

GEORGIA PACIFIC CORP
Form 10-Q
July 28, 2005

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 July 2, 2005

Commission File Number 1-3506

GEORGIA-PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of

93-0432081
(I.R.S. Employer

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incorporation or organization)

Identification Number)

133 Peachtree Street, N.E.,

Atlanta, Georgia 30303

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (404) 652-4000

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of the close of business on July 25, 2005, Georgia-Pacific Corporation had 260,217,191 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)	Second Quarter		First Six Months	
	2005	2004	2005	2004
Net sales	\$ 4,799	\$ 5,188	\$ 9,414	\$ 10,410
Costs and expenses:				
Cost of sales	3,620	3,893	7,055	7,858
Selling and distribution	277	304	549	662
Depreciation, amortization and accretion	233	236	466	480
General and administrative	183	225	368	444
Other losses (income), net	30	(27)	51	(1)
Operating profit	456	557	925	967
Interest, net	153	178	308	375
Income from continuing operations before income taxes	303	379	617	592
Provision for income taxes	109	149	218	220
Income from continuing operations	194	230	399	372
Loss from discontinued operations, net of taxes		(10)		(5)
Net income	\$ 194	\$ 220	\$ 399	\$ 367
Basic per share:				
Income from continuing operations	\$ 0.75	\$ 0.90	\$ 1.55	\$ 1.46
Loss from discontinued operations, net of taxes		(0.04)		(0.02)
Net income	\$ 0.75	\$ 0.86	\$ 1.55	\$ 1.44
Diluted per share:				
Income from continuing operations	\$ 0.73	\$ 0.88	\$ 1.51	\$ 1.42
Loss from discontinued operations, net of taxes		(0.04)		(0.02)
Net income	\$ 0.73	\$ 0.84	\$ 1.51	\$ 1.40
Shares (denominator):				
Weighted average shares outstanding	258.3	255.1	258.1	254.3
Dilutive securities:				
Options and other equity securities	5.7	7.5	5.8	7.5

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Total assuming conversion	264.0	262.6	263.9	261.8
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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)	First Six Months	
	2005	2004
Cash flows from operating activities		
Net income	\$ 399	\$ 367
Adjustments to reconcile net income to cash provided by operations (excluding the effect of dispositions):		
Depreciation	446	474
Amortization of intangible assets, deferred charges and accretion	31	43
Stock compensation (credit) expense	(4)	65
Deferred income taxes	(29)	(75)
Other losses (income), net	51	(3)
Increase in receivables	(133)	(497)
Increase in inventories	(97)	(66)
(Decrease) increase in accounts payable	(104)	223
Change in other working capital	(84)	37
Change in taxes payable/receivable	212	92
Change in other assets and other long-term liabilities	(75)	(186)
Other, net	(5)	34
Cash provided by operations	608	508
Cash flows from investing activities		
Property, plant and equipment investments	(323)	(288)
Acquisitions		(23)
Net (cost) proceeds from sales of assets	(1)	1,386
Other	1	(41)
Cash (used for) provided by investing activities	(323)	1,034
Cash flows from financing activities		
Repayments of long-term debt	(2,169)	(4,412)
Additions to long-term debt	1,991	3,255
Fees paid to issue debt	(1)	(13)
Fees paid to retire debt	(14)	(35)
Net change in bank overdrafts	(14)	(60)
Net increase in accounts receivable secured borrowings and short-term notes	20	(181)
Proceeds from option plan exercises	11	49
Cash dividends paid (\$0.35 per share and \$0.25 per share, respectively)	(91)	(64)
Other, net		(1)
Cash used for financing activities	(267)	(1,462)
Effect of exchange rate changes on cash and equivalents	(29)	(12)
(Decrease) increase in cash	(11)	68
Balance at beginning of period	225	51
Balance at end of period	\$ 214	119

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Supplemental disclosures of cash flow information:

Total interest cost, net continuing operations	\$ 311	\$ 384
Interest capitalized	(3)	(9)
Interest expense, net continuing operations	308	375
Interest expense, net discontinued operations		5
Total interest expense, net	\$ 308	\$ 380
Interest paid	\$ 335	\$ 401
Income tax paid, net	\$ 37	\$ 198
Debt assumed by buyer	\$	\$ 73

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

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CONSOLIDATED BALANCE SHEETS (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(In millions, except shares and per share amounts)	July 2, 2005	January 1, 2005
ASSETS		
Current assets		
Cash and equivalents	\$ 214	\$ 225
Receivables, less allowances of \$26 at both dates presented	1,835	1,766
Inventories	1,617	1,548
Deferred income tax assets	27	28
Taxes receivable		56
Other current assets	315	324
Total current assets	4,008	3,947
Property, plant and equipment		
Land, buildings, machinery and equipment, at cost	17,760	17,934
Accumulated depreciation	(9,628)	(9,529)
Property, plant and equipment, net	8,132	8,405
Goodwill, net	7,418	7,551
Intangible assets, net	658	701
Other assets	2,447	2,468
Total assets	\$ 22,663	\$ 23,072
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Secured borrowings and other short-term notes	\$ 588	\$ 568
Current portion of long-term debt	646	57
Accounts payable	1,488	1,668
Accrued compensation	230	323
Taxes payable	155	
Other current liabilities	996	1,000
Total current liabilities	4,103	3,616
Long-term debt, excluding current portion	7,290	8,064
Other long-term liabilities	3,577	3,698
Deferred income tax liabilities	1,411	1,469
Total liabilities	16,381	16,847
Commitments and contingencies (Note 11)		
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; 258,933,000 and 256,992,000 shares issued and outstanding	207	205
Additional paid-in capital	3,636	3,610
Retained earnings	2,398	2,090

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Accumulated other comprehensive income	41	320
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Total shareholders' equity	6,282	6,225
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Total liabilities and shareholders' equity	\$ 22,663	\$ 23,072
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The accompanying notes are an integral part of these consolidated financial statements.

 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(In millions)	Second Quarter		First Six Months	
	2005	2004	2005	2004
Net income	\$ 194	\$ 220	\$ 399	\$ 367
Other comprehensive income (loss), net of tax:				
Derivative instruments:				
Fair market value adjustments on derivatives	(8)		5	
Reclassification adjustments for gains included in net income	(2)		(2)	
Foreign currency translation adjustments	(166)	(21)	(285)	(65)
Unrealized gain (loss) on securities	1		(2)	
Minimum pension liability adjustment	4	26	5	26
Comprehensive income	\$ 23	\$ 225	\$ 120	\$ 328

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

GEORGIA-PACIFIC CORPORATION AND SUBSIDIARIES

July 2, 2005

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 (SEC) 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.

Management is 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. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our audited financial statements for the fiscal year ended January 1, 2005 in our Form 10-K filed with the SEC on March 1, 2005.

Certain 2004 amounts have been reclassified to conform with the 2005 presentation.

In March 2005, we corrected our accounting for an insurance policy with a three-year term expiring in June of 2005. From 2002 through 2004, we had recorded all payments made under the policy as prepaid insurance, which was amortized into expense. However, a portion of these payments are refundable based upon actual loss experience and, therefore, should have been recorded as a deposit rather than as an insurance expense. Losses covered by the deposit were to be expensed as incurred. We concluded that the resulting overstatement of insurance expense during 2002 through 2004 was not material, either individually or in the aggregate, to our results of operations, to trends for those periods affected, or to a fair presentation of our financial statements. Accordingly, results for the prior periods have not been restated. Instead, we reduced our insurance expense (cost of sales) and increased other current assets by \$24 million to correct this error in the first quarter of 2005. We expect to receive a total cash refund of \$31 million related to the refund of the deposit in the third quarter.

We recorded net losses related to our equity method investments of less than \$1 million for the second quarters of both 2005 and 2004, and \$3 million and \$6 million for the first six months of 2005 and 2004, respectively. Minority interests in income of less than wholly-owned consolidated subsidiaries totaled \$6 million for the second quarter and \$12 million for the first six months of 2005, respectively, and \$4 million and \$10 million for the second quarter and first six months of 2004, respectively. These amounts are included in cost of sales on our consolidated statements of operations.

We classify certain shipping and handling costs as selling and distribution expenses. Shipping and handling costs included in selling and distribution expenses were \$67 million and \$135 million for the second quarter and first six months of 2005, respectively and \$79 million and \$182 million for the second quarter and first six months of 2004, respectively.

Interest, net is interest expense of \$361 million and \$434 million, net of interest income of \$53 million and \$54 million, for the first six months of 2005 and 2004, respectively. A majority of our interest income is associated with the notes received in connection with our sale of a 60% controlling interest in Unisource Worldwide, Inc. (Unisource) in 2002 and sales of various timberlands in prior years.

Other Losses (Income), net

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

(In millions)	Second Quarter		First Six Months	
	2005	2004	2005	2004
Asset impairments	\$ 3	\$ 13	\$ 5	\$ 13
Early extinguishment of debt	13	27	17	53
Estimated loss on warehouse sublease			11	
(Gain) loss on sale of assets		(65)	3	(65)
Settlement of asbestos insurance receivable	3		3	
Tax-exempt bond liability reserve (Note 11)	11		11	
Other		(2)	1	(2)
Other losses (income), net	\$ 30	\$ (27)	\$ 51	\$ (1)

Stock-Based Compensation

Effective December 29, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS No. 148), an amendment of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 148 provides alternative methods of transition to SFAS No. 123 's fair value method of accounting for stock-based compensation and amends the disclosure provisions of SFAS No. 123. We utilized the prospective method in accordance with SFAS No. 148 and applied the expense recognition provisions of SFAS No. 123 to stock options awarded or modified in 2003 and thereafter. Prior to 2003, we accounted for our stock-based compensation plans under APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and disclosed the pro forma effects of the plans on net income and earnings per share as provided under SFAS No. 123. Had compensation cost for the options and other equity securities issued prior to 2003 been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, the pro forma net income and earnings per share would have been as follows:

(In millions, except per share amounts)	Second Quarter		First Six Months	
	2005	2004	2005	2004
Net income as reported	\$ 194	\$ 220	\$ 399	\$ 367
APB No. 25 stock-based employee compensation expense for 2002 awards		7		13
Less stock-based employee compensation expense determined under the fair value based method, net of taxes		(2)		(3)
Pro forma net income	\$ 194	\$ 225	\$ 399	\$ 377
Stock based employee compensation (credit) cost, net of taxes, included in the determination of net income as reported	\$ (3)	\$ 23		\$ 46
Basic net income per share:				
As reported	\$ 0.75	\$ 0.86	\$ 1.55	\$ 1.44

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Pro forma	0.75	0.88	1.55	1.48
Diluted net income per share:				
As reported	\$ 0.73	\$ 0.84	\$ 1.51	\$ 1.40
Pro forma	0.73	0.86	1.51	1.44

Accounting Changes

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 changes the requirements of accounting for and reporting a change in accounting principle and applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement, in the event that the accounting pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods financial statements unless it is impracticable. SFAS No. 154 also requires that a change in the method of depreciation, amortization or depletion of long-lived, nonfinancial

assets be accounted for as a change in accounting estimate effected by a change in accounting principle. The guidance contained in APB Opinion No. 20, *Accounting Changes* for reporting the correction of an error was carried forward in SFAS No. 154 without change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In April 2005, the SEC adopted a new rule that changes the adoption dates of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which is a revision of SFAS No. 123. The SEC's new rule allows companies to implement SFAS No. 123R at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005. The rule does not change the accounting required by Statement No. 123R; it only changes the dates for compliance with the standard. We plan to adopt SFAS No. 123R using the modified prospective method at the beginning of our 2006 fiscal year and do not believe that the adoption will have a material impact on our results of operations or financial position.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations - An Interpretation of FASB Statement No. 143* (FIN 47). FIN 47 clarifies that the term conditional asset retirement obligation, as used in SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. We plan to adopt FIN 47 at the end of our 2005 fiscal year and do not believe that the adoption will have a material impact on our results of operations or financial position.

In December 2004, the FASB issued FASB Staff Position 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* (FSP 109-1). The American Jobs Creation Act (AJCA), introduced a special tax deduction related to qualified production activities. This deduction is equal to 3% of qualified income for years 2005 and 2006, then is scheduled to increase to a 6% deduction for years 2007 through 2009, and finally, will increase to a 9% deduction beginning in year 2010. FSP 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). Effective in the first quarter of fiscal 2005, we qualified for this special tax deduction and considered it in determining our income tax provision. This tax deduction resulted in an approximate 1% reduction in the federal statutory income tax rate applicable to both the second quarter and the first six months of 2005.

In December 2004, the FASB issued Staff Position No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FSP 109-2). The AJCA provides for a special one-time tax deduction, or dividend received deduction (DRD), of 85% of qualifying foreign earnings that are repatriated in either a company's last tax year that began before the enactment date or the first tax year that begins during the one-year period beginning on the enactment date. FSP 109-2 provides entities additional time to assess the effect of repatriating foreign earnings under the AJCA for purposes of applying SFAS No. 109, which typically requires the effect of a new tax law to be recorded in the period of enactment. We may elect, if applicable, to apply the DRD to qualifying dividends of foreign earnings repatriated in our 2005 fiscal year.

