounting changes			3,741	
Net earnings (loss)	$(12,602)	$ 1,347	$(13,240)	$ 4,153

See accompanying notes to consolidated condensed financial statements.

KAISER STEEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Unaudited)
(Thousands of Dollars)

	Nine Months Ended September 30, 1985	1984 (Restated)
Amounts related to continuing operations:		
Loss from continuing operations	$(13,240)	$(17,735)
Depreciation, depletion and amortization	6,218	11,561
Minority interest		538
Funds used in continuing operations	(7,022)	(5,636)
Cumulative effect of accounting changes	3,741	
Disposals of Additions to property, plant and equipment, net	(482)	(8,482)
Payments and current maturities of long-term debt	(139,447)	(28,030)
Additions to long-term debt	147,232	
Decrease (increase) in notes receivable	77,500	(90,000)
Dividends on Series A and Series B preferred stock	(18,452)	(11,274)
Decrease (increase) in refundable income taxes	(1,941)	33,000
Funds used in exchange of assets (Note 5)	(5,000)	
Investment in preferred stock	(2,700)	
Increase (decrease) in other assets	(9,992)	945
Other	2,149	(983)
Changes in:		
Notes and accounts receivable	(9,865)	(7,913)
Inventories	(9,831)	(1,947)
Assets held for sale	(11,443)	
Other current assets	(2,626)	(2,803)
Accounts payable	(43)	4,419
Payroll and related charges	(1,220)	(9,176)
Billings in excess of costs and estimated earnings		(679)
Income taxes	(1,670)	(6,274)
Other current liabilities	2,871	(14,382)
Funds provided by (used in) continuing operations	11,759	(149,215)
Amounts related to discontinued operations:		
Earnings (loss) from discontinued operations	(3,741)	21,888
Additions to (reversal of) reserves, net	836	(22,861)
Depreciation and amortization	275	1,597
Funds (used in) provided by discontinued operations	(2,630)	624
Payments related to shutdown of steelmaking	(55,547)	(2,810)
Disposals of property, plant and equipment, net	10,987	114,815
Other	(4,902)	864
Decrease in current assets - discontinued operations	32,804	105,483
Decrease in current liabilities - discontinued operations	(3,337)	(71,099)
Funds provided by (used in) discontinued operations	(22,625)	147,877
Net decrease in cash	(10,866)	(1,338)
Cash and short-term investments at beginning of period (including restricted cash of $25,000)	28,310	46,615
Cash and short-term investments at end of period (including restricted cash of $25,000 at September 30, 1984 and $5,624 at September 30, 1985)	$ 17,444	$ 45,277

See accompanying notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENT OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(Unaudited)
(Thousands of Dollars)

	Series A Redeemable Preferred Stock	Series B Redeemable Preferred Stock	Series B Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)
Balance at December 31, 1984.....	$54,083	$18,794	$ 6,372	$1,000	$ 72,051	$ 26,657
Net loss......................						(13,240)
Cash dividends on Preferred Stock - Series A and Series B						(18,452)
Series B Preferred Stock transfer to redeemable........		1,657	(97)		(1,560)	
Accretion of mandatory redemption value - Series A.........	3,501					(3,501)
Balance at September 30, 1985....	$57,584	$20,451	$ 6,275	$1,000	$ 70,491	$(8,536)

See accompanying notes to consolidated condensed financial statements.

KAISER STEEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments necessary to present fairly the financial position of Kaiser Steel Corporation (the "Company") and subsidiaries as of September 30, 1985 and September 30, 1984, the results of operations for the three and nine months ended September 30, 1985 and September 30, 1984, and changes in financial position for the nine months ended September 30, 1985 and September 30, 1984.

   The accounting policies followed by the Company are set forth in Note A to the financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 1984.

   The results of operations for the three and nine months ended September 30, 1985 and September 30, 1984 are not necessarily indicative of the results to be expected for the full year.

