

GEORGIA PACIFIC CORP
Form 10-Q
November 05, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2001

or

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

For the transition period from _____ to _____

Commission File Number 1 - 3506

GEORGIA-PACIFIC CORPORATION
(Exact Name of Registrant as Specified in its Charter)

GEORGIA 93-0432081
(State of Incorporation) (IRS Employer Id. Number)

133 PEACHTREE STREET, N.E., ATLANTA, GEORGIA 30303
(Address of Principal Executive Offices)

(404) 652 - 4000
(Telephone Number of Registrant)

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 and 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

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

As of the close of business on November 1, 2001, Georgia-Pacific Corporation had 229,769,861 shares of Georgia-Pacific Group Common Stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
Georgia-Pacific Corporation and Subsidiaries

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net sales	\$ 6,306	\$ 5,432	\$ 19,226	\$ 16,540
Costs and expenses:				
Cost of sales	4,798	4,286	14,842	12,870
Selling and distribution	504	367	1,576	1,088
Depreciation and amortization	319	211	1,025	646
General and administrative	285	228	886	692
Interest	254	128	853	398
Other expense	68	-	68	-
Total costs and expenses	6,228	5,220	19,250	15,694
Income (loss) from continuing operations before income taxes	78 260	212 82	(24) 265	846 316
Provision for income taxes				
(Loss) income from continuing operations	(182)	130	(289)	530
Income from discontinued operations, net of taxes	15	32	73	106
(Loss) income before extraordinary item and accounting change	(167)		(216)	636
Extraordinary loss from early retirement of debt, net of taxes	-	162	(12) 11	-
Cumulative effect of accounting change, net of taxes	-	-		
Net (loss) income	\$ (167)	\$ 162	\$ (217)	\$ 636

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Georgia-Pacific Group:

	\$ (182)	\$ 130	\$ (289)	\$ 530
	-	-	(12)	-
(Loss) income from continuing operations	-	-	11	-
Extraordinary loss, net of taxes				
Cumulative effect of accounting change, net of taxes				

Net (loss) income	\$ (182)	\$ 130	\$ (290)	\$ 530
-------------------	----------	--------	----------	--------

Basic per share:

	\$ (0.80)	\$ 0.76	\$ (1.27)	\$ 3.10
	-	-	(0.05)	-
(Loss) income from continuing operations	-	-	0.04	-
Extraordinary loss, net of taxes				
Cumulative effect of accounting change, net of taxes				

Net (loss) income	\$ (0.80)	\$ 0.76	\$ (1.28)	\$ 3.10
-------------------	-----------	---------	-----------	---------

2

Diluted per share

(Loss) income from continuing operations	\$ (0.80)	\$ 0.76	\$ (1.27)	\$ 3.07
Extraordinary loss, net of taxes	-	-	(0.05)	-
Cumulative effect of accounting change, net of taxes	-	-	0.04	-

Net (loss) income	\$ (0.80)	\$ 0.76	\$ (1.28)	\$ 3.07
-------------------	-----------	---------	-----------	---------

Shares (denominator):

Weighted average shares outstanding	228.7	170.6	226.9	171.0
Dilutive securities:				
Options	-	0.1	-	1.6
Employee stock purchase plans	-	0.4	-	0.2

Total assuming conversion	228.7	171.1	226.9	172.8
---------------------------	-------	-------	-------	-------

The Timber Company:

	\$ 15	\$ 32	\$ 73	\$ 106
	\$ 0.18	\$ 0.40	\$ 0.90	\$ 1.31
Income from discontinued operations, net of taxes	\$ 0.18	\$ 0.40	\$ 0.89	\$ 1.30
Basic per common share				
Diluted per common share				

Shares (denominator):				
Weighted average shares outstanding	81.7	79.9	80.9	80.9
Dilutive securities:				
Options	0.7	1.1	0.8	0.5
Total assuming conversion				
	82.4	81.0	81.7	81.4

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

3

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Georgia-Pacific Corporation and Subsidiaries

(In millions)	Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000
Cash flows from operating activities	\$ (217)	\$ 636
Net (loss) income	(11)	-
Adjustments to reconcile net income to cash provided by operations:	1,047	666
Cumulative effect of accounting change, net of taxes	9	12
Depreciation and amortization	31	(61)
Deferred income taxes	380	15
Loss (gain) on disposal of assets, net	(23)	(97)
Change in working capital		
Other		
Cash provided by operations	1,216	1,171
Cash flows from investing activities	(528)	(615)
Property, plant and equipment investments	(31)	(47)
Timber and timberland purchases	(110)	(2)
Acquisitions	2,292	46
Net proceeds from sales of assets	(36)	(14)
Other		
Cash provided by (used for) investing activities	1,587	(632)

Cash flows from financing activities		
	(2,566)	(45)
	538	21
Repayments of long-term debt	(722)	(266)
Additions to long-term debt	-	(140)
Net decrease in short-term debt	(146)	(125)
Stock repurchases	124	18
Cash dividends paid	(30)	(1)
Proceeds from option plan exercises		
Fees paid to issue debt		
Cash used for financing activities	(2,802)	(538)
Increase in cash	1	1
Balance at beginning of period	40	25
Balance at end of period	\$ 41	\$ 26

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

4

CONSOLIDATED BALANCE SHEETS (Unaudited)
Georgia-Pacific Corporation and Subsidiaries

(In millions, except shares and per share amounts)	Sept. 29, 2001	December 30, 2000
ASSETS		
Current assets		
Cash	\$ 41	\$ 40
Receivables, less allowances of \$31 and \$34, respectively	2,669	2,704
Inventories	2,530	2,893
Deferred income tax assets	184	176
Net assets of discontinued operations	329	145
Other current assets	381	449
Total current assets	6,134	6,407
Property, plant and equipment		
Land, buildings, machinery and equipment, at cost	18,768	21,162
Accumulated depreciation	(8,804)	(9,378)
Property, plant and equipment, net	9,964	11,784

Goodwill, net	8,399	8,985
Other assets	1,813	2,242
Total assets	\$ 26,310	\$ 29,418

5

CONSOLIDATED BALANCE SHEETS (Unaudited) (Continued)
Georgia-Pacific Corporation and Subsidiaries

(In millions, except shares and per share amounts)	Sept. 29, 2001	December 30, 2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank overdrafts, net	\$ 171	\$ 293
Commercial paper and other short-term notes	1,953	2,327
Current portion of long-term debt	668	232
Accounts payable	1,426	1,515
Accrued compensation	280	430
Other current liabilities	1,414	879
Total current liabilities	5,912	5,676
Long-term debt, excluding current portion	9,680	12,355
Senior deferrable notes	863	863
Other long-term liabilities	2,433	2,647
Deferred income tax liabilities	1,903	2,155

Commitments and contingencies (Note 12)

Shareholders' equity		
Common stock	187	182
Georgia-Pacific Group, par value \$.80; 400,000,000 shares authorized; 229,885,000 and 224,844,000 shares issued		
The Timber Company, par value \$.80; 250,000,000 shares authorized; 96,669,000 and 94,571,000 shares issued		

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Treasury stock, at cost	(330)	(330)
14,387,000 shares of The Timber Company common stock		
Additional paid-in capital	2,612	2,427
Retained earnings	3,100	3,463
Long-term incentive plan deferred compensation	(3)	(4)
Accumulated other comprehensive loss	(47)	(16)

Total shareholders' equity	5,519	5,722

Total liabilities and shareholders' equity	\$ 26,310	\$ 29,418
=====		

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

6

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)
Georgia-Pacific Corporation and Subsidiaries

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net (loss) income	\$ (167)	\$ 162	\$ (217)	\$ 636
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustments	40	(4)	5	(15)
Derivative instruments	(18)	-	(54)	-
Unrealized losses on securities	(1)	-	(1)	-
Minimum pension liability	(3)	-	(2)	-
Income tax benefit related to items of other comprehensive income	7	3	21	10

Comprehensive (loss) income	\$ (142)	\$ 161	\$ (248)	\$ 631
=====				

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

7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
GEORGIA-PACIFIC CORPORATION
Sept. 29, 2001

1. PRINCIPLES OF PRESENTATION. The consolidated financial statements include the accounts of Georgia-Pacific Corporation and subsidiaries (the "Corporation"). All significant intercompany balances and transactions are eliminated in consolidation. The interim financial information included herein is unaudited; however, such information reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the Corporation's financial position, results of operations, and cash flows for the interim periods. All such adjustments are of a normal, recurring nature. Certain 2000 amounts have been reclassified to conform with the 2001 presentation. These consolidated statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's annual report on Form 10-K for the fiscal year ended December 30, 2000.

On December 16, 1997, shareholders of the Corporation approved the creation of two classes of common stock intended to reflect separately the performance of the Corporation's manufacturing and timber businesses. The Corporation's manufacturing and timber businesses are referred to hereinafter as the "Georgia-Pacific Group" and "The Timber Company", respectively.

The Corporation classifies certain shipping and handling costs as selling and distribution expenses. Shipping and handling costs included in selling and distribution expenses were \$72 million and \$455 million for the three and nine months ended September 29, 2001, respectively. Shipping and handling costs included in selling and distribution expenses were \$116 million and \$350 million for the three and six months ended September 30, 2000, respectively.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS No. 141"), and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for purchased goodwill from an amortization method to an impairment-only approach. Therefore amortization of all purchased goodwill, including amortization of goodwill recorded in past business combinations, will cease upon adoption of SFAS No. 142. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Early adoption of the SFAS No. 142 is not permitted nor is retroactive application to prior period (interim or annual) financial statements. Management is currently evaluating the effect of this statement on the Corporation's results of operations.

In July 2001, the FASB also issued SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the entity either settles the obligation for the amount recorded or incurs a gain or loss. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Management is evaluating the effect of this statement on the Corporation's results of operations and financial position.

In August 2001, the FASB issued statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). SFAS No. 144 supersedes FASB statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("SFAS No. 121"), and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* (Opinion 30) for the disposal of a segment of a

business(as previously defined in Opinion 30). The FASB issued SFAS No. 144 to establish a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. SFAS No. 144 broadens the presentation of discontinued operations in the income statement to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be

clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. SFAS No. 144 also requires that discontinued operations be measured at the lower of the carrying amount or fair value less cost to sell. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and should be applied prospectively. Management is evaluating the effect of this statement on the Corporation's results of operations and financial position.

2. **PROVISION FOR INCOME TAXES.** The effective tax rate used to calculate the provision (benefit) for income taxes was more than 100% for both the third quarter and first nine months of 2001, and was 39% and 37% for the third quarter and first nine months of 2000, respectively. The effective tax rate in 2001 was different from the statutory rate primarily because of nondeductible goodwill amortization expense associated with business acquisitions and because of nondeductible goodwill applicable to assets sold (see Note 6). In 2000, the effective tax rate differed from the statutory rate primarily because of increased state tax credits and increased utilization of foreign sales corporation tax benefits, which more than offset nondeductible goodwill amortization expense associated with business combinations.
3. **EARNINGS PER SHARE.** Basic earnings per share is computed based on net income and the weighted average number of common shares outstanding. Diluted earnings per share reflect the assumed issuance of common shares under long-term incentive stock option and stock purchase plans and pursuant to the terms of the 7.5% Premium Equity Participating Security Units ("PEPS Units"). The computation of diluted earnings per share does not assume conversion or exercise of securities that would have an antidilutive effect on earnings per share. Amounts are computed for each class of common stock based on the separate earnings attributed to each of the respective businesses.
4. **SUPPLEMENTAL DISCLOSURES - STATEMENTS OF CASH FLOWS.** The cash impact of interest and income taxes is reflected in the table below. The effect of foreign currency exchange rate changes on cash was not material in any period.