Under the limitations on the amount of dividends qualifying for the DRD of the AJCA, the maximum repatriation of our foreign earnings that may qualify for the special one-time DRD is approximately \$670 million. Therefore, the range of possible amounts of qualifying dividends of foreign earnings is between zero and approximately \$670 million. The related potential range of income tax is between zero and approximately \$55 million. We anticipate completing our assessment in the third quarter of 2005.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29* (SFAS No. 153). SFAS No. 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and is to be applied prospectively. The adoption of SFAS No. 153 is not expected to have a material impact on our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs - an Amendment of ARB No. 43, Chapter 4* (SFAS No. 151), which is the result of the FASB's efforts to converge U.S. accounting standards for inventory with International Accounting Standards. SFAS No. 151 requires abnormal amounts of idle facility expense, freight,

handling costs, and wasted material to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We plan to adopt SFAS No. 151 at the beginning of our 2006 fiscal year and do not expect the adoption to have a material impact on our results of operations or financial position.

2. **EARNINGS PER SHARE.** Basic earnings per share is computed based on net income and the weighted average number of common shares outstanding. Diluted earnings per share reflect the assumed issuance of common shares under long-term incentive stock option plans. The decrease in dilutive securities during 2005 was due primarily to a decrease in the number of shares potentially issuable under our plans. 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.

3. **DIVESTITURES.**

Bellingham Tissue Operation

In January 2005, we completed the sale of our Bellingham, Washington, facility to the Bellingham Port Authority (the Port). In addition, we have an agreement with the Port to lease back the land associated with this facility. We received no proceeds from the sale, but the Port assumed substantially all of our environmental liabilities associated with the facility.

Building Products Distribution

On May 7, 2004, we completed the sale of our building products distribution segment. This business did not qualify for discontinued operations reporting and is included in continuing operations in our 2004 results of operations through the date of the sale.

Discontinued Operations

On May 7, 2004, we sold our stand-alone market pulp mills at Brunswick, Georgia, and New Augusta, Mississippi, and a short-line railroad. The results of operations associated with these businesses have been reported as discontinued operations in the accompanying consolidated statements of operations. Operating results of these discontinued operations are:

DISCONTINUED OPERATIONS

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Second Quarter	First Six Months
	2004	

(In millions)

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Net sales	\$ 63	\$ 220
Costs and expenses:		
Cost of sales	51	178
Selling and distribution	2	6
Depreciation, amortization and accretion		13
General and administrative	1	4
Interest, net	2	5
Other income, net	(2)	(2)
Total costs and expenses	54	204
Income from discontinued operations before income taxes	9	16
Provision for income taxes	19	21
Loss from discontinued operations, net of taxes	\$ (10)	\$ (5)

The interest expense allocated to the discontinued operations represents the interest associated with the debt that was assumed by the buyer and interest on debt that was required to be repaid as a result of the disposition.

In addition to our building products distribution business and our stand-alone market pulp mills, we sold other non-strategic assets during the second quarter of 2004, and included the related gains and losses in Other losses (income), net on the consolidated statements of operations. These sales are detailed in the following table:

(In millions)	Pre-tax Gain Included in Other Losses (Income), Net
2004:	
Brazilian pulp business	\$ 26
Packaging assets	23
Other	2

4. ASSET IMPAIRMENTS AND RESTRUCTURING.

In connection with the acquisition of Fort James Corporation (Fort James), in 2001 we recorded liabilities of \$35 million, primarily for lease and contract termination costs at administrative facilities that were closed in California, Connecticut, Illinois, Virginia, Wisconsin and Europe. These leases and contracts expire through 2012. The current remaining balance of the reserve for the lease agreements is approximately \$11 million.

During the second quarter of 2005, we had asset impairments of approximately \$3 million primarily related to the closure of our Caledonia gypsum mine.

During the first quarter of 2005, we had asset impairments of approximately \$2 million related to our Green Bay Broadway facility.

In June 2004, we signed a letter of intent with the Bellingham Port Authority (the Port) to sell our Bellingham facility. In connection with this agreement, we determined that the value of the related assets was impaired. Accordingly, in the second quarter of 2004, we recorded pre-tax charges to earnings of \$11 million for asset impairments related to this facility. The sale to the Port was completed in January 2005.

5. INVENTORY VALUATION. Inventories are valued at the lower of cost or market and include the costs of materials, labor and manufacturing overhead. The last-in, first-out (LIFO) method was used to determine the cost of approximately 68% and 60% of inventories at July 2, 2005 and January 1, 2005, respectively. The cost of other inventories, primarily inventories of foreign subsidiaries and supplies, generally is determined using the first-in, first-out method or weighted-average cost. The value of inventories as presented in our consolidated balance sheets, before reduction for the LIFO reserve, approximates replacement cost at the respective dates. The major components of inventories were as follows:

(In millions)	July 2, 2005	January 1, 2005
Raw materials	\$ 680	\$ 685
Finished goods	831	743
Supplies	283	278
LIFO reserve	(177)	(158)
Total inventories	\$ 1,617	\$ 1,548

6. **GOODWILL AND INTANGIBLE ASSETS.** We are required to assess the fair value of the net assets underlying all acquisition-related goodwill on a reporting unit basis. When the fair value is less than the related carrying value, entities are required to reduce the amount of goodwill. Our reporting units with goodwill are: North America tissue, towel and napkin; Dixie; international consumer products; packaging; paper; lumber; gypsum and chemical.

The changes in the carrying amount of goodwill for the first six months of 2005 and 2004 by reportable segment were:

(In millions)	North America Consumer Products	International Consumer Products	Packaging	Building Products	Consolidated
Balance as of January 3, 2004	\$ 5,831	\$ 987	\$ 630	\$ 36	\$ 7,484
Goodwill acquired during the year			1		1
Reclassifications	2				2
Foreign currency translation		(26)			(26)
Balance as of July 3, 2004	\$ 5,833	\$ 961	\$ 631	\$ 36	\$ 7,461
Balance as of January 1, 2005	\$ 5,816	\$ 1,067	\$ 631	\$ 37	\$ 7,551
Tax related adjustments	(13)	(5)			(18)
Foreign currency translation		(115)			(115)
Balance as of July 2, 2005	\$ 5,803	\$ 947	\$ 631	\$ 37	\$ 7,418

Intangible Assets

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

(In millions)	As of July 2, 2005		As of January 1, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks	\$ 674	\$ 69	\$ 702	\$ 64
Patents and other	136	83	139	76
Total	\$ 810	\$ 152	\$ 841	\$ 140

The aggregate amortization expense for the first six months of 2005 and 2004 was \$18 million and \$16 million, respectively.

7. **ASSET RETIREMENT OBLIGATIONS.** Our asset retirement obligations consist primarily of capping and closure and post-closure costs on certain landfills and quarry reclamation costs. We are legally required to perform capping and closure and post-closure care on such landfills and reclamation on the quarries. In accordance with SFAS No. 143, for each such landfill and quarry, we recognized the fair value of a liability for the 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 such information can be reasonably determined.

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

(In millions)	First Six Months	
	2005	2004
Asset retirement obligation at the beginning of the year	\$ 50	\$ 49
Accretion expense	2	1
Payments		(1)
Write-offs	(1)	(1)
Asset retirement obligation at the end of the second quarter	\$ 51	\$ 48

8. **DEBT.** Our debt decreased by \$165 million to \$8,524 million at July 2, 2005 from \$8,689 million at January 1, 2005. This decrease includes the effect of changes in foreign currency exchange rates and the fair market value of hedged instruments of \$7 million and \$2 million, respectively, during this time period. For the first six months of 2005, the weighted average interest rate on our total debt, including outstanding interest rate exchange agreements, was 7.2%.

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As of July 2, 2005, we had \$588 million outstanding under our \$800 million accounts receivable secured borrowing program through G-P Receivables, Inc., our wholly-owned subsidiary. The total costs of the program for the first six months of 2005 and 2004 were \$11 million and \$8 million, respectively.

During the second quarter of 2005, the IRS determined that \$61 million of tax-exempt bonds issued to finance a portion of solid waste disposal facilities at our Toledo, Oregon mill in the mid-to-late 1990s did not qualify for tax-exempt status. If it is finally determined (including through a judicial determination) that these bonds are taxable, we will call them for redemption under the terms of the bond indentures, and we may do so within the next twelve months. Accordingly, we have classified these bonds in Current portion of long-term debt on the accompanying balance sheets as of July 2, 2005. Depending on the ultimate outcome of the IRS challenge to other series of tax-exempt bonds issued for similar purposes in connection with other facilities, it is possible that we will redeem additional bonds with a principal balance of up to \$232 million with approximately \$7 million of unamortized debt discount and issuance costs at July 2, 2005. We expect all payments required to redeem the bonds would be funded through our senior credit facility. For further information regarding these bonds, see [Note 11](#).

On April 30, 2005, we called \$250 million of our 8.625% debentures due April 30, 2025. In conjunction with this transaction, we recorded a pretax charge of \$13 million for call premiums and to write off deferred debt issuance costs during the second quarter of 2005. This charge for the early extinguishment of debt was included in Other losses (income), net in the accompanying consolidated statements of operations.

During the first quarter of 2005, we repurchased and retired \$25 million of our 9.375% senior notes due February 1, 2013. In conjunction with this transaction, we recorded a pretax charge of \$4 million for premiums and to write off deferred debt issuance costs. This charge for the early extinguishment of debt was included in Other losses (income), net on the accompanying consolidated statements of operations.

During the first quarter of 2005, we gave notice of our intent to exercise an early buyout option on capital leases with associated borrowings of \$42 million due through February 15, 2010 and February 15, 2012. The payment for the early buyout will be made on or about February 15, 2006. Accordingly, we have reclassified the related borrowings as Current portion of long-term debt on the accompanying consolidated balance sheets as of July 2, 2005.

Our \$2.5 billion, five-year, unsecured senior credit facility, which includes a \$500 million non-amortizing term loan, matures July 2, 2009. Amounts committed and outstanding under this facility include the following:

(In millions)	July 2, 2005
Commitments:	
Revolving Loans	\$ 2,000
Term Loans	500
Credit facilities available	2,500
Amounts Committed and Outstanding:	
Letters of Credit Agreements ⁽¹⁾	(531)
Revolving Loans due July 2009, average rate of 4.3%	(328)
Term Loans due July 2009, average rate of 4.8%	(500)
Total committed and outstanding	(1,359)
Total credit available	\$ 1,141

⁽¹⁾ Includes only standby letters of credit supported by our senior credit facility.

As of July 2, 2005, we had an additional \$24 million in letters of credit outstanding from various financial institutions.

Approximately \$109 million of our industrial revenue bonds are supported by letters of credit that expire within one year. We have the ability and intent to refinance these revenue bonds on a long-term basis. Therefore, maturities of these obligations are reflected in accordance with their stated terms.

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We have interest rate exchange agreements that effectively converted \$500 million of fixed-rate obligations to floating-rate obligations. For the six months ended July 2, 2005, these agreements decreased interest expense by \$2 million. The agreements had a weighted-average maturity of approximately four years at July 2, 2005. The estimated fair value of these agreements at July 2, 2005 was an \$8 million liability which is included in Other long-term liabilities in the consolidated balance sheets. Additionally, our debt balance has been reduced by the corresponding amount.

At July 2, 2005, we had an interest rate exchange agreement (a collar) that effectively capped a \$47 million floating rate obligation to a maximum interest rate of 7.5% and established a minimum interest rate on this obligation of 5.5%. Our interest expense is unaffected by this agreement when the market interest rate falls within this range. For the first six months ended July 2, 2005, this agreement reduced interest expense by approximately \$1 million. This interest rate exchange agreement matures October 25, 2005.

The estimated fair value of our interest rate exchange collar at July 2, 2005 was an asset of less than \$1 million, which represents the estimated amount we would have received if this agreement were terminated on July 2, 2005. The fair value at July 2, 2005 was estimated by calculating the present value of anticipated cash flows. The discount rate used was an estimated borrowing rate for similar debt instruments with like maturities.

We currently have \$1.5 billion of debt and equity securities available for issuance under a shelf registration statement filed with the SEC in 2000.

9. **DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES.** During the first quarter of 2005, we entered into commodity swap agreements under our company-wide natural gas hedging program to reduce the risk inherent in fluctuating natural gas prices. These swap agreements are considered cash flow hedges of our natural gas purchases and differences paid and received under the swap agreements are recognized as adjustments to gas costs. These hedges are considered to be highly effective in offsetting the cash flows of our natural gas costs and, therefore, the changes in fair value are recorded in accumulated other comprehensive income. With each type of cash flow hedge, the settlement of the forecasted transaction will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income.

At July 2, 2005, these contracts had a notional quantity of 6.6 million MMBtus of natural gas and the fair market value of such contracts was an asset of \$6 million, all of which represented deferred gains on these hedges included in accumulated other comprehensive income. Deferred gains or losses on these hedges will be reclassified into earnings during the next three months.