2. During the first quarter of 1985, the Company changed its method of accounting for certain coal mine inventories and development costs to more properly associate costs with revenues. Prior to 1985, the Company directly expensed all costs associated with the generation of pit inventories at its York Canyon surface mine and all costs associated with the development of submain entries and longwall panels at its underground mines as such costs were incurred. Pit inventories are now recognized as the coal is uncovered and the costs of generating pit inventories are allocated to the coal expected to be removed based upon engineering data. The costs incurred during the development of submain entries and longwall panels to expose unmined reserves are now capitalized as preproduction costs and amortized as coal is produced on a units-of-production method based upon coal expected to be recovered as determined by engineering data.

   The cumulative effect on prior years due to the accounting changes reduced the net loss by $3.7 million. As a further result of the accounting changes, the loss before the cumulative effect on prior years of the accounting changes was reduced by $2.9 million in the third quarter of 1985 and by $5.2 million during the first nine months of 1985.

3. Commencing during the second quarter of 1985, the Company extended the estimated useful lives of certain coal mine equipment based upon historical data and engineering studies. The effect of this change was to decrease depreciation and increase net income by $1.3 million in the third quarter of 1985 and by $1.9 million for the first nine months of 1985.

4. Restricted cash of $5.6 million at September 30, 1985 represents funds held as security for the performance of obligations under letter of credit agreements.

5. In April 1985 the Company exchanged certain real property in Fontana, California, a note receivable and cash and assumed certain debt in exchange for Colorado coal properties and a long-term coal supply contract held by a joint venture of Perma Resources Corporation (an affiliate of Perma Pacific, Inc., which owns all the Common Stock of the Company), certain affiliates of Perma Resources Corporation, and an investment group led by J. A. Frates. In October 1985 the Company acquired an option from Perma Pacific Properties, Inc. (an affiliate of Perma Pacific, Inc.) to purchase certain real property transferred

in the April exchange. The property is being acquired to provide improved access to the Company's property and enhance development of the Company's property as an industrial park. Under the terms of the option, the Company has the option to acquire three parcels adjacent to the Company's real property and certain other property, with an aggregate value of approximately $21 million, in exchange for certain of the Company's real property in the Fontana area and cash or assumption of debt. The option, which was purchased for $2.6 million, expires on January 2, 1986.

6. In April 1985 the Company repaid its $100 million term loan from Citibank, N.A. from the proceeds of a $60 million loan from the Chase Manhattan Bank (National Association) to Kaiser Coal Corporation, a wholly-owned subsidiary of the Company, and a $50 million loan from the Philadelphia Saving Fund Society and certain other financial institutions to the Company (the "PSFS Loan"). The amount of outstanding indebtedness under the PSFS Loan was reduced to approximately $4.1 million as of September 30, 1985 by payments from proceeds of the sale of various assets and a $35 million payment in August 1985 from proceeds of a prepayment by California Steel Industries, Inc. of a note received in connection with the sale of the Fontana steelworks.

7. The Company is required to apply to a purchase fund for the redemption of the Series B Preferred Stock an amount generally equal to 25% of the amount of cash and certain other proceeds ("Qualifying Funds") in excess of $60 million received on dispositions of specified coal properties or steel manufacturing properties, individually, provided that if the cash proceeds from both sources combined exceed $100 million, then the Company is required to apply 25% of such excess over $100 million. The portion of the cash proceeds allocated to the purchase fund must be deposited into escrow within one year of receipt and any amounts deposited must be used for the purchase or redemption of the Series B Preferred Stock beginning in 1989. Beginning in 1989, the Company can make open market purchases of the Series B Preferred Stock to satisfy the redemption requirements. Based upon receipts of Qualifying Funds of $141.8 million as of September 30, 1985, $20.5 million (25% of the Qualifying Funds in excess of $60 million) has been classified as redeemable Series B Preferred Stock.

8. Inventories of continuing operations consisted of the following as of September 30, 1985 and December 31, 1984 (in thousands of dollars):

	September 30, 1985 (Unaudited)	December 31, 1984
Finished products	$ 996	$ 1,813
Semi-finished products	12,638	4,069
Raw materials	7,285	5,562
Operating supplies	2,975	2,619
	$23,894	$14,063

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

This discussion should be read in conjunction with the consolidated condensed financial statements and notes thereto.

