

GEORGIA PACIFIC CORP
Form 10-Q
November 10, 2003

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 27, 2003

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
(State of Incorporation)

93-0432081
(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

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

Yes No

As of the close of business on October 31, 2003, Georgia-Pacific Corporation had 254,131,254 shares of Georgia-Pacific Common Stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In millions, except per share amounts)	Third Quarter		First Nine Months	
	2003	2002	2003	2002
Net sales	\$ 5,278	\$ 6,152	\$ 14,893	\$ 18,170
Costs and expenses:				
Cost of sales	4,059	4,808	11,664	14,090
Selling and distribution	331	506	965	1,500
Depreciation, amortization and accretion	261	255	783	774
General and administrative	216	274	617	806
Interest, net	204	199	617	653
Other (income) losses, net	(81)	13	(18)	231
Total costs and expenses	4,990	6,055	14,628	18,054
Income before income taxes and accounting changes	288	97	265	116
Provision for income taxes	99	31	70	72
Income before accounting changes	189	66	195	44
Cumulative effect of accounting changes, net of taxes	-	-	28	(545)
Net income (loss)	\$ 189	\$ 66	\$ 223	\$ (501)
Basic per share:				
	\$ 0.76	\$ 0.27	\$ 0.78	\$ 0.19
	-	-	0.11	(2.34)
Income before accounting changes				
Cumulative effect of accounting changes, net of taxes				
Net income (loss)	\$ 0.76	\$ 0.27	\$ 0.89	\$ (2.15)

Diluted per share:				
	\$ 0.75	\$ 0.27	\$ 0.78	\$ 0.19
	-	-	0.11	(2.33)
Income before accounting changes				
Cumulative effect of accounting changes, net of taxes				
Net income (loss)	\$ 0.75	\$ 0.27	\$ 0.89	\$ (2.14)
Shares (denominator):				
Weighted average shares outstanding	250.2	240.6	250.1	233.5
Dilutive securities:				
Options and restricted stock	1.5	0.2	0.5	0.6
Total assuming conversion	251.7	240.8	250.6	234.1

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

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

(In millions, except per share amount)	First Nine Months	
	2003	2002
Cash flows from operating activities	\$ 223	\$ (501)
Net income (loss)	(28)	545
Adjustments to reconcile net income (loss) to cash provided by operations:	(18)	231
Cumulative effect of accounting changes, net of taxes	783	774
Other (income) losses, net	(67)	(63)
Depreciation, amortization and accretion	(282)	(211)
Deferred income taxes	27	(20)
Increase in receivables	74	125
Decrease (increase) in inventories	3	(66)
Increase in accounts payable	334	(11)
Change in other working capital	119	(60)
Change in taxes payable/receivable	23	17
Change in other assets and other long-term liabilities		
Other		
Cash provided by operations	1,191	760
Cash flows from investing activities	(480)	(439)
	27	24

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Property, plant and equipment investments	(26)	(19)
Net proceeds from sales of assets		
Other		
Cash used for investing activities	(479)	(434)
Cash flows from financing activities		
	(6,318)	(3,374)
	5,680	3,390
Repayments of long-term debt	(48)	(8)
Additions to long-term debt	(54)	(10)
Fees paid to issue debt	190	(264)
Net decrease in bank overdrafts	4	4
Net increase (decrease) in short-term debt	-	37
Proceeds from option plan exercises	(94)	(87)
Employee stock purchase plan		
Cash dividends paid (\$0.375 per share)		
Cash used for financing activities	(640)	(312)
Increase in cash and equivalents	72	14
Balance at beginning of period	35	31
Balance at end of period	\$ 107	\$ 45

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

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

(In millions, except shares and per share amounts)	September 27, 2003	December 28, 2002
ASSETS		
Current assets		
Cash and equivalents	\$ 107	\$ 35
Receivables, less allowances of \$41 and 39, respectively	2,100	1,777
Inventories	2,126	2,136
Deferred income tax assets	35	35
Taxes receivable	-	334
Other current assets	490	409
Total current assets	4,858	4,726
Property, plant and equipment		
Land, buildings, machinery and equipment, at cost	19,201	18,857
Accumulated depreciation	(10,135)	(9,535)

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Property, plant and equipment, net	9,066	9,322
Goodwill, net	7,615	7,663
Intangible assets, net	662	676
Other assets	2,287	2,242
Total assets	\$ 24,488	\$ 24,629

4

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

(In millions, except shares and per share amounts)	September 27, 2003	December 28, 2002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Secured borrowings and other short-term notes	\$ 900	\$ 710
Current portion of long-term debt	1,017	621
Accounts payable	1,554	1,532
Accrued compensation	250	291
Other current liabilities	1,159	891
Total current liabilities	4,880	4,045
Long-term debt, excluding current portion	9,186	10,185
Other long-term liabilities	4,165	4,397
Deferred income tax liabilities	1,416	1,442

Commitments and contingencies (Note 13)

Shareholders' equity

Preferred stock, no par value; 10,000,000 shares authorized; no shares issued or outstanding		
Junior preferred stock, no par value; 25,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, par value \$0.80; 400,000,000 shares authorized; 253,926,000 and 250,238,000 shares issued and outstanding	203	200
Additional paid-in capital	3,478	3,413
Retained earnings	1,597	1,468
Long-term incentive plan deferred compensation	(54)	(2)
Accumulated other comprehensive loss	(383)	(519)
Total shareholders' equity	4,841	4,560

Total liabilities and shareholders' equity	\$ 24,488	\$ 24,629
--	-----------	-----------

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

5

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

(In millions)	Third Quarter		First Nine Months	
	2003	2002	2003	2002
Net income (loss)	\$ 189	\$ 66	\$ 223	\$ (501)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	3	(24)	127	96
Derivative instruments				
Fair market value adjustments on derivatives	(1)	(5)	(4)	(14)
Reclassification adjustments for losses included in net income	2	7	9	37
Unrealized (loss) gain on securities	-	(1)	4	(71)
Minimum pension liability adjustment	-	-	-	
Comprehensive income (loss)	\$ 193	\$ 43	\$ 359	\$ (454)

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

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 GEORGIA-PACIFIC CORPORATION
 September 27, 2003

1. **PRINCIPLES OF PRESENTATION AND ACCOUNTING POLICIES.** These consolidated financial statements include the accounts of Georgia-Pacific Corporation and subsidiaries. We prepared the consolidated financial statements following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP (accounting principles generally accepted in the United States of America) can be condensed or omitted. All significant intercompany balances and transactions were eliminated in consolidation. We made certain reclassifications to the 2002 consolidated financial statements to conform to the 2003 presentation.

During the first quarter of 2003, we realigned our reportable segments for financial reporting purposes to align reporting with our current operating structure.

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position, results of operations and cash flows. The results of operations of the three and nine month periods ended September 27, 2003 are not necessarily indicative of the results to be expected for the full fiscal year. These consolidated financial statements and other information included in this quarterly report on Form 10-Q should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended December 28, 2002.

We classify certain shipping and handling costs as selling and distribution expenses. Shipping and handling costs included in selling and distribution expenses were \$104 million and \$300 million for the third quarter and first nine months of 2003, respectively, and \$146 million and \$431 million for the third quarter and first nine months of 2002, respectively.

Other (income) losses, net

The following amounts are included in Other (income) losses, net:

(In millions)	Third Quarter		First Nine Months	
	2003	2002	2003	2002
Asset impairments:				
Unisource	\$ -	\$ -	\$ -	\$ 208
Old Town	-	-	74	-
White City	12	-	12	-
Other	-	-	8	1
Litigation settlement	21	-	21	-

Asbestos liability insurance receivable increase	(118)	-	(118)	-
Loss (gain) on asset sales, retirements and disposals	4	13	(15)	22

Other (income) losses, net	\$ (81)	\$ 13	\$ (18)	\$ 231
----------------------------	---------	-------	---------	--------

Stock-Based Compensation

We account for our stock-based compensation plans under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and disclose the pro forma effects of the plans on net income and earnings per share as provided by Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-*

7

Based Compensation

("SFAS No. 123"). Accordingly, because the fair market value on the date of grant was equal to the exercise price, we did not recognize any compensation cost for stock options. In May 2003, certain stock options were exchanged for restricted shares of common stock. Had compensation cost for the options not exchanged been determined based on the fair value at the grant dates during the third quarters and first nine months of 2003 and 2002 under the plan consistent with the method of SFAS No. 123, the pro forma net income (loss) and net income (loss) per share would have been as follows:

(In millions, except per share amounts)	Third Quarter		First Nine Months	
	2003	2002	2003	2002
Net income (loss) as reported	\$ 189	\$ 66	\$ 223	\$ (501)
Less total stock-based employee compensation expense determined under the fair value based method, net of taxes	(2)	(5)	(10)	(20)
Pro forma net income (loss)	187	61	213	(521)

Stock based employee compensation cost, net of taxes,	9		13	1
included in the determination of net income as reported	-			

Basic net income (loss) per share:				
As reported	0.76	0.27	0.89	(2.15)
Pro forma	0.75	0.25	0.85	(2.23)

Diluted net income (loss) per share:				
As reported	0.75	0.27	0.89	(2.14)
Pro forma	0.74	0.25	0.85	(2.22)

On May 6, 2003, our shareholders approved a resolution requesting our Board of Directors to establish a policy of expensing the costs of all future stock options. On November 7, 2003, our Board of Directors approved the adoption of SFAS No. 123, commencing with the fourth quarter of 2003, effective at the beginning of 2003. We will utilize the prospective method in accordance with SFAS No. 148, *Accounting for Stock-Based Compensation -- Transition and Disclosure*, and apply the expense recognition provisions of SFAS No. 123 to stock options awarded in 2003 and thereafter. The amount of additional compensation expense to be recognized in each quarter of 2003 relating to the 2003 stock option awards is insignificant.

Accounting Changes

On December 29, 2002, we adopted the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143"). Under the provisions of SFAS No. 143, entities are required to record the estimated fair value of an asset retirement obligation in the period in which it was incurred.

Effective December 30, 2001, we adopted 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 requires that entities assess the fair value of the net assets underlying all acquisition-related goodwill on a reporting unit basis.

In January 2003, the FASB released Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). Fin 46 requires that all primary beneficiaries of Variable Interest Entities (VIE)

consolidate that entity. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs to which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In October 2003, the FASB delayed the implementation of FIN 46 until after December 15, 2003, for all entities acquired before February 1, 2003.

The only non-consolidated entity that we have identified as a potential VIE is the GA-MET joint venture partnership. We have a 50% interest in this partnership that owns and operates our main office building in Atlanta, GA. We currently account for our investment in this partnership under the equity method. We are in the process of performing tests to determine if the GA-MET joint venture is a VIE and will finalize our analysis in the fourth quarter of 2003. At September 27, 2003, the GA-MET partnership had assets of \$92 million and debt of \$129 million.

2. **PROVISION FOR INCOME TAXES.** The effective tax rate in 2003 was different from the statutory rate primarily because of lower international income tax rates, utilization of state tax credits and the first quarter reversal of approximately \$10 million of income tax contingency reserves no longer required in Europe. The effective tax rate in 2002 was different from the statutory rate primarily because of the second quarter write-off of nondeductible goodwill, offset somewhat by lower international income tax rates and state tax credits.
3. **EARNINGS PER SHARE.** Basic earnings (loss) per share was computed based on net income (loss) 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, restricted stock and stock purchase plans and pursuant to the terms of the 7.5% Premium Equity Participating Security Units ("PEPS Units") that were redeemed during the third quarter of 2002. 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.
4. **SUPPLEMENTAL DISCLOSURES -- CONSOLIDATED 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 either period.

(In millions)	First nine months	
	2003	2002
Total interest costs	\$ 622	\$ 659
Interest capitalized	(5)	(6)
Interest expense	\$ 617	\$ 653
Interest paid	\$ 525	\$ 608
Income tax (refunds received) paid, net	\$ (236)	\$ 104

Redemption of senior deferrable notes and issuance of common stock	\$	\$ 863
	-	

5. **ACQUISITIONS AND DIVESTITURES.** During the second quarter of 2003, we sold certain packaging assets and recorded a pre-tax gain of \$18 million in the packaging segment. This gain was reflected in "Other (income) losses, net" in the accompanying statements of operations.

Effective November 2, 2002, we sold a 60% controlling interest in Unisource Worldwide, Inc. ("Unisource"), our paper distribution business, to an affiliate of Bain Capital Partners, LLC, and retained the remaining 40% equity interest in Unisource. In connection with this disposal, we recorded a pretax loss of \$298 million (\$30 million after taxes) in the fourth quarter of 2002 in the paper distribution segment. In addition, we entered into a financing lease arrangement with a third party regarding certain warehouse facilities used by Unisource. As part of these transactions, we:

9

- a) received \$471 million in cash during fiscal 2002 in connection with the disposition and repaid debt;
- b) received \$169 million in cash as a result of the financing lease arrangement accounted for by us as a capital lease;
- c) received two payment-in-kind notes from Unisource for \$70 million and \$100 million, which accrue interest at an annual interest rate of 7% and 8%, respectively, and mature in November 2012; and
- d) entered into a sublease with Unisource for certain warehouses retained by us.

In addition, in the second quarter of 2003, we received a cash refund of more than \$193 million from the related income tax benefit of the Unisource sale.

As part of this transaction, we entered into a loan agreement with Unisource pursuant to which we agreed to provide, subject to certain conditions, a \$100 million subordinated secured loan to Unisource. This subordinated loan, if drawn, will mature in May 2008 and bears interest at a fluctuating rate based on LIBOR. No amounts were outstanding under this loan at September 27, 2003. In addition, we have also agreed to provide certain employee benefits and other administrative services to Unisource pursuant to an agreement with a two-year term. We also agreed to provide certain insurance coverage (including related letters of credit) to Unisource, generally for a period of five years, including workers' compensation, general liability, automobile liability and property insurance.

Beginning in November 2002, we have accounted for our 40% investment in Unisource using the equity method and have reported its results in the bleached pulp and paper segment.

During the first nine months of 2002, we disposed of and sold various assets for a total of \$24 million in cash and recognized a pretax loss of \$22 million that was reflected in "Other (income) losses, net" in the accompanying consolidated statements of operations.