(In millions)	Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000
Total interest costs	\$ 861	\$ 406
Interest capitalized	(8)	(8)
Interest expense	\$ 853	\$ 398

Interest paid	\$ 811	\$ 421
=====		
Income taxes (refunded) paid, net	\$ (16)	\$ 331
=====		

9

5. **INVENTORY VALUATION.** Inventories include costs of materials, labor, and plant overhead. The Corporation uses the dollar value pool method for computing LIFO inventories. The major components of inventories were as follows:

(In millions)	Sept. 29, 2001	December 30, 2000
Raw materials	\$ 607	\$ 655
Finished goods	1,602	1,868
Supplies	498	548
LIFO reserve	(177)	(178)

Total inventories	\$ 2,530	\$ 2,893
=====		

6. **DIVESTITURES AND ACQUISITIONS.** On August 7, 2001, the Corporation completed the sale of a portion of its paper and pulp assets to Domtar Inc. for \$1.65 billion in cash. The assets involved in this transaction were the Corporation's stand-alone uncoated fine paper mills at Ashdown, Ark.; Nekoosa and Port Edwards, Wis.; and Woodland, Maine, as well as associated pulp facilities. The Corporation used the proceeds of approximately \$1,529 million to repay debt. In connection with this sale, the Corporation recorded a pre tax loss of \$68 million in the third quarter of 2001 in the bleached pulp and paper segment. This loss was reflected in Other expense on the accompanying consolidated statements of income. In addition, the Corporation recorded a provision for income taxes of \$195 million principally applicable to \$630 million of non-deductible goodwill related to the assets sold.

- * On October 5, 2001, the Corporation completed the spin off of The Timber Company and its merger with and into Plum Creek Timber Company ("Plum Creek"). In accordance with the merger agreement, The Timber Company shareholders received 1.37 shares of Plum Creek stock for each share of The Timber Company stock. This transaction, which included the incurrence by Plum Creek of \$633 million of debt as of September 29, 2001, was valued at approximately \$3.4 billion. Plum Creek assumed a 10-year timber supply agreement between Georgia-Pacific Group and The Timber Company.

The transaction was originally conditioned on the receipt of a private letter ruling from the Internal Revenue Service (the "Service") that the transaction would be tax-free to the Corporation and to the shareholders of The Timber Company. In June 2001, the Corporation and Plum Creek amended the original merger agreement and determined to effect the merger upon receipt of opinions from tax counsel that the spin off of The Timber Company from the Corporation and the subsequent merger with

Plum Creek would be tax-free to the Corporation and to the shareholders of The Timber Company. The Service notified the companies on June 12, 2001, that it had decided not to issue the private letter ruling based on its belief that the companies had failed to carry the high burden of proof of business purpose necessary for the transaction to receive such an advance ruling. This high burden of proof, which is more stringent than the legal standards applicable to the audit process or any judicial proceeding, pertains only to advance rulings. Based on discussion with the Service and the advice of legal counsel, the companies believe the transaction will not be taxable to the Corporation or the shareholders of The Timber Company. As an added measure to reduce the uncertainty concerning any possible tax risks associated with the transaction, the Corporation obtained up to \$500 million in tax liability insurance.

The Timber Company has been treated as a discontinued operation in the accompanying consolidated financial statements. The components of net assets of discontinued operations are as follows:

10

(In millions)	Sept. 29, 2001	December 30, 2000
Timber and timberlands	\$ 1,209	\$ 1,220
Other assets	415	399
Debt	(633)	(640)
Other liabilities	(662)	(834)
Net assets of discontinued operations	\$ 329	\$ 145

Operating results of the discontinued operation were as follows:

(In millions)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net sales	\$ 106	\$ 95	\$ 286	\$ 299
Income before income taxes	39	52	132	174
Provision for income taxes	(24)	(20)	(59)	(68)
Income from discontinued operations	\$ 15	\$ 32	\$ 73	\$ 106

* During the first nine months of 2001, the Corporation sold a lumber mill, industrial wood products property and certain paper distribution assets for a total of \$76 million in cash and recognized a pre tax

gain of \$28 million.

- * During the first quarter of 2001, the Corporation acquired the remaining ownership of two chemical joint ventures for approximately \$26 million. The results of operations of these chemical businesses were consolidated with those of the Corporation beginning in February 2001. The Corporation has accounted for these acquisitions using the purchase method to record a new cost basis for assets acquired and liabilities assumed.

- * At the end of November 2000, the Corporation completed a tender offer pursuant to which it purchased each outstanding share of common stock of Fort James Corporation ("Fort James") for \$29.60 per share in cash and 0.2644 shares of Georgia-Pacific Group common stock. The Corporation is paying cash and issuing Georgia-Pacific Group shares as the untendered Fort James shares are delivered to the Corporation's exchange agent for cancellation. Through September 29, 2001, the Corporation had paid approximately \$6,189 million in cash and issued approximately 53.9 million shares of Georgia-Pacific Group common stock valued at \$1,485 million for such shares. The fair value of the Georgia-Pacific Group common shares was determined based on the average trading prices of Georgia-Pacific Group common stock for the two trading days before and after July 16, 2000 (the date of the announcement of the Fort James acquisition). The Corporation expects to pay an additional \$7 million in cash and issue approximately 65,000 shares valued at \$2 million for Fort James common stock that had not been tendered as of September 29, 2001. In addition, the Corporation assumed \$3.3 billion of Fort James debt in the acquisition.

Fort James' results of operations were consolidated with those of the Corporation beginning in December 2000. The Corporation has accounted for this business combination using the purchase method to record a new cost basis for assets acquired and liabilities assumed. The allocation of the purchase price and acquisition costs to the assets acquired and liabilities assumed is preliminary as of September 29, 2001, and is subject to change pending finalization of studies of fair value and the finalization of management's plans to restructure certain operations. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed was recorded as goodwill and is being amortized over 40 years. The preliminary allocation of net cash paid for the Fort James acquisition as of September 29, 2001 is summarized as follows:

In millions

Current assets	\$	1,741
Property, plant and equipment		4,617
Other noncurrent assets		801
Goodwill and other intangible assets		6,869
Liabilities		(6,238)
Common stock issued and value of stock options converted		(1,601)

Net cash paid for Fort James	\$	6,189
------------------------------	----	-------

The following unaudited pro forma financial data has been prepared assuming that the acquisition of

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Fort James and related financings were consummated on January 2, 2000. This pro forma financial data is presented for informational purposes and is not indicative of the operating results that would have occurred had the acquisition been consummated on January 2, 2000, nor does it include adjustments for expected synergies, cost savings or consistent application of accounting methods. Accordingly, this pro forma data is not necessarily indicative of future operations.

12

In millions, except per share amounts	Quarter Ended Sept. 30,2000 Pro forma	Nine Months Ended Sept. 30,2000 Pro forma

Georgia-Pacific Corporation:		
Net sales	\$ 7,083	\$ 21,345
Income before extraordinary item and accounting change	156	621
Net income	156	621
Georgia-Pacific Group data:		
Net sales	7,053	21,237
Income before extraordinary item and accounting change	124	515
Net income	124	515
Basic per share from income before extraordinary item and accounting change	0.55	2.29
Diluted per share from income before extraordinary item and accounting change	0.55	2.28
	0.55	2.29
	0.55	2.28
Basic earnings per share		
Diluted earnings per share		

The Timber Company's results of operations are not impacted by the Fort James transaction.

- * Pursuant to a consent decree executed with the U. S. Department of Justice in connection with the Fort James acquisition, the Corporation sold a portion of its away-from-home tissue manufacturing assets (formerly Georgia-Pacific Tissue) to Svenska Cellulosa Aktiebolaget SCA for approximately \$850 million. The sale was completed on March 2, 2001, with net proceeds of approximately \$581 million used to repay debt. These assets had been written down to net realizable value in the fourth quarter of 2000; accordingly, no significant gain or loss was recognized upon completion of the sale.
- * During the first nine months of 2000, the Corporation sold certain containerboard and packaging assets resulting in a pre-tax gain of \$24.9 million (\$15.6 million after tax, or \$0.09 diluted earnings per Georgia-Pacific Group share).

* Also during the first quarter of 2000, the Corporation contributed certain containerboard and packaging assets with a net book value of \$34 million to a joint venture. In exchange for these assets, the Corporation retained a 54 percent interest in the joint venture. This investment in the joint venture was accounted for under the equity method until July 2001.

In July 2001, the Corporation acquired an additional 27 percent interest in this joint venture for approximately \$35 million. The results of operations of this joint venture were consolidated with those of the Corporation beginning in July 2001. The Corporation has accounted for this acquisition using the purchase method to record a new cost basis for the additional share of assets acquired and liabilities assumed. As part of the transaction agreement, the Corporation has the option to buy from the joint venture partner, and the joint venture partner has the option to sell to the Corporation, the joint venture partner's remaining 19 percent interest in the joint venture for \$25 million. The Corporation expects to exercise this option in November 2001.

7. **RESTRUCTURING AND ASSET IMPAIRMENTS.** In June 2001, the Corporation announced that it would close gypsum wallboard plants at Savannah, Ga.; Long Beach, Calif.; and Winnipeg, Manitoba, Canada. The Corporation also announced that it would indefinitely idle commodity wallboard production lines at Acme, Texas; Sigurd, Utah; and Blue Rapids, Kan.; and reduce operations at its remaining 13 gypsum wallboard production facilities. The plant closures and production curtailments affect approximately 45% of the Corporation's gypsum wallboard production capacity. In connection with this announcement, the Corporation recorded a charge of approximately \$57 million for the write-off and impairment of assets, approximately \$5 million for the termination of approximately 350 hourly and salaried employees, and approximately \$5 million for facility closure costs, most of which was charged to cost of sales. The fair value of impaired assets was determined using the present value of expected future cash flows or the expected net realizable value. During the second and third quarters of 2001, 225 employees were terminated and approximately \$3 million of the reserve was used to pay termination benefits. The following table provides a rollforward of these reserves through September 29, 2001:

<i>In millions</i>	Liability Established In June 2001	Usage	Liability Balance at Sept. 29, 2001
Type of Cost			
Asset write off and impairment	\$ 57	\$ (42)	\$ 15
Employee termination	5	(3)	2
Facility closing costs	5	-	5
Total	\$ 67	\$ (45)	\$ 22

* On March 30, 2001, the Corporation announced that it would permanently close its pulp mill and associated chemical plant at Bellingham, Washington. These operations had been temporarily closed

since December 2000. The Bellingham pulp mill produced approximately 220,000 tons of pulp, including 135,000 tons of sulfite market pulp, and 260,000 tons of lignin annually. In connection with this closure the Corporation recorded a charge of approximately \$57 million for the write-off of assets, approximately \$17 million for the termination of approximately 420 hourly and salaried employees and approximately \$12 million for facility closure costs. Of the \$86 million total liability, \$82 million was charged to cost of sales, \$3 million was charged to selling and distribution expense and \$1 million was charged to general and administrative expenses. During the second and third quarters of 2001, 404 employees were terminated and approximately \$14 million of the reserve was used to pay termination benefits. The following table provides a rollforward of these reserves through September 29, 2001:

<i>In millions</i>	Liability Established During	Usage	Liability Balance at Sept. 29, 2001
Type of Cost	2001		
Write-off of assets	\$ 57	\$ (10)	\$ 47
Employee termination	17	(14)	3
Facility closing costs	12	(5)	7
Total	\$ 86	\$ (29)	\$ 57

* In connection with the acquisition of Fort James, the Corporation recorded liabilities totaling approximately \$57 million for employee termination costs relating to approximately 520 hourly and salaried employees. During 2001, approximately 223 employees were terminated and approximately \$31 million of the reserve was used to pay termination benefits. The Corporation has not finalized its plans for manufacturing and distribution activities related to this acquisition. Finalization of these plans may result in additional liabilities being recorded as part of the purchase price or as charges to earnings. The following table provides a rollforward of the employee termination reserve from December 30, 2000 through September 29, 2001:

<i>In millions</i>	Balance Dec. 30, 2000	Net Additions	Usage	Balance Sept. 29, 2001
Type of Cost				
Employee termination	\$ 30	\$ 27	\$ (31)	\$ 26

* During 2000, the Corporation announced the closure of the Grand Rapids East, Mich., gypsum plant and the Kalamazoo, Mich., paper mill. In connection with these closures, the Corporation recorded a charge to earnings totaling \$7 million for the termination of approximately 325 salaried and hourly positions, \$25 million for the write-off of assets and \$12 million for facility closing costs. During 2000,

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

approximately 284 employees were terminated and an additional 40 employees were terminated during the first nine months of 2001. During the second quarter of 2001, the Corporation reversed \$2 million of reserves for facility closure costs that were no longer needed. The following table provides information related to these liabilities:

<i>In millions</i>	Liability Balance at Dec. 30, 2000	Usage	Reversal of Reserves	Liability Balance at Sept. 29, 2000
Type of Cost				
Write-off of assets	\$ 2	\$ (2)	\$ -	\$ -
Employee termination	7	(6)	-	1
Facility closing costs	10	(1)	(2)	7
Total	\$ 19	\$ (9)	\$ (2)	\$ 8

15

* In connection with the acquisition of Unisource Worldwide, Inc. ("Unisource") in the second quarter of 1999, the Corporation recorded liabilities totaling approximately \$50 million for employee termination (relating to approximately 1,170 hourly and salaried employees) and relocation costs, and \$22 million for closing costs of 48 facilities. During 2001, 151 employees were terminated as part of this program. The following table provides a rollforward of the reserve for restructuring from December 30, 2000 through September 29, 2001:

<i>In millions</i>	Balance December 30, 2000	Usage	Balance Sept. 29, 2001
Type of Cost			
Employee termination	\$ 3	\$ (3)	\$ -
Facility closing costs	5	(4)	1
Total	\$ 8	\$ (7)	\$ 1

8. DEBT At September 29, 2001, the Corporation's debt was \$13,105 million, \$12,472 million of which was allocated to the Georgia-Pacific Group and \$633 million of which was allocated to The Timber Company. The debt allocated to each group bears interest at a rate equal to the weighted average interest rate of the Corporation's total debt, calculated on a quarterly basis. At September 29, 2001, the weighted

average interest rate on the Corporation's total debt, excluding senior deferrable notes, was 6.70% including outstanding interest rate exchange agreements. Each group's debt increases or decreases by the amount of any cash provided by or used for that group's operating activities, investing activities, dividend payments, share repurchases or issuances and other non-debt-related financing activities.

As of September 29, 2001, the Corporation had commitments totaling \$1.2 billion and CN\$95 million (approximately \$61 million) under its U.S. and Canadian accounts receivable secured borrowing programs, respectively, of which \$1 billion and CN\$95 million was outstanding under these programs. The U.S. agreement expires in October 2002 and the Canadian agreement expires in May 2004. The receivables outstanding under these programs and the corresponding debt are included as both "Receivables" and "Commercial paper and other short-term notes," respectively, on the accompanying balance sheets. All programs are accounted for as secured borrowings. As collections reduce previously pledged interests, new receivables may be pledged.

In connection with acquiring a controlling interest in a containerboard and packaging joint venture (see Note 6), the Corporation assumed a \$10 million variable rate industrial revenue bond due September 1, 2021.

The Corporation has restrictive covenants under its unsecured revolving credit facility that require a maximum leverage ratio (funded indebtedness, excluding senior deferrable notes, to earnings before interest, taxes, depreciation and amortization ("EBITDA")) of 4.50 to 1.00 on September 29, 2001 and December 29, 2001; 4.25 to 1.00 on March 30, 2002; and 4.00 to 1.00 on June 29, 2002 and thereafter. The restrictive covenants also require a minimum net worth that changes quarterly. The Corporation was in compliance with its debt covenants as of September 29, 2001.

In connection with the sale of certain paper and pulp assets to Domtar (see Note 6), the Corporation utilized the sale proceeds to permanently pay down \$1.1 billion of the unsecured financing facilities. Also, the Corporation utilized proceeds from the accounts receivable secured borrowing program to permanently pay down an additional \$250 million of unsecured financing facilities. As a result, at September 29, 2001, the unsecured financing facilities totaled \$3,400 million with terms ranging from 6 to 18 months, and the permanent unsecured revolving credit facility totaled \$2,150 million with a term of 5 years. In addition, \$1,603 million of committed credit was available in excess of all borrowings outstanding under or supported by these credit facilities as of September 29, 2001.

16

In January 2001, the Corporation entered into several interest rate exchange agreements that effectively converted \$1.5 billion of floating rate obligations with a weighted average interest rate of 3.7% as of September 29, 2001 to fixed rate obligations with a weighted average interest rate of approximately 5.9%. These agreements have a weighted-average maturity of approximately seven months as of September 29, 2001.

On June 25, 2001, the Corporation redeemed \$42 million of its 7.90% fixed rate industrial revenue bonds, due October 1, 2005, and issued \$42 million 6.5% fixed rate industrial revenue bonds due June 1, 2031.

On May 8, 2001, the Corporation replaced \$1.5 billion of its Capital Markets Bridge Facility by issuing \$500 million of 7.5% Notes Due March 15, 2006, \$600 million of 8.125% Notes Due March 15, 2011, and \$400 million of 8.875% Notes Due March 15, 2031. The \$10.4 million underwriting fee associated with the transaction is being amortized over the term of the notes.

On March 15, 2001, the Corporation redeemed \$300 million of its 6.234% Senior Notes Due March 15, 2011 and recorded an after-tax extraordinary loss of approximately \$12 million related to this redemption.

As of September 29, 2001, the Corporation had \$1.5 billion of debt and equity securities available for issuance under a shelf registration statement.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. Effective December 31, 2000, the Corporation adopted Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," and, accordingly, recorded an after-tax cumulative effect of accounting change credit of \$11 million. All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Corporation designates the derivative as either (1) a fair value hedge, (2) a cash flow hedge, (3) the hedge of a net investment in a foreign operation or (4) a non-designated derivative instrument. The Corporation engages primarily in derivatives classified as cash flow hedges, and changes in the fair value of highly effective derivatives are recorded in accumulated other comprehensive income (loss). The Corporation also participates in some derivatives that are classified as non-designated derivative instruments and a hedge in the net investment of certain European operations. Changes in the fair value of the non-designated derivative instruments and any ineffectiveness in cash flow hedges are reported in current period earnings. The changes in fair value of the hedge in the net investment of certain European operations are recorded in accumulated other comprehensive loss.

The Corporation formally documents all relations between hedging instruments and the hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. The Corporation formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the hedged items.

* Cash Flow Hedges:

The Corporation uses interest rate swap and foreign currency exchange agreements in the normal course of business to manage and reduce the risk inherent in interest rate fluctuations. Interest rate swap agreements are considered hedges of specific borrowings and differences paid and received under the swap arrangements are recognized as adjustments to interest expense. Such contracts had a total notional amount of \$1,831 million at September 29, 2001. The fair market value of such contracts was a liability of \$49 million at September 29, 2001. During the third quarter, three interest rate swaps were no longer highly effective in offsetting changes in cash flows of the borrowings hedged. As a result, the quarterly change in fair market value of \$1.5 million for these instruments was recorded in current earnings.

The Corporation utilizes swap agreements to manage and reduce the risk inherent in market value fluctuations of certain commodities. These commodity swap agreements are designated as hedges of forecasted transactions included in fixed price sales contracts with customers. Amounts paid or received under these arrangements are recognized as adjustments to net sales. As of September 29, 2001, the Corporation had outstanding commodity swap cash flow hedges with notional amounts of \$1 million with maturity periods of 6 months to 3 years.

With each type of cash flow hedge, the settlement of the forecasted transaction will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive loss. As of September 29, 2001, approximately \$39 million of deferred losses on derivative instruments included in accumulated other comprehensive loss are expected to be reclassified to earnings during the next twelve months. These losses are primarily related to the floating-to-fixed interest rate swap agreements and are due to the significant decrease in interest rates during the current year.

* Hedge of the net investment in a foreign operation:

At September 29, 2001, the Corporation had outstanding approximately \$242 million (net of discount) of Euro-denominated bonds which were designated as a hedge against its net investment in Europe.

* Non-designated/ineffective derivative instruments:

The Corporation has certain derivative instruments that have been assessed as ineffective hedges or do not qualify for hedge accounting in accordance with SFAS No. 133. Certain commodity swap agreements have been assessed as ineffective due to the variance between the fixed price portion of the swap agreement and the fixed price offered to the customer. The fair value of these contracts at December 31, 2000 was \$1.3 million (pre-tax) and is included in the cumulative effect of accounting change. These contracts expire in January, 2002.

The Corporation also has two foreign currency interest rate swap agreements that were assumed as a result of the acquisition of Fort James. These agreements do not qualify for hedge accounting. Included in the cumulative effect of accounting change is a pre-tax loss of \$1 million relating to the fair value of these agreements. The fair value of these agreements at September 29, 2001 was approximately \$1 million.

During 2000, the Corporation entered into a derivative agreement in connection with the sale of certain containerboard and packaging assets whereby the Corporation has guaranteed a certain margin on the buyer's production. This derivative agreement expires in 2005. This agreement does not qualify for hedge accounting because the buyer's production does not qualify as a hedged item in accordance with SFAS No. 133. The Corporation also entered into certain commodity swap agreements to offset the gain on the aforementioned derivative agreement. The net fair value of these derivative agreements was \$17.3 million (pre-tax) at December 31, 2000 and is included in the cumulative effect of accounting change. As of September 29, 2001, the fair market value of these derivative agreements was \$9.5 million.

The Corporation's senior management establishes the parameters of the Corporation's financial risk, which have been approved by the Board of Directors. Hedging interest rate exposure through the use of swaps and options and hedging foreign exchange exposure through the use of forward contracts are specifically contemplated to manage risk in keeping with management's policy. Derivative instruments, such as swaps, forwards, options or futures, which are based directly or indirectly upon interest rates, currencies, equities and commodities, may be used by the Corporation to manage and reduce the risk inherent in price, currency and interest rate fluctuations.