The operations of the Company are organized into two principal operating groups: Coal and Fabricated Products. The Coal Group mines and markets metallurgical and steam coal in Utah and New Mexico at mines of its wholly-owned subsidiary, Kaiser Coal Corporation. Other Coal Group operations include management of Colorado coal properties and other Company mineral properties and development projects. The Fabricated Products Group engages in heavy steel fabrication and erection activities, the manufacture of large diameter pipe, and operation of a bulk loading terminal at Los Angeles Harbor.

FINANCIAL CONDITION

During the third quarter of 1985, Cash and Short-Term Investments and Restricted Cash increased from $6.7 million at June 30, 1985 to $17.4 million at September 30, 1985. The increase in cash during the third quarter of 1985 reflects cash receipts from asset sales, collection of income tax refunds due from settlement of certain tax issues, and the collection of large diameter pipe trade receivables. Partially offsetting these increases were the quarterly preferred stock dividend of $6.1 million, the annual pension contribution of $16.5 million, a reduction in accounts payable of $4.6 million, and capital expenditures of $4.8 million.

In August 1985 California Steel Industries, Inc. ("CSI") paid the Company $71.1 million and discharged the outstanding indebtedness on the note payable by CSI to the Company in connection with the August 1984 sale to CSI of the Fontana steelworks. The payment by CSI reflected a discount of $5.0 million from the aggregate unpaid principal balance of the CSI obligations. In July 1985 CSI paid $10.0 million to the Company as a partial prepayment of principal on the CSI note.

Of the proceeds from the August payment by CSI, $35.0 million was applied to the Company's obligations under a loan agreement, dated as of April 1, 1985, with the Philadelphia Saving Fund Society and certain other financial institutions (the "PSFS Loan Agreement"). In addition, $3.4 million of the proceeds from the payment by CSI was applied to the payment in full of the outstanding principal and interest under a $5.0 million short-term loan from the consortium of financial institutions that had entered into the PSFS Loan Agreement.

During the third quarter of 1985, the Company sold all the assets of its wholly-owned subsidiary, Kaiser Steel Tubing, Inc., for $6.5 million in cash, two promissory notes payable in the aggregate principal amount of $7.5 million, and convertible preferred stock of the company purchasing the real property and equipment.

Also in the third quarter of 1985 the Company sold the land and building of Industrial Molding Corporation, a wholly-owned subsidiary of Myers Drum Company, for $4.8 million in cash and sold certain land in Montebello, California for $1.5 million in cash.

Preferred stock dividend payments of $6.1 million in the fourth quarter of 1985 and other expenditures are expected to be funded with cash generated by continuing operations, additional income tax refunds, refinancings and proceeds from the sale of assets. During the fourth quarter of 1985 the Company anticipates capital expenditures of approximately $3.6 million which the Company intends to fund through lease financing. Capital expenditures during the first nine months of 1985 and 1984 were $6.1 million and $10.7 million, respectively.

In October 1985 the Company acquired an option from Perma Pacific Properties, Inc., an affiliate of Perma Pacific, Inc. (which owns all the Common Stock of the Company), to purchase certain real property in Fontana, California to use in connection with the Company's development of its real estate. The property is being acquired to provide improved access to the Company's property and enhance the development of the Company's property as an industrial park. Under the terms of the option, the Company has the option to acquire three parcels adjacent to the Company's real property and certain other property, with an aggregate value of approximately $21 million, in exchange for certain of the Company's real property in the Fontana area and cash or assumption of debt. The option, which was purchased for $2.6 million, expires on January 2, 1986. If the option is consummated, the option price will be an offset to the purchase price. The property subject to the option and certain other property were transferred from the Company in April 1985 in exchange for certain Colorado coal properties and a long-term coal supply contract.