In September 2003, we announced that we are exploring strategic alternatives for our building products distribution business, including its possible sale.

6. **ASSET IMPAIRMENT AND RESTRUCTURING.** On October 15, 2003, we announced that we would idle chemical production operations at our White City, Ore., facility. The determination to close the chemical operations was based on continued decline in demand for urea formaldehyde resins. In connection with this announcement, we determined that the value of related chemical producing assets at this location was impaired. Accordingly, in the third quarter of 2003, we recorded a pre tax impairment charge to earnings in the building products segment of \$12 million. Following the impairment charge, the carrying value of the related assets was approximately \$5 million. In addition, we recorded a pre tax charge of approximately \$2 million for employee termination costs in the third quarter of 2003. Any further severance or business exit costs associated with the idled operations will be charged to earnings when the related liability is incurred. The fair value of the impaired assets was determined by an independent appraisal. The impairment charge was recorded in "Other (income) losses, net" in the accompanying consolidated statements of operations.

On April 4, 2003, we announced that we would close tissue-manufacturing and converting operations at our Old Town, Maine mill. The mill's pulp and dryer operations are continuing to operate. The determination to close the tissue operations was based on excess capacity of tissue production, the mill's geographic location and high energy and fiber costs. In connection with this closure, we determined that the value of related tissue assets and certain pulp assets at this location was impaired. Accordingly, in the first quarter of 2003, we recorded a pre tax impairment charge to earnings in the North America consumer products segment and bleached pulp and paper segment of \$25 million and \$49 million, respectively. In the second quarter of 2003, we recorded a pre-tax charge of \$7 million and \$4 million in the North America consumer products segment for related severance and business exit costs, respectively. Following the impairment charge, the carrying value of fixed assets was approximately \$75 million. In the third quarter of 2003, we recorded a pre tax credit of \$2 million for business exit cost accruals that were no longer needed at the Old Town mill. Any further severance or business exit costs associated with the closed operations will be charged to earnings when the related liability is incurred. The fair value of the impaired assets was determined using the present value of expected future cash flows. The impairment charge was recorded in "Other losses, net" in the accompanying consolidated statements of operations.

On May 2, 2003, the Governor of Maine announced an economic support plan that will enable us to restart one of our closed tissue machines along with eight converting lines and retain related manufacturing and support personnel at our Old Town Mill. In accordance with generally accepted accounting principles, none of the impairment charge recorded in the first quarter of 2003 has been reversed.

In connection with the acquisition of Fort James, we recorded liabilities totaling approximately \$78 million for employee termination costs relating to approximately 960 hourly and salaried employees.

In addition, we determined that we would strategically reposition our communication papers business to focus on faster-growing paper segments by retiring four high-cost paper machines and associated pulping facilities at our Camas, Washington mill and recorded liabilities of approximately \$26 million to exit these activities. In addition, we recorded liabilities of \$35 million primarily for lease and contract termination costs at administrative facilities that have been or will be closed in California, Connecticut, Illinois, Virginia, Wisconsin and Europe. During 2002 and 2001, approximately 779 employees were terminated and approximately \$69 million of the reserve was used to pay termination benefits. During the first nine months of 2003, approximately 161 employees were terminated and approximately \$5 million of the reserve was used to pay termination benefits. The remaining employee terminations and Camas closing activities (primarily demolition activities) are expected to be completed by the third quarter of 2004 due to timing of receipt of the requisite permits. The leases and contracts at the administrative facilities expire through 2012. The following table provides a rollforward of these reserves from December 28, 2002 through September 27, 2003:

Type of Cost (In millions)	Liability Balance at December 28, 2002	Use	Liability Balance at Sept. 27, 2003
Employee termination	\$ 9	\$ (5)	\$ 4
Facility closing costs	48	(16)	32
Total	\$ 57	\$ (21)	\$ 36

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

(In millions)	September 27, 2003	December 28, 2002
Raw materials	\$ 595	\$ 590
Finished goods	1,112	1,116
Supplies	520	507
LIFO reserve	(101)	(77)
Total inventories	\$ 2,126	\$ 2,136

8. **GOODWILL AND INTANGIBLE ASSETS.** Effective December 30, 2001, we adopted SFAS No. 141 and SFAS No. 142. SFAS No. 141 eliminates the pooling of interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 142 requires that entities assess the fair value of the net assets underlying all acquisition-related goodwill on a reporting unit basis effective beginning in 2002. When the fair value is less than the related carrying value, entities are required to reduce the amount of goodwill. Our reporting units are: structural panels; lumber; industrial wood products; gypsum; chemical; building products distribution; packaging; pulp; paper; North American

tissue, towel and napkin; Dixie, and international consumer products.

The adoption of SFAS No. 142 required us to perform an initial impairment assessment on all goodwill as of the beginning of 2002 for each of our reporting units. In this assessment, we compared the fair value of the reporting unit to its carrying value. The fair values of the reporting units were calculated based on the present value of expected future cash flows. The assumptions used in these discounted cash flow analyses were consistent with the reporting unit's internal planning. The cumulative effect of the adoption of this accounting principle was an after-tax charge to earnings of \$545 million (\$2.33 diluted loss per share) effective at the beginning of fiscal year 2002. The \$545 million goodwill impairment related only to our former Unisource paper distribution reporting unit. The principal facts and circumstances leading to the impairment of the paper distribution reporting unit's goodwill included a diminution of synergies originally expected to be received from the white paper mills sold to Domtar, Inc. in 2001, and changes in the marketplace for coated and uncoated free sheet paper subsequent to the acquisition of Unisource.

On August 13, 2002, we entered into a letter of intent to sell a 60% controlling interest in our Unisource paper distribution business to Bain Capital Partners, LLC. Based on the terms of this letter of intent, we concluded that the fair value of this business was further diminished. Accordingly, in the second quarter of 2002, we recorded an after-tax charge of \$170 million, which is comprised of an additional goodwill impairment charge of \$106 million and a pretax long-lived asset impairment charge of \$102 million (\$64 million after tax) in the paper distribution segment.

During the first nine months of 2003, we reduced goodwill by \$92 million for certain deferred taxes and tax contingencies recorded in connection with the Fort James acquisition that were no longer required.

The changes in the carrying amount of goodwill for the first nine months of 2003 are as follows:

(In millions)	North America Consumer Products	International Consumer Products	Packaging	Bleached Pulp and Paper
	\$ 5,938	\$ 785	\$ 631	\$ 275
Balance as of December 28, 2002	(75)	(17)	-	-
Reclassifications	-	-	6	-
Goodwill acquired during the year	-	-	-	-
Foreign currency translation	-	38	-	-
Balance as of September 27, 2003	\$ 5,863	\$ 806	\$ 637	\$ 275

(In millions)	Building Products Manufacturing	Building Products Distribution	All Other	Consolidated
	\$ 34	\$	\$	\$ 7,663
Balance as of December 28, 2002	-	-	-	(92)
Reclassifications	-	-	-	6
Goodwill acquired during the year	-	-	-	38
Foreign currency translation	-	-	-	-
Balance as of September 27, 2003	\$ 34	\$	\$	\$ 7,615
		-	-	

In order to align our goodwill impairment analysis with our strategic forecasting and to provide adequate time to complete the analysis each year, beginning in 2003 we changed the period in which we perform our annual goodwill impairment test from the fourth fiscal quarter to the third fiscal quarter of each year.

Intangible Assets

The following table sets forth information for intangible assets subject to amortization:

(In millions)	As of September 27, 2003		As of December 28, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks	\$ 619	\$ 37	\$ 618	\$ 28
Patents and				

other	128	48	122	36
Total	\$ 747	\$ 85	\$ 740	\$ 64

Aggregate Amortization Expense:

First nine months of 2003 \$ 23

=====

Estimated Amortization Expense:

For fiscal year 2003 \$ 29

For fiscal year 2004 29

For fiscal year 2005 29

For fiscal year 2006 20

For fiscal year 2007 20

9. **ASSET RETIREMENT OBLIGATIONS.** Effective December 29, 2002, we changed our method of accounting for asset retirement obligations in accordance with SFAS No. 143. Under SFAS No. 143, we recognize asset retirement obligations in the period in which they are incurred if a reasonable estimate of the fair value can be made. When the liability is initially recorded, we capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded.

The cumulative effect of the change on prior years resulted in an after-tax credit to income of \$28 million (net of income taxes of \$19 million), or \$0.11 diluted earnings per share, for the first nine months of 2003. The effect of the change on the first nine months of 2003 was to decrease income before the cumulative effect of the accounting changes by approximately \$3 million related to depreciation and accretion expense recorded during the period. The pro forma effects of the application of SFAS No. 143 as if the statement had been adopted on December 30, 2001 (instead of December 29, 2002) are presented below (pro forma amounts assuming the accounting change is applied retroactively, net of tax):

(in millions, except per share amounts)

	Third Quarter		First Nine Months	
	2003	2002	2003	2002
Income before accounting changes, as reported	\$ 189	\$ 66	\$ 195	\$ 44
Add back: landfill closure expense recorded	-	1	-	3
Depreciation expense	-	-	-	-
Accretion expense	-	(1)	-	(2)
	\$ 189	\$ 66	\$ 195	\$ 45

Pro forma income before
accounting changes

Pro forma basic income before accounting change, per share	\$ 0.76	\$ 0.27	\$ 0.78	\$ 0.19
Pro forma diluted income before accounting change, per share	\$ 0.75	\$ 0.27	\$ 0.78	\$ 0.19

Our asset retirement obligations consist primarily of landfill capping and closure and post-closure costs and quarry reclamation costs. We are legally required to perform capping and closure and post-closure care on the landfills and reclamation on the quarries. In accordance with SFAS No. 143, for each landfill and quarry we recognized the fair value of a liability for an asset retirement obligation and capitalized that cost as part of the cost basis of the related asset. The related assets are being depreciated on a straight-line basis over 25-years. We have additional asset retirement obligations with indeterminate settlement dates; the fair value of these asset retirement obligations cannot be estimated due to the lack of sufficient information to estimate a range of potential settlement dates for the obligation. An asset retirement obligation related to these assets will be recognized when we know such information.

The following table describes changes to our asset retirement obligation liability:

(In millions)	First Nine Months 2003
Asset retirement obligation at the beginning of the year	\$ 69
Net transition adjustment	(20)
Accretion expense	3
Asset retirement obligation at the end of the third quarter	\$ 52

The actual and pro forma asset retirement obligation liability balances as if SFAS No. 143 had been adopted on December 30, 2001 (instead of December 29, 2002) were as follows:

(In millions)	September 27, 2003 (actual)	December 28, 2002 (pro forma)
Liability for asset retirement obligations at beginning of period	\$ 49	\$ 44
Liability for asset retirement obligations at end of period	\$ 52	\$ 49

10. DEBT. Our total debt decreased by \$413 million to \$11,103 million at September 27, 2003 from \$11,516 million at December 28, 2002. At September 27, 2003, the weighted average interest rate on our total debt, including outstanding interest rate exchange agreements, was 6.78%.

As of September 27, 2003, we had \$900 million outstanding under our accounts receivable secured borrowing program, which expires in December 2003. G-P Receivables, Inc. ("G-P Receivables") is a wholly owned subsidiary and is the special purpose entity into which the receivables of participating domestic subsidiaries are sold. G-P Receivables, in turn, sells an interest in the receivables to the various banks and entities. This program is accounted for as a secured borrowing. The receivables outstanding under these programs and the corresponding debt are included as both "Receivables" and "Secured borrowings and other short-term notes," respectively, in the accompanying balance sheets. As collections reduce previously pledged interests, new receivables may be pledged. G-P Receivables is a separate corporate entity and its assets will be available first and foremost to satisfy the claims of its creditors.

On June 3, 2003, we completed a \$500 million senior notes offering, consisting of \$350 million of 7.375% notes due in 2008 and \$150 million of 8% notes due in 2014, all of which were guaranteed by Fort James Corporation and Fort James Operating Company, a subsidiary of Fort James Corporation. The 8% senior notes due 2014 will be callable at our option beginning in 2009. Net proceeds from the offering were used to pay down a portion of our Multi-Year Revolving Credit Facility. On October 3, 2003, we completed an offer to exchange these notes. We have paid approximately \$8 million in fees and expenses associated with these transactions. The fees are being amortized over the term of the senior notes.

On January 30, 2003, we completed a \$1.5 billion of senior notes offering, consisting of \$800 million of 9.375% notes due in 2013 and \$700 million of 8.875% notes due in 2010, all of which were guaranteed by Fort James Corporation. In the fourth quarter of 2003, we intend to cause Fort James Operating Company to guarantee these notes as well. The 9.375% notes due in 2013 are callable at our option beginning in 2008. Net proceeds from the offering were used to completely repay the Senior Capital Markets Bridge Facility, and to pay down approximately \$1 billion outstanding under our Multi-Year Revolving Credit Facility. On September 9, 2003, we completed an offer to exchange these notes. We have paid approximately \$34 million in fees and expenses associated with these transactions. The fees are being amortized over the term of these senior notes.

On September 1, 2003 and August 1, 2003, a \$10 million variable rate industrial revenue bond and a \$1 million, 6.88% industrial revenue bond matured, respectively. Also, on August 22, 2003, a \$300 million variable rate note matured.

On September 30, 2003, Moody's Investors Service announced that it had assigned our revolving credit facility debt a rating of SGL-3, which indicates adequate liquidity. On January 21, 2003, Moody's Investors Service announced that it had downgraded our senior implied and issuer debt ratings from Ba1 to Ba2 and our senior unsecured notes from Ba1 to Ba3. On January 29, 2003, Fitch Ratings announced that it had lowered our senior unsecured long-term debt ratings from BB+ to BB and withdrew our commercial paper rating. On September 27, 2002, Standard & Poor's changed our long-term corporate credit rating to "BB-plus" from "BBB-minus" and our short-term rating to "B" from "A-3."

The indentures associated with the \$500 million and \$1.5 billion senior notes offerings completed on June 3, 2003 and January 30, 2003, respectively, allow Georgia-Pacific and the guarantors of the senior notes to incur any debt so long as we meet a fixed charges coverage ratio of 2.00 to 1.00 (as defined in the indentures). In addition, we can incur other items of permitted debt (as defined in the indentures) without being in compliance with the fixed charge coverage ratio. The senior notes indentures allow us to make restricted payments if certain conditions are met. We can, however, make permitted payments without complying with such conditions. These offerings also contain various non-financial covenants. We were in compliance with these debt covenants as of September 27, 2003.