We use interest rate exchange agreements to manage our interest rate risk. These interest rate exchange agreements are considered hedges of specific borrowings and differences paid and received under the swap arrangements are recognized as adjustments to interest expense. Such contracts had a total notional amount of \$500 million at July 2, 2005. These hedges are considered to be highly effective and no ineffectiveness was recorded during the first six months of 2005. Changes in the fair value of these swaps and that of the related debt, the net of which is zero, are recorded in *Interest, net* on the accompanying consolidated statements of operations. At July 2, 2005, the fair market value of such contracts was a liability of \$8 million and was recorded in *Other long-term liabilities* on the accompanying consolidated balance sheets. Additionally, our debt balance has been reduced by the corresponding amount.

10. RETIREMENT PLANS.

Defined Benefit Pension Plans

Most of our employees participate in noncontributory defined benefit pension plans. These include plans that are administered solely by us and union-administered multiemployer plans. Our funding policy for solely administered plans is based on actuarial calculations and the applicable requirements by country according to regulation and law. Contributions to multiemployer plans are generally based on negotiated labor contracts.

Benefits under the majority of plans for hourly employees (including multiemployer plans) are primarily related to years of service. We have separate plans for salaried employees and officers under which benefits are primarily related to compensation and age. The officers' plan and the supplemental retirement plans for eligible executives are not funded and are nonqualified for income tax purposes.

Net periodic pension cost during the second quarters and first six months of 2005 and 2004 included the following components:

(In millions)	Second Quarter		First Six Months	
	2005	2004	2005	2004
Service cost of benefits earned	\$ 37	\$ 37	\$ 73	\$ 74
Interest cost on projected benefit obligation	63	63	126	126
Expected return on plan assets	(75)	(72)	(150)	(144)
Amortization of losses	10	9	20	17
Amortization of prior service cost	4	4	8	8

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Settlement and curtailment losses		13		13
Contributions to multiemployer pension plans	2	2	4	5
<hr/>				
Net periodic pension cost	\$ 41	\$ 56	\$ 81	\$ 99
<hr/>				

The net periodic pension cost above includes approximately \$1 million for the first six months of 2004 reported as discontinued operations.

During the first six months of 2005, we recognized \$81 million of pension expense. We anticipate recording an additional \$81 million of pension expense during the remainder of 2005 for a total of \$162 million.

During the first six months of 2005, we made pension contributions of \$60 million. We presently anticipate contributing an additional \$133 million to fund our pension plans during the remainder of 2005 for a total of \$193 million.

Health Care and Life Insurance Benefits

Net periodic postretirement benefit cost during the second quarters and first six months of 2005 and 2004 included the following components:

(In millions)	Second Quarter		First Six Months	
	2005	2004	2005	2004
Service cost of benefits earned	\$ 10	\$ 1	\$ 1	\$ 2
Interest cost on accumulated postretirement benefit obligation	10	9	19	19
Amortization of prior service credit	(4)	(5)	(8)	(9)
Amortization of unrecognized loss	2		4	1
Net periodic postretirement benefit cost	\$ 8	\$ 5	\$ 16	\$ 13

During the first six months of 2005, we recognized \$16 million of postretirement benefit expense. We anticipate recording an additional \$12 million in postretirement benefit cost during the remainder of 2005 for a total of \$28 million.

During the first six months of 2005, we made contributions of \$31 million for the payment of benefits. We presently anticipate contributing an additional \$41 million for the payment of benefits from our retiree medical plans during the remainder of 2005 for a total of \$72 million.

11. **COMMITMENTS AND CONTINGENCIES.** We are involved in various 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 possible liabilities, and defense costs, from actual or potential claims and proceedings involving a wide variety of issues.

Although the ultimate outcome of these 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 matters 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.

ENVIRONMENTAL MATTERS

We are involved in environmental remediation activities at approximately 166 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 43% are being investigated, approximately 19% are being remediated and approximately 38% are being monitored (an activity

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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 have included 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 \$134 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.

The following table presents the activity in our environmental liability account for the second quarters and first six months of 2005 and 2004:

In millions	Second Quarter		First Six Months	
	2005	2004	2005	2004
Beginning balance	\$ 222	\$ 235	\$ 237	\$ 230
Expense (income) included in earnings:				
Related to previously existing matters	4	1	6	2
Related to new matters		5		5
Amounts related to divestiture:				
Bellingham divestiture			(14)	
Reclassification of reserves				7
Payments	(6)	(2)	(9)	(5)
Ending balance	\$ 220	\$ 239	\$ 220	\$ 239

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 (EPA) regarding an investigation of the Kalamazoo River Superfund Site.

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 45% of the costs for the river portion of the RI/FS investigation based on an interim allocation. This 45% 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.

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, and over that period we will make expenditures accrued for post-closure care. 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. The State of Michigan prepared and United States EPA has accepted a new RI/FS for this landfill. The new RI/FS evaluates the same remedies proposed by the PRPs. The decision as to the actual remedy will be made by the United States EPA which decision is expected later this year. We believe the United States EPA will require a remedy for this landfill similar to the King Highway landfill closure. It is anticipated these costs will be paid out over the next five years, and costs 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 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 \$35.5 million on the Kalamazoo River Superfund Site through July 2, 2005, broken down as follows: (in millions)

Site	Expenditures to Date
River	\$ 20.8
King Highway	9.6
A Site	2.1
Willow Blvd.	3.0
	\$ 35.5

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.

FOX RIVER 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, the Wisconsin Department of Natural Resources (WDNR) and the United States EPA issued a Record of Decision (ROD) for Operable Units (OU) 3, 4 and 5 of the Fox River. OU 3 is the section of the Fox River running downstream from Little Rapids to the De Pere dam, and Operable Unit 4 runs from the De Pere dam downstream to the mouth of the Fox River at Green Bay. Operable Unit 5 is Green Bay. The Fort James facility, which potentially discharged PCBs, is located in OU 4 approximately 3 miles downstream from the De Pere dam.

The ROD calls for the removal by dredging of all sediments in OUs 3 and 4 containing PCBs above one part per million. The amount of sediment estimated to contain PCBs above one part per million is 586,800 cubic yards in OU 3 and 5,880,000 cubic yards in OU 4. The ROD also calls for monitored natural recovery for OU 5. The ROD estimates the dredging remedy for OUs 3 and 4 and the monitored natural recovery for OU 5 will cost \$324 million. However, the ROD does allow for capping as an alternative remedy to dredging in certain areas of OUs 3 and 4 if capping would be less costly than dredging and provide the same level of protection as dredging. The WDNR estimated that approximately 40% of the total volume of contaminated sediments in OUs 3 and 4 would be eligible for capping based upon the capping criteria defined in the ROD. The allowance for capping in the ROD represents a major change from the proposed remedial action plan issued by WDNR in 2001, which did not provide or allow for capping in any areas of OUs 3 and 4.

Six other companies have been identified by the governments as PRPs. Under an interim allocation agreement, we were paying 30% of costs incurred by the PRPs in analyzing and responding to all of the governmental documents which preceded the issuance of the ROD. With the issuance of the ROD, we do not anticipate that the PRPs will be engaged in any further formal remedial investigation work as a group. We believe that all of the PRPs are liable for some portion of the costs of remediating OUs 4 and 5, and that our ultimate liability will be less than

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30% of the total estimated cost of remediating the Fox River site.

Following issuance of the ROD we analyzed its remedial provisions as well as the relevant facts impacting our potential liability. We concluded that we will be able to utilize the capping remedy to the extent permitted by the ROD. We also concluded that there are geographic limitations on our potential liability, and that we can limit our responsibility for the removal and capping of PCBs to the part of OU 4 immediately adjacent to and downstream from the Fort James facility in Green Bay, Wisconsin. We share liability for any appropriate monitoring in OU 5 with all of the PRPs.

We have spent approximately \$39.8 million from 1995 to July 2, 2005 on the Fox River site, some of which was spent by Fort James prior to its acquisition by us.

Along with another PRP, we have entered into an Administrative Order by Consent (AOC) to prepare the remedial design for OUs 3, 4 and 5. We are presently developing a basis of design report for the WDNR and United States EPA, which report is due in August of this year.

In 2002, we entered into an agreement with the WDNR and the United States Fish and Wildlife Service to settle claims for natural resource damages under CERCLA, the Federal Water Pollution Control Act, and state law for approximately \$12 million, and to date have paid approximately \$9 million of this amount. The agreement was entered by the Federal District Court in Wisconsin on March 19, 2004 and is now effective. The \$12 million to be paid under this agreement is separate and apart from any costs related to remediation of the Fox River site.

In 1999 we 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.

OTHER

In February 2004, the United States EPA finalized two new maximum achievable control technology (MACT) requirements that establish new air emission limits for plywood and composite panel facilities (PCWP MACT) and for boilers at both wood products and pulp and paper facilities (Boiler MACT). Compliance with these standards will be required by mid-2007. We currently estimate compliance cost for the PCWP MACT standard at 40 plants to be approximately \$80 million and compliance cost for the Boiler MACT to be approximately \$50 million to install emission controls on 38 boilers at various manufacturing locations. The bulk of the capital spending will occur in the second half of 2005 and 2006 and will be funded from operating cash flows.

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.

The following table presents information about the approximate number of our asbestos claims during the first six months of each of 2005 and 2004:

	First Six Months	
	2005	2004
Claims Filed ¹	6,100	19,900
Claims Resolved ²	5,900	20,500
Claims Unresolved at End of Period	59,900	63,700

¹ Claims Filed includes all asbestos claims for which service has been received and/or a file has been opened by us and each such claim represents a plaintiff who is pursuing an asbestos claim against us.

² Claims Resolved include 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, one of our wholly-owned subsidiaries, currently is defending approximately 790 asbestos premises liability claims.

From the commencement of this litigation through July 2, 2005, we either had settled, had dismissed or were in the process of settling a total of approximately 350,200 asbestos claims. For this same period our asbestos payments, for liability, defense and administration, before insurance recoveries and tax benefits, totaled approximately \$906 million. We generally settle asbestos claims for amounts we consider reasonable given the facts and circumstances of each claim.

At the end of 2004, National Economic Research Associates (NERA), nationally recognized consultants in projecting asbestos liabilities, reviewed our asbestos indemnity payments and claims activity in 2004 and compared them to the forecast it prepared in 2002 of our total asbestos liabilities for 2003 through 2012 and subsequently extended in 2003

through 2013. Based on this review, NERA determined that our indemnity payments in 2004 were in line with the 2002 forecast. NERA concluded, as it did at the end of 2003, that the assumptions used in its 2002 forecast to estimate our future asbestos indemnity payments remained valid, and that no changes to the underlying forecast were necessary with respect to that portion of our total liability, other than extending it through 2014. NERA advised that there was a reasonable basis for estimating that \$48 million should be added to our reserves to cover estimated indemnity payments in 2014 so that our total reserves cover the next ten years. We also worked with NERA to develop a revised projection of defense costs based on our historical defense spending. At the end of 2004, we added, with NERA's concurrence, \$109 million to our overall asbestos reserve for defense costs through 2014.

In 2004, as in prior years, and with advice from legal counsel and Navigant Consulting, nationally recognized consultants in insurance, we reviewed our existing insurance policies, analyzed publicly available information bearing on the creditworthiness of our various insurers, and employed insurance allocation methodologies which we and our advisors considered appropriate to ascertain the amount of probable insurance recoveries from our insurers for our present and future asbestos liabilities. Assumptions were made about self-insurance reserves, policy exclusions, liability caps and gaps in our coverage, the resolution of allocation issues among various layers of insurers, as well as insolvencies of certain of our insurance carriers and the continued solvency of our other insurers. Based on this analysis, Navigant Consulting projected our expected insurance recoveries for asbestos liabilities and costs over the period through 2014. In the fourth quarter of 2004, we reduced our insurance receivable by \$2 million to reflect the insolvencies of two small insurers, largely offset by a settlement with another insurer that was more favorable than expected. In the second quarter of 2005, we recorded a charge of \$3 million as a result of a settlement agreement we reached with an insurer during the quarter.

The analyses and projections of NERA and Navigant Consulting 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 potentially exposed to asbestos-containing products manufactured by us, the expected occurrence of various diseases in these potentially exposed populations, the rate at which these potentially exposed populations actually file claims, and activities of the asbestos plaintiffs bar designed to maximize its profits from such claims. The cost of indemnity payments to settle 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 respect to the value of each such 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:

That the number of new claims to be filed against us each year through 2014 will decline at a fairly constant rate each year;

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 2014;

That the average estimated per case settlement costs are anticipated to decrease slightly each year over the period through 2014; and

That the total amount paid by us in settlements and for defense costs will decline at varying rates over the period through 2014.

Among the more important assumptions made by Navigant Consulting 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.

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Given these assumptions and the uncertainties involved in each of them, our actual asbestos indemnity 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 Navigant Consulting projections, and all of such 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 such 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 will make adjustments to such accruals as required by generally accepted accounting principles.