In October 1985 the Company and URS Corporation ("URS") entered into a Technical Services Agreement to study alternative uses for the Company's real property in Fontana, California. The Company and URS simultaneously signed a letter of intent to form a joint venture for the development of the property. Under the terms of the proposed venture, the Company would sell to the venture by March 15, 1986 the real property and certain other property associated with the site for a total of $97 million consisting of $17 million in cash and an $80 million 10-year promissory note. The venture, if formed, would be funded by an initial cash contribution from URS sufficient to enable the venture to pay the cash portion of the purchase price and to provide working capital to begin development. The Company and URS would be equal partners in the venture.

In connection with the Company's efforts to dispose of surplus real estate and idle assets, the Company has designated certain properties for sale within the next twelve months. As a result, and based upon book values and independent appraisals, the Company has reclassified approximately $10 million of long-term assets as current assets held for sale. The reclassification increased the loss on discontinuance by $1.2 million.

RESULTS OF OPERATIONS

The schedule below shows a summary of operations by industry segment for the three and nine months ended September 30, 1984 and 1985 (in thousands of dollars). Kaiser Coal Corporation was formed in April 1985; the information reported for Kaiser Coal Corporation for periods prior to such date shows results for the Coal Group operations which were contributed to Kaiser Coal Corporation upon its formation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1985	1984	1985	1984
Net sales:				
Coal Group:				
Kaiser Coal Corporation and its subsidiaries....................	$ 27,570	$ 21,157	$ 69,307	$ 48,967
Other operations..................	1,216		2,417	
	28,786	21,157	71,724	48,967
Fabricated Products Group...........	26,143	19,149	74,697	60,444
Intersegment eliminations...........			(416)	
	$ 54,929	$ 40,306	$146,005	$109,411
Operating profit (loss):				
Coal Group:				
Kaiser Coal Corporation and its subsidiaries....................	$ 3,867	$ 1,240	$ 5,100	$ 3,648
Other operations..................	(2,975)	(137)	(5,544)	(275)
	892	1,103	(444)	3,373
Fabricated Products Group...........	(3,233)	(2,277)	(1,806)	(6,843)
Corporate..........................	(6,181)	(4,704)	(19,732)	(11,716)
	(8,522)	(5,878)	(21,982)	(15,186)
Interest income......................	2,465	2,448	12,025	7,401
Interest expense.....................	(2,687)	(3,831)	(7,937)	(9,950)
Income tax (credits).................			(4,654)	
Loss from continuing operations.......	(8,744)	(7,261)	(13,240)	(17,735)
Discontinued operations...............	(3,858)	8,608	(3,741)	21,888
Cumulative effect on prior years of accounting changes..................			3,741	
Net earnings (loss)...............	$(12,602)	$ 1,347	$(13,240)	$ 4,153

Coal Group

Coal sales increased from \$49.0 million in the first nine months of 1984 to \$71.7 million in the first nine months of 1985 due to intensified marketing efforts. Gross margin, however, which increased from \$8.1 million in the first nine months of 1984 to \$11.2 million in the first nine months of 1985, was constrained by market pressures on coal pricing.

Kaiser Coal Corporation, a wholly-owned subsidiary of the Company, reported an operating profit of \$5.1 million for the first nine months of 1985 and \$3.9 million for the third quarter of 1985. The operating profit for the first nine months of 1985 reflects a \$1.9 million decrease in depreciation expense due to extension of estimated lives of certain coal mine equipment. Kaiser Coal Corporation had increased selling and administrative expenses in the first nine months of 1985 largely due to increased marketing and development activities.

Other operations of the Coal Group were primarily development activities and the management of Colorado coal properties. The Company has joined with Southwestern Public Service Company ("SPS") to study the feasibility of transportation of coal in a pipeline slurry of coal and liquified carbon dioxide. A demonstration project slurry line is being constructed at SPS' coal-fueled plant near Amarillo, Texas. The Group is also developing plans to construct cogeneration power plants near Kaiser Coal Corporation coal mines in Utah and New Mexico. During the third quarter of 1985 the Company provided \$1.4 million for costs associated with the idling of Chimney Rock Coal Mine in Colorado. These other coal operations generated operating losses of \$5.5 million for the first nine months of 1985 and \$3.0 million for the third quarter of 1985.