The Corporation does not utilize derivatives for speculative purposes. Derivatives are transaction-specific so that a specific debt instrument, contract or invoice determines the amount, maturity and other specifics of the hedge. Counterparty risk is limited to institutions with long-term debt ratings of A or better.

10. **LONG-TERM APPRECIATION PLAN.** The Corporation reserved 2,600,000 stock appreciation rights ("SARs") for issuance under the 2001 Long-Term Appreciation Plan (the "LTAP"). The LTAP provides for the granting of SARs to key employees of the Corporation. Benefits paid under this plan will be made in cash, not common stock. During the first nine months of 2001, the Corporation issued 2.1 million SARs under the LTAP with at an exercise price of \$29.47 each. The SAR exercise price was based on the underlying fair value of Georgia-Pacific Group common stock at the grant date. The SARs vest over three years. Compensation expense for the SARs is based on the difference between the current fair market value of Georgia-Pacific Group common stock and the fair market value at the date of grant. As of September 29, 2001, there was no compensation expense recorded related to these SARs.

19

11. **SHARE REPURCHASES.** In November of 2000, the Corporation acquired Fort James (see Note 6). Through September 29, 2001, the Corporation has issued 21.5 million shares of Georgia-Pacific Group treasury stock and 32.4 million newly issued shares of Georgia-Pacific Group stock in exchange for outstanding common stock of Fort James. The Corporation does not hold any Georgia-Pacific Group treasury stock as of September 29, 2001. Effective with the agreement to dispose of The Timber Company (see Note 6), the Corporation is precluded from purchasing shares of The Timber Company Stock.

During the first nine months of 2000, Georgia-Pacific Group purchased on the open market approximately 1,725,000 shares of Georgia-Pacific Group common stock at an aggregate price of approximately \$62 million (\$36.14 average per share), all of which were held as treasury stock at September 30, 2000. During the first nine months of 2000, The Timber Company purchased on the open market approximately 3,334,000 shares of The Timber Company common stock at an aggregate price of \$78 million (\$23.45 average per share), all of which were held as treasury stock at September 30, 2000.

12. **COMMITMENTS AND CONTINGENCIES.** The Corporation is a party to various legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. As is the case with other companies in similar industries, the Corporation faces exposure from actual or potential claims and legal proceedings involving environmental matters. Liability insurance in effect during the last several years provides only very limited coverage for environmental matters.

The Corporation is involved in environmental remediation activities at approximately 208 sites, both owned by the Corporation and owned by others, where it has been notified that it is or may be a potentially responsible party ("PRP") under the United States Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state "superfund" laws. Of the known sites in which it is involved, the Corporation estimates that approximately 45% are being investigated, approximately 30% are being remediated and approximately 25% are being monitored (an activity that

occurs after either site investigation or remediation has been completed). The ultimate costs to the Corporation for the investigation, remediation and monitoring of many of these sites cannot be predicted with certainty, due to the often unknown magnitude of the pollution or the necessary cleanup, the varying costs of alternative cleanup methods, the amount of time necessary to accomplish such cleanups, the evolving nature of cleanup technologies and governmental regulations, and the inability to determine the Corporation's share of multiparty cleanups or the extent to which contribution will be available from other parties. The Corporation has established reserves for environmental remediation costs for these sites that it believes are probable and reasonably estimable. Based on analysis of currently available information and previous experience with respect to the cleanup of hazardous substances, the Corporation believes it is reasonably possible that costs associated with these sites may exceed current reserves by amounts that may prove insignificant or that could range, in the aggregate, up to approximately \$121 million. This estimate of the range of reasonably possible additional costs is less certain than the estimates upon which reserves are based, and in order to establish the upper limit of such range, assumptions least favorable to the Corporation among the range of reasonably possible outcomes were used. In estimating both its current reserve for environmental remediation and the possible range of additional costs, the Corporation has not assumed it will bear the entire cost of remediation of every site to the exclusion of other known PRPs who may be jointly and severally liable. The ability of other PRPs to participate has been taken into account, based generally on their financial condition and probable contribution on a per-site basis.

The Corporation is implementing an Administrative Order on Consent entered into with the Michigan Department of Natural Resources and the Environmental Protection Agency ("EPA") regarding an investigation of the Kalamazoo River and two disposal areas which are contaminated with polychlorinated biphenyls ("PCBs"). Data regarding the extent of contamination at the two disposal areas have been evaluated. The cost to remediate one of the disposal areas was estimated at \$8 million. The remediation at this site has been essentially completed. It is anticipated that the cost of remediation of the second disposal area will be at least equal to that amount. The Corporation is still negotiating a final closing agreement with the State of Michigan.

A draft Remedial Investigation/ Feasibility Study ("RI/FS") for the Kalamazoo River was submitted to the State of Michigan on October 30, 2000 by the Corporation and other PRPs, including Fort James. The draft RI/FS evaluated five remedial options ranging from no action to total dredging of the river and off-site disposal of the dredged materials. The cost for these remedial options ranges from \$0 to \$2.5 billion. The draft RI/FS recommends a remedy involving stabilization of over twenty miles of river bank and long-term monitoring of the river bed. The State of Michigan has asked for additional possible remedies. The total cost for the remedy recommended in the draft RI/FS is approximately \$73 million.

Fort James has been identified as a PRP for contamination of the Lower Fox River and Green Bay system in Wisconsin by PCBs. Various state and federal agencies and tribal entities are seeking both sediment remediation and natural resources damages. In October 2001, the Wisconsin Department of Natural Resources ("WDNR") and the EPA released for public comment a draft RI/FS study and proposed remedial action plan for the Fox River and Green Bay. The draft sets forth a proposed remedy with estimated total costs ranging from \$170 million to approximately \$660 million for the section of the Fox River where the Fort James facility is located. The range in cost is due to the different remediation technologies and disposal options that could be implemented. The Corporation is analyzing the proposed remedy and will provide comments to the relevant agencies.

In October 2000, the U.S. Fish and Wildlife Service ("FWS") released for public comment its Restoration and Compensation Determination Plan for natural resource damages to the Lower Fox River and Green Bay. In November 2000, Fort James entered into an agreement with the WDNR that would settle the State's claims for natural resource damages under CERCLA, the Federal Water Pollution Control Act, and state law for approximately \$7 million. In March 2001, during the comment period on this proposed settlement, the FWS joined the negotiations to reach a comprehensive settlement of Federal as well as State natural resource damage claims against Fort James. These negotiations are continuing. Any agreement arrived at will be effective when entered by the appropriate Federal court. The final cleanup alternatives to be selected and implemented, the costs of those alternatives, and the Corporation's share of such costs for the Fox River and the Kalamazoo River, and the ultimate costs of resolving associated natural resource claims against Fort James, are unknown at this time.

The Corporation and many other companies are defendants in suits brought in various courts around the nation by plaintiffs who allege that they have suffered personal injury as a result of exposure to asbestos-containing products. These suits allege a variety of lung and other diseases based on alleged exposure to products previously manufactured by the Corporation. In many cases, the plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that any injuries they have incurred in fact resulted from exposure to the Corporation's products. The Corporation was defending the claims of approximately 62,000 such plaintiffs as of September 29, 2001, and anticipates that additional claims will be filed against it over the next several years. The number of claims filed against the Corporation, and the average cost of resolving such claims, has increased somewhat over the last three years. The Corporation generally settles asbestos cases for amounts it considers reasonable given the facts and circumstances of each case. Substantially all of the amounts it has paid to date to defend and resolve these cases have been covered by product liability insurance. The Corporation has agreements with its insurers to utilize insurance in amounts which it believes are adequate to cover substantially all of the defense costs and liabilities for currently pending cases, as well as the reasonably foreseeable defense costs and liabilities attributable to claims which may be filed against it over the next several years. The Corporation has additional insurance coverage which it believes will cover a substantial part of the defense costs and liabilities attributable to additional future claims for some period of years, depending on the number of claims filed each year in the future and the average cost of resolving each such claim. However, there can be no assurance that such coverage will be adequate to cover the costs of all future claims, or that the part of such defense costs and liabilities not covered by such insurance will not be material to the Corporation. The Corporation has established reserves with respect to pending cases for the liabilities and defense costs it believes are probable and reasonably estimable, and has also established a receivable for insurance to the extent that the realization of the claim is deemed probable.

On May 6, 1998, a lawsuit was filed in state court in Columbus, Ohio, against the Corporation and Georgia-Pacific Resins, Inc. (GPR), a wholly owned subsidiary of the Corporation (the "State Suit"). The lawsuit was filed by eight plaintiffs who seek to represent a class of individuals who at any time from 1985 to the present lived, worked, resided, owned, frequented or otherwise occupied property located within a three-mile radius of GPR's resins manufacturing operations in Columbus, Ohio. The lawsuit alleges that the individual plaintiffs and putative class members have suffered personal injuries and/or property damage because of (i) alleged releases of harmful chemicals from GPR's operations and/or (ii) a September 10, 1997 explosion at the Columbus facility and alleged release of hazardous material resulting from that explosion. During the third quarter 2001, this case was settled. Under the

terms of the settlement, a class will be certified and the Corporation will pay \$22 million into a fund to be paid to class members pursuant to a protocol to be approved by the court. Since this case is being settled as a class action, the court must approve the terms of the settlement following a hearing to determine whether the settlement is fair, adequate, and reasonable for the class. It is anticipated that this hearing will be held late in the fourth quarter of 2001 or early in the first quarter of 2002, and that final court approval of the settlement will be obtained during the first quarter of 2002. On January 12, 2000, five plaintiffs, including one of the class representatives in the State Suit, filed a lawsuit against the Corporation and GPR pursuant to the citizen suit provisions of the federal Clean Air Act and the Community Right-to-Know law (the "Federal Suit"). As result of the State Suit settlement, the Federal Suit will be dismissed.

In August 1995, Fort James, a wholly-owned subsidiary of the Corporation, transferred certain assets and liabilities of its communications paper and food packaging businesses to two newly formed companies, Crown Vantage, Inc. ("CV"), (a wholly-owned subsidiary of Fort James) and CV's subsidiary Crown Paper Co. ("CP"). CP then entered into a \$350 million credit facility with certain banks and issued \$250 million face amount of senior subordinated notes. Approximately \$483 million in proceeds from these financings were transferred to FJ in payment for the transferred assets and other consideration. CV also issued to Fort James a pay-in-kind note with a face amount of \$100 million. CV shares were then spun off to the Fort James shareholders and CV operated these businesses as a stand-alone company beginning in August 1995.

In March 2001 CP and CV filed for bankruptcy. Various creditors have indicated that the borrowings made by CP and CV, and the payments to Fort James for the assets transferred to CV and CP, caused those companies to become insolvent, and that the transfer of such assets therefore was a fraudulent conveyance. In April 2001, Fort James filed suit against CP and CV in Federal Bankruptcy Court in Oakland, California seeking a declaratory judgment that the transactions did not involve any fraudulent conveyance and that other parties and actions were the cause of the bankruptcy of CV and CP. In September 2001, CV filed suit against Fort James asserting, among other claims, that the transactions described above constituted fraudulent conveyances and seeking unspecified damages. Fort James does not believe that any of its actions in establishing CV or CP involved a fraudulent conveyance or caused the bankruptcy of those companies and it intends to defend itself vigorously.

