

EXHIBIT 61

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 31, 1987

Commission File Number 1-8567-4

Maxus Energy Corporation

(Exact name of registrant as specified in its charter)

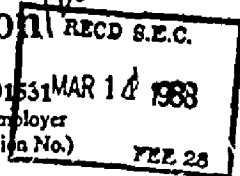
Delaware
(State or other jurisdiction of
incorporation or organization)

717 North Harwood Street
Dallas, Texas

(Address of principal executive offices)

75-1891531
(I.R.S. Employer
Identification No.)

75201
(Zip Code)



Registrant's telephone number, including area code: (214) 953-2000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1.00 Par Value	New York Stock Exchange Pacific Stock Exchange Basel Stock Exchange Geneva Stock Exchange Zurich Stock Exchange New York Stock Exchange Pacific Stock Exchange New York Stock Exchange New York Stock Exchange
Rights to Purchase Common Stock, \$1.00 Par Value, of Maxus Energy Corporation	
3.00 Cumulative Convertible Preferred Stock, \$1.00 Par Value	
8 1/2% Sinking Fund Debentures Due April 1, 2008	

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Maxus Energy Corporation Services
of Maryland

Securities registered pursuant to Section 12(g) of the Act: None

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, and (2) has been subject to such filing requirements for the past 90 days. YES NO

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 29, 1988 was approximately \$637,150,617.

Shares of Common Stock outstanding at February 29, 1988—89,575,360.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference into the indicated part of this report:

Definitive proxy statement of the Company relating to the 1988 Annual Meeting of Stockholders, filed with the Commission pursuant to Regulation 14A—Part III.

TOTAL NO. OF SEQUENTIALLY MARKED PAGES 20 EXHIBIT
INDEX LOCATED AT SEQUENTIALLY NUMBERED PAGE 3

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STOCK OPTIONS

The Company's 1986 Long-Term Incentive Plan (the "Plan"), administered by the Compensation Committee of the Board of Directors, permits the grant to officers and certain key employees of stock options, stock appreciation rights ("SARs") and performance units. There are also options and SARs outstanding pursuant to other incentive plans of the Company under which the Company does not intend to make any additional grants.

The grant or exercise of an option does not result in a charge against the Company's earnings because all options have been granted at exercise prices approximating the market value of the stock at the date of grant. However, any excess of the Common Stock market price over the option price of options which include SARs does result in a charge against the Company's earnings; a subsequent decline in market price results in a credit to earnings, but only to a maximum of the earnings charges incurred in prior years on unexercised SARs. There was no charge against or credit to earnings for SARs in 1987, 1986 or 1985.

After the Restructuring, outstanding stock options were amended to reflect the spin-off of the refining and marketing business, resulting in options being outstanding for an additional 680,497 shares.

At December 31, 1987 and 1986, there were 1,922,374 and 3,650,760 shares of Common Stock, respectively, reserved for future grants under the 1986 Plan, and stock options representing 1,385,896 shares of Common Stock were exercisable under all incentive plans of the Company. Stock option activity was as follows:

	1987	1986	1985
Outstanding at January 1	2,557,978	2,322,403	1,918,523
Granted	698,200	1,237,213	549,000
Exercised	(296,280)		(105)
Cancelled	(1,571,599)	(1,001,638)	(145,015)
Restructuring conversion	680,497		
Outstanding at December 31	2,063,796	2,557,978	2,322,403

Exercise prices of stock options outstanding at December 31, 1987 ranged from \$6.25 to \$23.689 per share.

LEASES

The Company leases certain machinery and equipment, facilities and office space under cancellable and non-cancellable operating leases, most of which expire within 20 years and may be renewed.

Minimum annual rentals for operating leases at December 31, 1987 were as follows:

1988	\$ 18.0
1989	15.1
1990	11.9
1991	11.0
1992	10.8
1993 and thereafter	78.9
	<u>\$145.7</u>

Rental expense for operating leases was as follows:

	1987	1986	1985
Total rentals	\$34.8	\$37.1	\$35.6
Less—Sublease rental income	6.5	4.8	3.7
Rental expense	\$28.3	\$32.3	\$31.9

COMMITMENTS AND CONTINGENCIES

A number of stockholders of the Company have commenced purported class action and derivative litigation in the Delaware Chancery Court against the Company and, in most of the actions, directors of the Company. Three of the pending actions were commenced in January 1987, six of the actions were commenced in February 1987, and one action was commenced in October 1987. These actions allege, in general, that the directors breached their fiduciary duties by, or wasted corporate assets in connection with, among other things, approving the adoption of the Company's Shareholder Rights Plan (Rights Plan) in October 1986, refusing to redeem the rights thereunder, rejecting the takeover offers made by Mesa Limited Partnership or affiliates thereof in 1986 and 1987, refusing to negotiate the sale of the Company or to submit the matter to stockholder vote, adopting a plan restructuring the Company (see "Restructuring Program"), or a combination of the foregoing matters. The Company has reached an agreement in principle to settle these actions by redeeming the Common Share Purchase Rights issued pursuant to the Rights Plan in accordance with their terms and adopting a new Preferred Share Purchase Rights Plan. The settlement also provides for a release of all claims that have been or could be asserted by any stockholder of the Company arising from the subject matters of the litigation. The Company will pay the amount of plaintiffs' counsel fees and expenses as may be awarded by the Court, but not to exceed \$1,075,000. The settlement, which is subject, among other things, to the approval of the Delaware Chancery Court, is expected to be finalized in the first half of 1988.