The Coal Group as a whole reported an operating loss of \$0.4 million in the first nine months of 1985 and an operating profit of \$0.9 million in the third quarter of 1985 compared to an operating profit of \$3.4 million in the first nine months of 1984 and an operating profit of \$1.1 million in the third quarter of 1984.

In addition, Kaiser Coal Corporation reported a \$3.7 million gain from a change in accounting for certain inventory and development costs in the nine months ended September 30, 1985.

Fabricated Products Group

Fabricated Products Group sales increased from \$60.4 million in the first nine months of 1984 to \$74.7 million in the first nine months of 1985. This increase was primarily due to higher levels of shipments of large diameter pipe and the tow during the second quarter of 1985 of the Texaco offshore drilling platform Harvest utilizing the "KSC-700" launch barge. The Fabricated Products Group reported an operating loss of \$1.8 million in the first nine months of 1985 despite higher levels of shipments of large diameter pipe, the launch barge tow and a \$3.5 million gain on the sale of the Company's marine assembly yard leasehold in Oakland, California. This loss was due primarily to increased selling and administrative expenses relating to the high level of bid activity. The Fabricated Products Group reported a restated operating loss of \$6.8 million in the first nine months of 1984.

In July 1985, the Company received an order from All American Pipeline Company for 28,701 tons of 30-inch pipe for shipment during the third and fourth quarters of 1985. During all of 1984 only 28,000 tons of large diameter pipe were shipped by the Company.

During the fourth quarter of 1985, the Company restructured the Fabricated Products Group into five business lines as the first step in a reorganization aimed at reducing administrative and overhead costs and improving operations. The restructuring was based on recommendations from outside management consultants. The Company is currently studying further steps to improve operating results.

In the first nine months of 1985, sales of the Company's bulk loading operation were $7.7 million and operating profits were $1.5 million. These amounts include a $0.6 million gain from a contract termination settlement with CSI. These results compare to sales of $6.5 million and operating profits of $0.5 million in the first nine months of 1984. The results for the bulk loading operation are included in the totals for the Fabricated Products Group.

Other

In the third quarter of 1985, the Company reorganized the corporate staff based on recommendations from an outside management consulting firm which had conducted an extensive review of the corporate structure, systems, procedures and staffing requirements. Over 70 positions were consolidated or eliminated. A $1.8 million provision for costs associated with the reorganization was recorded during the period. Corporate expenses during the first nine months of 1985 were $19.7 million compared to $11.7 million in the first nine months of 1984. Increased corporate expenses during the first nine months of 1985 resulted primarily from increased expenses for consulting and management services related to the refinancings, sales of assets and other transactions completed during the period and the provision for reorganization costs.

The increase in interest income from $7.4 million during the first nine months of 1984 to $12.0 million in the first nine months of 1985 was due primarily to interest on the note receivable from the sale of the Fontana steelworks and interest receivable on the refundable income taxes. The Company expects that interest income will be significantly lower in future periods.

Discontinued Operations

The $3.8 million loss on discontinuance during the first nine months of 1985 reflects the sales of certain steel mill equipment and iron ore mining equipment, assets of Kaiser Steel Tubing, Inc. and certain land and buildings and the settlement of a labor grievance. Earnings on discontinuance during the first nine months of 1984 represented the favorable adjustment to the provision for shutdown of the Fontana steelworks due to settlement of certain employment issues and the sales of the Fontana steelworks and Kaiser Pipe and Casing, Inc.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit (28): Form 10-K for Kaiser Steel Corporation for the year ended December 31, 1984.

(b) No reports on Form 8-K were filed by the Company during the third quarter of 1985.

SIGNATURE

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.

KAISER STEEL CORPORATION

Date November 13, 1985

Charles S. McNeil

C. S. McNeil
Vice Chairman of the Board, Acting
Chief Financial Officer

*Signing as both the duly authorized officer and as the principal financial officer of the registrant.