

GEORGIA PACIFIC CORP
Form 10-K/A
August 16, 2002
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

**FORM 10-K/A
Amendment No. 1**

(Mark One)

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

For the Fiscal Year Ended December 29, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 1-3506

GEORGIA-PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

93-0432081
(I.R.S. Employer
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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
Georgia-Pacific Corporation Georgia-Pacific Group Common Stock (\$.80 par value)	New York Stock Exchange
Premium Equity Participating Security Units PEPS Units	New York Stock Exchange
Georgia-Pacific Group Rights to Purchase Series B Junior Preferred Stock (no par value)	New York Stock Exchange

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of the close of business on March 7, 2002, the registrant had 230,201,893 shares of Georgia-Pacific Common Stock outstanding.

The aggregate market value of the voting stock held by non-affiliates of the registrant on March 7, 2002 (assuming, for the sole purpose of this calculation that all executive officers and directors of the registrant are affiliates) was \$6,396,717,968 for Georgia-Pacific Common Stock.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of Georgia-Pacific Corporation's definitive Proxy Statement for use in connection with its Annual Meeting of Shareholders scheduled to be held on May 7, 2002 are incorporated by reference in answer to Part III of this Form 10-K.

EXPLANATORY NOTE

Georgia-Pacific Corporation (the Corporation) is filing this amendment (the Amendment) to its Annual Report on Form 10-K to include the audit report of Ernst & Young LLP on the Corporation's consolidated financial statements as of December 29, 2001 and December 30, 2000 and for the three years in the period ended December 29, 2001. Ernst & Young audited these financial statements after it replaced the Corporation's previous auditor in March 2002. The audit report of Ernst & Young LLP contains an unqualified opinion, as did the audit report of the Corporation's previous auditor. Ernst & Young's audit did not cause any restatement of the Corporation's consolidated financial position or the consolidated results of its operations, as previously filed. The Amendment includes a new Note 18, and revisions to Notes 14 and 17, to the consolidated financial statements, and revisions to Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations. These revisions include certain information and disclosures requested by the Staff of the Securities and Exchange Commission. Except as otherwise noted, the disclosures in the Amendment are of the date of the original filing of the Annual Report.

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ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended December 29, 2001

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PART I

ITEM 1. BUSINESS

Georgia-Pacific Corporation was organized in 1927 under the laws of the State of Georgia.

The Corporation is engaged in five principal business operations: the manufacture of tissue products (including bath tissue, paper towels, and napkins) and disposable tabletop products (including disposable cups, plates and cutlery); the manufacture of containerboard and packaging (including linerboard, medium, kraft and corrugated packaging); the manufacture of bleached pulp and paper (including paper, market and fluff pulp, and bleached board) and the distribution of paper products and supplies manufactured by the Corporation or purchased from others; and the manufacture and distribution of building products (including plywood, oriented strand board, various industrial wood products, and softwood and hardwood lumber as well as certain non-wood products including gypsum board, chemicals and other products). During 2001, the Corporation, through its timber and timberlands business referred to as The Timber Company also engaged in the growing of timber on approximately 4.7 million acres of timberlands that the Corporation owned or leased. In 2001, these timberlands supplied approximately 10% of the overall timber requirements of the Corporation's manufacturing facilities. On October 6, 2001, the Corporation completed the spin off of The Timber Company which merged with and into Plum Creek Timber Company, Inc. (Plum Creek) (see Note 3 of the Notes to Consolidated Financial Statements).

Among North American producers, Georgia-Pacific ranks first in the production of tissue paper products, disposable tableware, and industrial panels; second in structural wood panels, wood bonding and industrial thermosetting resins; third in lumber products and gypsum wallboard; fourth in containerboard, corrugated packaging and market pulp; and fifth in paper (uncoated free-sheet). The Corporation's building products distribution business is the leading supplier of wholesale building products in the United States. Georgia-Pacific's office product distribution business, Unisource Worldwide, Inc. (Unisource), is one of the largest distributors of paper and janitorial and other supplies in North America. Georgia-Pacific's chemical business also supplies paper chemicals and tall oil based chemicals.

Most of Georgia-Pacific's products are made of solid wood, virgin and recycled wood fiber, or wood by-products. Georgia-Pacific purchases the majority of these readily available raw materials from timber owners (such as Plum Creek), independent log merchants and brokers, and recycled fiber brokers.

Georgia-Pacific's strategy is to improve its portfolio of businesses by divesting or exiting non-strategic businesses, and by acquiring and investing in businesses that are high value-added and that position Georgia-Pacific closer to consumers. A key component of that strategy is improving the Corporation's bath tissue, paper towel and napkin business, which is commonly referred to as the tissue business. The Corporation believes that its acquisition of Fort James Corporation in 2000 directly facilitated that strategy. In 2001, in connection with the Corporation's redirection of its focus away from commodity-based businesses, the Corporation sold a portion of its pulp and paper assets to Domtar Inc. and divested its timber businesses by redeeming all of the outstanding shares of stock of The Timber Company and merging its timber businesses with Plum Creek.