We currently maintain a reserve to cover the probable and reasonably estimable asbestos liabilities and defense costs we believe we will pay through 2014, net of expected insurance recoveries during this same period. The following table

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summarizes accruals to, and payments from, our reserve for our total asbestos personal injury liabilities, receipts from our insurance carriers and other changes to our expected insurance receivables for the first six months of each of 2005 and 2004:

(In millions)	First Six Months	
	2005	2004
Asbestos Liabilities		
Beginning Balance	\$ 984	\$ 1,027
Accruals		
Payments	(75)	(95)
Ending Balance	\$ 909	\$ 932
Insurance Receivable		
Beginning Balance	\$ 525	\$ 576
Accruals (write-offs)	(3)	
Receipts	(7)	(18)
Ending Balance	\$ 515	\$ 558

The amounts accrued for asbestos liabilities are recorded under Other current liabilities and Other long-term liabilities, and the amounts accrued for insurance receivables are reflected under Other current assets and Other assets, in the accompanying consolidated balance sheets.

During the first six months of 2005, the number of new asbestos claims filed against us declined sharply from the same period in 2004, due in part to the effect of tort reform legislation enacted in Mississippi and Texas and recent decisions of the Mississippi Supreme Court relating to venue and jurisdiction. Our indemnity payments to settle pending asbestos cases were below our projections for the first six months of 2005 and down from the same period of 2004. Our defense costs during the first six months of 2005 were approximately equal to our projections for the period and to the same period of 2004. We expect our indemnity payments and defense costs to increase slightly during the remainder of 2005, but at present we expect indemnity payments and defense costs for all of 2005 to be below comparable levels during 2004.

There can be no assurance that our currently accrued asbestos liabilities will be sufficient to cover our payments for such liabilities and related defense costs, or that our accrued insurance recoveries will be realized, through 2014. We believe that it is reasonably possible that we will incur additional charges for our asbestos liabilities and defense costs in the future which could exceed our existing reserves, but cannot estimate such excess amount at this time. We also 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 such excess liabilities would have a material adverse effect on our long-term results of operations, liquidity or consolidated financial position.

OTHER LITIGATION

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

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then spun off to the Fort James shareholders and CV operated these businesses as a stand-alone company beginning in August 1995.

In March 2000, CP and CV filed for bankruptcy. Various creditors have alleged 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 in Federal District Court in San Francisco against Fort James asserting, among other claims, that the transactions described above constituted fraudulent conveyances and seeking unspecified damages. Early in July 2004 that court dismissed a number of these claims, and continued

proceedings with respect to two remaining claims. The court had earlier lifted an injunction imposed by the Federal Bankruptcy Court in Oakland which prevented us from proceeding with an action we filed in Delaware that asserts that in a 1998 agreement CV and CP released all claims against Fort James. CV and CP have appealed these rulings. 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. Accordingly, no amounts have been accrued for a liability in this matter.

TAX-EXEMPT BOND MATTERS

The Internal Revenue Service (IRS) has been investigating whether two series of bonds issued by an agency of the State of Oregon in 1995, the proceeds of which were used to construct a portion of solid waste disposal facilities at our Toledo, Oregon mill, were properly issued as tax-exempt bonds. In April of 2005, the IRS Appeals Office denied an appeal of a determination that the interest paid on such bonds was taxable. Under IRS policy this denial resulted in a final determination that the interest on such bonds was taxable, and that the IRS could proceed to collect taxes on such interest from the bondholders. We have publicly stated that we will take steps to ensure that the holders of these two series of bonds, to the extent they ultimately pay any federal taxes on such interest, will be made whole with respect to any such payments.

In addition, the IRS has been examining whether four series of bonds issued by agencies of the State of Virginia, the proceeds of which were used to construct a portion of solid waste disposal facilities at our Big Island, Virginia mill, were properly issued as tax-exempt bonds. The IRS has issued Preliminary Adverse Determinations that interest paid on these four bond issues was taxable. These determinations are not a final determination of the taxability of such bonds, and we intend to pursue further discussions with the IRS on this issue.

Finally, in 2004 and 2005 the IRS notified state government bodies that issued other series of bonds, the proceeds of which were used to construct portions of solid waste recycling and disposal facilities at several of our other mills, that it intends to examine whether such bonds were properly issued as tax-exempt bonds. Our reports on Form 8-K filed with the SEC on June 7, 2005, June 21, 2005, June 24, 2005, July 5, 2005 and July 11, 2005 identified all of these issues.

We have had meetings with officials of the IRS to discuss the two series of Oregon bonds, and a settlement of the tax-exempt status of all the other bond issues which the IRS is reviewing or intends to examine, including the Virginia bonds discussed above. We strongly disagree with the IRS's view that any of such bonds, including the Oregon and Virginia bonds, were not properly issued as tax-exempt bonds, and are preparing to litigate this issue if necessary. However, we intend to continue these discussions with the IRS. Based on all the information currently available to us, we have established an overall reserve of \$11 million, which represents our current estimate of our costs to resolve these matters.

In July 2005, the Philadelphia office of the Securities and Exchange Commission advised us that it had commenced an informal, non-public inquiry into whether any federal securities laws violations had occurred in connection with the IRS review of the tax-exempt status of the Oregon bonds described above. The SEC has informed us that the informal inquiry is not an indication that any violations of law have occurred, and we intend to cooperate with and assist the SEC in its informal inquiry.

GUARANTEES AND INDEMNIFICATIONS

We are 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.

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 by us to the buyer 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 to us, 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, which result from significant asset sales and divestitures in recent years.

We do not believe that any amounts that we may be required to pay under the indemnities set forth in the agreements relating to recent divestitures will be material to our results of operations, financial position, or liquidity. In the case of each divestiture, we believe that there is a remote likelihood that we will be required to pay any material amounts under any of the indemnity provisions. As a result, we have estimated that the fair value of these indemnities at the date of the closing of the related transaction is minimal and, accordingly, no amounts have been recorded. Should circumstances change, increasing the likelihood of payments related to a specific indemnity, we will accrue a liability when future payment is probable and the amount is reasonably estimable.

There have been no material changes to our indemnifications during the second quarter of 2005. A complete discussion of our indemnifications is detailed in Note 17 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the SEC for the fiscal year ended January 1, 2005.

12. **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 guarantees 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 and Fort James Maine, Inc. (Fort James Guarantor Subsidiaries), subsidiaries of Fort James, also guarantee these senior notes and the securities issued by Fort James. Both Fort James and the Fort James Guarantor Subsidiaries guarantee our senior credit facility. Each subsidiary issuer or subsidiary guarantor is 100% owned by us and all guarantees are full and unconditional.

During the second quarter of 2005, we completed a reorganization of Fort James Corporation subsidiaries resulting in increases in other assets and intercompany notes receivable in the consolidating balance sheets of our guarantor and non-guarantor subsidiaries as a result of the following transactions:

Transfer of intercompany notes receivable between our guarantor and non-guarantor subsidiaries;

Transfer of ownership in a non-guarantor subsidiary to a guarantor subsidiary;

Transfer of ownership in a guarantor subsidiary to a non-guarantory subsidiary.

Included in other non-guarantor subsidiaries is our wholly-owned subsidiary, G-P Receivables Inc. (G-P Receivables), which is a special purpose entity into which some of our receivables and the receivables of participating domestic subsidiaries are sold, as more fully described in Note 8. G-P Receivables bought these receivables at a significant discount during the first three months of 2004 resulting in G-P Receivables recognizing a credit to general and administrative expense of \$286 million, and Georgia-Pacific Corporation, Fort James Corporation, and other non-guarantor subsidiaries recognizing a corresponding charge to general and administrative expense of \$256 million, \$4 million and \$26 million, respectively. At the end of the second quarter of 2004, the transfer agreement between G-P Receivables and our participating domestic subsidiaries was amended whereby the discount factor was substantially reduced for all future purchases. As a result, the credit to general and administrative expenses recognized by G-P Receivables was significantly less subsequent to that time.

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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

SECOND QUARTER 2005

In millions	Fort James		Fort James		Other		Consolidating Adjustments	Consolidated Amounts
	Georgia-Pacific Corp.	Fort James Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
Net sales	\$ 2,262	\$	\$ 1,264	\$ 547	\$ 1,184	\$ (458)	\$ 4,799	
Costs and expenses								
Cost of sales	1,863		840	410	965	(458)	3,620	
Selling and distribution	74		122	49	32		277	
Depreciation, amortization and accretion	69		93	32	39		233	
General and administrative	109		42	30	2		183	
Other (income) losses, including equity income in affiliates	(150)	(109)	1		3	285	30	
Operating profit (loss)	297	109	166	26	143	(285)	456	
Interest expense (income), net	99	2	90	(65)	27		153	
Income (loss) from continuing operations before income taxes	198	107	76	91	116	(285)	303	
Provision (benefit) for income taxes	4	(1)	27	31	48		109	
Income (loss) from continuing operations	194	108	49	60	68	(285)	194	
Income (loss) from discontinued operations, net of taxes								
Net income (loss)	\$ 194	\$ 108	\$ 49	\$ 60	\$ 68	\$ (285)	\$ 194	

CONSOLIDATING STATEMENTS OF INCOME

SECOND QUARTER 2004

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

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Net sales	\$	2,867	\$	1,209	\$	552	\$	1,145	\$	(585)	\$	5,188
Costs and expenses												
Cost of sales		2,272		856		406		943		(584)		3,893
Selling and distribution		106		116		51		31				304
Depreciation, amortization and accretion		68		92		31		45				236
General and administrative		399		41		27		(242)				225
Other (income) losses, including equity income in affiliates		(284)		(80)		1		(25)		2		359
												(27)
Operating profit (loss)		306		80		103		62		366		(360)
												557
Interest expense, net		112		8		96		(62)		24		178
Income (loss) from continuing operations												
before income taxes		194		72		7		124		342		(360)
(Benefit) provision for income taxes		(24)		(3)		2		49		125		149
Income (loss) from continuing operations		218		75		5		75		217		(360)
												230
Income (loss) from discontinued operations, net of taxes		2								(13)		1
												(10)
Net income (loss)	\$	220	\$	75	\$	5	\$	75	\$	204	\$	(359)
												\$
												220

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CONSOLIDATING STATEMENTS OF INCOME

FIRST SIX MONTHS 2005

In millions	Other						Consolidated Amounts
	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiaries	Fort James Non-Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	
Net sales	\$ 4,445	\$	\$ 2,487	\$ 1,111	\$ 2,346	\$ (975)	\$ 9,414
Costs and expenses							
Cost of sales	3,580		1,718	820	1,912	(975)	7,055
Selling and distribution	148		240	97	64		549
Depreciation, amortization and accretion	134		187	66	79		466
General and administrative	228		81	57	2		368
Other (income) losses, including equity income in affiliates	(276)	(182)	4		4	501	51
Operating profit (loss)	631	182	257	71	285	(501)	925
Interest expense (income), net	200	5	178	(130)	55		308
Income (loss) from continuing operations before income taxes							
	431	177	79	201	230	(501)	617
Provision (benefit) for income taxes	32	(2)	35	63	90		218
Income (loss) from continuing operations	399	179	44	138	140	(501)	399
Income (loss) from discontinued operations, net of taxes							
Net income (loss)	\$ 399	\$ 179	\$ 44	\$ 138	\$ 140	\$ (501)	\$ 399

CONSOLIDATING STATEMENTS OF INCOME

FIRST SIX MONTHS 2004

In millions	Other						Consolidated Amounts
	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiaries	Fort James Non-Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	
Net sales	\$ 5,888	\$	\$ 2,350	\$ 1,130	\$ 2,229	\$ (1,187)	\$ 10,410
Costs and expenses							
Cost of sales	4,671		1,702	799	1,873	(1,187)	7,858
Selling and distribution	265		241	97	59		662
Depreciation, amortization and accretion	145		182	67	86		480
General and administrative	791		84	57	(488)		444

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Other (income) losses, including equity income in affiliates	(510)	(139)	2	(26)	3	669	(1)
Operating profit (loss)	526	139	139	136	696	(669)	967
Interest expense, net	243	17	192	(123)	46		375
Income (loss) from continuing operations before income taxes	283	122	(53)	259	650	(669)	592
(Benefit) provision for income taxes	(80)	(6)	(20)	87	239		220
Income (loss) from continuing operations	363	128	(33)	172	411	(669)	372
Income (loss) from discontinued operations, net of taxes	4				(9)		(5)
Net income (loss)	\$ 367	\$ 128	\$ (33)	\$ 172	\$ 402	\$ (669)	\$ 367