We elected to reduce the commitments under the Multi-Year Revolving Credit Facility effective June 6, 2003. Amounts available thereunder are now comprised of (i) \$2,500 million in revolving loans and (ii) \$500 million in term loans due November 2005.

Borrowings under the Multi-Year Revolving Credit Facility bear interest at market rates. These interest rates may be adjusted according to a rate grid based on our debt ratings. Fees include a facility fee of 0.4% per annum on the aggregate commitments of the lenders as well as up-front fees. As of September 27, 2003, we paid \$8 million in commitment fees and \$4 million in amendment fees. Fees and margins may also be adjusted according to a pricing grid based on our debt ratings. At September 27, 2003, \$791 million was borrowed under the Multi-Year Revolving Credit Facility, at a weighted-average interest rate of 3.3%. Amounts outstanding under the Multi-Year Revolving Credit Facility are included in "Long-term debt, excluding current portion" on the accompanying consolidated balance sheets.

The amounts outstanding under our Multi-Year Revolving Credit Facility include the following:

(In millions)	September 27, 2003
<hr/>	
Commitments:	
	\$ 2,500
	500
Revolving Loans	
Term Loans	
<hr/>	
Credit facilities available	3,000
<hr/>	
Amounts Outstanding:	
	(597)
	(291)
Letter of Credit Agreements*	(500)
Revolving Loans due November 2005, average rate of 3.29%	
Term Loans due November 2005, average rate of 3.37%	
<hr/>	

Total credit balance	(1,388)
Total credit available	\$ 1,612

* The Letter of Credit Agreements only include Standby Letters of Credit from Bank of America.

The Multi-Year Revolving Credit Facility requires a maximum leverage ratio (as defined in the Multi-Year Revolving Credit Facility agreement) of 67.50% on September 27, 2003 and January 3, 2004; and 65.00% on April 3, 2004 and thereafter. The restrictive covenants also require a minimum interest coverage ratio (as defined in the Multi-Year Revolving Credit Facility agreement), of 2.25 to 1.00 on September 27, 2003 and January 3, 2004; 2.50 to 1.00 on April 3, 2004; 2.75 to 1.00 on July 3, 2004; and 3.00 to 1.00 on October 2, 2004 and thereafter. In addition, the restrictive covenants require a minimum net worth (as defined in the Multi-Year Revolving Credit Facility agreement) that changes quarterly and a maximum debt level of \$12,594 for so long as our leverage ratio exceeds 65.00%. We were in compliance with these debt covenants as of September 27, 2003, with a leverage ratio of 64.12%, an interest coverage ratio of 2.46 to 1.00, a debt balance (as defined in the Multi-Year Revolving Credit Facility agreement) of \$10,933 million and an adjusted net worth as defined below:

17

(In millions)	September 27, 2003
Adjusted Net Worth:	\$ 4,841
	651
Net Worth	625
Goodwill impairments	
Minimum Pension Liability	
Adjusted Net Worth	6,117
Required Net Worth:	
	4,650
	191
80% of Net Worth as of the Credit Agreement closing date	
50% of Net Income from fourth quarter 2000 to third quarter 2003*	1,081
Proceeds of new capital stock or other equity interests from fourth quarter 2000 to second quarter 2003	(329)
The Timber Company Net Worth	

Required Net Worth	5,593
Adjusted Net Worth surplus	\$ 524

*

Does not include quarters with net losses.

Our borrowing arrangements contain a number of financial and non-financial covenants, which restrict our activities. The more significant financial covenants are discussed above. In addition, certain agreements contain cross-default provisions.

Our continued compliance with these restrictive covenants is dependent on substantially achieving the current 2003 forecast, which is dependent on a number of factors, many of which are outside of our control. We believe the forecast is reasonable and we will remain in compliance with these covenants. Should events occur that result in noncompliance, we believe there are remedies available that are acceptable to our lenders and us.

Interest rate exchange agreements with a notional amount of \$300 million matured on August 22, 2003. For the first nine months of 2003, interest rate exchange agreements increased interest expense by \$9 million.

At September 27, 2003, we also had interest rate exchange agreements (a collar) that effectively capped \$47 million of floating rate obligations to a maximum interest rate of 7.5% and established a minimum interest rate on these obligations of 5.5%. Our interest expense is unaffected by this agreement when the market interest rate falls within this range. During the first nine months of 2003, these agreements decreased interest expense by approximately \$2 million. The agreements had a weighted-average maturity of approximately two years at September 27, 2003.

As of September 27, 2003, we had \$1.5 billion of debt and equity securities available for issuance under a shelf registration statement filed with the Securities and Exchange Commission in 2000.

-
11. **RETIREE MEDICAL BENEFITS COST SHARING.** In April 2003, we changed the way that we share retiree medical costs for all of our active salaried employees and the majority of our retired salaried employees. This cost sharing change shifts all of the remaining retiree medical costs to the impacted plan participants over the next three to five years. Accordingly, at the end of the five-year period, we will no longer incur retiree medical costs for these impacted plan participants. This change results in a reduction to the retiree medical liability. The net effect of this reduction, approximately \$107 million, is being amortized over 15 years, which represents the average expected remaining lives of remaining plan participants.

12. **OPTION EXCHANGE PROGRAM.** On May 6, 2003, our shareholders approved a plan to offer eligible employees the opportunity to exchange certain outstanding stock options for restricted shares of our common stock and exchange certain outstanding stock appreciation rights ("SARs") for replacement SARs. On June 5, 2003, we completed this exchange program whereby eligible employees exchanged approximately 9,084,000 stock options with exercise prices ranging from \$18.64 per share to \$41.59 per share for 3,363,000 restricted shares of common stock valued at \$17.77 per share. In addition, eligible employees exchanged approximately 3,286,000 SARs with exercise prices ranging from \$24.44 per share to \$29.47 per share for 2,640,000 replacement SARs with an exercise price of \$17.77 per share. These restricted shares and replacement SARs vest in three annual installments, 25% each on June 5, 2004 and 2005, and 50% on June 5, 2006. Total compensation expense to be recognized over the three-year vesting period related to the restricted stock is approximately \$59.8 million. The replacement SARs receive variable accounting treatment. During the third quarter and first nine months of 2003, we recognized compensation expense of \$8.4 million and \$10.3 million, respectively, related to the restricted stock and replacement SARs issued under this exchange program.
13. **COMMITMENTS AND CONTINGENCIES.** We are involved in various legal proceedings incidental to our business and are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. As is the case with other companies in similar industries, Georgia-Pacific 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.

ENVIRONMENTAL MATTERS

We are involved in environmental remediation activities at approximately 171 sites, both owned by us and owned by others, where we have been notified that we are 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 we are involved, we estimate that approximately 40% are being investigated, approximately 20% are being remediated and approximately 40% are being monitored (an activity that occurs after either site investigation or remediation has been completed). The ultimate costs to us for the investigation, remediation and monitoring of many of these sites cannot be predicted with certainty, due to the often unknown nature and magnitude of the pollution or the necessary cleanup, the varying costs of alternative cleanup methods, the amount of time necessary to accomplish the cleanups, the evolving nature of cleanup technologies and governmental regulations, and the inability to determine our share of multiparty cleanups or the extent to which contribution will be available from other parties, all of which factors are taken into account to the extent possible in estimating our liabilities. We have established reserves for environmental remediation costs for these sites that we believe are probable and reasonably able to be estimated. To the extent that we are aware of unasserted claims, consider them probable, and can estimate their potential costs, we include appropriate amounts in the reserves.

Based on analyses of currently available information and previous experience with respect to the cleanup of hazardous substances, we believe 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 \$127 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 this range, assumptions least favorable to us among the range of reasonably possible outcomes were used. In estimating both our current reserve for environmental remediation and the possible range of additional costs, we have not assumed we 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.

Presented below is the activity in our environmental liability account for the last three fiscal years and first nine months of 2003 and 2002.

In millions	<u>First Nine Months</u>		<u>Fiscal Year Ended</u>		
	2003	2002	2002	2001	2000
Beginning balance	\$ 306	\$ 318	\$ 318	\$ 121	\$ 57
Expense charged to earnings:					
Related to previously existing matters	-	13	14	2	29
Related to new matters	-	-	-	15	2
Amounts related to acquisitions/(divestitures):					
Amounts assumed by others in divestitures	-	-	-	-	49
Original purchase price allocations	(3)	-	-	207	-
Changes in allocation of purchase price	(6)	(18)	(26)	(27)	(16)
Reclassification of reserves					
Payments					
Ending balance	\$ 297	\$ 313	\$ 306	\$ 318	\$ 121

KALAMAZOO RIVER SUPERFUND SITE

We are currently implementing an Administrative Order by Consent ("AOC") entered into with the Michigan Department of Natural Resources and the United States Environmental Protection Agency ("United States EPA") regarding an investigation of the Kalamazoo River Superfund Site. The Kalamazoo River Superfund Site is comprised of 35 miles of the Kalamazoo River, three miles of Portage Creek and a number of operable units in the form of landfills, waste disposal areas and impoundments. We became a PRP for the site in December 1990 by signing the AOC. There are two other named PRPs at this time. The contaminant of concern is polychlorinated biphenyls ("PCBs") in the

river sediments and residuals in the landfills and waste disposal areas.

A draft Remedial Investigation/Feasibility Study ("RI/FS") for the Kalamazoo River was submitted to the State of Michigan on October 30, 2000 by us and other PRPs. 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. In February 2001, the PRPs, at the request of the State of Michigan, also evaluated 9 additional potential remedies. 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 riverbank and long-term monitoring of the riverbed. The total cost for this remedy is approximately \$73 million. It is unknown over what timeframe these costs will be paid out. The United States EPA has taken over management of the RI/FS and is evaluating the proposed remedy. We cannot predict what impact or change will result from the United States EPA's assuming management of the site.

We are paying 50% of the costs for the river portion of the RI/FS investigation based on an interim allocation. This 50% interim allocation includes the share assumed by Fort James prior to its acquisition by us. Several other companies have been identified by government agencies as PRPs, and all but one is believed to be financially viable. We are currently engaged in cost recovery litigation against two other parties, and have identified several more parties that may have some share of liability for the river.

20

As part of implementing the AOC, we have investigated the closure of two disposal areas which are contaminated with PCBs. The cost to remediate one of the disposal areas, the King Highway Landfill, was approximately \$9 million. The remediation of that area is essentially complete and we are waiting for final approval of the closure from the State of Michigan. A 30-year post-closure care period will begin upon receipt of closure approval. Expenditures accrued for post-closure care will be made over the following 30 years. We are solely responsible for closure and post closure care of the King Highway Landfill.

It is anticipated that the cost for closure of the second disposal area, the Willow Boulevard/A Site landfill, will be approximately \$8 million. We are still negotiating the final closure agreement with the State of Michigan. It is anticipated these costs will be paid out over the next five years, and for post-closure care for 30 years following certification of the closure. We are solely responsible for closure and post-closure care of the Willow Boulevard portion of the landfill, and are sharing investigation costs for the A Site portion of the landfill with Millennium Holdings on an equal basis. A final determination as to how closure and post-closure costs for the A Site will be allocated between us and Millennium Holdings has not been made, however, our share should not exceed 50%.

We have spent approximately \$32.6 million on the Kalamazoo River Superfund Site through September 27, 2003 broken down as follows:

<u>Site</u>	<u>(in millions)</u>
River	\$ 18.5
King Highway	9.3

A Site	1.7
Willow Blvd.	<u>3.1</u>
	<u>\$ 32.6</u>

All of these amounts were charged to earnings.

The reserve for the Kalamazoo River Superfund Site is based on the assumption that the bank stabilization remedy will be selected as the final remedy by the United States EPA and the State of Michigan, and that the costs of the remedy will be shared by several other PRPs. Based on analyses of currently available information and previous experience with respect to the cleanup of hazardous substances, we believe that the reserves are adequate; however, it is reasonably possible that costs associated with the Kalamazoo River Superfund Site may exceed current reserves by amounts that may prove insignificant or that could range, in the aggregate, up to approximately \$70 million.

FOX RIVER SUPERFUND SITE

The Fox River site in Wisconsin is comprised of 39 miles of the Fox River and Green Bay. The site was nominated by the United States EPA (but never finally designated) as a Superfund Site due to contamination of the river by PCBs through wastewater discharged from the recycling of carbonless copy paper from 1953-1971. We became a PRP through our acquisition of Fort James.

In late July of 2003, WDNR issued a Record of Decision ("ROD") setting forth a cleanup plan for the lower portions of the Fox River, including the area into which the Fort James mill discharged wastewater. The ROD now estimates the total cost of the cleanup at approximately \$400 million. We are analyzing the ROD to understand its critical assumptions, including among others the volume of sediment to be dredged, the assumed cost of such dredging, the methods of disposing of the dredged wastes, and the possible use of remedies other than dredging. In addition, our share of the total cleanup cost has not been determined. Until these and other factors are known, we continue to believe our reserves for the cleanup are adequate, but depending on the resolution of such factors it is reasonably possible that our share of the total cleanup cost may not utilize our entire reserves, or it may exceed our reserves by amounts that could range from insignificant up to approximately \$20 million.

Six other companies have been identified by the governments as PRPs, most of which are believed to be financially viable. Under an interim allocation, we are paying 30 percent of costs incurred by the PRPs in analyzing and responding to the various agency reports, including the RI/FS and PRAP. We believe our ultimate liability will be less than 30 percent. It is unknown over what timeframe these costs will be paid out.

We have spent approximately \$34.0 million from 1995 to September 27, 2003 on the Fox River site, some of which was spent by Fort James prior to its acquisition by Georgia-Pacific.

We have entered into an agreement with the WDNR and the United States Fish and Wildlife Service ("FWS") that would settle claims for natural resource damages under CERCLA, the Federal Water Pollution Control Act, and state law for approximately \$12.5 million, and to date have paid approximately \$8.7 million of this amount. The agreement will be effective when entered by a Federal District Court in Wisconsin. The United States Department of Justice moved in March of 2003 for the agreement to be entered by the Federal District Court. The \$12.5 million to be paid under this agreement is separate and apart from any costs related to remediation of the Fox River site.