Although the ultimate outcome of these environmental matters and legal proceedings cannot be determined with certainty, based on presently available information, management believes that adequate reserves have been established for probable losses with respect thereto. Management further believes that the ultimate outcome of such environmental matters and legal proceedings could be material to operating results in any given quarter or year but will not have a material adverse effect on the long-term results of operations, liquidity or consolidated financial position of the Corporation.

-
13. **CONDENSED CONSOLIDATING INFORMATION.** Fort James is an issuer of certain securities registered under the Securities Act of 1933, thus subjecting it to reporting requirements under Section 15(d) of the Securities Exchange Act of 1934. The following condensed consolidating financial information is presented in lieu of consolidated financial statements for Fort James because the securities are fully and unconditionally guaranteed by the Corporation and certain subsidiaries:

CONSOLIDATING STATEMENT OF INCOME
FOR THE QUARTER ENDED SEPTEMBER 29, 2001

In millions	Georgia-Pacific Corp. other than Fort James and The Timber Company	Fort James Corp.	The Timber Company	Consolidating Adjustments	Consolidated Amounts
Net sales	\$ 4,562	\$ 1,865	\$ -	\$ (121)	\$ 6,306
Costs and expenses					
Cost of sales	3,681	1,238	-	(121)	4,798
Selling and distribution	306	198	-	-	504
Depreciation and amortization	231	88	-	-	319
General and administrative	205	80	-	-	185
Interest	198	56	-	-	154
Other expense	68	-	-	-	68
Total costs and expenses	4,689	1,660	-	(121)	6,228
(Loss) income from continuing operations before income taxes	(127)	205	-	-	78
(Provision) benefit for income taxes	(191)	(69)	-	-	(260)
(Loss) income from continuing operations	(318)	136	-	-	(182)
Income from discontinued operations, net of taxes	-	-	15	-	15
Net (loss) income	\$ (318)	\$ 136	\$ 15	\$ -	\$ (167)

23

CONSOLIDATING STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 29, 2001

In millions	Georgia-Pacific Corp. other than Fort James and The Timber Company	Fort James Corp.	The Timber Company	Consolidating Adjustments	Consolidated Amounts
-------------	--	---------------------	-----------------------	------------------------------	-------------------------

24

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Net sales	\$ 14,476	\$ 5,072	\$ -	\$ (322)	\$ 19,226
Costs and expenses					
Cost of sales	11,801	3,363	-	(322)	14,842
Selling and distribution	1,068	508	-	-	1,576
Depreciation and amortization	634	391	-	-	1,025
General and administrative	657	229	-	-	886
Interest	671	182	-	-	853
Other expense	68	-	-	-	68
Total costs and expenses	14,899	4,673	-	(322)	19,250
(Loss) income from continuing operations before income taxes	(423)	399	-	-	(24)
(Provision) benefit for income taxes	(77)	(188)	-	-	(265)
(Loss) income from continuing operations	(500)	211	-	-	(289)
Income from discontinued operations, net of taxes	-	-	73	-	73
(Loss) income before extraordinary item and accounting change	(500)	211	73	-	(216)
Extraordinary loss from early retirement of debt, net of taxes	(12)	-	-	-	(12)
Cumulative effect of accounting change, net of taxes	11	-	-	-	11
Net (loss) income	\$ (501)	\$ 211	\$ 73	\$ -	\$ (217)

CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 29, 2001

In millions	Georgia-Pacific Corp. other than Fort James and The Timber	Fort James Corp.	The Timber Company	Consolidated Amounts
-------------	--	---------------------	-----------------------	-------------------------

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Company

Cash provided by (used for) operations	\$ 597	\$ 626	\$ (7)	\$ 1,216
Cash flows from investing activities				
Property, plant and equipment investments	(334)	(192)	(2)	(528)
Timber and timberlands purchases	-	-	(31)	(31)
Acquisitions	(61)	(49)	-	(110)
Proceeds from sales of assets	2,210	14	68	2,292
Other	(110)	80	(6)	(36)
Cash provided by (used for) investing activities	1,705	(147)	29	1,587
Cash flows from financing activities				
Net decrease in debt	(2,380)	(393)	(7)	(2,780)
Net change in intercompany payable	71	(71)	-	-
Proceeds from option plan exercises	78	-	46	124
Cash dividends paid	(85)	-	(61)	(146)
Cash used for financing activities	(2,316)	(464)	(22)	(2,802)
(Decrease) increase in cash	(14)	15	-	1
Balance at beginning of year	32	8	-	40
Balance at end of year	\$ 18	\$ 23	\$ -	\$ 41

25

CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 29, 2001

In millions	Georgia-Pacific Corp. other than Fort James and The Timber Company Fort James Corp.	The Timber Company	Consolidated Amounts
-------------	--	-----------------------	-------------------------

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Assets				
Current assets				
Cash				
Receivables, less allowances	\$ 18	\$ 23	\$ -	\$ 41
Inventories	1,946	723	-	2,669
Deferred income tax assets	1,640	890	-	2,530
Net assets of discontinued operations	185	-	-	184
Other current assets	(38)	419	-	381

Total current assets	3,751	2,054	329	6,134

Total property, plant and equipment, net	6,626	3,338	-	9,964

Goodwill, net	1,652	6,747	-	8,399

Other assets	1,408	405	-	1,813

Total assets	\$ 13,437	\$ 12,544	\$ 329	\$ 26,310
=====				

26

CONSOLIDATING BALANCE SHEET (continued)
AS OF SEPTEMBER 29, 2001

In millions	Georgia-Pacific Corp. other than Fort James and The Timber Company	Fort James Corp.	The Timber Company	Consolidated Amounts
=====				
Liabilities and shareholders' equity				
Current liabilities				
Short-term debt	\$ 2,519	\$ 273	\$ -	\$ 2,792
Taxes payable	113	187	-	300
Accounts payable	908	518	-	1,426
Other current liabilities	919	475	-	1,394

Total current liabilities	4,459	1,453	-	5,912

Long-term debt, excluding current portion	7,995	1,685	-	9,680

Senior deferrable notes	863	-	-	863

Other long-term liabilities	1,950	483	-	2,433
Deferred income tax liabilities	1,817	86	-	1,903
Intercompany	182	(182)		-
Shareholders' equity	(3,829)	9,019	329	5,519
Total liabilities and shareholders' equity	\$ 13,437	\$ 12,544	\$ 329	\$ 26,310

27

14. **OPERATING SEGMENT INFORMATION.** The Corporation has four reportable operating segments: building products, containerboard and packaging, bleached pulp and paper, and consumer products. The following represents selected operating data for each reportable segment for the three and nine months ended September 29, 2001 and September 30, 2000.

CONSOLIDATED SELECTED OPERATING SEGMENT DATA (Unaudited)
Georgia-Pacific Corporation and Subsidiaries

(Dollar amounts in millions)	Three Months Ended	
	September 29, 2001	September 30, 2000
NET SALES TO UNAFFILIATED CUSTOMERS		
Building products	\$ 1,881 30%	\$ 1,965 36%
Containerboard and packaging	654 10	668 12
Bleached pulp and paper	2,029 32	2,398 44
Consumer products	1,740 28	401 8
Other	2 -	- -
Total net sales to unaffiliated customers	\$ 6,306 100%	\$ 5,432 100%
INTERSEGMENT SALES		
Building products	189	\$ 190
Containerboard and packaging	37	22
Bleached pulp and paper	34	13
Consumer products	62	11
Other ¹	(322)	(236)

Total intersegment sales	\$	-	\$	-
--------------------------	----	---	----	---

28

CONSOLIDATED SELECTED OPERATING SEGMENT DATA (Unaudited)
Georgia-Pacific Corporation and Subsidiaries

(Dollar amounts in millions)	Three Months Ended			
	September 29, 2001		September 30, 2000	
TOTAL NET SALES				
	\$	2,070	33%	\$ 2,155 40%
Building products		691	11	690 13
Containerboard and packaging		2,063	33	2,411 44
Bleached pulp and paper		1,802	28	412 7
Consumer products		(320)	(5)	(236) (4)
Other				
Total net sales	\$	6,306	100%	\$ 5,432 100%
OPERATING PROFITS				
Building products	\$	99	30%	\$ 43 13%
Containerboard and packaging		102	31	141 41
Bleached pulp and paper		(57)	(17)	170 50
Consumer products		264	79	55 16
Other ²		(76)	(23)	(69) (20)
Total operating profits		332	100%	340 100%
Interest expense		(254)	===	(128) ===
(Loss) income from continuing operations before income taxes		78		212
Provision for income taxes		(260)		(82)
(Loss) income from continuing operations		(182)		130
Income from discontinued operations net of taxes		15		32
Net (loss) income	\$	(167)		\$ 162

Elimination of intersegment sales.

²Includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales.

29

CONSOLIDATED SELECTED OPERATING SEGMENT DATA (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(Dollar amounts in millions)	Nine Months Ended	
	September 29, 2001	September 30, 2000
NET SALES TO UNAFFILIATED CUSTOMERS		
Building products	\$ 5,435 28%	\$ 6,319 38%
Containerboard and packaging	1,887 10	2,006 12
Bleached pulp and paper	6,601 34	7,045 43
Consumer products	5,300 28	1,169 7
Other	3 -	1 -
Total net sales to unaffiliated customers	\$ 19,226 100%	\$ 16,540 100%
INTERSEGMENT SALES		
Building products	\$ 560	\$ 578
Containerboard and packaging	94	65
Bleached pulp and paper	132	38
Consumer products	206	25
Other ¹	(992)	(706)
Total intersegment sales	\$ -	\$ -

30

CONSOLIDATED SELECTED OPERATING SEGMENT DATA (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(Dollar amounts in millions)	Nine Months Ended	
	September 29, 2001	September 30, 2000
TOTAL NET SALES		

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Building products	\$ 5,995	31%	\$ 6,897	42%
Containerboard and packaging	1,981	10	2,071	12
Bleached pulp and paper	6,733	35	7,083	43
Consumer products	5,506	29	1,194	7
Other	(989)	(5)	(705)	(4)
<hr/>				
Total net sales	\$ 19,226	100%	\$ 16,540	100%
<hr/>				
OPERATING PROFITS				
Building products	\$ 144	18%	\$ 431	35%
Containerboard and packaging	293	35	413	33
Bleached pulp and paper	43	5	449	36
Consumer products	573	69	129	10
Other ²	(224)	(27)	(178)	(14)
<hr/>				
Total operating profits	829	100%	1,244	100%
<hr/>				
Interest expense	(853)	===	(398)	===
<hr/>				
(Loss) income from continuing operations before income taxes	(24)		846	
Provision for income taxes	(265)		(316)	
<hr/>				
(Loss) income from continuing operations	(289)		530	
Income from discontinued operations, net of taxes	73		106	
<hr/>				
(Loss) income before extraordinary item and accounting change	(216)		636	
<hr/>				
Extraordinary loss from early extinguishment of debt, net of taxes	(12)		-	
	11		-	
Cumulative effect of accounting change, net of taxes				
<hr/>				
Net (loss) income	\$ (217)		\$ 636	
<hr/>				

1

Elimination of intersegment sales.

²Includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales.

THIRD QUARTER 2001 COMPARED WITH THIRD QUARTER 2000

The Corporation reported consolidated net sales of \$6.3 billion and a net loss of \$167 million for the third quarter of 2001, compared with net sales of \$5.4 billion and net income of \$162 million for the third quarter of 2000. Included in 2001 are net sales from the recently acquired Fort James operations.