CONSOLIDATING STATEMENTS OF CASH FLOWS

FIRST SIX MONTHS 2005

In millions						Other	
	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiaries	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Cash provided by (used for) operating activities	\$ 720	\$ (243)	\$ 121	\$ 194	\$ (184)	\$	\$ 608
Cash flows from investing activities:							
Property, plant and equipment investments	(149)		(84)	(52)	(38)		(323)
Acquisitions							
Net proceeds (cost) from sales of assets	3				(4)		(1)
Other	(2)			(10)	13		1
Cash used for investing activities	(148)		(84)	(62)	(29)		(323)
Cash flows from financing activities:							
Net (decrease) increase in debt	(173)	3	(6)	(14)	18		(172)
Net change in intercompany payable/invested equity	(322)	240	(30)	(88)	200		
Fees paid to issue debt	(1)						(1)
Fees paid to retire debt	(14)						(14)
Proceeds from option plan exercises	11						11
Cash dividends paid	(91)						(91)
Cash provided by (used for) financing activities	(590)	243	(36)	(102)	218		(267)
Effect of exchange rate changes on cash and equivalents				(29)			(29)
(Decrease) increase in cash	(18)		1	1	5		(11)
Balance at beginning of period	18			188	19		225
Balance at end of period	\$	\$	\$ 1	\$ 189	\$ 24	\$	\$ 214

CONSOLIDATING STATEMENTS OF CASH FLOWS

FIRST SIX MONTHS 2004

In millions						Other	
	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiaries	Fort James Non-Guarantor Subsidiaries	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Cash (used for) provided by operating activities	\$ (98)	\$ 29	\$ 178	\$ 250	\$ 149	\$	\$ 508
Cash flows from investing activities:							
Property, plant and equipment investments	(140)		(83)	(29)	(36)		(288)
Acquisitions	(20)		(3)				(23)
Net proceeds from sales of assets	1,031			72	283		1,386
Other	(13)	(13)	13	1	(29)		(41)
Cash provided by (used for) investing activities	858	(13)	(73)	44	218		1,034
Cash flows from financing activities:							
Net decrease in debt	(877)	(354)	(30)	(29)	(109)		(1,399)
Net change in intercompany payable/invested equity	177	338	(76)	(176)	(263)		
Fees paid to issue debt	(13)						(13)
Fees paid to retire debt	(35)						(35)
Proceeds from option plan exercises	49						49
Cash dividends paid	(64)						(64)
Cash (used for) provided by financing activities	(763)	(16)	(106)	(205)	(372)		(1,462)
Effect of exchange rate changes on cash and equivalents				(12)			(12)
(Decrease) increase in cash	(3)		(1)	77	(5)		68
Balance at beginning of period	1		1	25	24		51
Balance at end of period	\$ (2)	\$	\$	\$ 102	\$ 19	\$	\$ 119

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CONSOLIDATING BALANCE SHEETS

AS OF JULY 2, 2005

In millions	Other						Consolidating Adjustments	Consolidated Amounts
	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiaries	Fort James Non-Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
ASSETS								
Current assets								
Cash and equivalents	\$	\$	\$ 1	\$ 189	\$ 24	\$	\$	\$ 214
Receivables, less allowances	15		1	520	1,299			1,835
Inventories	569		536	266	246			1,617
Deferred income tax assets	57		(26)	1	(5)			27
Intercompany interest receivable	74	4	23	19		(120)		
Other current assets	143		47	59	94	(28)		315
Total current assets	858	4	582	1,054	1,658	(148)		4,008
Total property, plant and equipment, net	2,680		2,972	1,139	1,341			8,132
Goodwill, net	491		5,797	953	177			7,418
Intercompany note receivable	2,340	33		5,434	236	(8,043)		
Other assets	10,878	11,006	9,423	8,369	931	(37,502)		3,105
Total assets	\$ 17,247	\$ 11,043	\$ 18,774	\$ 16,949	\$ 4,343	\$ (45,693)		\$ 22,663
LIABILITIES AND SHAREHOLDERS EQUITY								
Current liabilities								
Short-term debt	\$ 582	\$	\$ 54	\$ 10	\$ 588	\$	\$	\$ 1,234
Accounts payable	570		187	473	258			1,488
Intercompany interest payable		34	11	24	52	(121)		
Other current liabilities	955	10	165	123	155	(27)		1,381
Total current liabilities	2,107	44	417	630	1,053	(148)		4,103
Long-term debt, excluding current portion	6,553	419	167	46	105			7,290
Other long-term liabilities	2,110	2	537	147	870	(89)		3,577
Deferred income tax liabilities	(41)	(8)	807	177	476			1,411
Intercompany note payable	236	884	4,759	76	2,087	(8,042)		
Shareholders' /invested equity	6,282	9,702	12,087	15,873	(248)	(37,414)		6,282
Total liabilities and shareholders' equity	\$ 17,247	\$ 11,043	\$ 18,774	\$ 16,949	\$ 4,343	\$ (45,693)		\$ 22,663

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CONSOLIDATING BALANCE SHEETS

AS OF JANUARY 1, 2005

In millions	Georgia-Pacific Corp.	Fort James Corp.	Fort James Guarantor Subsidiaries	Fort James	Other	Consolidating Adjustments	Consolidated Amounts
				Non-Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
ASSETS							
Current assets							
Cash and equivalents	\$ 18	\$	\$	\$ 188	\$ 19	\$	\$ 225
Receivables, less allowances	16			574	1,176		1,766
Inventories	489		515	298	246		1,548
Deferred income tax assets	58		(26)	1	(5)		28
Intercompany interest receivable	626	7		10	91	(734)	
Other current assets	238		17	53	83	(11)	380
Total current assets	1,445	7	506	1,124	1,610	(745)	3,947
Total property, plant and equipment, net	2,661		3,070	1,277	1,397		8,405
Goodwill, net	491		5,810	1,073	177		7,551
Intercompany note receivable	2,302	1,500		3,990	236	(8,028)	
Other assets	10,603	9,817	1,256	320	928	(19,755)	3,169
Total assets	\$ 17,502	\$ 11,324	\$ 10,642	\$ 7,784	\$ 4,348	\$ (28,528)	\$ 23,072
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Short-term debt	\$ 30	\$	\$ 15	\$ 12	\$ 568	\$	\$ 625
Accounts payable	616		206	555	291		1,668
Intercompany interest payable	91	279	8		355	(733)	
Other current liabilities	882	8	172	127	143	(9)	1,323
Total current liabilities	1,619	287	401	694	1,357	(742)	3,616
Long-term debt, excluding current portion							
	7,270	417	212	59	106		8,064
Other long-term liabilities	2,203	1	540	174	874	(94)	3,698
Deferred income tax liabilities	(51)	(8)	837	194	497		1,469
Intercompany note payable	236	887	4,727	83	2,095	(8,028)	
Shareholders' /invested equity	6,225	9,740	3,925	6,580	(581)	(19,664)	6,225
Total liabilities and shareholders equity	\$ 17,502	\$ 11,324	\$ 10,642	\$ 7,784	\$ 4,348	\$ (28,528)	\$ 23,072

13. OPERATING SEGMENT INFORMATION. We have five reportable operating segments: North America consumer products, international consumer products, packaging, bleached pulp and paper, building products. In May 2004, we sold our building products distribution business. The following represents selected operating data for each reportable segment for the second quarters and first six months of 2005 and 2004.

CONSOLIDATED SELECTED OPERATING SEGMENT DATA (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(Dollar amounts in millions)	Second Quarter 2005		Second Quarter 2004	
NET SALES TO UNAFFILIATED CUSTOMERS				
North America consumer products	\$ 1,514	32%	\$ 1,427	28%
International consumer products	503	10	509	10
Packaging	736	15	715	14
Bleached pulp and paper	377	8	400	7
Building products	1,667	35	1,514	29
Building products distribution			622	12
Other	2		1	
Total net sales to unaffiliated customers	\$ 4,799	100%	\$ 5,188	100%
INTERSEGMENT SALES				
North America consumer products	\$ 1		\$	
International consumer products	1			
Packaging	31		26	
Bleached pulp and paper	148		151	
Building products	185		368	
Building products distribution				
Other ¹	(366)		(545)	
Total intersegment sales	\$		\$	
TOTAL NET SALES				
North America consumer products	\$ 1,515	32%	\$ 1,427	28%
International consumer products	504	10	509	10
Packaging	767	16	741	14
Bleached pulp and paper	525	11	551	11
Building products	1,852	39	1,882	36
Building products distribution			622	12
Other ¹	(364)	(8)	(544)	(11)
Total net sales	\$ 4,799	100%	\$ 5,188	100%
OPERATING PROFITS (LOSSES)				
North America consumer products	\$ 220	48%	\$ 148	26%
International consumer products	22	5	38	7
Packaging	68	14	82	14
Bleached pulp and paper ²	2	1	27	5
Building products	228	49	366	66
Building products distribution			40	7
Other ³	(84)	(17)	(144)	(25)
Total operating profits	456	100%	557	100%

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Interest expense	(153)	(178)
Income from continuing operations before income taxes	303	379
Provision for income taxes	(109)	(149)
Income from continuing operations	194	230
Income (loss) from discontinued operations, net of taxes		(10)
Net income	\$ 194	\$ 220

¹ Includes elimination of intersegment sales.

² Amounts in 2005 and 2004 include operating losses of \$5 million from our 38.85% minority interest in Unisource.

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

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CONSOLIDATED SELECTED OPERATING SEGMENT DATA (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(Dollar amounts in millions)	First Six Months 2005		First Six Months 2004	
NET SALES TO UNAFFILIATED CUSTOMERS				
North America consumer products	\$ 2,974	32%	\$ 2,768	27%
International consumer products	1,029	11	1,051	10
Packaging	1,466	16	1,364	14
Bleached pulp and paper	800	9	787	8
Building products	3,141	32	2,553	24
Building products distribution			1,883	17
Other	4		4	
Total net sales to unaffiliated customers	\$ 9,414	100%	\$ 10,410	100%
INTERSEGMENT SALES				
North America consumer products	\$ 1		\$ 1	
International consumer products	1			
Packaging	61		52	
Bleached pulp and paper	299		296	
Building products	382		981	
Building products distribution			3	
Other ¹	(744)		(1,333)	
Total intersegment sales	\$		\$	
TOTAL NET SALES				
North America consumer products	\$ 2,975	32%	\$ 2,769	27%
International consumer products	1,030	11	1,051	10
Packaging	1,527	16	1,416	14
Bleached pulp and paper	1,099	12	1,083	10
Building products	3,523	37	3,534	34
Building products distribution			1,886	18
Other ¹	(740)	(8)	(1,329)	(13)
Total net sales	\$ 9,414	100%	\$ 10,410	100%
OPERATING PROFITS (LOSSES)				
North America consumer products	\$ 430	46%	\$ 270	28%
International consumer products	64	7	96	10
Packaging	143	15	127	13
Bleached pulp and paper ²	9	1	7	
Building products	432	47	629	65
Building products distribution			98	10
Other ³	(153)	(16)	(260)	(26)
Total operating profits	925	100%	967	100%
Interest expense	(308)		(375)	
Income from continuing operations before income taxes	617		592	
Provision for income taxes	(218)		(220)	

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Income from continuing operations	399	372
Income (loss) from discontinued operations, net of taxes		(5)
<hr/>		
Net income	\$ 399	\$ 367

¹ Includes elimination of intersegment sales.

² Amounts in 2005 and 2004 include operating losses of \$11 million and \$13 million, respectively, from our 38.85% minority interest in Unisource.

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

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

Company Overview

We are one of the world's leading manufacturers and marketers of tissue, packaging, paper, building products, and related chemicals. We employ approximately 55,000 people at more than 300 locations in North and South America and Europe. Our operations break down into four principal businesses:

Consumer Products. Our consumer products business is the world's second largest manufacturer of retail and commercial tissue products. We rank first in North America and are a leading manufacturer in Europe. We also manufacture and market our Dixie® line of disposable tabletop products such as cups, plates, and cutlery for sale throughout North America;

Building Products. We are a leading producer of building products in the United States, with a portfolio of traditional and technologically advanced products, such as our leading moisture and mildew-resistant exterior gypsum sheathing, DensGlass Gold®, and our Plytanium® structural wood panels;

Packaging. We believe our packaging business, which is built around some of the lowest cost containerboard mills in the United States, yields us the highest return on assets and sales in this industry; and

Paper. Our office paper brands are sold through retailers throughout the United States. We are the largest supplier of office paper to the warehouse club and mass retailer channels, and the fifth-largest office paper producer in North America.

Our strategy is to improve our portfolio of businesses by investing in businesses that are high value-added and that position us closer to consumers. A key component of that strategy is improving our bath tissue, paper towel and napkin business, which we refer to as our tissue business. We believe that our acquisition of Fort James Corporation in late 2000 directly facilitated that strategy. In our other paper and forest products businesses, we are focused on maximizing cash returns by differentiating our products, partnering with our large growing customers, and improving supply chain efficiencies.

A number of factors can affect our businesses, including the effectiveness of our operating initiatives, our relationship with several significant customers, changes in global and local business and economic conditions, inflationary cost pressures for raw materials and energy costs, our debt and liquidity and uncertainty about our asbestos liabilities. These and other risks are noted in the section entitled "Factors That May Affect Future Results" at the end of this discussion and analysis. For further information regarding our asbestos litigation, see Note 11 of the Notes to Consolidated Financial Statements, which information is incorporated herein by this reference.