In 1999 Georgia-Pacific and Chesapeake Corporation formed a joint venture to which a Chesapeake subsidiary, Wisconsin Tissue Mills, Inc., contributed tissue mills and other assets located along the Fox River. Wisconsin Tissue is one of the PRPs for the Fox River site. Chesapeake and Wisconsin Tissue specifically retained all liabilities arising from Wisconsin Tissue's status as a PRP, and indemnified the joint venture and us against these liabilities. In 2001, we (having acquired all of Chesapeake's interest) sold this joint venture to Svenska Cellulosa Aktiebolaget (publ) ("SCA") and indemnified SCA and the joint venture against all environmental liabilities (including all liabilities arising from the Fox River site for which Wisconsin Tissue is ultimately responsible) arising prior to the closing of the SCA sale. As part of the agreement pursuant to which we acquired Chesapeake's interest in the joint venture, Chesapeake specifically agreed that we would retain Chesapeake's prior indemnification for these liabilities.

WHATCOM WATERWAY SUPERFUND SITE

The Whatcom Waterway is a Federal channel located adjacent to our pulp and paper mill in Bellingham, Washington. The State declared the Whatcom Waterway a Superfund site due to historical contamination of sediments with woody debris, phenolics and mercury. On March 6, 1995, the Washington Department of Ecology named us as a Potentially Liable Party ("PLP") in the case. The State is presently preparing to name other PLPs in the case.

We completed an RI/FS and identified a preferred remedial alternative comprised of a combination of dredging, capping and habitat restoration with a total estimated cost of \$23 million. It is anticipated these costs will be paid out over the next 5 to 10 years. We have completed interim remedial action and habitat restoration of a portion of the site. Environmental monitoring of this portion of the site is ongoing. The reserve for the Whatcom Waterway site is based on the assumptions that the \$23 million proposed remedy involving limited dredging and capping will be selected by the State of Washington as the final remedy and that the cost of the remedy will be shared among a small group of PLPs.

We have spent approximately \$3.4 million through September 27, 2003 on the Whatcom Waterway site, all of which was charged to earnings.

ASBESTOS LITIGATION

We, 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. Our asbestos liabilities relate primarily to joint systems products manufactured by Bestwall Gypsum Company and our gypsum business that contained small amounts of asbestos fiber. We acquired Bestwall in 1965, and discontinued using asbestos in the manufacture of these products in 1977.

These suits allege a variety of lung and other diseases based on alleged exposure to our products. In many cases, the plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of their exposure, or that any injuries they have incurred did in fact result from exposure to our products. Virtually all asbestos suits involve multiple defendants and seek money damages. We are unable to provide any meaningful disclosure about the total amount of these damages, for the following reasons: First, we do not track this data in any form since we do not consider the amount of damages, if any, alleged in the initial complaint relevant in assessing our exposure to asbestos liabilities. Second, we previously reviewed this issue and estimated that only a small percentage of the claims then pending against us contained any specific demand for damages, as opposed to a general demand for damages as the plaintiff may prove at trial, or a demand which was stated as being in excess of the minimum jurisdictional limit of a particular court. Third, even those complaints which did contain a specific damage demand nearly always involved multiple defendants (anywhere from 30 to over 100), most of which never manufactured joint systems products. As part of that prior review (which we have not updated), we did not identify any complaint which stated a specific demand for money damages solely from us. Finally, even for claims which allege specific damages, plaintiffs' lawyers often allege the same amount of damages regardless of the specific disease a plaintiff may have. In addition, in many cases no specific disease is alleged, and thus the damages alleged are meaningless because the ultimate settlement value of any claim is significantly influenced by the actual disease the plaintiff is able to prove.

The following table presents information about the approximate number of Georgia-Pacific's asbestos claims during the past three fiscal years and the first nine months of each of 2003 and 2002:

	<u>First Nine Months</u>		<u>Fiscal Year Ended</u>		
	<u>2003</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Claims Filed ¹	34,100	32,200	41,700	39,700	55,600
Claims Resolved ²	35,900	28,100	35,100	30,900	46,000
Claims Unresolved at End of Period	67,000	66,300	68,800	62,200	53,400

1 Claims Filed includes all asbestos claims for which service has been received and/or a file has been opened by Georgia-Pacific.

2 Claims Resolved includes asbestos claims which have been settled or dismissed or which are in the process of being settled or dismissed based upon agreements or understandings in place with counsel for the claimants.

In addition, Fort James Corporation, our wholly-owned subsidiary, currently is defending approximately 810 asbestos premises liability claims.

From the commencement of this litigation through September 27, 2003, we either had settled, had dismissed or were in the process of settling a total of approximately 305,600 asbestos claims. For this same period our asbestos payments, for liability, defense and administration, before insurance recoveries and tax benefits, totaled approximately \$574 million. We generally settle asbestos claims for amounts we consider reasonable given the facts and circumstances of each claim.

In the Fall of 2001, we retained National Economic Research Associates (NERA) and Peterson Consulting, nationally recognized consultants in asbestos liability and insurance, to work with us to project the amount, net of insurance, that we would pay for our asbestos-related liabilities and defense costs through 2011. Based on the analysis of NERA and Peterson Consulting, at the end of 2001 we established reserves for the

probable and reasonably estimable asbestos liabilities and defense costs we believed we would pay through 2011, and established receivables for insurance recoveries that were deemed probable. In the fourth quarter of 2001, we recorded a pre-tax charge to earnings of \$350 million to cover the projected asbestos liabilities and defense costs, net of expected insurance recoveries, we expected to pay through 2011.

NERA's estimate was based on historical data supplied by us and publicly available studies. NERA concluded that, based on the latency periods of asbestos-related diseases (both cancers and non-cancers), the peak incidence of these diseases occurred prior to 2002. It expected, based on the last dates of manufacture of asbestos-containing products in the United States, that the number of new diagnoses of asbestosis and other non-cancerous diseases would drop beginning in 2001. It also cited annual surveys of the National Cancer Institutes that show the annual incidence of mesothelioma began to decline in the mid-1990s. NERA expected these factors, as well as the advancing age of the allegedly exposed population, its movement away from work centers as its members retire, and NERA's view that many asbestos claims filed in the 1990s were based in part on mass screenings of possibly-exposed individuals, would result in the number of claims filed against us for asbestos-related injuries beginning to decline in 2002. While the number of new claims filed against us in 2002 were slightly higher than in 2001, we were of the view that the number of new claims filed against us was consistent with NERA's estimate.

However, during 2002 we paid, pre-tax and before insurance, approximately \$181 million for our asbestos liabilities and defense costs, which was \$75 million more than we expected to pay based on NERA's estimate. These higher payments were caused by a \$10 million judgment which we paid in one case decided on appeal by the Maryland Supreme Court in 2002, and higher than expected settlements paid in less than 1% of the total cases we resolved in 2002, all of which involved

mesothelioma claims. During 2001, we paid, pre-tax and before insurance, approximately \$84 million for our asbestos liabilities and defense costs. Because of 2002's higher asbestos liabilities and defense costs, we asked NERA to review its original estimate and adjust it as needed. NERA's revised estimate shows that our total, undiscounted asbestos liabilities, including defense costs, over the ten-year period from 2002 through 2012 will be slightly less than \$1.2 billion, before any insurance recoveries and ignoring any possible tax benefits. The principal factor contributing to the increase in NERA's total estimate was the projected effect of the higher indemnity and defense costs we experienced in 2002 on our costs in future years. In addition, NERA extended its original estimate through 2012, which accounted for approximately \$60 million of the total accrual, before insurance. We believe that NERA's projection represents its best estimate of the reasonably estimable asbestos costs we will incur based upon currently available information.

As they did at the end of 2001, we and Peterson Consulting analyzed publicly available information bearing on the creditworthiness of our various insurers, and employed insurance allocation methodologies which we and Peterson Consulting believed appropriate to ascertain the amount of probable insurance recoveries from our insurers for the accrued asbestos liabilities. The analysis took into account self-insurance reserves, policy exclusions, liability caps and gaps in our coverage, as well as insolvencies among certain of our insurance carriers. Although we and Peterson Consulting believe these assumptions are appropriate, there are other assumptions that could have been employed that would have resulted in materially lower insurance recovery estimates. Based on this analysis, our total expected insurance recoveries for our projected asbestos liabilities and costs over the period through 2012 will be about \$670 million. As a result, in the fourth quarter of 2002 we recorded an additional pre-tax charge to earnings of \$315 million which, when added to amounts remaining from charges recorded in 2001, we believe are sufficient to cover our projected asbestos liabilities and defense costs, net of expected insurance recoveries. We recorded the reserves for our asbestos liabilities as "Other current liabilities" and "Other long-term liabilities," and the related insurance recoveries as "Other current assets" and "Other assets," in the accompanying consolidated balance sheets.

The charge to earnings taken in the fourth quarter of 2002 was due to the increase in our projected asbestos liabilities contained in NERA's revised estimate, insolvencies of certain insurance companies which wrote a part of our excess layers of product liability insurance, as well as assumptions by Peterson Consulting and us about the outcome of likely allocation and coverage issues involving this insurance. The insurance receivable recorded by us did not assume any recovery from insolvent carriers, and assumed that those

carriers which were solvent would continue to be solvent throughout the period of NERA's estimate. However, there were no assurances that those assumptions were correct. In June of 2003 one carrier for which we had recorded a future receivable of \$22 million was declared insolvent; we are evaluating the potential impact, if any, that this might have on the total net insurance receivable given the current allocation, coverage, discount assumptions and other factors. Substantially all of the insurance recoveries deemed probable are from insurance companies rated A- (excellent) or better by A.M. Best Company. No more than 25% of such insurance recoveries are from any one company, though several of the insurers are under common control. We have limited amounts of product liability insurance

remaining beyond the amounts recorded for the period through 2012.

We recently

completed agreements with two insurers of our asbestos liabilities which generally provide that the Corporation will be able to recover more insurance from those carriers that it had assumed when it was projecting its insurance receivables in 2002. The corresponding credit related to the increase in these receivables was recorded in the third quarter of 2003 and was reflected in "Other income (losses), net" in the accompanying statements of operations, and as an accrual for the first nine months of 2003 in the table set forth below. We expect to monetize a portion of our insurance receivable in the fourth quarter of 2003.

The following table summarizes accruals to, and payments from, our reserve for our total asbestos personal injury liabilities, and receipts from our insurance carriers, and additions to our expected insurance receivables, for the last three fiscal years and first nine months of each of 2003 and 2002 (dollars in millions):

	<u>First Nine Months</u>		<u>Fiscal Year End</u>		
	2003	2002	2002	2001	2000
Asbestos Liabilities					
	\$ 1,162.5	\$ 836.6	\$ 836.6	\$ 136.5	\$ 88.0
			507.0	783.7	106.1
Beginning Balance	-	-	(181.1)	(83.6)	(57.6)
Accruals	(134.4)	(131.8)			
Payments					
	\$ 1,028.1	\$ 704.8	\$ 1,162.5	\$ 836.6	\$ 136.5
Ending Balance					
Insurance Receivable					
	\$ 669.7	\$ 527.2	\$ 527.2	\$ 171.9	\$ 105.6
	118.6*		192.0	420.9	102.6
Beginning Balance	(77.1)	-	(49.5)	(65.6)	(36.3)
Accruals		(18.8)			
Receipts					
	\$ 711.2	\$ 508.4	\$ 669.7	\$ 527.2	\$ 171.9
Ending Balance					

* \$74 million after-tax or 29 cents per diluted share.

The analyses of NERA and Peterson Consulting in both 2001 and 2002 are based on their professional judgment. The more important assumptions in NERA's projection of the number of claims that will be filed against us include the population exposed to asbestos-containing products manufactured by Georgia-Pacific, the expected occurrence of various diseases in these exposed populations, the rate at which these exposed populations actually file claims, and activities of the asbestos plaintiffs' bar designed to maximize its profits from these claims. The cost of settling claims is driven by these same assumptions, as well as by prevailing judicial and social environments in the jurisdictions in which claims are filed, the rulings by judges and the attitudes of juries in those jurisdictions, the demands of the asbestos plaintiffs' bar with respect to the value of each claim, the insolvencies of other defendants to a particular claim, and the impact of verdicts against other defendants on settlement demands against us.

Generally, NERA's projections assume:

25

*

That the number of new claims to be filed against us each year through 2012 will decline at a fairly constant rate each year beginning in 2003;

*

That the percentage of claims settled by us will be about three-quarters of the total number of claims resolved (whether by settlement or dismissal) each year through 2012;

*

That the average estimated per case settlement costs, as adjusted to reflect the higher indemnity costs experienced in 2002, are anticipated to decrease slightly over the period through 2012; and

*

That the total amounts paid by us in settlements, and in defense and administrative costs, will decline at varying rates over the period through 2012.

Among the more important assumptions made by Peterson in projecting our future insurance recoveries are the resolution of allocation issues among various layers of insurers, the application of particular theories of recovery based on decided cases, and the continuing solvency of various insurance companies.

Given these assumptions, and the uncertainties involved in each of them, our actual asbestos liabilities, defense costs and insurance recoveries could be higher or lower than those currently projected and/or recorded. However, these assumptions are only some of those contained in the NERA and Peterson projections, and all of these assumptions are only one aspect of the overall projections made by those firms. Changes in the foregoing assumptions, or others, whether from time to time or over the period covered by these projections, may or may not affect the validity of the overall projections. We intend to monitor our accrued asbestos liabilities, defense costs and insurance recoveries against these overall projections, and we will make adjustments to these accruals as required by generally accepted accounting principles. In addition, unless federal asbestos legislation has been enacted by the end of 2003, we plan on extending our projections of asbestos liabilities an additional year, through 2013, and accruing such amounts, and any other adjustments

required by generally accepted accounting principles, in the fourth quarter of this year.