Interest expense increased \$126 million to \$254 million in the third quarter of 2001, compared with \$128 million in the third quarter of 2000, principally as a result of higher debt levels incurred as a result of the Fort James acquisition, offset somewhat by lower average interest rates.

The Corporation reported income from continuing operations before income taxes of \$78 million and an income tax provision of \$260 million resulting in a loss from continued operations of \$182 million for the third quarter of 2001, compared with pretax income of \$212 million and an income provision of \$82 million in the third quarter 2000. The effective tax rate in 2001 was different from the statutory rate primarily because of nondeductible goodwill amortization expense associated with business acquisitions and because of nondeductible goodwill applicable to assets sold (see Note 6).

Beginning in the third quarter of 2001, the Corporation began reporting The Timber Company as discontinued operations. Income from discontinued operations decreased to \$15 million in the third quarter of 2001, compared with \$32 million in the third quarter of 2000. Included in the third quarter 2001 results was a \$24 million pretax charge for an insurance premium associated with the spin off of The Timber Company and its merger with Plum Creek (see Note 6).

The remaining discussion refers to the "Consolidated Selected Operating Segment Data" table (included in Note 14 to the Consolidated Financial Statements).

BUILDING PRODUCTS

The Corporation's building products segment reported net sales of \$2,070 million for the third quarter of 2001 compared with \$2,155 million in 2000. Operating profits were \$99 million in 2001 compared with \$43 million in 2000. During the third quarter of 2000, the Corporation incurred \$24 million of one-time unusual charges related to the shutdown of a gypsum plant and the proposed sale of its chemical business. Excluding this charge, return on sales increased to 5% for the three months ended September 29, 2001 compared with 3% for the same period in 2000. The increase in quarter over quarter profits is due primarily to an increase in plywood prices of 11%, a 10% increase in treated lumber prices, a 7% increase in softwood lumber prices, and an overall decrease in wood costs. These increases in prices were offset by a quarter-over-quarter decrease in demand for all building products. The Corporation expects the building products segment to operate at a loss in the fourth quarter as a result of weaker pricing and reduced demand for nearly all products.

CONTAINERBOARD AND PACKAGING

The Corporation's containerboard and packaging segment reported net sales of \$691 million and operating profits of \$102 million in the third quarter of 2001, compared with net sales of \$690 million and operating profits of \$141 million in the third quarter of 2000. Return on sales was 15% and 20% in the third quarter of 2001 and 2000, respectively. The decrease in operating profits was due primarily to decreased average selling prices for medium and linerboard of 15% and 8%, respectively, over year ago prices, and a 4% decrease in sales volume for medium. These decreases were offset slightly by lower fiber costs. During the third quarters of 2001 and 2000, the Corporation incurred market-related paper machine slowback or downtime at its containerboard mills, resulting in a reduction in containerboard production of approximately 62,000 tons and 90,000 tons, respectively. During the fourth quarter of 2001, the Corporation expects pricing for the containerboard and packaging segment products to decrease further; fiber costs are expected to remain at levels below fourth quarter 2000. The Corporation will incur market-related

downtime or slowbacks at its containerboard mills as necessary to avoid excessive inventory.

BLEACHED PULP AND PAPER

The Corporation's pulp and paper segment reported net sales of \$2,063 million and an operating loss of \$57 million in the 2001 third quarter. For the same period in 2000, the segment reported net sales of \$2,411 million and operating profits of \$170 million. Excluding a one-time loss of \$68 million related to the sale of a portion of the pulp and paper operations in 2001, return on sales decreased to less than 1% compared with 7% for the same period a year ago. The decrease in third quarter 2001 operating profits is primarily due to a 40% decrease in average market pulp prices, a 25% decline in average pricing for fluff pulp, a 5% decrease in paper selling prices, and a decline in volume for all segment products due to the sale of a portion of the pulp and paper operations in August 2001 (see Note 6). The Corporation expects selling prices for pulp to be slightly stronger in the fourth quarter and expects the segment to break even.

CONSUMER PRODUCTS

Net sales and operating profits for the consumer products segment were \$1,802 million and \$264 million, respectively, for the quarter ended September 29, 2001, which included net sales and operating profits from the operations of Fort James that were acquired at the end of November 2000. The results of operations of Fort James were consolidated with those of the Corporation beginning in December 2000. Third quarter 2000 net sales and operating profits (which do not include results of Fort James' operations) were \$412 million and \$55 million, respectively. Return on sales increased to 15% in the third quarter of 2001, compared with 13% during the same period in 2000.

Operating results in the third quarter of 2001 reflected improving profit margins as material and energy costs were declining more rapidly than selling prices. During the fourth quarter, material and energy cost deflation is expected to subside while selling prices continue to erode modestly, resulting in slightly lower profit margins for the remainder of the year. The fourth quarter is also a seasonally slower selling period for a number of consumer products.

OTHER

The operating loss in the "Other" nonreportable segment, which includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales, increased by \$7 million to a loss of \$76 million in 2001 from a loss of \$69 million in the 2000 third quarter.

YEAR-TO-DATE 2001 COMPARED WITH YEAR-TO-DATE 2000

The Corporation reported consolidated net sales of \$19.2 billion and a net loss of \$217 million for the nine months ended September 29, 2001, compared with net sales of \$16.5 billion and net income of \$636 million for the nine months ended September 30, 2000. Included in the first nine months of 2001 are net sales from the recently acquired Fort James operations.

Interest expense increased \$455 million to \$853 million in the first nine months of 2001 compared with \$398 million in the nine months of 2000, principally as a result of higher debt levels, offset somewhat by lower average interest rates.

The effective tax rate used to calculate the provision for income taxes was more than 100% for the first nine months of 2001 and 37% for the first nine months of 2000. The effective tax rate in 2001 was different from the statutory rate primarily because of nondeductible goodwill amortization expense associated with business acquisitions and because of nondeductible goodwill applicable to assets sold (see Note 6). In 2000, the effective tax rate differed from the statutory rate primarily because of increased state tax credits and increased utilization of foreign sales corporation tax benefits, which more than offset nondeductible goodwill amortization expense associated with business combinations.

Income from discontinued operations decreased to \$73 million in the first nine months of 2001 compared with \$106 million in the same period of 2000. Included in the third quarter 2001 results was a \$24 million pretax charge for an insurance premium associated with the spin off of The Timber Company and its merger with and into Plum Creek (see Note 6).

On March 15, 2001, the Corporation redeemed \$300 million of its 6.234% Senior Notes Due March 15, 2011. The Corporation recorded an after-tax extraordinary loss of approximately \$12 million related to this redemption during the first quarter of 2001, all of which was allocated to Georgia-Pacific Group.

Effective December 31, 2000, the Corporation adopted Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* and, accordingly, recorded an after-tax cumulative effect of accounting change credit of \$11 million.

The remaining discussion refers to the "Consolidated Selected Operating Segment Data" table (included in Note 14 to the Consolidated Financial Statements).

BUILDING PRODUCTS

The Corporation's building products segment reported net sales of \$5,995 million and operating profits of \$144 million for the nine months ended September 29, 2001, compared with net sales of \$6,897 million and operating profits of \$431 million in 2000. Included in the 2001 results is a one-time charge of \$67 million related to plant closures and indefinite production curtailments in the gypsum business. During the third quarter of 2000, the Corporation incurred \$24 million of one-time unusual charges related to the shutdown of a gypsum plant and the possible sale of its chemical business. Excluding these charges, return on sales decreased to 4% from 7% a year ago. The decrease in sales and operating profits resulted from a decrease in selling prices and volumes for most of the segment's products. Average selling prices for particleboard, oriented strand board and gypsum decreased 11%, 22% and 32%, respectively. Sales volumes for plywood, softwood lumber, particleboard and gypsum also decreased 9%, 20%, 18% and 15%, respectively. These declines were offset slightly by a 13% increase in oriented strand board sales volume and decreased wood costs. The building products segment is expected to operate at a loss for the remainder of 2001 as a result of lower selling prices and reduced demand for nearly all products.

CONTAINERBOARD AND PACKAGING

The Corporation's containerboard and packaging segment reported net sales of \$1,981 million and operating profits of \$293 million in the first nine months of 2001, compared with net sales of \$2,071 million and operating profits of \$413 million in the same 2000 period. During the first nine months of 2000, the Corporation sold certain containerboard and packaging assets resulting in a pre-tax gain of \$25 million. Excluding this gain on asset sales, return on sales decreased to 15% in 2001 compared to 19% in 2000. The decrease in year-over-year operating profit was due primarily to 8% lower average selling prices and a 9% decline in sales volume for medium, and a 2% decline in selling prices for

packaging products during the first nine months of 2001 compared to the prior year. During the first nine months of 2001 and 2000, the Corporation incurred market-related paper machine slowback or shutdowns at its containerboard mills, resulting in a reduction in containerboard production of approximately 192,000 tons and 228,000 tons, respectively. For the remainder of 2001, reduced demand for packaging products will result in lower operating profits in containerboard and packaging compared to the third quarter of the year.

BLEACHED PULP AND PAPER

The Corporation's bleached pulp and paper segment reported net sales of \$6,733 million and operating profits of \$43 million for the nine-month period ended September 29, 2001, compared with net sales of \$7,083 million and operating profits of \$449 million in 2000. Included in the 2001 results is a one-time loss of \$68 million related to the sale of a portion of the Corporation's pulp and paper assets. Excluding this one-time loss, return on sales decreased to 2% compared with 6% for the same period a year ago, principally due to a 18% decrease in average prices and a 5% decline in sales volumes for the Corporation's pulp products due to the sale of a portion of the pulp and paper operations in August 2001 (see Note 6). These declines were offset slightly by a 5% increase in sales volume for paper products. The Corporation expects selling prices for pulp to be slightly stronger in the fourth quarter, and expects the segment to break even.

CONSUMER PRODUCTS

Net sales and operating profits for the consumer products segment were \$5,506 million and \$573 million, respectively, for the first nine months of 2001 compared with net sales of \$1,194 million and operating profits of \$129 million during the same period in 2000. Included in the 2001 results are net sales and operating profits from the recently acquired Fort James operations. Operating profits for the first nine months of 2001 also included a one-time charge of \$86 million related to the closure of the Bellingham pulp and lignin operations. Excluding this one-time charge, return on sales increased slightly to 12% in 2001 from 11% in 2000.

Operating results in the third quarter of 2001 reflected improving profit margins as material and energy costs were declining more rapidly than selling prices. During the fourth quarter, material and energy cost deflation is expected to subside while selling prices continue to erode modestly, resulting in slightly lower profit margins for the remainder of the year. The fourth quarter is also a seasonally slower selling period for a number of consumer products.

Pursuant to a consent decree executed with the U.S. Department of Justice in connection with the acquisition of Fort James, the Corporation sold a portion of its away-from-home tissue manufacturing operations (formerly Georgia-Pacific Tissue) on March 2, 2001. Net sales and operating profits related to these operations were \$102 million and \$3 million during the first nine months of 2001, respectively, compared to \$512 million and \$6 million, respectively, during the same period in 2000.