OVERVIEW OF SECOND QUARTER 2005 RESULTS

Cash flow and liquidity continue to be strong.

Cash flow from operations for the second quarter was \$516 million.

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Debt was \$8,524 million at July 2, 2005.

Overall net sales were somewhat flat.

After adjusting for the sale of our building products distribution segment, which was sold in May 2004, net sales increased by \$56 million, or 1%, over second quarter 2004. While Building Product sales were strong in the quarter, they were down from the record levels experienced in the second quarter of 2004. This decline was more than offset by higher sales in our North American Consumer Products and Packaging segments.

Average sales prices for our major U.S. product lines excluding structural panels were higher in the second quarter of 2005 compared to the same period in 2004, due primarily to price increases realized in the second half of 2004 and the first quarter of 2005.

Third Party Sales by Principal Business

Second Quarter

Operating profit and income from continuing operations for the second quarter of 2005 decreased from the same period in 2004.

Operating profit for the second quarter decreased from \$557 million to \$456 million, a decrease of 18%.

Income from continuing operations decreased from \$230 million to \$194 million, a decrease of 16%.

Raw materials and energy inflation increased our operating costs approximately \$105 million and \$223 million during the second quarter and first six months of 2005 compared to the same periods in 2004. Fiber costs are expected to decline somewhat in the second half of 2005, while energy costs are expected to remain high.

Our operations were also negatively affected by both planned and unplanned mill maintenance outages during the second quarter of 2005.

The second quarter 2004 includes \$58 million of gains on business divestitures and asset sales, and \$40 million of operating profit from our building products distribution business prior to its sale.

Stock compensation expense was \$41 million lower during the second quarter of 2005.

The following chart shows the change in operating profit by segment.

Note: In May 2004, we sold our Building Products Distribution business.

RESULTS OF OPERATIONS AND RELATED INFORMATION

In this section, we discuss and analyze our net sales, operating profit and other information relevant to an understanding of our results of operations for the second quarter and first six months of 2005. In this discussion and analysis, we compare our second quarter and the first six months of 2005 results with second quarter and first six months of 2004 results.

Analysis of Net Sales by Business Segment Second Quarter and Six Months Ended July 2, 2005

In millions	Second Quarter		Change in Net Sales		Distribution of Change in Net Sales		
	2005	2004	Total		Price/Mix	Volume	Other
Net sales:							
North America consumer products	\$ 1,515	\$ 1,427	\$ 88	6%	8%	(2)%	
International consumer products	504	509	(5)	(1)	(2)	(3)	4%
Packaging	767	741	26	4	4		
Bleached pulp and paper	525	551	(26)	(5)	4	(9)	
Building products	1,852	1,882	(30)	(2)	(1)		(1)
Building products distribution ⁽¹⁾		622	(622)	(100)			(100)
Other ⁽²⁾	(364)	(544)	180	32			32
Total net sales	\$ 4,799	\$ 5,188	\$ (389)	(7)%	2%	(1)%	(8)%

In millions	First Six Months		Change in Net Sales		Distribution of Change in Net Sales		
	2005	2004	Total		Price/Mix	Volume	Other
Net sales:							
North America consumer products	\$ 2,975	\$ 2,769	\$ 206	7%	8%	(1)%	
International consumer products	1,030	1,051	(21)	(2)	(3)	(3)	4%
Packaging	1,527	1,416	111	8	8		
Bleached pulp and paper	1,099	1,083	16	1	6	(5)	
Building products	3,523	3,534	(11)			1	(1)
Building products distribution ⁽¹⁾		1,886	(1,886)	(100)			(100)
Other ⁽²⁾	(740)	(1,329)	589	44			44
Total net sales	\$ 9,414	\$ 10,410	\$ (996)	(10)%	2%		(12)%

(1) Represents second quarter sales from the building products distribution segment prior to its sale on May 7, 2004.

- (2) Includes the elimination of intersegment sales.

Consolidated net sales were lower for the second quarter and first six months of 2005 compared to the same periods in 2004. Excluding net sales by the building products distribution segment and treating our intrasegment sales to this segment as outside sales, consolidated net sales for the second quarter and first six months of 2005 from our ongoing operations increased approximately 1% and 4%, respectively, compared to the same periods in 2004.

North America Consumer Products

The increase in net sales for both the second quarter and first six months of 2005 was primarily the result of higher pricing achieved during 2004 for retail tissue, and higher pricing achieved during 2004 and the first quarter of 2005 for commercial tissue and Dixie products. This was offset slightly by lower volumes as we implemented these price increases.

International Consumer Products

The decrease in net sales for both the second quarter and first six months of 2005 was primarily the result of a six week industry-wide strike in Finland and continuing competitive market conditions in most countries, which caused a decrease in our sales volumes and put downward pressure on selling prices in local currencies. This was somewhat offset by a weaker U.S. dollar relative to the Euro, which benefited reported net sales by approximately \$20 million and \$42 million for the second quarter and the first six months of 2005, respectively.

Packaging

The increase in net sales for the second quarter and first six months of 2005 was primarily the result of higher pricing achieved in the second half of 2004 for all products. Volumes, however, remained flat for the second quarter and first six months of 2005, below forecasted levels.

Bleached Pulp and Paper

The decrease in net sales for the second quarter was primarily the result of lower volumes in communication paper due to softer markets and the elimination of production capacity with the shut-down of a machine in 2004. This was offset somewhat by pricing increases implemented in the second half of 2004.

The overall increase in net sales for the first six months of 2005 was primarily due to pricing increases implemented in the second half of 2004. This was partially offset by declining volumes in communication paper due to softer markets in 2005 and the elimination of production capacity.

Building Products

The decrease in net sales for the second quarter and first six months of 2005 was primarily due to lower prices for our structural panel products as a result of additional capacity and imports over last year. This was partially offset by higher average selling prices for lumber, industrial wood panels, gypsum and chemical products. Although overall segment volumes were flat for the second quarter, we did experience higher volumes for our lumber, gypsum and structural panel products offset by lower volumes from our industrial

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wood products. In May 2005, we completed the startup of our Hosford oriented strand board facility in Florida, which contributed to the increased volumes in our structural panel products. Volumes for the first six months of 2005 were up over the same period in 2004, with higher volumes for our lumber and gypsum products offset by lower volumes from our industrial wood products.

Net sales for the second quarter and first six months of 2004 also include approximately \$18 million and \$36 million in sales from four hardwood lumber mills, which were sold during 2004.

Analysis of Operating Profit (Loss) by Business Segment Second Quarter and Six Months Ended July 2, 2005

Second Quarter									
In millions	2005	2004	Change		Distribution of change in Operating Profit/Loss				
			Total		Price/Mix	Volume	Raw Materials & Energy	Other	
Operating profit (loss):									
North America consumer products	\$ 220	\$ 148	\$ 72	49%	77%	(5)%	(23)%		
International consumer products	22	38	(16)	(42)	(39)	(16)	1	12%	
Packaging	68	82	(14)	(17)	30			(13)	(34)
Bleached pulp and paper	2	27	(25)	(93)	96	(44)	(59)	(86)	
Building products	228	366	(138)	(38)	(23)	10	(16)	(9)	
Building products distribution			40	(100)					(100)
Other	(84)	(144)	60	42	(12)			12	42
Total operating profit	\$ 456	\$ 557	\$ (101)	(18)%	9%	2%	(19)%	(10)%	

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First Six Months								
In millions	2005	2004	Change		Distribution of change in Operating Profit/Loss			
			Total		Price/Mix	Volume	Raw Materials & Energy	Other
Operating profit (loss):								
North America consumer products	\$ 430	\$ 270	\$ 160	59%	86%	(3)%	(26)%	2%
International consumer products	64	96	(32)	(33)	(32)	(16)	(9)	24
Packaging	143	127	16	13	65	(6)	(20)	(26)
Bleached pulp and paper	9	7	2	29	1000	(186)	(414)	(371)
Building products	432	629	(197)	(31)	(7)	5	(19)	(10)
Building products distribution		98	(98)	(100)				(100)
Other	(153)	(260)	107	41	(11)		11	41
Total operating profit	\$ 925	\$ 967	\$ (42)	(4)%	29%	(2)%	(23)%	(8)%

North America Consumer Products

The increase in operating profit for the second quarter and first six months of 2005 was primarily due to improved pricing and mix across all channels for retail and commercial tissue and Dixie products. Additionally, the first six months of 2004 included advertising and promotion costs due to the re-launch of our Brawny® paper towels and Quilted Northern® bathroom tissue. The resulting increase in operating profit was partially offset by cost inflation for fiber, resin, electricity and natural gas as well as higher distribution costs. Shipments were down slightly in both the second quarter and first six months of 2005, as the realization of price increases continued in commercial tissue and Dixie. Business conditions are expected to remain strong in the second half of 2005, due to seasonal factors as well as previously announced price increases for commercial tissue.

Included in the results for the first six months of 2005 and 2004 were charges of \$7 million and \$21 million, respectively. The charges for 2005 related to employee termination costs and asset impairments at our Green Bay Broadway facility in the first quarter. The 2004 charges related to asset writedowns at our Bellingham, Washington facility in addition to asset writedowns and employee severance at our Green Bay Broadway facility.

International Consumer Products

The decrease in segment operating profit for the second quarter and the first six months of 2005 primarily resulted from lower prices in local currencies due to competitive market conditions in most countries and higher costs for raw materials and energy. This was offset somewhat by efforts to reduce selling and other manufacturing costs. Decreased volumes during the second quarter of 2005 were primarily a result of a six week industry-wide strike in Finland and the delay in the rebuild and start up of a tissue machine in the United Kingdom. Operating profit for the second quarter and first six months of 2005 also included the positive impact from a weaker U.S. dollar against the functional currencies of the businesses in the segment of \$1 million and \$3 million, respectively. We expect the competitive market conditions in most countries to continue in the second half of 2005.

Included in the first six months of 2005 results is income of \$3 million which represents the segment's portion of the reversal of prior period insurance charges, described further in [Note 1](#). Included in the first six months of 2004 results is \$4 million in income related to the reversal of accrued severance costs in our U.K. operations.

Packaging

Results for the second quarter 2004 included a gain of \$23 million related to the sale of packaging assets offset by a charge of \$5 million for relocation expenses.

Excluding these items, the increase in operating profit for the second quarter and first six months of 2005 was primarily due to price increases achieved for all products in the second half of 2004, offset by increased costs in fiber, energy and maintenance. We do not anticipate significant non-seasonal increases in demand for the balance of the year and will continue to operate to meet demand. In addition, based on current published price indices we expect lower pricing levels in the second half of 2005.

Bleached Pulp and Paper

Results for the first six months of 2005 included a loss of \$11 million related to a sublease of a warehouse vacated by Unisource in the first quarter of 2005.

Results for the first six months of 2004 included a gain of \$26 million related to the sale of our interest in a Brazilian pulp business.

Excluding these items, the increase in operating profit for the second quarter and first six months of 2005 was primarily due to continued higher average selling prices first achieved in the second half of 2004. This was partially offset by lower volumes and higher costs for raw materials and energy and impacts resulting from planned and unplanned maintenance outages. Losses related to our minority interest in Unisource were \$5 million and \$11 million for the second quarter and first six months of 2005, respectively, compared to \$5 million and \$13 million for the second quarter and first six months of 2004, respectively. We expect pricing pressure in communication paper to increase over the second half of 2005.

Building Products

The decrease in operating profit for both the second quarter and first six months of 2005 primarily resulted from higher raw materials and energy costs and lower prices for our structural panel products as a result of additional capacity and imports. This was offset slightly by higher average selling prices for lumber, gypsum and industrial wood panels as well as increased volumes for structural panels, lumber and gypsum. Residential and non-residential construction is expected to remain strong in the second half of 2005. During the second quarter of 2005 we implemented price increases on ToughRock[®] wallboard, which remains on allocation throughout the United States, and we have announced a third quarter price increase on our proprietary Dens Technology products.

Operating profit for second quarter of 2005 included impairment charges of \$3 million related to the Caledonia gypsum mine closure. Operating profit for first six months of 2004 included severance costs of \$2 million related to the closing of certain plants during the first quarter of 2004.

Building Products Distribution

This segment was sold on May 7, 2004.

Other

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

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The results for the second quarter and first six months of 2005 included charges of \$13 million and \$17 million, respectively, for the early extinguishment of debt compared with \$27 million and \$53 million for the second quarter and first six months of 2004, respectively.

During the second quarter and first six months of 2005, stock-based compensation expense decreased by \$41 million and \$72 million, respectively, due to lower stock prices and to the recognition in 2004 of expense related to 2002 performance awards.

During the second quarter 2005 we had \$21 million in lower costs related to incentive compensation, foreign currency translation and favorable insurance experience adjustments offset by a liability reserve of \$11 million related to an IRS challenge of the tax-exempt status of bonds described further in Note 11. For the first six months of 2005 we experienced \$5 million in higher costs related to foreign currency translation and a favorable workers compensation experience adjustment in 2004.