For all of these reasons, it is possible that our currently accrued asbestos liabilities will not be accurate, that our accrued insurance recoveries will not be realized, or that we will be required in the future to incur additional charges relating thereto. Given these uncertainties, we believe that it is reasonably possible that we will incur asbestos liabilities for the period through 2012 and beyond in amounts in excess of the NERA estimate, but cannot estimate such excess amount at this time. We believe that it is reasonably possible that such excess liabilities could be material to our operating results in any given quarter or year but, based on the information available to us at present, do not believe that it is reasonably possible that the additional liabilities would have a material adverse effect on our long-term results of operations, liquidity or consolidated financial position.

OTHER LITIGATION

On April 14, 1997, a class action lawsuit alleging claims under the Employee Retirement Income Security Act of 1974 ("ERISA") was filed against us and the Georgia-Pacific Corporation Salaried Employees Retirement Plan (the "Plan") (together, the "Defendants") in the United States District Court for the Northern District of Georgia, seeking recovery of alleged underpayments of lump-sum benefits to persons taking early retirement from the Corporation (the "Plaintiff class"), together with interest, attorney's fees, and costs. After the District Court granted the Defendants' motion for summary judgment in March 1999, the United States Court of Appeals for the Eleventh Circuit reversed the District Court's ruling in August 2000 and remanded the case for further proceedings, holding that the terms of the Plan required a calculation of lump-sum benefits that could result in additional payments to members of the class. In September 2000, the Defendants filed a petition for rehearing and rehearing en banc with the Eleventh Circuit, which was denied. The Defendants also filed a petition for certiorari to the United States Supreme Court in January 2001, which was denied. In March 2002, the District Court issued an Order granting in part and denying in part the summary judgment motions of both the Plaintiff class and the Defendants. In addition, the Order remanded some issues to the Plan administrator for interpretation. The Plan Administrator has rendered its decisions on these issues and the Court has scheduled argument for December 2003 on these issues.

We have determined that, in all likelihood, damages will be awarded to the Plaintiff class, which will require the Plan to make additional payments to members of the class and may in turn affect our net periodic pension cost and obligation to fund the Plan over time. In November 2002, the Defendants reached a settlement in principle with the Plaintiff class subject to definitive documents, which settlement would not result in a material impact on our funding obligation or results of operations. However, early in the first quarter of 2003, the settlement negotiations were terminated. Notwithstanding termination of the negotiations, the Plaintiff class filed a motion seeking a ruling that an enforceable agreement was reached. After a hearing on the issues in June 2003, the District Court ruled that the parties had not reached an enforceable settlement agreement.

In September 2003, we reached an agreement to settle a class action antitrust lawsuit filed against us and other manufacturers of containerboard and recorded a charge of \$21 million in the third quarter

of 2003 to accrue for this settlement. However, a significant number of plaintiffs opted out of the class and have brought suit against the same defendants, making substantially the same allegations. Those cases are pending. This charge is reflected in "Other income (losses), net" in the accompanying statements of operations.

In August 1995, Fort James, at the time a publicly-held 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 Fort James 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 these 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 these and other 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 our long-term results of operations, liquidity or consolidated financial position.

GUARANTEES AND INDEMNIFICATIONS

Georgia-Pacific is a party to contracts in which it is common for us to agree to indemnify third parties for certain liabilities that arise out of or relate to the subject matter of the contract. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by gross negligence or willful misconduct. We cannot estimate the potential amount of future payments under these indemnities until events arise that would trigger a liability under the indemnities.

We are a 50% partner in a joint venture ("GA-MET") with Metropolitan Life Insurance Company ("Metropolitan"). GA-MET owns and operates our main office building in Atlanta, Georgia. We account for the investment in GA-MET under the equity method. In the event of foreclosure, each partner has severally guaranteed payment of one-half of any shortfall of collateral value to the outstanding secured indebtedness. Based on present market conditions and building occupancy, the likelihood of any obligation to us with respect to this guarantee is considered remote.

Additionally, in connection with the sale of assets and the divestiture of businesses, we may agree to indemnify the buyer of the assets and related parties for certain losses or liabilities incurred by the buyer with respect to (i) the representations and warranties made to the buyer by us in connection with the sale and (ii) liabilities related to the pre-closing operations of the assets sold. Indemnities related to pre-closing operations generally include environmental liabilities, tax liabilities, and other liabilities not assumed by the buyer in the transaction.

Indemnities related to the pre-closing operations of sold assets normally do not represent additional liabilities of Georgia-Pacific, but simply serve to protect the buyer from potential liability associated with our obligations existing at the time of the sale. As with any liability, we have previously accrued for those pre-closing obligations that are considered probable and reasonably estimable. We have not accrued any additional amounts as a result of the indemnities summarized below, which result from significant asset sales and divestitures in recent years.

*

Unisource

-- In connection with the sale of 60% of our Unisource paper distribution subsidiary to an affiliate of Bain Capital Partners, LLC, we agreed to indemnify Unisource for certain losses resulting from breaches of our representations and warranties contained in the sale agreement. We are not required to pay under this general indemnification obligation until claims against us, on a cumulative basis, exceed \$8 million. Upon exceeding this \$8 million threshold, we are generally obligated to provide indemnification for any losses in excess of \$8 million, up to a limit of \$150 million. This general indemnification obligation expires on May 2, 2005, provided that Unisource may make certain claims with respect to various (i) tax and employee benefit matters until the expiration of the applicable statute of limitations and (ii) environmental matters until late 2007.

*

Domtar Inc.

-- In connection with the sale of certain of our paper and pulp mills to Domtar Inc. ("Domtar"), we agreed to indemnify Domtar for certain losses resulting from breaches of our representations and warranties contained in the sale agreement. We are not required to pay under this general indemnification obligation until claims against us, on a cumulative basis, exceed \$16.5 million. Upon exceeding this \$16.5 million threshold, we generally are obligated to provide indemnification for any losses in excess of \$16.5 million, up to a limit of \$500 million. The majority of these general indemnification obligations expired on March 31, 2003, and Domtar has asserted

some claims under these provisions. However, we remain subject to certain claims by Domtar for various environmental liabilities assumed by it until mid 2011. Our liability with respect to these environmental claims is capped at \$100 million, yet remains subject to the \$16.5 million threshold discussed above.

*

SCA

-- In connection with the sale of our away-from-home tissue manufacturing assets to Svenska Cellulosa Aktiebolaget SCA (publ) ("SCA"), we agreed to indemnify SCA with respect to certain losses resulting from breaches of our representations and warranties contained in the sale agreement.

28

We are not required to pay under this general indemnification obligation until claims against us, on a cumulative basis, exceed \$2 million. Upon exceeding this \$2 million threshold, we generally are obligated to provide indemnification for any losses in excess of \$1 million, up to a limit of \$425 million. The majority of these general indemnification obligations expired on March 2, 2003, and SCA has asserted some claims under these provisions. However, we remain subject to certain claims by SCA for various environmental claims until early 2009. Unlike our \$425 million limit on liability with respect to general claims, our liability with respect to certain environmental claims made by SCA is capped at \$850 million, less the amount of any indemnification payments previously made under our general indemnification obligations.

*

Plum Creek Timber Company, Inc.

-- In connection with the sale of our timberlands to Plum Creek Timber Company, Inc. via the spin-off of The Timber Company, we agreed to indemnify Plum Creek with respect to certain losses resulting from breaches of limited representations and warranties contained in the separation agreement. This indemnity, which we believe is significantly narrow, generally is not capped at a maximum potential liability and does not expire.

*

Norampac, Inc.

-- As part of an asset exchange with Norampac, we agreed to indemnify Norampac with respect to any losses resulting from (i) the breach of limited representations and warranties contained in the asset exchange agreement, (ii) any pre-exchange liabilities related to the exchanged facility not assumed by Norampac, and (iii) any environmental liability related to the pre-exchange operations of the

exchanged facility. We are not required to pay under this general indemnification obligation until claims against us, on a cumulative basis, exceed \$500,000. Upon exceeding this threshold, we generally are obligated to provide indemnification for any losses in excess of \$500,000, up to a limit of \$10 million. The majority of these general indemnification obligations and the environmental liability indemnity expire in April 2006.

We do not believe that any amounts that we may be required to pay under the indemnities set forth in the agreements relating to the divestitures summarized above will be material to our results of operations, financial position, or liquidity. We will accrue a liability related to a specific indemnity when future payment is probable and the amount is reasonably estimable.

14. **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. Fort James guaranteed our \$500 million and \$1.5 billion senior notes offerings, which were completed on June 3, 2003 and January 30, 2003, respectively. Fort James Operating Company, a subsidiary of Fort James, guarantees the \$500 million senior notes and the securities issued by Fort James. Similarly, certain of our domestic subsidiaries guarantee our Multi-Year Revolving Credit Facility. Each subsidiary issuer or subsidiary guarantor is 100% owned by us and all guarantees are full and unconditional.

Certain assets and liabilities are administered by us, and, accordingly, are maintained at the Corporation and thus are not reflected on the balance sheets of our subsidiaries. The statements of operations properly reflect all results of operations of each respective entity. The following condensed consolidating financial information is presented in lieu of consolidated financial statements for Fort James and Fort James Operating Company because the securities issued by Fort James are fully and unconditionally guaranteed by us:

**CONSOLIDATING STATEMENTS OF INCOME
THIRD QUARTER 2003**

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Net sales	\$ 2,945	\$ -	\$ 1,186	\$ 512	\$ 1,212	\$ (577)	\$ 5,278

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Costs and expenses	2,432	-	818	367	1,019	(577)	4,059
Cost of sales	141	-	115	43	32	-	331
Selling and distribution	115	-	61	30	55	-	261
Depreciation, amortization and accretion	127	-	36	39	14	-	216
General and administrative	131	5	104	(59)	23	-	204
Interest, net	(226)	(100)	-	(1)	15	231	(81)
Other (income) losses, including equity income in affiliates							
Total costs and expenses	2,720	(95)	1,134	419	1,158	(346)	4,990
Income (loss) before income taxes	225	95	52	93	54	(231)	
Provision (benefit) for income taxes	36	(2)	19	26	20	-	288
							99
Net income (loss)	\$ 189	\$ 97	\$ 33	\$ 67	\$ 34	\$ (231)	\$ 189

30

CONSOLIDATING STATEMENTS OF INCOME
THIRD QUARTER 2002

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Net sales	\$ 2,547	\$ -	\$ 1,264	\$ 456	\$ 2,547	\$ (662)	\$ 6,152

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Costs and expenses	2,193	-	852	318	2,107	(662)	4,808
Cost of sales	118	-	127	40	221	-	506
Selling and distribution	110	-	63	24	58	-	255
Depreciation, amortization and accretion	136	-	44	33	61	-	274
General and administrative	124	14	88	(49)	22	-	199
Interest, net	(147)	(123)	1	2	5	275	13
Other losses (income), including equity income in affiliates							
Total costs and expenses	2,534	(109)	1,175	368	2,474	(387)	6,055
Income (loss) before income taxes	13	109	89	88	73	(275)	97
(Benefit) provision for income taxes	(53)	1	27	28	28	-	31
Net (loss) income	\$ 66	\$ 108	\$ 62	\$ 60	\$ 45	\$ (275)	\$ 66

CONSOLIDATING STATEMENTS OF INCOME
FIRST NINE MONTHS 2003

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Net sales	\$ 7,974	\$ -	\$ 3,609	\$ 1,546	\$ 3,553	\$ (1,789)	\$ 14,893
Costs and expenses	6,828	-	2,561	1,101	2,963	(1,789)	11,664
Cost of sales	387	-	349	135	94	-	965
Selling and distribution	345	-	189	86	163	-	783

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Depreciation, amortization and accretion	339	-	113	116	49	-	617
General and administrative	397	14	317	(179)	68	-	617
Interest, net	(463)	(235)	75	(1)	18	588	(18)
Other (income) losses, including equity income in affiliates							
Total costs and expenses	7,833	(221)	3,604	1,258	3,355	(1,201)	14,628
(Loss) income before income taxes and accounting changes	141	221	5	288	198	(588)	265
(Benefit) provision for income taxes	(79)	(5)	2	78	74	-	70
Income (loss) before accounting changes	220	226	3	210	124	(588)	195
Cumulative effect of accounting changes, net of taxes	3	2	22	-	1	-	28
Net (loss) income	\$ 223	\$ 228	\$ 25	\$ 210	\$ 125	\$ (588)	\$ 223

CONSOLIDATING STATEMENTS OF INCOME
FIRST NINE MONTHS 2002

In millions	Georgia-Pacific Corp.	Fort James	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
-------------	-----------------------	------------	---------------------------------	---------------------------------------	----------------------------------	---------------------------	----------------------

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Corp.