As the Corporation completed evaluations of its business portfolio last year, it became increasingly convinced that separating its consumer products and packaging business and its building products business has the potential to create shareholder value. In the summer of 2001, management began working on a plan to create separate vehicles for those businesses. Management believes there are a number of potential benefits from separating the businesses. Among them, it is believed a separation would create both a high-value-added consumer products and packaging company with strong brands and stable cashflow and one of the strongest domestic pure-play building products companies; drive sharpened management focus and provide better performance incentives; eliminate cross-subsidies, with each business free to use its cash flow to reinvest or distribute to shareholders as appropriate; and allow each business to develop its own appropriate strategies and capital structures.

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Georgia-Pacific operates its production facilities in four operating segments: Consumer Products, Packaging, Bleached Pulp and Paper, and Building Products. Financial information about these operating segments is included in Note 2 of the Notes to the Consolidated Financial Statements. Operating segment descriptions follow.

Consumer Products Segment

Georgia-Pacific is the largest North American producer of tissue products, a leading manufacturer of tissue products in Europe, and, through its Dixie business, the largest producer of disposable tableware in North America. The segment's products include a wide array of branded and private label consumer and commercial tissue products. These include bath tissue, paper towels and napkins, which are made from virgin and recycled fibers, as well as disposable plates, cups and cutlery. Primary production of these products takes place in 27 tissue mills throughout Europe and the United States and 12 disposable tableware plants in the United States. Worldwide tissue capacity is approximately four million tons, making this segment the world's largest producer of tissue products. In 2001, export and foreign sales accounted for approximately \$1,692 million, or 24% of segment sales. Markets for tissue products are generally influenced by population growth, changes in per capita consumption, and levels of economic activity in a geographic market.

In March 2001, Georgia-Pacific completed the sale of 368,000 tons of tissue manufacturing capacity, associated converting facilities, and related sales and marketing functions to Svenska Cellulosa Aktiebolaget (publ) (SCA) for approximately \$850 million (see Note 3 of the Notes to Consolidated Financial Statements). The majority of this sale involved products in the commercial or away-from-home market.

Our Consumer Products segment is broken down into three divisions; North American Tissue, European Tissue, and Dixie.

North American Tissue

Georgia-Pacific's consumer products segment is the largest producer of tissue products, such as bath tissue, paper towels and napkins, in North America. The business produces both branded and private label tissue products made from virgin and recycled fibers for the retail and commercial markets. Fourteen production and converting facilities located throughout the United States and a converting facility in Mexico produce finished goods to serve the North American market. In 2001, North American sales accounted for approximately \$4,549 million, or 74% of tissue sales.

Retail Tissue. In the retail (or at-home) channel, which accounted for approximately 67% of domestic tissue sales in 2001, Georgia-Pacific produces both branded and private label products. The Corporation's principal retail brands include Quilted Northern and Angel Soft bath tissue (the number two and three bathroom tissue brands, respectively), Brawny and Sparkle paper towels (the number two and three paper towel brands, respectively), and six of the seven leading napkin brands including Mardi Gras napkins (the leading paper napkin brand) and Vanity Fair premium dinner napkins (the number one premium napkin brand). Other retail brands include Sparkle paper napkins (the number three paper napkin brand), and Soft N Gentle bathroom and facial tissue, MD bath tissue, Mardi Gras towels, Zee napkins (number one on the West Coast), and Green Forest towels and napkins.

Georgia-Pacific also supplies private label or customer brand products to some of the largest retailers in the United States. The Corporation believes that it is the leading supplier to the United States private label towel and tissue market, with an estimated market share between 40% and 45%. Additionally, the Corporation believes it is the leading supplier of tissue, towel and napkin products to the warehouse club channel.

Commercial Tissue. In 2001, the other 33% of domestic tissue sales came from commercial and industrial (or away-from-home) markets through the Corporation's office product distribution business (Unisource), independent paper distributors, food service and janitorial distributors, and directly to national fast food accounts for use in restaurants, offices, factories, hospitals, schools and hotels. The Corporation's principal away-from-

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home brands include proprietary dispensing systems for the Cormatic, Ultimatic and Guardian brands; Envision, the leading brand of environmentally positioned 100% recycled tissue, towel and napkin products. With an estimated market share of approximately 39%, Georgia-Pacific believes it is now the leading producer of towel and tissue products in the United States away-from-home channel.

European Tissue

The European tissue business is a leading supplier of paper-based consumer products in many European countries. Product lines in both the retail and away-from-home markets include bathroom and facial tissue, paper towels and napkins. Retail sales include both branded and private label products. The Corporation also markets feminine hygiene products and pharmacy supplies in select countries. These products are manufactured across Europe in 13 mills with an annual capacity of over 946,000 tons, or are purchased from others. Eleven stand-alone converting plants strategically located throughout Europe and China supplement converting operations located at the primary production mills. The combined network provides cost-effective market reach given the high European distribution costs and the resulting decrease in the maximum practical distribution radius from any one-mill site. In 2001, net sales for the European tissue business accounted for approximately \$1,590 million, or 26% of tissue sales.