The results for the first quarter of 2005, includes a reversal of prior period insurance charges of \$24 million described further in Note 1, \$21 million of which was recorded in the Other segment. We expect to receive a total cash refund of \$31 million in the third quarter as the insurance contract expired.

Consolidated Statement of Operations Discussion:

Interest:

During the second quarter and first six months of 2005, Interest expense, net decreased \$25 million and \$67 million, respectively, compared to the same periods in 2004 principally as a result of lower debt levels, offset somewhat by higher average variable interest rates. Debt was approximately \$713 million lower during the second quarter of 2005 compared to the same period of 2004. For the second quarter and first six months of 2004, interest expense allocated to discontinued operations was \$2 million and \$5 million, respectively.

Income Tax:

The effective income tax rates for the second quarter and the first six months of 2005 were lower than the rates for the comparable periods in 2004 primarily as a result of an increase in tax expense resulting from the sale of certain operating businesses in the second quarter of 2004 and the impact of the federal tax deduction for qualified production activities, as described in Note 1, partially offset by an increase in the valuation allowance associated with certain deferred tax assets of one of our foreign subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

We believe it is important to manage our debt and equity to keep our weighted average cost of capital low while retaining the flexibility needed to ensure that we can meet our financial obligations and finance capital spending and attractive business opportunities. We continuously review the appropriate level of debt to employ in our capital structure, targeting investment grade metrics. Generally, we seek to have 75% of our aggregate debt at fixed rates so as to minimize exposure to fluctuating interest rates. Currently, approximately 76% of our aggregate debt is at fixed rates.

Short-term debt is generally used to fund seasonal working capital needs. We utilize bank credit for temporary short- to intermediate-term financing, and to bridge known or expected events. Additionally, we maintain committed, available borrowing capacity to allow for seasonal, timing or unexpected needs.

We expect our cash flow from operations and financing activities will be sufficient to fund planned capital investments, pay dividends and make scheduled debt repayments for the foreseeable future. The following discussion provides further details of our liquidity and capital resources.

OPERATING ACTIVITIES. For the first six months of 2005 we generated cash from operations of \$608 million. Working capital increased approximately \$290 million during the first six months, reflecting incentive payments from 2004 and an increase in taxes payable. Taxes paid declined by \$161 million versus the same period in 2004. During the first six months of 2004 we generated cash of \$508 million.

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INVESTING ACTIVITIES. Capital expenditures for property, plant and equipment for the first six months of 2005 were \$323 million, compared to \$288 million in 2004. Our capital spending for 2005 is expected to be approximately \$820 million and will be funded primarily by cash flows from operations. This includes a new oriented strand board facility in Hosford, Florida, which began operating in the second quarter of 2005. Other major projects for 2005 include the installation of a boiler and a turbine generator at our Port Hudson, Louisiana facility and the installation of wastewater treatment equipment at our Palatka, Florida facility. The following chart shows our capital expenditures for the first six months by business operating segment.

In February 2004, the United States EPA finalized two new maximum achievable control technology (MACT) requirements that establish new air emission limits for plywood and composite panel facilities (PCWP MACT) and for boilers at both wood products and pulp and paper facilities (Boiler MACT). Compliance with these standards will be required by mid-2007. We currently estimate compliance cost for the PCWP MACT standard at 40 plants to be approximately \$80 million, and compliance cost for the Boiler MACT to be approximately \$50 million to install emission controls on 38 boilers at various manufacturing locations. The bulk of the capital spending will occur in the second half of 2005 and throughout 2006 and will be funded from operating cash flows.

In January 2005, we completed the sale of our Bellingham, Washington facility to the Bellingham Port Authority (the Port) for no consideration other than the Port's assumption of substantially all environmental liabilities associated with the facility site. We incurred cash expenditures of approximately \$6 million related to the sale.

FINANCING ACTIVITIES. Our debt decreased by \$165 million to \$8,524 million at July 2, 2005 from \$8,689 million at January 1, 2005. This decrease includes the effect of changes in foreign currency exchange rates and the fair market value of hedged instruments of \$7 million and \$2 million, respectively, during this time period. For the first six months of 2005, the weighted average interest rate on our total debt, including outstanding interest rate exchange agreements, was 7.2%. The following table details changes in our short and long-term debt balances during the first six months of 2005:

(in millions)	Short-term debt	Long-term debt ⁽¹⁾	Total
Beginning balances:	\$ 568	\$ 8,121	\$ 8,689
Maturities			
Industrial revenue bonds		(8)	(8)
Repayments		(304)	(304)
Borrowings		13	13
Net change in short-term debt ⁽²⁾	20		20
Net change in revolving loans ⁽³⁾		123	123
Other:			
Effect of foreign currency exchange rates		(7)	(7)
Change in the fair market value of hedged instruments		(2)	(2)
Ending balances	\$ 588	\$ 7,936	\$ 8,524

(1) Ending balance includes current portion of long-term debt of \$646 million.

(2) Net change includes repayments and re-borrowings on our short-term debt of \$479 million and \$499 million, respectively.

(3) Net change includes repayments and re-borrowings of our senior credit facility of \$1,857 million and \$1,980 million, respectively.

For a detailed discussion of our current year activity, refer to [Note 8](#).

Our borrowing arrangements contain a number of financial and non-financial covenants. In addition, certain agreements contain cross-default provisions. Our continued compliance with these covenants is dependent on a number of factors, many

of which are outside of our control. Should events occur that result in noncompliance, we believe there are remedies available that are acceptable to our lenders and us. As of July 2, 2005 we were in compliance with all of our debt covenants.

As of July 2, 2005, we had \$588 million outstanding under our \$800 million accounts receivable secured borrowing program through G-P Receivables, Inc., our wholly owned-subsiidiary. The total cost of the program for the first six months of 2005 and 2004 were \$11 million and \$8 million, respectively.

During the second quarter of 2005, the IRS determined that \$61 million of tax-exempt bonds issued to finance a portion of solid waste disposal facilities at our Toledo, Oregon mill in the mid-to-late 1990s did not qualify for tax-exempt status. If it is finally determined (including through a judicial determination) that these bonds are taxable, we will call them for redemption under the terms of the bond indentures, and we may do so within the next twelve months. Accordingly, we have classified these bonds in Current portion of long-term debt on the accompanying balance sheets as of July 2, 2005. Depending on the ultimate outcome of the IRS challenge to other series of tax-exempt bonds issued for similar purposes in connection with other facilities, it is possible that we will redeem additional bonds with a principal balance of up to \$232 million with approximately \$7 million of unamortized debt discount and issuance costs at July 2, 2005. We expect all payments required to redeem the bonds would be funded through our senior credit facility. For further information regarding these bonds, see [Note 11](#).

On April 30, 2005, we called \$250 million of our 8.625% debentures due April 30, 2025. In conjunction with this transaction, we recorded a pretax charge of \$13 million for call premiums and to write off deferred debt issuance costs during the second quarter of 2005. This charge for the early extinguishment of debt was included in Other losses, net in the accompanying statements of operations.

During the first quarter of 2005, we repurchased and retired \$25 million of our 9.375% senior notes due February 1, 2013. In conjunction with this transaction, we recorded a pretax charge of \$4 million for premiums and to write off deferred debt issuance costs during the first quarter of 2005. This charge for the early extinguishment of debt was included in Other losses, net on the accompanying consolidated statements of operations.

During the first quarter of 2005, we exercised an early buyout option on capital leases with associated borrowings of \$42 million due through February 15, 2010 and February 15, 2012. The payment for the early buyout will be made on or about February 15, 2006. We have reclassified the related borrowings as Current portion of long-term debt on the accompanying consolidated balance sheets as of July 2, 2005.

We have interest rate exchange agreements that effectively converted \$500 million of fixed-rate obligations to floating-rate obligations. For the six months ended July 2, 2005, these agreements decreased interest expense by \$2 million. The agreements had a weighted-average maturity of approximately four years at July 2, 2005. The estimated fair value of these agreements at July 2, 2005 was an \$8 million liability, which is offset by an adjustment to our debt of \$8 million.

Our \$2.5 billion, five-year, unsecured senior credit facility which includes a \$500 million non-amortizing term loan matures July 2, 2009. Amounts committed and outstanding under this facility include the following:

(In millions)	July 2, 2005
Commitments:	
Revolving loans	\$ 2,000
Term loans	500

Credit facilities available	2,500
Amounts Committed and Outstanding:	
Letter of credit agreements ⁽¹⁾	(531)
Revolving loans due July 2009, average rate of 4.3%	(328)
Term loans due July 2009, average rate of 4.8%	(500)
Total committed and outstanding	(1,359)
Total credit available	\$ 1,141

(1) Includes only standby letters of credit supported by the senior credit facility.

As of July 2, 2005, we had an additional \$24 million in letters of credit outstanding from various financial institutions.

As of July 2, 2005, 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.

During the first six months of 2005 and 2004, we paid dividends totaling \$91 million and \$64 million, respectively. On February 3, 2005, we announced that our Board of Directors increased our quarterly cash dividend by 40 percent to 17.5 cents per share from 12.5 cents per share. The increased dividend is equal to an annual rate of 70 cents per share compared with the previous annual rate of 50 cents per share.

Contractual Obligations

There have been no material changes to our contractual obligations from those disclosed in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 1, 2005.

Related-Party Transactions

Unisource:

We own a 38.85% interest in Unisource, which continues to be a customer with sales to it of \$61 million and \$129 million for the second quarter and first six months of 2005, respectively, and \$77 million and \$147 million for the second quarter and first six months of 2004, respectively. We have the following continuing relationships with Unisource:

Two payment-in-kind notes receivable with face amounts of \$70 million and \$100 million and a book value of approximately \$144 million at July 2, 2005,

A sublease receivable with a balance of \$139 million at July 2, 2005,

During the second quarter 2005 we were released from our obligation to loan up to \$100 million to Unisource.

GA-MET:

Our joint venture GA-MET owns and operates our main office building in Atlanta, Georgia. At July 2, 2005, GA-MET had an outstanding mortgage loan payable in the amount of \$119 million. In the event of foreclosure, each partner has severally guaranteed payment on one-half of any shortfall of collateral value to the outstanding secured indebtedness.

Critical Accounting Estimates

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In applying our accounting policies, we are often required to make certain assumptions about matters that are uncertain at the time. In some instances, our use of different assumptions might have resulted in different accounting estimates that could have had a material impact on the presentation of our financial condition or results of operations. Although many of our accounting policies require us to make assumptions, the accounting policies which we believe involve our most critical accounting estimates are detailed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K filed with the SEC for the fiscal year ended January 1, 2005. We have reviewed these accounting policies and related estimates with the Audit Committee of our Board of Directors and our external auditors and have not made any changes in estimates or assumptions that have had a significant effect on the previously or currently reported amounts.

See Note 1 of the Notes to Consolidated Financial Statements for information on accounting standards changes.

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. Some of the matters discussed in this Form 10-Q concerning, among other things, our business outlook, anticipated financial and operating results, strategies and contingencies, constitute forward-looking statements and are based upon management's expectations and beliefs concerning future events. There can be no assurance that these events will occur or that our results will be as estimated. In some cases, the forward-looking statements contained in this Form 10-Q can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, or estimates, or the negative of these terms or other comparable terminology.

Forward-looking statements are only predictions. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements, which are based on information known today and speak only as of the date of the filing of this Form 10-Q. Moreover, in the future, we, through our senior management team, may make additional or different forward-looking statements about the matters described in this Form 10-Q. We undertake no obligation to publicly revise any of these forward-looking statements to reflect changes in the facts or information on which they are based or any events or circumstances occurring after the date hereof. Actual events or future results may differ materially as a result of the following

factors, as well as other factors described elsewhere in this Form 10-Q, and in our other SEC filings, including those described in our Form 10-K for the fiscal year ended January 1, 2005 and incorporated herein by this reference. Events that could cause actual results to differ materially from our forward-looking statements include the following: the continued realization of announced price increases for many of our products; continued strength in new home building and home renovation; the effect of general economic conditions on the demand for consumer products, building products, and pulp and paper; the corresponding level of demand for and cost of wood fiber, wastepaper, energy and other costs; the success of the branding and marketing strategies we are pursuing for our consumer products; the effect of changes in the productive capacity of manufacturers of competitive products; unanticipated expenditures with respect to environmental, safety and health laws; our ability to continue to reduce debt; and actions taken or to be taken by the United States or other governments as a result of the situation in Iraq and acts or threats of terrorism.

The following more detailed factors, which we again caution are not exclusive, are additional considerations that may affect our future results.

Litigation

We are subject to significant asbestos litigation liabilities and costs, as discussed below, and to other litigation risks that are similar to other corporations of our size and complexity in an increasingly litigious environment. While we do not believe that any of these matters will be material to our long-term financial status, certain litigation-related matters may be material to our results of operations in certain reporting periods.