Net sales	\$ 7,412	\$ -	\$ 3,733	\$ 1,317	\$ 7,516	\$ (1,808)	\$ 18,170
Costs and expenses	6,312	-	2,477	942	6,167	(1,808)	14,090
Cost of sales	349	-	369	117	665	-	1,500
Selling and distribution	339	-	184	67	184	-	774
Depreciation, amortization and accretion	387	-	131	97	191	-	806
General and administrative	429	39	266	(145)	64	-	653
Interest, net	252	(357)	1	2	212	121	231
Other losses (income), including equity income in affiliates							
Total costs and expenses	8,068	(318)	3,428	1,080	7,483	(1,687)	18,054
(Loss) income before income taxes and accounting changes (Benefit)	(656)	318	305	237	33	(121)	116
provision for income taxes	(155)	(14)	114	71	56	-	72
(Loss) income before accounting changes	(501)	332	191	166	(23)	(121)	44
Cumulative effect of accounting changes, net of taxes	-	-	-	-	(545)	-	(545)
Net (loss) income	\$ (501)	\$ 332	\$ 191	\$ 166	\$ (568)	\$ (121)	\$ (501)

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Cash provided by (used for) operating activities	\$ 522	\$ 5	\$ 152	\$ 438	\$ 74	\$ -	\$ 1,191
Cash flows from investing activities:							
Property, plant and equipment investments	(169)	-	(203)	(35)	(73)	-	(480)
Net proceeds from sales of assets Other	21	-	2	4	-	-	27
	(16)	-	-	(10)	-	-	(26)
Cash used for investing activities	(164)	-	(201)	(41)	(73)	-	(479)
Cash flows from financing activities:							
Net (decrease) increase in debt	(674)	18	(21)	(19)	194	-	(502)
Net change in intercompany payable/invested equity	451	(23)	71	(308)	(191)	-	-
Fees paid to issue debt	(47)	-	-	-	(1)	-	(48)
Proceeds from option plan exercises	4	-	-	-	-	-	4
Cash dividends paid	(94)	-	-	-	-	-	(94)
Cash (used for) provided by financing activities	(360)	(5)	50	(327)	2	-	(640)
(Decrease) increase in cash	(2)	-	1	70	3	-	72
Balance at beginning of period	3	-	-	18	14	-	35

Balance at end of period	\$ 1	\$ -	\$ 1	\$ 88	\$ 17	\$ -	\$ 107
--------------------------	------	------	------	-------	-------	------	--------

34

CONSOLIDATING STATEMENTS OF CASH FLOWS
FIRST NINE MONTHS 2002

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Cash provided by (used for) operating activities	\$ 430	\$ 109	\$ 149	\$ 6	\$ 96	\$ (30)	\$ 760
Cash flows from investing activities:							
Property, plant and equipment investments	(229)	-	(93)	(43)	(74)	-	(439)
Net proceeds from sales of assets	30	-	-	2	(8)	-	24
Other	-	-	-	(2)	(17)	-	(19)
Cash (used for) provided by investing activities	(199)	-	(93)	(43)	(99)	-	(434)
Cash flows from financing activities:							
Net increase (decrease) in debt	143	(92)	(4)	(37)	(268)	-	(258)
Net change in intercompany payable/invested equity	(319)	(17)	(53)	90	269	30	-
Fees paid to issue debt	(8)	-	-	-	-	-	(8)
Proceeds from option plan	4	-	-	-	-	-	4
	37	-	-	-	-	-	37
	(87)	-	-	-	-	-	(87)

exercises Employee stock purchase plan Cash dividends paid								
Cash (used for) provided by financing activities	(230)	(109)	(57)	53	1	30	(312)	
Increase in cash	1	-	(1)	16	(2)	-	14	
Balance at beginning of period	-	-	1	12	18	-	31	
Balance at end of period	\$ 1	\$ -	\$ -	\$ 28	\$ 16	\$ -	\$ 45	

35

CONSOLIDATING BALANCE SHEETS
AS OF SEPTEMBER 27, 2003

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
ASSETS							
Current assets							
Cash and equivalents	\$ 1 (26)	\$ - -	\$ 1 (2)	\$ 88 519	\$ 17 1,609	\$ - -	\$ 107 2,100
Receivables, less allowances	840 33	- -	660 (1)	264 1	362 2	- -	2,126 35
Inventories							
Deferred income tax assets	451 321	30 -	- 28	15 50	88 117	(584) (26)	 490
Intercompany interest receivable							
Other current assets							
Total current assets	1,620	30	686	937	2,195	(610)	4,858

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Total property, plant and equipment, net	2,909	-	3,248	1,093	1,816	-	9,066
Goodwill, net	491	-	5,856	813	455	-	7,615
Intercompany note receivable	2,283	1,958	(1)	3,470	204	(7,914)	-
Other assets	10,395	8,979	500	322	846	(18,093)	2,949
Total assets	\$ 17,698	\$ 10,967	\$ 10,289	\$ 6,635	\$ 5,516	\$ (26,617)	\$ 24,488

36

CONSOLIDATING BALANCE SHEETS (continued)
AS OF SEPTEMBER 27, 2003

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amount
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities	\$ 50	\$ 928	\$ 6	\$ 12	\$ 921	\$ -	\$ 1,917
Short-term debt	648	-	188	471	247	-	1,554
Accounts payable	88	193	35	-	268	(584)	1,000
Intercompany interest payable	845	18	254	175	143	(26)	1,459
Other current liabilities							
Total current liabilities	1,631	1,139	483	658	1,579	(610)	4,770
Long-term debt, excluding current portion	8,352	414	257	61	102	-	9,186
Other long-term liabilities	2,517	-	313	521	915	(101)	4,265
Deferred income tax liabilities	153	-	662	60	541	-	1,316
Intercompany note payable	204	921	4,864	70	1,855	(7,914)	1,000

Shareholders'/invested equity	4,841	8,493	3,710	5,265	524	(17,992)	4,841
Total liabilities and shareholders' equity	\$ 17,698	\$ 10,967	\$ 10,289	\$ 6,635	\$ 5,516	\$ (26,617)	\$ 24,400

37

CONSOLIDATING BALANCE SHEETS
AS OF DECEMBER 28, 2002

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
ASSETS							
Current assets							
Cash and equivalents	\$ 3	\$ -	\$ -	\$ 18	\$ 14	\$ -	\$ 35
Receivables, less allowances	(11)	-	11	461	1,316	-	1,777
Inventories	817	-	704	239	376	-	2,136
Deferred income tax assets	33	-	(16)	16	2	-	35
Intercompany interest receivable	348	-	-	6	71	(425)	-
Other current assets	641	-	22	25	56	(1)	743
Total current assets	1,831	-	721	765	1,835	(426)	4,726
Total property, plant and equipment, net	2,991	-	3,362	1,061	1,908	-	9,322
Goodwill, net	485	-	5,931	792	455	-	7,663
Intercompany note receivable	2,281	1,956	-	3,310	246	(7,793)	-

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Other assets	10,442	8,875	465	373	823	(18,060)	2,918
Total assets	\$ 18,030	\$ 10,831	\$ 10,479	\$ 6,301	\$ 5,267	\$ (26,279)	\$ 24,629

38

CONSOLIDATING BALANCE SHEETS (continued)
AS OF DECEMBER 28, 2002

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiary	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amount
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Short-term debt							
Accounts payable			\$ 5	\$ 16	\$ 715	\$	\$ 1,331
Intercompany interest payable	\$ 329	\$ 266	208	426	239	-	1,532
Other current liabilities	71				212	(425)	
	734	142	197	134	93	1	1,182
Total current liabilities	1,793	431	410	576	1,259	(424)	4,045
Long-term debt, excluding current portion							
	8,706	1,030	266	72	111		10,185
Other long-term liabilities							
	2,606		485	530	877	(101)	4,397
Deferred income tax liabilities							
	161		751	(23)	553		1,442
Intercompany note payable							
	204	920	4,727	111	1,832	(7,794)	
Shareholders'/invested equity							
	4,560	8,450	3,840	5,035	635	(17,960)	4,560
Total liabilities and shareholders' equity	\$ 18,030	\$ 10,831	\$ 10,479	\$ 6,301	\$ 5,267	\$ (26,279)	\$ 24,629

15. OPERATING SEGMENT INFORMATION. We have six reportable operating segments: North America consumer products, international consumer products, packaging, bleached pulp and paper, building products manufacturing and building products distribution. During the first quarter of 2003, we realigned our reportable segments for financial reporting purposes to align reporting with the company's current operating structure. We made certain reclassifications to the 2002 segment data to conform to the 2003 presentation. The following represents selected operating data for each reportable segment for the three and nine months ended September 2003 and 2002.

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

(Dollar amounts in millions)	Third Quarter 2003		Third Quarter 2002	
NET SALES TO UNAFFILIATED CUSTOMERS				
North America consumer products	\$ 1,369	26%	\$ 1,337	22%
International consumer products	474	9	424	7
Packaging	657	12	666	11
Bleached pulp and paper	541	10	477	7
Paper distribution			1,407	23
Building products manufacturing	-		847	14
Building products distribution	1,041	-	994	16
Other	1,194	20		
	2	23		
		-		
		-		
		-		
Total net sales to unaffiliated customers	\$ 5,278	100%	\$ 6,152	100%
INTERSEGMENT SALES				
North America consumer products	\$		\$ 35	
International consumer products				
Packaging	-		-	
Bleached pulp and paper	-		37	
Paper distribution	30		183	
Building products manufacturing	91		6	
Building products distribution	-		461	
Other ¹	529		3	
	2		(725)	
	(652)			
Total intersegment sales	\$		\$	
	-		-	
TOTAL NET SALES				
North America consumer products	\$ 1,369	26%	\$ 1,372	22%

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

International consumer products		474	9		424	7
Packaging		687	13		703	12
Bleached pulp and paper		632	12		660	11
Paper distribution					1,413	23
Building products manufacturing	-				1,308	21
Building products distribution	1,570			-	997	16
Other ¹	1,196		30		(725)	(12)
	(650)		22			
			(12)			
Total net sales		\$ 5,278	100%		\$ 6,152	100%

1 Includes elimination of intersegment sales.

40

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

(Dollar amounts in millions)	Third Quarter 2003		Third Quarter 2002	
OPERATING PROFITS (LOSSES)				
North America consumer products	\$ 164	33%	\$ 208	70%
International consumer products	41	8	33	11
Packaging	77	16	77	26
Bleached pulp and paper ²	17	3	27	9
Paper distribution			(8)	(2)
Building products manufacturing	-		27	9
Building products distribution	156	-	13	4
Other ³	52	32	(81)	(27)
	(15)	11		
		(3)		
Total operating profits	492	100%	296	100%
		===		===
Interest expense	204		199	
Income before income taxes	288		97	
Provision for income taxes	99		31	
Net income	\$ 189		\$ 66	

2 Amount in 2003 includes an operating loss of \$7 million from our 40% minority interest in Unisource.

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

CONSOLIDATED SELECTED OPERATING SEGMENT DATA (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(Dollar amounts in millions)	First Nine Months 2003		First Nine Months 2002	
NET SALES TO UNAFFILIATED CUSTOMERS				
North America consumer products	\$ 4,029	27%	\$ 4,007	22%
International consumer products	1,444	10	1,231	7
Packaging	1,987	13	1,961	11
Bleached pulp and paper	1,567	11	1,369	7
Paper distribution			4,169	23
Building products manufacturing	-		2,524	14
Building products distribution	2,746		2,908	16
Other	3,117	18	1	
	3	21		
		-		
				-
Total net sales to unaffiliated customers	\$ 14,893	100%	\$ 18,170	100%
INTERSEGMENT SALES				
North America consumer products	\$ 2		\$ 98	
International consumer products				
Packaging	-		-	
Bleached pulp and paper	89		108	
Paper distribution	265		516	
Building products manufacturing	-		16	
Building products distribution	1,475		1,403	
Other ¹	6		8	
	(1,837)		(2,149)	
Total intersegment sales	\$		\$	
	-		-	
TOTAL NET SALES				
North America consumer products	\$ 4,031	27%	\$ 4,105	23%
International consumer products	1,444	10	1,231	7
Packaging	2,076	14	2,069	11
Bleached pulp and paper	1,832	12	1,885	10
Paper distribution			4,185	23
Building products manufacturing	-		3,927	22
Building products distribution	4,221		2,916	16
Other ¹	3,123	28	(2,148)	(12)
	(1,834)	21		
		(12)		
Total net sales	\$ 14,893	100%	\$ 18,170	100%

1 Includes elimination of intersegment sales.

42

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

(Dollar amounts in millions)	First Nine Months 2003		First Nine Months 2002	
OPERATING PROFITS (LOSSES)				
North America consumer products	\$ 434	49%	\$ 664	86%
International consumer products	123	14	115	15
Packaging	236	27	257	33
Bleached pulp and paper ²	(22)	(3)	37	5
Paper distribution			(221)	(29)
Building products manufacturing	-		147	19
Building products distribution	178	-	52	7
Other ³	76	20	(282)	(36)
	(143)	9		
		(16)		
Total operating profits	882	100%	769	100%
		===		===
Interest expense	617		653	
Income before income taxes and accounting changes	265		116	
Provision for income taxes	70		72	
Income before accounting changes	195		44	
Cumulative effect of accounting changes, net of taxes	28		(545)	
Net income (loss)	\$ 223		\$ (501)	

2 Amount in 2003 includes an operating loss of \$20 million from our 40% minority interest in Unisource.

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

43

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

THIRD QUARTER 2003 COMPARED WITH THIRD QUARTER 2002

During the third quarter of 2003 we reported consolidated net sales of \$5.3 billion, compared with net sales of \$6.2 billion for the third quarter of 2002. Included in 2002 are net sales of \$1.4 billion related to Unisource. During the fourth quarter of 2002, we sold a 60% controlling interest in Unisource to Bain Capital Partners, LLC. Operating results from our 40% investment are accounted for using the equity method and are now reported in the bleached pulp and paper segment.

Interest expense increased \$5 million to \$204 million in the third quarter of 2003 compared with \$199 million in the third quarter of 2002, principally as a result of higher average interest rates, offset by lower debt levels, including the PEPS Units that were redeemed during the third quarter of 2002.

During the third quarter of 2003, we reported income before income taxes and accounting changes of \$288 million and an income tax provision of \$99 million, compared with income before income taxes and accounting changes of \$97 million and an income tax provision of \$31 million for the third quarter of 2002. The effective tax rate in the third quarters of 2003 and 2002 were different from the statutory rates primarily because of lower international statutory income tax rates, and the utilization of state tax credits.

Our fiscal year ends on the Saturday closest to December 31. Typically, we report our quarterly periods on a 13-week basis ending on Saturday. However, because our fiscal year 2003 will end on January 3, 2004, our fiscal fourth quarter 2003 will have 14 weeks.

The remaining discussion refers to the "Consolidated Selected Operating Segment Data" table (included in Note 15 to the Consolidated Financial Statements).

NORTH AMERICA CONSUMER PRODUCTS

Net sales and operating profits for the North America consumer products segment were \$1,369 million and \$164 million, respectively, for the third quarter of 2003. Third quarter 2002 net sales and operating profits were \$1,372 million and \$208 million, respectively. Operating profits for the 2002 third quarter included a charge of \$9 million related primarily to facility closure costs. The decrease in 2003 operating earnings was primarily due to raw material and energy inflation and lower selling prices for retail tissue. Additionally, weak demand for commercial tissue products and the impact of paper machine curtailments on fixed costs absorption negatively impacted operating results. During the fourth quarter of 2003, we expect profit margins to remain at third quarter levels as we experience slight raw material and energy inflation, as well as product re-launch costs, for our improved Brawny towels and Quilted Northern Bath tissue.