The Company was a defendant in a large number of lawsuits arising from exposure of military personnel in Vietnam to "Agent Orange" manufactured by the Company and other companies which allegedly contained some amount of dioxin. This litigation was certified as a class action and was settled in 1984 when the defendants paid an aggregate of \$180 million into a court-administered fund. The Federal District Court also dismissed the claims of the plaintiffs in individual actions pending before it who had requested exclusion from the class. The United States Court of Appeals for the Second Circuit has affirmed the District Court's approval of the settlement and the dismissal of the claims by the plaintiffs who had requested exclusion from the class. Petitions to the United States Supreme Court for review of certain aspects of this litigation remain pending.

Several lawsuits were filed against the Company in New Jersey state courts relating to its former Newark, New Jersey plant which was used for the manufacture of Agent Orange. The Company has secured favorable judgments on all claims included in these suits, except for one suit in which claims for personal injury and property loss allegedly incurred by residents and businesses in the Newark area and former employees at the plant are still in the discovery stage. The Company does not expect any material liability from this remaining claim.

In 1984, the Company, working with the New Jersey Department of Environmental Protection, signed orders to clean up the Newark plant and surrounding neighborhood. The neighborhood cleanup is substantially finished. The Department of Environmental Protection has approved the Company's recommended remedial action plan for the plant site, and the plan is now being reviewed by the Environmental Protection Agency. The cleanup program, which is expected to cost approximately \$9.3 million, is anticipated to begin in 1988.

The Company and The B. F. Goodrich Company are parties to a Federal Trade Commission administrative complaint issued in January 1982 that alleges the acquisition by Goodrich of the Company's plastics subsidiary in 1981 would illegally reduce competition in the domestic production of vinyl chloride monomer and polyvinyl chloride resins. The Company and Goodrich believe the sale was lawful. The Company has agreed, however, that if a final judgment of a federal appeals court requires Goodrich to divest itself of the acquired assets and they are not sold to a third party, the Company will reacquire them. After a trial on the merits of this matter in 1985, an Administrative Law Judge dismissed the complaint. The appeal before the Federal Trade Commission was heard in January 1986. No decision has yet been rendered.

In 1981, a manufacturer of pleasure boats and military craft sued the Company and Koppers alleging that a resin supplied by the Company and Koppers for use in making boat hulls caused blisters on the fiberglass parts of the pleasure boats. The resin was supplied by the Company from 1975 until its resins business was sold to Koppers in late 1977. Thereafter, Koppers supplied the resin until it ceased production

in 1981. Pursuant to a settlement agreement among the Company, Yoppers and the boat manufacturer, 10 lawsuits which involve the Company are being defended by the boat manufacturer, and the Company is directly defending an additional 17 lawsuits. In addition, claims for which the Company is responsible have been filed by approximately 240 boat owners. To date the Company has paid approximately \$8.0 million to settle claims and lawsuits arising from this matter, and anticipates additional costs of at least as much to resolve pending and future claims and lawsuits.

The insurance companies which wrote the Company's primary and excess insurance during the relevant period have to date refused to provide coverage for the Company's losses and expenses arising from the Agent Orange litigation, the personal injury and property damage claims related to the Newark plant, the cleanup of the Newark plant site, other environmental claims and the boat manufacturer claims. In two actions filed in New Jersey state courts and in an action filed in a California state court, the Company has commenced litigation against all of these insurers for declaratory judgments that it is entitled to coverage for these claims in accordance with the Company's understanding of the terms of the policies. During 1987, the Company was granted summary judgment on several important issues involved in this litigation, principally relating to the Agent Orange settlement, but to date has not recovered any insurance proceeds in these cases. The \$75.0 million reserve described under "Discontinued Operations" includes costs expected to be incurred in the Newark claim and in the boat manufacturer litigation.

In November of 1987 the Company filed a lawsuit in Texas state court against Kidder, Peabody & Co. Incorporated, Martin A. Siegel and Ivan F. Boesky seeking damages of at least \$300.0 million arising from alleged leaks by Siegel to Boesky of confidential information about the 1983 acquisition of Natomas Company by a predecessor of the Company. At the time, Siegel was an officer and director of Kidder, Peabody, which acted as the Company's investment advisor for the Natomas acquisition. Subsequently, Kidder, Peabody filed declaratory judgment actions in Delaware state court and a Federal District Court in New York City seeking declarations that it had no liability to the Company for the activities of Siegel and Boesky. The Company has moved to dismiss or stay these actions, and Kidder has moved to stay the Texas action. The Company believes that it is entitled to recover material amounts of damages from the defendants and will vigorously pursue its claims. Kidder, Peabody can be expected to defend the litigation tenaciously. There can be no assurance that the Company will actually obtain any significant recovery.

The Company is also a party to a number of other lawsuits, the outcomes of which are not expected to have a material effect on the Company's operations or financial position.