OTHER

The operating loss in the "Other" nonreportable segment, which includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales, increased by 27% to a loss of \$224 million in the first nine months of 2001 from a loss of \$178 million in the first nine months of 2000. This increase was primarily a result of higher legal and environmental expenses, higher expenses associated with the Corporation's captive insurance program, increased foreign currency transaction losses, and higher corporate marketing expenses.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. The Corporation generated cash from operations of \$1,216 million for the nine months

ended September 29, 2001 compared with \$1,171 million a year ago. The increase in cash provided from operating activities is primarily a result of a significant reduction in working capital levels and increased cash flows from the recently acquired Fort James operations.

INVESTING ACTIVITIES. Capital expenditures for property, plant and equipment for the nine months ended September 29, 2001 were \$528 million, which included \$81 million in the building products segment, \$2 million in the discontinued timber segment, \$63 million in the containerboard and packaging segment, \$120 million in the bleached pulp and paper segment, \$226 in the consumer products segment and \$36 million of other and general corporate. The Corporation expects to make capital expenditures for property, plant and equipment of approximately \$750 million in 2001.

Cash invested in timber and timberlands was \$31 million in the first nine months of 2001 compared with \$47 million in 2000.

At the end of November 2000, the Corporation completed a tender offer pursuant to which it purchased each outstanding share of common stock of Fort James for \$29.60 per share in cash and 0.2644 shares of Georgia-Pacific Group common stock. The Corporation is paying cash and issuing Georgia-Pacific Group shares as the untendered Fort James shares are delivered to the Corporation's exchange agent for cancellation. Through September 29, 2001, the Corporation had paid approximately \$6,189 million in cash (\$49 million of which was paid during the first nine months of 2001) and issued approximately 53.9 million shares of Georgia-Pacific Group common stock (0.2 million shares of which were issued during the first nine months of 2001) valued at \$1,485 million for such shares. The fair value of the Georgia-Pacific Group common shares was determined based on the average trading prices of Georgia-Pacific Group common stock for the two trading days before and after July 16, 2000 (the date of the announcement of the Fort James acquisition). The Corporation expects to pay an additional \$7 million in cash and issue approximately 65,000 shares valued at \$2 million for Fort James common stock that had not been tendered as of September 29, 2001. In addition, the Corporation assumed \$3.3 billion of Fort James debt in the acquisition.

During the first quarter of 2001, the Corporation acquired the remaining ownership of two chemical joint ventures for approximately \$26 million. The results of operations of these chemical businesses were consolidated with those of the Corporation beginning in February 2001. The Corporation has accounted for these acquisitions using the purchase method to record a new cost basis for assets acquired and liabilities assumed.

Also during the first quarter of 2000, the Corporation contributed certain containerboard and packaging assets with a net book value of \$34 million to a joint venture. In exchange for these assets, the Corporation retained a 54 percent interest in the joint venture. This investment in the joint venture was accounted for under the equity method until July 2001.

In July 2001, the Corporation acquired an additional 27 percent interest in this joint venture for approximately \$35 million. The results of operations of this joint venture were consolidated with those of the Corporation beginning in July 2001. The Corporation has accounted for this acquisition using the purchase method to record a new cost basis for the additional share of assets acquired and liabilities assumed. As part of the transaction agreement, the Corporation has the option to buy from the joint venture partner, and the joint venture partner has the option to sell to the Corporation, the joint venture partner's remaining 19 percent interest in the joint venture for \$25 million. The Corporation expects to exercise this option in November 2001.

During the first nine months of 2001, the Corporation received \$2,292 million of net proceeds from the sale of assets, compared with \$46 million in the same period of 2000. On August 7, 2001, the Corporation completed the sale of a portion of its paper and pulp assets to Domtar Inc. for \$1.65 billion in cash. The assets involved in this transaction were the Corporation's stand-alone uncoated fine paper mills at Ashdown, Ark.; Nekoosa and Port Edwards, Wis.; and Woodland, Maine, as well as associated pulp facilities. The Corporation used the net proceeds of approximately \$1,529 million to repay debt.

Pursuant to a consent decree executed with the U. S. Department of Justice in connection with the Fort James acquisition, the Corporation sold a portion of its away-from-home tissue manufacturing assets (formerly Georgia-Pacific Tissue) to Svenska Cellulosa Aktiebolaget SCA for approximately \$850 million. The sale was completed on March 2, 2001, with net proceeds of approximately \$581 million used to repay debt. These assets had been written down to net realizable value in the fourth quarter of 2000; accordingly, no significant gain or loss was recognized upon completion of the sale. During the first nine months of 2001, the Corporation sold a lumber mill, industrial wood products property and certain paper distribution assets for a total of \$76 million in cash and recognized a pre tax gain of \$28 million.

During the first nine months of 2000, the Corporation sold certain containerboard and packaging assets resulting in a pre-tax gain of \$24.9 million.

On October 5, 2001, the Corporation completed the spin off of The Timber Company and its merger with Plum Creek. In accordance with the merger agreement, The Timber Company shareholders received 1.37 shares of Plum Creek stock for each share of The Timber Company stock. This transaction, which included the incurrence by Plum Creek of an amount of debt sufficient to relieve the Corporation's debt attributed to The Timber Company, which was approximately \$633 million as of September 29, 2001, was valued at approximately \$3.4 billion. Plum Creek assumed a 10-year timber supply agreement between Georgia-Pacific Group and The Timber Company.

The transaction was originally conditioned on the receipt of a private letter ruling from the Service that the transaction would be tax-free to the Corporation and to the shareholders of The Timber Company. In June 2001, the Corporation and Plum Creek amended the original merger agreement and determined to effect the merger upon receipt of opinions from tax counsel that the spin off of The Timber Company from the Corporation and the subsequent merger with Plum Creek would be tax-free to the Corporation and to the shareholders of The Timber Company. The Service notified the companies on June 12, 2001, that it had decided not to issue the private letter ruling based on its belief that the companies had failed to carry the high burden of proof of business purpose necessary for the transaction to receive such an advance ruling. This high burden of proof, which is more stringent than the legal standards applicable to the audit process or any judicial proceeding, pertains only to advance rulings. Based on discussion with the Service and the advice of legal counsel, the companies believe the transaction will not be taxable to the Corporation or the shareholders of The Timber Company. As an added measure to reduce the uncertainty concerning any possible tax risks associated with the transaction, the Corporation obtained up to \$500 million in tax liability insurance.

FINANCING ACTIVITIES. The Corporation's debt was \$13,105 million, \$12,472 million of which was allocated to the Georgia-Pacific Group and \$633 million of which was allocated to The Timber Company. The debt allocated to each group bears interest at a rate equal to the weighted average interest rate of the Corporation's total debt, calculated on a quarterly basis. At September 29, 2001, the weighted average interest rate on the Corporation's total debt, excluding senior deferrable notes, was 6.70% including outstanding interest rate exchange agreements. Each group's debt increases or decreases by the amount of any cash provided by or used for that group's operating activities, investing activities, dividend payments, share repurchases or issuances and other non-debt-related financing activities.

As of September 29, 2001, the Corporation had commitments totaling \$1.2 billion and CN\$95 million (approximately \$61 million) under its U.S. and Canadian accounts receivable secured borrowing programs, respectively, of which \$1 billion and CN\$95 million was outstanding under these programs. The U.S. agreement expires in October 2002 and the Canadian agreement expires in May 2004. The receivables outstanding under these programs and the corresponding debt are included as both "Receivables" and "Commercial paper and other short-term notes," respectively, on the accompanying balance sheets. All programs are accounted for as secured borrowings. As collections reduce previously pledged interests, new receivables may be pledged.

In connection with acquiring a controlling interest in a containerboard and packaging joint venture (see Note 6), the Corporation assumed a \$10 million variable rate industrial revenue bond due September 1, 2021.

The Corporation has restrictive covenants under its unsecured revolving credit facility that require a maximum leverage ratio (funded indebtedness, excluding senior deferrable notes, to earnings before interest, taxes, depreciation and amortization ("EBITDA")) of 4.50 to 1.00 on September 29, 2001 and December 29, 2001; 4.25 to 1.00 on March 30, 2002; and 4.00 to 1.00 on June 29, 2002 and thereafter. The restrictive covenants also require a minimum net worth that changes quarterly. The Corporation was in compliance with its debt covenants as of September 29, 2001.

In connection with the sale of certain paper and pulp assets to Domtar (see Note 6), the Corporation utilized the sale proceeds to permanently pay down \$1.1 billion of the unsecured financing facilities. Also, the Corporation utilized proceeds from the accounts receivable secured borrowing program to permanently pay down an additional \$250 million of unsecured financing facilities. As a result, at September 29, 2001, the unsecured financing facilities totaled \$3,400 million with terms ranging from 6 to 18 months, and the permanent unsecured revolving credit facility totaled \$2,150 million with a term of 5 years. In addition, \$1,603 million of committed credit was available in excess of all borrowings outstanding under or supported by these credit facilities as of September 29, 2001.

In January 2001, the Corporation entered into several interest rate exchange agreements that effectively converted \$1,500 million of floating rate obligations with a weighted average interest rate of 3.7% as of September 29, 2001 to fixed rate obligations with a weighted average interest rate of approximately 5.9%. These agreements have a weighted-average maturity of approximately seven months as of September 29, 2001.

On June 25, 2001, the Corporation redeemed \$42 million of its 7.90% fixed rate industrial revenue bonds, due October 1, 2005, and issued \$42 million 6.5% fixed rate industrial revenue bonds due June 1, 2031.

On May 8, 2001, the Corporation replaced \$1.5 billion of its Capital Markets Bridge Facility by issuing \$500 million of 7.5% Notes Due March 15, 2006, \$600 million of 8.125% Notes Due March 15, 2011, and \$400 million of 8.875% Notes Due March 15, 2031. The \$10.4 million underwriting fee associated with the transaction is being amortized over the term of the notes.

On March 15, 2001, the Corporation redeemed \$300 million of its 6.234% Senior Notes Due March 15, 2011 and recorded an after-tax extraordinary loss of approximately \$12 million related to this redemption.

As of September 29, 2001, the Corporation had \$1.5 billion of debt and equity securities available for issuance under a shelf registration statement.

The table below presents principal (or notional) amounts and related weighted average interest rates by year of expected maturity for the Corporation's debt obligations as of September 29, 2001. For obligations with variable interest rates, the table sets forth payout amounts based on current rates and does not attempt to project future interest rates.