INTERNATIONAL CONSUMER PRODUCTS

During the third quarter of 2003, the international consumer products segment reported net sales and operating profits of \$474 million and \$41 million, respectively, compared with \$424 million and \$33 million of net sales and operating profits, respectively, in the prior year. Compared with third quarter 2002, volumes and pricing declined during the third quarter of 2003. These declines were offset by a positive impact from the weakened US Dollar of approximately \$48 million and \$5 million on net sales and operating profits, respectively. For the remainder of 2003, we expect operating margins to decline slightly compared with those in the third quarter.

PACKAGING

The packaging segment reported net sales of \$687 million and operating profits of \$77 million in the second quarter of 2003, compared with net sales of \$703 million and operating profits of \$77 million in the second quarter of 2002. The 2003 increase in operating margins compared to 2002 is primarily due to reductions in maintenance costs and favorable wastepaper costs offset by declines in selling prices and shipping volumes. For the remainder of 2003, we expect to contend with high fiber and natural gas costs, sluggish demand and somewhat weaker sales pricing.

BLEACHED PULP AND PAPER

The bleached pulp and paper segment reported net sales and operating profits of \$632 million and \$17 million,

respectively, in the 2003 quarter. Beginning in November 2002, we reported the results of our 40% investment in Unisource in the bleached pulp and paper segment. Included in the third quarter 2003 operating profits was a \$7 million loss from our equity investment in Unisource. For the same period in 2002, the segment reported net sales of \$660 million and operating profits of \$27 million. The decrease in operating profits was driven by significantly increased wood and natural gas purchase prices, reduced paper business selling prices and the addition of the Unisource equity investment losses to the segment's reporting. The bleached pulp and paper segment experienced a 16% decline in sales volumes for softwood pulp coupled with a 3% decrease in average selling prices for paper. These decreases were offset by a 3% increase in average selling prices for softwood pulp and a 6% increase in paper shipments. During the fourth quarter of 2003, the bleached pulp and paper segment projects conditions similar to those in the third quarter.

BUILDING PRODUCTS MANUFACTURING

During the third quarter of 2003, the building products manufacturing segment reported net sales of \$1,570 million and operating profits of \$156 million. Operating results for the third quarter of 2003 included charges of approximately \$21 million primarily for asset impairments and severance costs. In the third quarter of 2002, the segment reported net sales and operating profits of \$1,308 million and \$27 million, respectively. The increase in quarter-over-quarter operating profits resulted from average selling price increases for plywood and softwood lumber of 23% and 10%, respectively while oriented strand board prices more than doubled. Sales volumes for plywood, softwood lumber and treated lumber increased 9%, 5% and 18%, respectively compared with the third quarter of 2002. These increases were offset by a 16% decline in oriented strand board shipments and higher natural gas costs quarter-over-quarter. During the fourth quarter of 2003, the building products manufacturing segment is expected to continue to experience good demand for panel products. A normal seasonal slow down is anticipated near year-end and we expect prices and volumes to taper off accordingly. We expect the gypsum business to continue to be negatively impacted by high natural gas costs.

BUILDING PRODUCTS DISTRIBUTION

Net sales and operating profits for the building products distribution segment were \$1,196 million and \$52 million, respectively, for the third quarter of 2003. During the same period in 2002, the segment reported net sales and operating profits of \$997 million and \$13 million, respectively. The increase in operating profits was primarily due to significant increases in average selling prices for plywood and oriented strand board, coupled with a 7% increase in lumber sales volumes. These increases were offset by a 10% volume decline in oriented

strand board. Building activity and building material demand is expected to remain robust until the seasonal slowdown late in the fourth quarter.

OTHER

The loss in the "Other" segment, which includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales, decreased by \$66 million to a loss of \$15 million in 2003 from a loss of \$81 million in the 2002 third quarter. Included in the 2003 results was a credit of \$118 million to increase the estimated amount that we will receive from asbestos liability insurance, a charge of \$21 million for costs to settle a class action lawsuit regarding containerboard and a charge of \$12 million for pension settlement costs. Included in 2002 results were charges of \$23 million primarily related to business separation costs. During the third quarter of 2003, we also incurred higher foreign currency transaction losses and increased incentive accruals, offset by reduced corporate administrative expenses.

YEAR-TO-DATE 2003 COMPARED WITH YEAR-TO-DATE 2002

During the first nine months of 2003 we reported consolidated net sales of \$14.9 billion, compared with net sales of \$18.2 billion for the first nine months of 2002. Included in 2002 are net sales of \$4.2 billion related to Unisource.

Interest expense decreased \$36 million to \$617 million in the first nine months of 2003 compared with \$653 million in the first nine months of 2002, principally as a result of lower debt levels including the PEPS Units that were redeemed during the third quarter of 2002, offset somewhat by higher average interest rates.

During the first nine months of 2003, we reported income before income taxes and accounting changes of \$265 million and an income tax provision of \$70 million, compared with income before income taxes and accounting changes of \$116 million and an income tax provision of \$72 million for the first nine months of 2002. The effective tax rate in 2003 was different from the statutory rate primarily because of lower international income tax rates, utilization of state tax credits

and the first quarter reversal of approximately \$10 million of income tax contingency reserves no longer required in Europe. The effective tax rate in 2002 was different from the statutory rate primarily because of the second quarter write-off of nondeductible goodwill, offset somewhat by lower international income tax rates and state tax credits.

On December 29, 2002, we adopted SFAS No. 143. SFAS No. 143 requires that entities record the fair value of an asset retirement obligation in the period in which it was incurred. The cumulative effect of adopting SFAS No. 143 was an after-tax credit of \$28 million effective at the beginning of 2003.

Effective in the first quarter of 2002, we adopted SFAS No. 142. In accordance with the transition provisions of SFAS No. 142, we completed our initial assessment of the fair value of the net assets underlying all

acquisition-related goodwill during the second quarter of 2002. The cumulative effect of the adoption of this principle was an after-tax charge to earnings of \$545 million effective at the beginning of 2002. The \$545 million goodwill impairment related only to our paper distribution segment. The principal facts and circumstances leading to this impairment included a diminution of synergies originally expected to be received from the white paper mills sold to Domtar, Inc. in 2001, and changes in the marketplace for coated and uncoated free sheet paper subsequent to the acquisition of Unisource.

The remaining discussion refers to the "Consolidated Selected Operating Segment Data" table (included in Note 15 to the Consolidated Financial Statements).

NORTH AMERICA CONSUMER PRODUCTS

Net sales and operating profits for the North America consumer products segment were \$4.0 billion and \$434 million, respectively, for the first nine months of 2003. Included in the 2003 operating results were a pre tax impairment charge of \$25 million and a pre-tax charge of \$11 million for severance and business exit costs related to the closure of tissue-manufacturing and converting operations at our Old Town, Maine mill. Net sales and operating profits were \$4.1 billion and \$664 million, respectively for the first nine months of 2002. Operating profits for the first nine months of 2002 included a charge of \$14 million related to a fire at our Crossett, Arkansas tissue mill and \$18 million of severance and business exit costs. The decrease in 2003 operating earnings was primarily due to a decline in sales volumes, lower selling prices for retail tissue, higher fiber, natural gas and petroleum-based resin costs and the impact of paper machine curtailments on fixed costs absorption.

INTERNATIONAL CONSUMER PRODUCTS

During the first nine months of 2003, the international consumer products segment reported net sales and operating profits of \$1.4 billion and \$123 million, respectively, compared with \$1.2 billion and \$115 million of net sales and operating profits, respectively, in the prior year. The 2003 decline in operating margins compared with 2002 is due to general inflation partly offset by continued good momentum in manufacturing and distribution cost reduction. The weakened US Dollar positively affected net sales and operating profits by approximately \$210 million and \$20 million, respectively.

PACKAGING

The packaging segment reported net sales of \$2.1 billion and operating profits of \$236 million in the first nine months of 2003, compared with net sales of \$2.1 billion and operating profits of \$257 million in the first nine months of 2002. Included in the 2003 operating results was an \$18 million gain on the sale of some packaging assets. Although we experienced favorable variances in volume, sales price and maintenance costs, operating profits declined in 2003 due to higher labor, wood, and natural gas costs.

BLEACHED PULP AND PAPER

The bleached pulp and paper segment reported net sales of \$1.8 billion and an operating loss of \$22 million in the first nine months of 2003. For the same period in 2002, the segment reported net sales of \$1.9 billion and operating profits of \$37 million. Included in the 2003 operating results is an impairment charge of \$49 million related to the closure of tissue-manufacturing and converting operations at our Old Town, Maine mill and a \$20 million loss from the company's equity investment in Unisource. During the first nine months of 2003, sales volumes for softwood pulp and paper decreased 4% and 3%, respectively, when compared to the same period in 2002. These decreases were offset by a 10% increase in average selling prices for softwood pulp and a 6% increase in sales volumes for fluff pulp.

BUILDING PRODUCTS MANUFACTURING

During the first nine months of 2003, the building products manufacturing segment reported net sales of \$4.2 billion and

operating profits of \$178 million. In the first nine months of 2002, the segment reported net sales and operating profits of \$3.9 billion and \$147 million, respectively. The increase in operating profits is primarily due to an increase in average selling prices for plywood and oriented strand board of 7% and 50%, respectively when compared with the prior year. Additionally, sales volumes for plywood and gypsum increased 4% and 3%, respectively. These increases were offset by an 18% decline in sales volumes for oriented strand board, a portion of which is a result of the Woodland, ME plant divestiture that occurred during the third quarter of 2002.

BUILDING PRODUCTS DISTRIBUTION

Net sales and operating profits for the building products distribution segment were \$3.1 billion and \$76 million, respectively, for the first nine months of 2003. During the same period in 2002, the segment reported net sales and operating profits of \$2.9 billion and \$52 million, respectively. The increase in operating profits was primarily a result of increased selling prices and profit margins for plywood and oriented strand board, combined with a 12% increase in lumber shipments.

OTHER

The loss in the "Other" segment, which includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales, decreased by \$139 million to a loss of \$143 million in 2003 from a loss of \$282 million in the first nine months of 2002. Included in the 2003 results was a credit of \$118 million to increase the estimated amount that we will receive from asbestos liability insurance, a charge of \$21 million for costs to settle a class action lawsuit regarding containerboard and a charge of \$12 million for pension settlement costs. Included in the 2002 results were charges of \$33 million related primarily to business separation costs. During the first nine months of 2003, we also incurred higher foreign currency transaction gains, lower legal and environmental expenses, reduced incentive accruals, insurance refunds and reduced corporate administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

During the first nine months of 2003, debt decreased by approximately \$413 million resulting primarily from higher cash provided from building products operations and receipt of income tax refunds. During the remainder of 2003, we expect our cash flow from operations and financing activities to be sufficient to fund planned capital investments, pay dividends and make scheduled debt repayments. The following discussion provides further details of our liquidity and capital resources.

OPERATING ACTIVITIES. For the nine months ended September 2003 we generated cash from operations of \$1,191 million compared to \$760 million a year ago. The increase in cash provided by operating activities is primarily due to improved operating results in our building products businesses and a \$354 million income tax refund received in April 2003.

During the first nine months of 2003, we experienced a seasonal working capital increase of \$178 million compared to a similar working capital increase of \$172 million for the same period of 2002. Accounts receivable increased during the first nine months of 2003 by \$282 million compared to an increase of \$211 million in 2002. The year-over-year increase in accounts receivable related primarily to increased sales late in the first nine months of 2003 in the building products businesses. Inventory decreased during the first nine months of 2003 by \$27 million compared with an increase in inventory of \$20 million in 2002. The year-over-year decrease in inventory related principally to lower inventories in the building products businesses. Accounts payable increased during the first nine months of 2003 by \$74 million compared to an increase in accounts payable of \$125 million in 2002. Included in the 2002 increase in accounts payable were approximately \$90 million related to Unisource. The 2003 increase in accounts payable resulted principally from higher purchases of building products materials late in the third quarter of 2003. Other working capital increased by \$3 million during the first nine months of 2003 compared with a decrease in other working capital of \$66 million in 2002. The year-over-year change in other working capital resulted primarily from higher accrued interest in 2003 related to timing of interest payments.

INVESTING ACTIVITIES. Capital expenditures for property, plant and equipment for the nine months ended September 2003 were \$480 million, which included \$263 million in the North America consumer products segment, \$34 million in the international consumer products segment, \$61 million in the packaging segment, \$55 million in the bleached pulp and paper segment, \$35 million in the building products manufacturing segment, \$3 million in the building products

distribution segment and \$29 million in the other segment. Capital expenditures for property, plant and equipment in the first nine months of 2002 were \$439 million. We expect to make total capital expenditures for property, plant and equipment of approximately \$725 million in 2003.

Effective November 2, 2002, we sold a 60% controlling interest in the Unisource paper distribution business to an affiliate of Bain Capital Partners, LLC, and retained the remaining 40% equity interest in Unisource. In connection with this disposal, we recorded a pretax loss of \$298 million (\$30 million after taxes) in the fourth quarter of 2002 in the paper distribution segment. In addition, we entered into a financing lease arrangement with a third party regarding certain warehouse facilities used by Unisource. As part of these transactions, we:

- a) received \$471 million in cash during fiscal 2002 in connection with the disposition and repaid debt;
- b) received \$169 million in cash as a result of the financing lease arrangement accounted for by us as a capital lease;
- c) received two payment-in-kind notes from Unisource for \$70 million and \$100 million, which accrue interest at an annual interest rate of 7% and 8%, respectively, and mature in November 2012; and
- d) entered into a sublease with Unisource for certain warehouses retained by us.

In addition, in the second quarter of 2003, we received more than \$193 million of cash refund from the related income tax benefit of the Unisource sale, which is included in the \$354 million income tax refund discussed above.

As part of this transaction, we entered into a loan agreement with Unisource pursuant to which we agreed to provide, subject to certain conditions, a \$100 million subordinated secured loan to Unisource. This subordinated loan, if drawn, will mature in May 2008 and bears interest at a fluctuating rate based on LIBOR. In addition, we have also agreed to provide certain employee benefits and other administrative services to Unisource pursuant to an agreement with a two-year term. We also agreed to provide certain insurance coverage (including related letters of credit) to Unisource, generally for a period of five years, including workers' compensation, general liability, automobile liability and property insurance.

During the first nine months of 2002, we disposed of and sold various assets for a total of \$24 million in cash and recognized a pretax loss of \$22 million that was reflected in "Other (income) losses, net" in the accompanying consolidated statements of operations.

