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	**93-0432081**
(State or other jurisdiction of	**(I.R.S. Employer**

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 x No ¨

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

	Second Quarter		First Six Months	
(In millions, except per share amounts)	**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

Total assuming conversion	264.0	262.6	263.9	261.8

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

	First Six Months	
(In millions)	**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

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.

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

Accumulated other comprehensive income	41	320
Total shareholders equity	6,282	6,225
Total liabilities and shareholders equity	$ 22,663	$ 23,072

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

	Second Quarter		First Six Months	
(In millions)	**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

	Second Quarter		First Six Months	
(In millions)	**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 Compensatio*n (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:

	Second Quarter		First Six Months	
(In millions, except per share amounts)	**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

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
(In millions)	**2004**	

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:

	As of July 2, 2005		As of January 1, 2005	
(In millions)	**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:

	First Six Months	
(In millions)	**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%.

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.

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:

	Second Quarter		**First Six Months**	
(In millions)	**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

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

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:

	Second Quarter		First Six Months	
(In millions)	**2005**	**2004**	**2005**	**2004**
Service cost of benefits earned	$	$ 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 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:

	Second Quarter		First Six Months	
In millions	**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

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.

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 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:

	First Six Months	
(In millions)	**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 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.

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

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)	379
(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

CONSOLIDATING STATEMENTS OF INCOME

FIRST SIX MONTHS 2005

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

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	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)					