<u>(In millions)</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
----------------------	-------------	-------------	-------------	-------------

Debt

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Commercial paper and other short-term notes	-	-	-	-
Average interest rates	-	-	-	-
Credit facilities	\$ 650	\$ 1,150	-	-
Average interest rate	4.1%	4.9%	-	-
Notes and debentures	\$ 136	\$ 461	\$ 581	\$ 337
Average interest rates	8.4%	8.9%	6.7%	6.7%
Euro-denominated bonds	-	-	-	\$ 273
Average interest rates	-	-	-	4.8%
Revenue bonds	\$ 6	\$ 75	\$ 2	\$ 30
Average interest rates	2.3%	2.7%	3.9%	2.5%
Capital leases	\$	\$ 4	\$ 4	\$ 5
Average interest rates	9.3%	9.6%	9.5%	9.9%
European debt	\$ 21	\$ 23	\$ 24	\$ 22
Average interest rates	6.0%	7.3%	7.2%	7.1%
Other loans	\$	\$ 13	-	-
Average interest rates	7.1%	4.8%	-	-
Senior deferrable notes	-	\$ 863	-	-
Average interest rates	-	7.2%	-	-
Notional amount of interest rate exchange agreements (variable to fixed)	-	\$ 1,657	\$ 300	-
Average interest rate paid (fixed)	-	5.9%	5.9%	-
Average interest rate received (variable)	-	3.7%	3.5%	-
Notional amount of interest rate exchange agreements (rate collar)	-	-	-	-
Average interest rate cap	-	-	-	-
Average interest rate floor	-	-	-	-

39

<u>(In millions)</u>	<u>2005</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair value</u> <u>September 29,</u> <u>2001</u>
Debt				
Commercial paper and other short-term notes	-	\$ 1,445	\$ 1,445	\$ 1,445
Average interest rates	-	3.9%	3.9%	3.9%
Credit facilities	\$ 1,600	-	\$ 3,400	\$ 3,400
Average interest rates	4.5%	-	4.5%	4.5%
Notes and debentures	3	\$ 5,306	\$ 6,825	\$ 6,778
Average interest rates	4.7%	8.2%	8.1%	7.5%
Euro-denominated bonds	-	-	\$ 273	\$ 266
Average interest rates	-	-	4.8%	5.9%

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Revenue bonds	\$ 21	\$ 708	\$ 841	\$ 814
Average interest rates	5.6%	5.5%	5.1%	4.3%
Capital leases	\$ 6	\$ 115	\$ 134	\$ 140
Average interest rates	10.1%	10.3%	10.2%	8.0%
European debt	\$ 10	\$ 9	\$ 109	\$ 103
Average interest rates	6.3%	4.3%	6.6%	7.6%
Other loans	-	-	\$ 13	\$ 13
Average interest rates	-	-	4.8%	4.1%
Senior deferrable notes	-	-	\$ 863	\$ 893
Average interest rates	-	-	7.2%	4.1%
Notional amount of interest rate exchange agreements (variable to fixed)	-	-	\$ 1,957	\$ (54)
Average interest rate paid (fixed)	-	-	5.9%	5.9%
Average interest rate received (variable)	-	-	3.7%	3.7%
Notional amount of interest rate exchange agreements (rate collar)	\$ 47	-	\$ 47	\$ 3
Average interest rate cap	7.5%	-	7.5%	7.5%
Average interest rate floor	5.5%	-	5.5%	5.5%

The Corporation has the intent and ability to refinance commercial paper and other short-term notes as they mature. Therefore, maturities of these obligations are reflected as cash flows expected to be made after 2005.

The Corporation's international operations create exposure to foreign currency exchange rate risks. To manage these risks, the Corporation utilizes foreign exchange contracts. As of September 29, 2001 there were no foreign exchange contracts outstanding. At September 29, 2001, the Corporation had outstanding approximately \$242 million (net of discount) of Euro-denominated bonds which were designated as a hedge against its net investment in Europe. The use of these derivative financial instruments allows the Corporation to reduce its overall exposure to exchange rate movements, since the gains and losses on these contracts substantially offset losses and gains on the assets, liabilities and transactions being hedged. A 10% change from the prevailing market rates of these foreign currencies would not have a material effect on the results of operations.

The Corporation's senior management establishes the parameters of the Corporation's financial risk, which have been approved by the Board of Directors. Hedging interest rate exposure through the use of swaps and options and hedging foreign exchange exposure through the use of forward contracts are specifically contemplated to manage risk in keeping with management policy. Derivative instruments, such as swaps, forwards, options or futures, which are based directly or indirectly upon interest rates, currencies, equities and commodities, may be used by the Corporation to manage and reduce the risk inherent in price, currency and interest rate fluctuations.

The Corporation does not utilize derivatives for speculative purposes. Derivatives are transaction-specific so that a specific debt instrument, contract or invoice determines the amount, maturity and other specifics of the hedge. Counterparty risk is limited to institutions with long-term debt ratings of A or better.

In November of 2000, the Corporation acquired Fort James (see Note 6). Through June 30, 2001, the Corporation has issued 21.5 million shares of Georgia-Pacific Group treasury stock and 32.4 million newly issued shares of

Georgia-Pacific Group stock in exchange for outstanding common stock of Fort James. The Corporation does not hold any Georgia-Pacific Group stock in Treasury as of September 29, 2001. Effective with the agreement to dispose of The Timber Company (see Note 6), the Corporation is precluded from purchasing shares of The Timber Company stock.

During the first nine months of 2000, Georgia-Pacific Group purchased on the open market approximately 1,725,000 shares of Georgia-Pacific Group common stock at an aggregate price of approximately \$62 million (\$36.14 average per share), all of which were held as treasury stock at September 30, 2000. During the first nine months of 2000, The Timber Company purchased on the open market approximately 3,334,000 shares of The Timber Company common stock at an aggregate price of \$78 million (\$23.45 average per share), all of which were held as treasury stock at September 30, 2000.

During the first nine months of 2001 and 2000, the Corporation paid dividends totaling \$146 million and \$125 million, respectively. During the first nine months of 2001 and 2000, the Corporation received proceeds from stock option exercises of \$124 million and \$18 million, respectively.

In 2001, the Corporation expects its cash flow from operations, together with proceeds from any asset sales and available financing sources, to be sufficient to fund planned capital investments, pay dividends and make scheduled debt payments.

OTHER. The Corporation employs over 75,000 people, approximately 28,000 of whom are members of unions. The Corporation considers its relationship with its employees to be good. Sixty-five union contracts are subject to negotiation and renewal in 2001, including nine at large paper facilities. Twenty-five contracts were renewed during the first nine months of 2001.

On January 1, 1999, eleven of the fifteen members of the European Union (the "Participating Countries") established fixed conversion rates between their existing sovereign currencies (the "Legacy Currencies") and a single new currency (the "Euro"). For a three-year transition period, transactions can be conducted in both the Euro and the Legacy Currencies but all corporate transactions and records must legally be maintained in Euros effective January 1, 2002. The adoption of the Euro will affect a multitude of financial systems and business applications. The Corporation has operations in seven of the Participating Countries, which adopted the Euro effective January 2001, and has product sales in ten of the Participating Countries. The Corporation's European businesses affected by the Euro conversion have established plans to address the information system issues and the potential business implications of converting to a common currency. As of September 29, 2001, the Corporation's core financial information technology systems were capable of processing Euro-denominated transactions.

In July 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS No. 141"), and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for purchased goodwill from an amortization method to an impairment-only approach. Therefore amortization of all purchased goodwill, including amortization of goodwill recorded in past business combinations will cease upon adoption of SFAS No. 142. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Early adoption of the SFAS No. 142 is not permitted nor is retroactive application to prior period (interim or annual) financial statements.

In July 2001, the FASB also issued SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the entity either settles the obligation for the amount recorded or incurs a gain or loss. SFAS No. 143 is effective for fiscal years

beginning after June 15, 2002. Management is evaluating the effect of this statement on the Corporation's results of operations and financial position.

In August 2001, the FASB issued statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"). SFAS No. 144 supersedes FASB statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS No. 121"), and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion 30) for the disposal of a segment of a business(as previously defined in Opinion 30). The FASB issued SFAS No. 144 to establish a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. SFAS No. 144 broadens the presentation of discontinued operations in the income statement to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. SFAS No. 144 also requires that discontinued operations be measured at the lower of the carrying amount or fair value less cost to sell. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and should be applied prospectively. Management is evaluating the effect of this statement on the Corporation's results of operations and financial position.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. The statements under "Management's Discussion and Analysis" and other statements contained herein that are not historical facts are forward-looking statements (as such term is defined under the Private Securities Litigation Reform Act of 1995) based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions. In addition to the risks, uncertainties and assumptions discussed elsewhere herein, factors that could cause or contribute to actual results differing materially from such forward-looking statements include the following: the industry's production capacity continuing to exceed demand for its pulp and paper products, necessitating continued market-related downtime; changes in the productive capacity and production levels of other building products and pulp and paper producers; the effect on the Corporation of changes in environmental and pollution control laws and regulations; the general level of economic activity in U.S. and export markets; further decreases in the level of housing starts or lessened home remodeling in the United States; fluctuations in interest rates and currency exchange rates; the effect of general global economic conditions on the demand for timber; the effect of any material changes in the available supply and cost of timber and wood fiber, including the levels of harvests from public lands, and the effect of government, legislative and environmental restrictions on the harvesting of private timberlands; and other risks, uncertainties and assumptions discussed in the Corporation's periodic filings with the Securities and Exchange Commission.

For a discussion of commitments and contingencies refer to Note 12 of the Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosure about Market Risk for the Corporation is set forth under the caption "Management's Discussion and Analysis - Liquidity and Capital Resources - Financing Activities."

PART II - OTHER INFORMATION

GEORGIA-PACIFIC CORPORATION
SEPTEMBER 29, 2001

Item 1. Legal Proceedings

The information contained in Note 12 "Commitments and Contingencies" of the Notes to Consolidated Financial Statements filed as part of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders

A special meeting of the holders of Timber Company common stock of the Corporation was held on August 15, 2001. At the special meeting, a proposal to approve that certain Agreement and Plan of Merger, dated as of July 18, 2000, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of June 12, 2001 (the "Merger Agreement"), by and among Plum Creek Timber Company, Inc. ("Plum Creek"), the Corporation and six wholly owned subsidiaries of the Corporation, was approved with 63,041,898 votes in favor, 295,927 votes against and 292,709 votes abstaining. Under the Merger Agreement, Plum Creek and the Corporation combined the Corporation's timber and timberland business. See Note 6 "Divestitures and Acquisitions" of the Notes to Consolidated Financial Statements filed as part of this Quarterly Report on Form 10-Q.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

- (i) On July 20, 2001, the Corporation filed a Current Report on Form 8-K under Items 5 and 7 thereof. The Report disclosed the Corporation's issuance of press releases on July 20, 2001 regarding earnings for the second quarter of 2001 for Georgia-Pacific Group and The Timber Company.
- (ii) On August 8, 2001, the Corporation filed a Current Report on Form 8-K under Items 5 and 7 thereof. The Report disclosed the Corporation's issuance of a press release on August 7, 2001 regarding the Corporation's completion of the sale of paper manufacturing assets in Arkansas, Maine and Wisconsin to Domtar Inc.
- (iii) On August 15, 2001, the Corporation filed a Current Report on Form 8-K under Items 5 and 7 thereof. The Report disclosed the Corporation's issuance of a press release on August 15, 2001 regarding the approval by shareholders of The Timber Company and Plum Creek Timber Company, Inc.

of that certain Agreement and Plan of Merger, dated as of July 18, 2000, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of June 12, 2001 (the "Merger Agreement"), by and among Plum Creek Timber Company, Inc. ("Plum Creek"), the Corporation and six wholly owned subsidiaries of the Corporation.

- (iv) On September 18, 2001, the Corporation filed a Current Report on Form 8-K under Items 5 and 7 thereof. The Report disclosed the Corporation's issuance of a press release on September 17, 2001 regarding the redemption of Timber Company common stock of the Corporation.

43

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.

Date: November 5, 2001

GEORGIA-PACIFIC CORPORATION
(Registrant)

by /s/Danny W. Huff
Danny W. Huff,
Executive Vice President -Finance
and Chief Financial Officer

by /s/James E. Terrell
James E. Terrell,
Vice President and Controller
(Chief Accounting Officer)