In September 2003, we announced that we are exploring strategic alternatives for our building products distribution business, including its possible sale.

FINANCING ACTIVITIES. Our total debt decreased by \$413 million to \$11,103 million at September 27, 2003 from \$11,516 million at December 28, 2002. At September 27, 2003, the weighted average interest rate on our total debt, including outstanding interest rate exchange agreements was 6.78%.

As of September 27, 2003, we had \$900 million outstanding under our accounts receivable secured borrowing program, which expires in December 2003. G-P Receivables, Inc. ("G-P Receivables") is a wholly owned subsidiary and is the special purpose entity into which the receivables of participating domestic subsidiaries are sold. G-P Receivables, in turn, sells an interest in the receivables to the various banks and entities. This program is accounted for as a secured borrowing. The receivables outstanding under these programs and the corresponding debt are included as both "Receivables" and "Secured borrowings and other short-term notes," respectively, in the accompanying balance sheets. As collections reduce previously pledged interests, new receivables may be pledged. G-P Receivables is a separate corporate entity and its assets will be available first and foremost to satisfy the claims of its creditors.

On June 3, 2003, we completed a \$500 million senior notes offering, consisting of \$350 million of 7.375% notes due in 2008 and \$150 million of 8% notes due in 2014, all of which were guaranteed by Fort James Corporation and Fort James Operating Company, a subsidiary of Fort James Corporation. The 8% senior notes due 2014 will be callable at our option beginning in 2009. Net proceeds from the offering were used to pay down a portion of our Multi-Year Revolving Credit Facility. On October 3, 2003, we completed an offer to exchange these notes. We have paid approximately \$8 million in fees and expenses associated with these transactions. The fees are being amortized over the term of the senior notes.

On January 30, 2003, we completed a \$1.5 billion senior notes offering, consisting of \$800 million of 9.375% notes due in 2013 and \$700 million of 8.875% notes due in 2010, all of which were guaranteed by Fort James Corporation. In the fourth quarter of 2003, we intend to cause Fort James Operating Company to guarantee these notes as well. The 9.375% notes due in 2013 are callable at our option beginning in 2008. Net proceeds from the offering were used to completely repay the Senior Capital Markets Bridge Facility, and to pay down

approximately \$1 billion outstanding under our Multi-Year Revolving Credit Facility. On September 9, 2003, we completed an offer to exchange these notes. We have paid approximately \$34 million in fees and expenses associated with these transactions. The fees are being amortized over the term of these senior notes.

On September 1, 2003 and August 1, 2003, a \$10 million variable rate industrial revenue bond and a \$1 million, 6.88% industrial revenue bond matured, respectively. Also, on August 22, 2003, a \$300 million variable rate note matured.

On September 30, 2003, Moody's Investors Service announced that it had assigned our revolving credit facility debt a rating of SGL-3, which indicates adequate liquidity. On January 21, 2003, Moody's Investors Service announced that it had downgraded our senior implied and issuer debt ratings from Ba1 to Ba2 and our senior unsecured notes from Ba1 to Ba3. On January 29, 2003, Fitch Ratings announced that it had lowered our senior unsecured long-term debt ratings from BB+ to BB and withdrew our commercial paper rating. On September 27, 2002, Standard & Poor's changed our long-term corporate credit rating to "BB-plus" from "BBB-minus" and our short-term rating to "B" from "A-3."

The indentures associated with the \$500 million and \$1.5 billion senior notes offerings completed on June 3, 2003 and January 30, 2003, respectively, allow Georgia-Pacific and the guarantors of the senior notes to incur any debt so long as we meet a fixed charges coverage ratio of 2.00 to 1.00 (as defined in the indentures). In addition, we can incur other items of permitted debt (as defined in the indentures) without being in compliance with the fixed charge coverage ratio. The senior notes indentures allow us to make restricted payments if certain conditions are met. We can, however, make permitted payments without complying with such conditions. These offerings also contain various non-financial covenants. We were in compliance with these debt covenants as of September 27, 2003.

We elected to reduce the commitments under the Multi-Year Revolving Credit Facility effective June 6, 2003. Amounts available thereunder are now comprised of (i) \$2,500 million in revolving loans and (ii) \$500 million in term loans due November 2005.

Borrowings under the Multi-Year Revolving Credit Facility bear interest at market rates. These interest rates may be adjusted according to a rate grid based on our debt ratings. Fees include a facility fee of 0.4% per annum on the aggregate commitments of the lenders as well as up-front fees. As of September 27, 2003, we paid \$8 million in commitment fees and \$4 million in amendment fees. Fees and margins may also be adjusted according to a pricing grid based on our debt ratings. At September 27, 2003, \$791 million was borrowed under the Multi-Year Revolving Credit Facility, at a weighted-average interest rate of 3.3%. Amounts outstanding under the Multi-Year Revolving Credit Facility are included in "Long-term debt, excluding current portion" on the accompanying consolidated balance sheets.

The amounts outstanding under our Multi-Year Revolving Credit Facility include the following:

September 27, 2003

In millions

Commitments:	
	\$ 2,500
	500
Revolving Loans	
Term Loans	
Credit facilities available	3,000
Amounts Outstanding:	
	(597)
	(291)
Letter of Credit Agreements*	(500)
Revolving Loans due November 2005, average rate of 3.29%	
Term Loans due November 2005, average rate of 3.37%	
Total credit balance	(1,388)
Total credit available	\$ 1,612

* The Letter of Credit Agreements only include Standby Letters of Credit from Bank of America.

The Multi-Year Revolving Credit Facility requires a maximum leverage ratio (as defined in the Multi-Year Revolving Credit Facility agreement) of 67.50% on September 27, 2003 and January 3, 2004; and 65.00% on April 3, 2004 and thereafter. The restrictive covenants also require a minimum interest coverage ratio (as defined in the Multi-Year Revolving Credit Facility agreement), of 2.25 to 1.00 on September 27, 2003 and January 3, 2004; 2.50 to 1.00 on April 3, 2004; 2.75 to 1.00 on July 3, 2004; and 3.00 to 1.00 on October 2, 2004 and thereafter. In addition, the restrictive covenants require a minimum net worth (as defined in the Multi-Year Revolving Credit Facility agreement) that changes quarterly and a maximum debt level of \$12,594 for so long as our leverage ratio exceeds 65.00%. We were in compliance with these debt covenants as of September 27, 2003, with a leverage ratio of 64.12%, an interest coverage ratio of 2.46 to 1.00, a debt balance (as defined in the Multi-Year Revolving Credit Facility agreement) of \$10,933 million and an adjusted net worth as defined below:

50

In millions	September 27, 2003
Adjusted Net Worth:	\$ 4,841
	651
Net Worth	625

Goodwill impairments	
Minimum Pension Liability	
Adjusted Net Worth	6,117
Required Net Worth:	
	4,650
	191
80% of Net Worth as of the Credit Agreement closing date	
50% of Net Income from fourth quarter 2000 to second quarter 2003*	1,081
Proceeds of new capital stock or other equity interests from fourth quarter 2000 to second quarter 2003	(329)
The Timber Company Net Worth	
Required Net Worth	5,593
Adjusted Net Worth surplus	\$ 524

* Does not include quarters with net losses.

Our borrowing arrangements contain a number of financial and non-financial covenants, which restrict our activities. The more significant financial covenants are mentioned above. In addition, certain agreements contain cross-default provisions.

Our continued compliance with these restrictive covenants is dependent on substantially achieving the 2003 forecast, which is dependent on a number of factors, many of which are outside of our control. We believe the forecast is reasonable and we will remain in compliance with these restrictive covenants. Should events occur that result in noncompliance, we believe there are remedies available that are acceptable to our lenders and us.

The table below presents principal (or notional) amounts and related weighted average interest rates by year of expected maturity for our debt obligations as of September 27, 2003. For obligations with variable interest rates, the table sets forth payout amounts based on current rates and do not attempt to project future interest rates.

(In millions)	2003	2004	2005	2006
-----	-----	-----	-----	-----
Debt				
Secured borrowings	\$ 900	-	-	-

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Average interest rates	2.2%	-	-	-
Credit facilities	-	-	\$ 791	-
Average interest rate	-	-	3.3%	-
Notes and debentures	\$ 277	\$ 336	-	\$ 600
Average interest rates	4.0%	6.7%	-	7.5%
Euro-denominated bonds	-	\$ 342	-	-
Average interest rates	-	4.8%	-	-
Revenue bonds	-	\$ 31	\$ 21	-
Average interest rates	-	1.6%	5.6%	-
Capital leases	\$ 6	\$ 12	\$ 13	\$ 14
Average interest rates	6.5%	7.3%	7.4%	7.4%
European debt	\$ 2	\$ 11	\$ 11	\$ 10
Average interest rates	4.5%	4.6%	4.6%	4.7%
Other loans	-	\$ 14	-	-
Average interest rates	-	3.0%	-	-
Notional amount of interest rate exchange agreements (variable to fixed)	-	-	-	-
Average interest rate paid (fixed)	-	-	-	-
Average interest rate received (variable)	-	-	-	-
Notional amount of interest rate exchange agreements (rate collar)	-	-	\$ 47	-
Average interest rate cap	-	-	7.5%	-
Average interest rate floor	-	-	5.5%	-

52

(In millions)	2007	Thereafter	Total	Fair value September 27, 2003
-----	-----	-----	-----	-----
Debt				
Secured borrowings	-	-	\$ 900	\$ 900
Average interest rates	-	-	2.2%	2.2%
Credit facilities	-	-	\$ 791	\$ 791
Average interest rates	-	-	3.3%	3.3%
Notes and debentures	\$ 300	\$ 6,401	\$ 7,914	\$ 8,036
Average interest rates	6.9%	8.6%	8.0%	7.6%
Euro-denominated bonds	-	-	\$ 342	\$ 342
Average interest rates	-	-	4.8%	4.7%

Edgar Filing: GEORGIA PACIFIC CORP - Form 10-Q

Revenue bonds	\$ 28	\$ 772	\$ 852	\$ 782
Average interest rates	4.9%	5.2%	5.0%	5.8%
Capital leases	\$ 17	\$ 216	\$ 278	\$ 309
Average interest rates	7.6%	7.2%	7.2%	7.0%
European debt	\$ 7	\$ 32	\$ 73	\$ 73
Average interest rates	4.1%	3.2%	3.9%	3.9%
Other loans	-	-	\$ 14	\$ 10
Average interest rates	-	-	3.0%	4.0%
Debt subtotal			\$ 11,164	
Less: unamortized debt discount			(61)	

Total debt balance			\$ 11,103	
Notional amount of interest rate exchange agreements (variable to fixed)	-	-	-	-
Average interest rate paid (fixed)	-	-	-	-
Average interest rate received (variable)	-	-	-	-
Notional amount of interest rate exchange agreements (rate collar)	-	-	\$ 47	\$ 4
Average interest rate cap	-	-	7.5%	7.5%
Average interest rate floor	-	-	5.5%	5.5%

Approximately \$148 million of our revenue bonds are supported by letters of credit that expire within one year. We have the intent and ability to renew the letters of credit supporting these revenue bonds. Therefore, maturities of these obligations are reflected in accordance with their stated terms.

The following table presents commitment amounts by year of expected expiration for our standby letters of credit agreements.

(In millions)	2003 - 2007	Thereafter	Total
-----	-----	-----	-----
Standby Letters of Credit**	-	\$ 19	\$ 19

** The Standby Letters of Credit for Bank of America totaling \$597 million are excluded from the balance and included as amounts outstanding to reduce the available credit under the credit facilities.

We have the intent to renew the Standby Letters of Credit where appropriate as they mature; therefore, the obligations do not have a definite maturity date.

Interest rate exchange agreements with a notional amount of \$300 million matured on August 22, 2003. For the first nine months of 2003, interest rate exchange agreements increased interest expense by \$9 million.

At September 27, 2003, we also had interest rate exchange agreements (a collar) that effectively capped \$47 million of floating rate obligations to a maximum interest rate of 7.5% and established a minimum interest rate on these obligations of 5.5%. Our interest expense is unaffected by this agreement when the market interest rate falls within this range. During the first nine months of 2003, these agreements decreased interest expense by approximately \$2 million. The agreements had a weighted-average maturity of approximately two years at September 27, 2003.

We use interest rate swap agreements in the normal course of business to manage and reduce the risk inherent in interest rate fluctuations. The interest rate swap arrangements manage exposure to interest rate changes and are considered hedges of specific borrowings, and differences paid and received under the swap arrangements are recognized as adjustments to interest expense. Under these agreements, we make payments to counter parties at fixed interest rates and in turn receive a payment at variable rates. We entered into interest rate exchange agreements in prior years to protect against the increased cost associated with a rise in interest rates. We may be exposed to losses in the event of nonperformance of counter parties but do not anticipate their nonperformance.

Our senior management has established the parameters of our financial policies, which have been approved by our board of directors. These include balancing our debt and equity to keep our weighted average cost of capital low while retaining the flexibility needed to ensure we can meet our financial obligations when or before they come due and to finance attractive business opportunities. Historically, we set debt targets based on our cash generating capability under various business scenarios. We experience variances in cash flow from period to period and various statistical methods are utilized to reasonably estimate possible deviations in estimated future cash flows.

We maintain a high portion of our debt as long-term at fixed interest rates. We intend to manage the maturities of our long-term debt (excluding bank debt) so that no more than \$500 million matures in any one year and if it does then the sum of the maturities of any two consecutive years does not exceed \$1 billion. Generally, we seek to have 75% of our aggregate debt at fixed rates so as to minimize exposure to fluctuating interest rates. Short-term debt is used in modest proportions and generally for seasonal working capital variations and/or financing some of our accounts receivable. We utilize bank credits for temporary short- and/or intermediate-term financing usually bridging known or expected events. Additionally, we maintain committed, available borrowing capacity to allow for seasonal, timing, or unexpected needs. At September 27, 2003, unused capacity under our Multi-Year Revolving Credit Facility was \$1,612 million.

We continuously review our financing objectives to determine the appropriate level of debt to employ in our capital structure to provide the necessary flexibility to finance future growth and investment opportunities.

As of September 27, 2003, we had \$1.5 billion of debt