Projecting liabilities for asbestos litigation is subject to a number of important risks and uncertainties, including the possibility that the number of asbestos claims filed against us in the future will be greater than projected; the risk that the cost of defending and settling current and future asbestos claims will be higher than projected, resulting in more rapid depletion of available insurance coverage and higher out-of-pocket costs; the possibility of additional insolvencies among insurance carriers; the risk that final resolution of allocation, coverage or other issues affecting available insurance coverage will result in lower insurance recoveries than forecast; the possibility that adverse jury verdicts could require us to pay damages in amounts greater than the amounts for which we now settle cases; and the risk that bankruptcies of other asbestos defendants may increase our liabilities in the future.

These or other factors could cause our actual liabilities to be materially higher, and our insurance recoveries to be materially lower, than those projected and recorded to date. If these or other factors cause us to determine that the assumptions used to project our asbestos liabilities and defense costs, and insurance recoveries, through 2014 are no longer reasonable, or if we determine that our asbestos liabilities, net of insurance recoveries, for years after 2014 will be material, we may have to establish additional reserves relating to asbestos beyond the charges already taken, and the amount of these reserves may be material. We cannot estimate the amount of any such additional reserves at this time.

Competition, Business Volatility and Ability to Achieve Business Plans

We face intense competition from both large international and small domestic producers in each of our operating segments.

In our consumer products businesses, we face competition from established, global consumer products competitors. Aggressive actions by these competitors can lead to decreased pricing and/or increased advertising and promotional spending by us in order to maintain market share. In order to achieve and/or maintain leadership positions in key product categories, we must continue to develop brand recognition and loyalty through the development and introduction of new products and product line extensions, enhance product quality and performance, and develop our marketing and distribution capabilities to serve our customers.

Operating results in our building products, packaging and paper businesses are typically more volatile than in our consumer products businesses. Most of the products in these businesses are commodities, whose selling prices tend to be the principal competitive factor. We cannot control such factors as decreasing demand from customers or increasing supply from competitors, both of which may cause rapid price decreases for such products and in turn adversely affect our net sales, operating income and cash flows.

Dependence on Significant Customers

We consider major mass retailers, warehouse club stores and supermarket chains in both North America and Europe to be significant customers across one or more of our operating segments and we have developed specific and unique approaches to working with these individual customers, which include Wal-Mart Stores Inc., Costco Wholesale Corp., Sam's Wholesale, Carrefour SA, The Home Depot, Inc., Lowe's Companies Inc., Royal Ahold N.V., Target Corp., Sysco Corp., Kroger Co., Unisource, US Foodservice and Staples Inc.

We face strong competition for the business of these significant customers. Although no single customer accounts for more than 10% of our consolidated revenues, if any one of our significant customers reduces, delays or cancels substantial orders for any reason, our business and results of operations could be negatively affected, particularly for the quarter in which the delay or cancellation occurs.

We generally do not have long-term sales agreements or other contractual assurances as to future sales to any of our major customers. In addition, continued consolidation in the retail industry has resulted in an increasingly concentrated retail base. To the extent such concentration continues to occur, our net sales and operating income may be increasingly sensitive to deterioration in the financial condition of, or other adverse developments involving our relationship with, one or more customers. Another result of consolidation in the retail industry is that our customers are able to exert increasing pressure on us with respect to pricing and payment terms.

Commodity Price Risks

We are exposed to material commodity price risks through our purchases of wood, recycled fiber and pulp, which we use to make our products. Costs for these raw materials are driven by industry supply and demand, weather, environmental and logging regulations, the demand for materials from overseas markets, and many other factors. Increases in the prices of wood, recycled fiber and pulp will adversely affect our earnings if we cannot increase the selling prices of products that we manufacture from them, or if such increases significantly trail the increases in these costs. Derivative instruments have not been used to manage these risks.

Our manufacturing operations utilize large amounts of electricity, natural gas and petroleum-based fuels. To insure that we use all forms of energy cost-effectively, we maintain ongoing energy efficiency improvement programs at all of our manufacturing sites. Our contracts with energy suppliers vary as to price, payment terms, quantities and duration. Energy costs are also affected by various market factors, including the availability of supplies of particular forms of energy, energy prices and local and national regulatory decisions. There can be no assurance that there will not be substantial increases in the price, or less availability, of energy sources in the future, especially in light of recent instability in some energy markets, or that we can pass on any such increases through increases in the price of our products.

Costs Associated with Environmental Compliance and Remediation

Our operations are subject to significant regulation by federal, state and local environmental and safety authorities. The costs of compliance with existing and new regulatory schemes could require significant capital expenditures that would decrease the amount of funds available for investment in other areas of our operations. For example, the EPA has recently issued the MACT regulations as described in Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. The costs of compliance with these regulations, and additional or supplementary regulations, cannot be quantified in all cases, and there can be no assurance that the costs of such compliance will not be material to our results of operations in certain reporting periods. In addition, the costs of remediating known environmental sites, as described above and in [Note 11](#) of the Notes to Consolidated Financial Statements, in some instances has been significant, and remediation of future sites could also be significant. There can be no assurance that the final remediation costs of various environmental sites will not exceed currently estimated costs, or that additional sites will not require significant remediation expenses.

Substantial Indebtedness

As described elsewhere in this Form 10-Q, we have substantial indebtedness. Our ability to meet our debt service obligations and to repay our outstanding indebtedness will depend in part on cash from operations. There can be no assurance that our businesses will be able to generate sufficient cash flows from operations, as they are subject to general economic, business, financial, competitive, legislative, regulatory and other

factors beyond our control.

Costs Associated with Resolution of Tax-Exempt Bond Matters

As discussed in this Form 10-Q, in the second quarter of 2005 the Internal Revenue Service determined that two series of tax-exempt bonds issued to finance a portion of the cost of solid waste disposal facilities at our Toledo, Oregon mill did not qualify for tax-exempt status. The IRS is also examining other series of bonds issued for similar purposes in connection with other company facilities. As a result, we have established a liability reserve of \$11 million. However, there can be no assurance that the final cost of resolving these bond matters will not exceed this currently estimated amount. While we do not believe that our ultimate costs to resolve these bond matters is likely to have a material adverse effect on our consolidated financial condition, it is possible that the effect could be material to our consolidated results of operations for an individual reporting period.

Mill Outages

Our manufacturing process is vulnerable to operational problems that can impair our ability to produce our products. Many of our facilities contain complex and sophisticated machines that are used in our manufacturing processes. We could experience a breakdown in any of these machines or other important equipment, and from time to time schedule planned and unplanned outages to conduct maintenance that cannot be performed safely during operations. Such disruptions could cause significant lost production, which could have a material adverse effect on our business, financial condition and operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a multinational enterprise, we are exposed to risks such as changes in interest rates, commodity prices and foreign currency exchange rates. We employ a variety of practices to manage these risks, including operating and financing activities and, where deemed appropriate, the use of derivative instruments. Derivative instruments are used only for risk management purposes and not for speculation or trading, and are not used to address risks related to foreign currency exchange rates.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, we record all derivative instruments as assets or liabilities on the balance sheet at fair value. Changes in the fair value of derivatives are either recorded in income or other comprehensive income, as appropriate. The gain or loss on derivatives designated as fair value hedges and the offsetting loss or gain on the hedged item attributable to the hedged risk are included in current income in the period that changes in fair value occur. The gain or loss on derivatives designated as cash flow hedges is included in other comprehensive income in the period that changes in fair value occur and is reclassified to income in the same period that the hedged item affects income. The gain or loss on derivatives that have not been designated as hedging instruments is included in current income in the period that changes in fair value occur.

Presented below is a description of our most significant risks (interest rate risk, commodity price risk and foreign currency risk).

Interest Rate Risks

Interest rate risk is managed through the maintenance of a portfolio of variable- and fixed-rate debt composed of short- and long-term instruments. The objective is to maintain a cost-effective mix that management deems appropriate. At July 2, 2005, the debt portfolio was composed of approximately 24% of variable-rate debt, adjusted for the effect of interest rate exchange agreements, and 76% of fixed-rate debt. Our strategy to manage exposure to interest rate fluctuations did not change significantly during the first six months of 2005 and management does not foresee or expect any significant changes in its exposure to interest rate fluctuations or in how such exposure is managed in the near future. See [Note 8](#) of the Notes to Consolidated Financial Statements.

Commodity Price Risks

We are exposed to material commodity price risks through our purchases of wood, recycled fiber and pulp, which we use to make our products. See [Factors That May Affect Future Results](#) [Commodity Price Risks](#), above.

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Our natural gas hedging program (See Note 9 of the Notes to Consolidated Financial Statements) is used to manage fluctuations resulting from commodity price risk in the procurement of natural gas. Our objective is to fix the price of a portion of our forecasted purchases of natural gas used in the manufacturing process.

At July 2, 2005, these contracts had a notional quantity of 6.6 million MMBtus of natural gas and the fair market value of such contracts was an asset of \$6 million. As of July 2, 2005, \$6 million of deferred gains on these hedges was included in accumulated other comprehensive income. Deferred gains or losses on these hedges will be reclassified into earnings during the next three months.

Foreign Currency Risk

The translation of the balance sheets of our non-U.S. operations from local currencies into U.S. dollars is sensitive to changes in foreign currency exchange rates. These translation gains or losses are recorded as foreign currency translation adjustments within stockholders' equity. We also have transactional gains and losses that are caused by changes in foreign currency exchange rates compared to the U.S. dollar. These transaction gains or losses flow through the consolidated statement of operations.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures which, by their nature, can provide only reasonable assurance regarding management's control objectives.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer along with our Chief Financial Officer, on the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, each of our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to Georgia-Pacific Corporation (including its consolidated subsidiaries) required to be included in our Exchange Act reports. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

PART II - OTHER INFORMATION

GEORGIA-PACIFIC CORPORATION

July 2, 2005

Item 1. Legal Proceedings.

The information contained in Note 11 of the Notes to Consolidated Financial Statements filed as part of this Quarterly Report on Form 10-Q is incorporated herein by this reference.

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

The annual meeting of shareholders of the Corporation was held on May 3, 2005. A total of 215,377,040 of the Corporation's shares were represented in person or by proxy at the meeting. This represented 82.889% of the Corporation's 259,839,087 shares issued, outstanding and entitled to vote at such meeting.

Proposal 1:

Shareholders elected five directors for three-year terms that will expire at the annual meeting in of shareholders in 2008 or until their successors are elected and qualified. The vote tabulation for individual directors was:

<u>Directors</u>	<u>For</u>	<u>Withheld</u>
James S. Balloun	209,746,840	5,630,200
Thomas D. Bell, Jr.	209,686,179	5,690,861
Jon A. Boscia	209,748,296	5,628,744
Alston D. Correll	207,033,158	8,343,882
John D. Zeglis	209,726,259	5,650,781

Other directors whose term of office as a director continued after the meeting were Barbara L. Bowles, Donald V. Fites, Sir Richard V. Girodano, David R. Goode, Karen N. Horn Ph.D., M. Douglas Ivester, William R. Johnson, Louis W. Sullivan, M.D. and Lee M. Thomas.

Proposal:	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
2. Approval of 2005 Long-Term Incentive Plan	179,679,337	11,215,068	2,560,732	21,921,903
3. Ratification of Independent Auditors	212,523,625	1,384,987	1,468,428	N/A

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4.	Amendment of Bylaws to Eliminate Classified Board Structure	150,766,916	40,204,112	2,484,109	21,921,903
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Proposals 2 and 3 were approved. Proposal 4 was not approved by the required minimum of 75% of the Corporation's shares outstanding. The text of the above proposals are incorporated by reference to Items 2, 3 and 4, respectively, of the Corporation's definitive Proxy Statement dated March 21, 2005, filed with the SEC pursuant to Regulation 14A on March 21, 2005.

Item 6. Exhibits.

- Exhibit 23.1 - Consent of National Economic Research Associates (NERA).(1)
- Exhibit 23.2 - Consent of Navigant Consulting.(1)
- Exhibit 31.1 - Certification by Alston D. Correll, as Chairman and Chief Executive Officer of Georgia-Pacific Corporation, pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241). (1)
- Exhibit 31.2 - Certification by Danny W. Huff, as Executive Vice President-Finance and Chief Financial Officer of Georgia-Pacific Corporation, pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241). (1)
- Exhibit 32.1 - Certification by Alston D. Correll, as Chairman and Chief Executive Officer of Georgia-Pacific Corporation, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350). (1)
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(1) Filed herewith via EDGAR.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 28, 2005

GEORGIA-PACIFIC CORPORATION
(Registrant)

by /s/ Danny W. Huff

Danny W. Huff,
Executive Vice President -

Finance and Chief Financial Officer

by /s/ Robert P. Nelson

Robert P. Nelson,
Vice President and Controller

(Chief Accounting Officer)

GEORGIA-PACIFIC CORPORATION

INDEX TO EXHIBITS

FILED WITH THE QUARTERLY REPORT

ON FORM 10-Q FOR THE

THREE MONTHS ENDED JULY 2, 2005

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