During 2001, tissue-based products accounted for approximately 87% of the Corporation's European annual sales with the balance comprised of feminine hygiene products, ancillary products such as health care and pharmacy items, and unconverted tissue parent rolls. Georgia-Pacific sells its tissue, towel and napkin products through both retail and away-from-home distribution channels in Europe. Approximately 75% of the Corporation's European towel and tissue sales were into retail distribution channels and 25% were into away-from-home and other channels. Sales into retail channels are supported by both branded and private label product offerings.

The Corporation's principal European brands include Lotus bathroom tissue and handkerchiefs (both hold the number one position in France), Moltonel bathroom tissue (the number two tissue in France), Lotus kitchen towels (the number one kitchen towel in the Netherlands), O'Kay kitchen towels (the number one kitchen towel in France), Colhogar kitchen towels and bathroom tissue (both hold number one positions in Spain), KittenSoft towels and bathroom tissue (both hold number one positions in Ireland), EMBO bathroom tissue (the number one tissue in Finland), Tenderly bathroom tissue (the number three tissue in Italy), Delica kitchen towels and bathroom tissue (the number one towel and number two bath tissue in Greece), Vania feminine hygiene products (the leader in France), Selpak premium tissue products (the leader in Turkey) and Demak Up cotton facial pads (the leader in Europe).

Georgia-Pacific's largest European operations are in France and the United Kingdom, which combined account for approximately 71% of its European tissue sales. Aggregating at-home branded, private label and away-from-home production, the Corporation believes it is the largest producer of tissue products in France, Spain, Finland, Ireland, and Turkey and the second largest producer in the United Kingdom and Greece.

Dixie

The Dixie business, with one of the best known names in disposable plates, cups and cutlery, provides a full range of products for both retail and foodservice markets. Through a twelve-plant network of focused production facilities in North America, Dixie manufactures products for its retail and foodservice customers. The Corporation's principal retail tabletop brand is Dixie, which has the largest United States retail market share for disposable cups and plates. The Corporation believes that it is also the leading supplier of tabletop products to the warehouse club channel. Foodservice customers include distributors, restaurants, hotels, office buildings and institutions. The Corporation believes that it is one of the largest producers of disposable cups, plates and related products for the foodservice industry. Approximately 54% of sales are into retail distribution channels and the remaining 46% are into foodservice distribution channels. In 2001, Dixie's net sales were approximately \$871 million.

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Packaging Segment

The packaging segment focuses on providing packaging solutions for a wide variety of industrial customers. Its primary products include corrugated containers and containerboard. The Corporation's four containerboard mills rank fourth in North American containerboard production with a capacity of 3.7 million tons, approximately 10% of North American capacity. The segment's 53 packaging plants consume approximately 70% of the segment's containerboard production; the remainder is sold to independent box converters in the United States, Latin America and Asia. One of the largest domestic producers of containerboard, the packaging segment is the second largest supplier of containerboard to independent converters in the United States and the fourth largest supplier of corrugated containers in the United States. Markets for containerboard and packaging products are affected primarily by changes in industry capacity, the level of industrial activity in the United States, and export markets. Containerboard exports totaled 266,000 tons during 2001 compared to 2000's level of 332,000 tons. In 2001, exports for the packaging segment were \$113 million, approximately 4% of segment net sales.

In addition to standard corrugated containers, the segment's packaging plants manufacture many specialty packaging products. These include display-ready corrugated packaging that works interchangeably with the Corporation's line of returnable plastic containers, double and triple-wall boxes, bulk bins, water-resistant packaging, and high-finish and preprinted packaging for point-of-sale displays. During 2001, Georgia-Pacific acquired the remaining interest in Color-Box, LLC, a joint venture with Chesapeake Corporation (see Note 3 of the Notes to Consolidated Financial Statements). Color-Box is a producer of high quality litho-laminated packaging.

Bleached Pulp and Paper Segment

The bleached pulp and paper segment produces market pulp, paper and other products at nine facilities in North America. Combined production capacity for pulp and paper is 3.8 million tons. The bleached pulp and paper segment's mills are among the industry's lowest cost producers. Markets for pulp and paper products are affected primarily by changes in industry capacity, the level of economic growth in the United States and export markets, and fluctuations in currency exchange rates. Exports from this business segment consist chiefly of market pulp bound for Asia, Europe, and Latin America. In 2001, exports for the bleached pulp and paper segment were \$1.3 billion, approximately 15% of segment sales.

Paper. Georgia-Pacific is the nation's fifth largest domestic producer of paper. Also known as uncoated free-sheet, paper is used in office copy machines and printers, commercial printing, business forms, stationery, tablets, books, envelopes, labels and checks. The bleached pulp and paper segment's four uncoated free-sheet paper mills have a combined annual capacity of 1.2 million tons, approximately 8% of North American capacity. These products are sold through Unisource, our office product distribution business, other major paper distributors, office product distributors, printing equipment manufacturers, retailers and converters. Products are sold under a variety of brand names including: Microprint, Spectrum, Eureka, GeoCycle, and Eclipse.

In August 2001, Georgia-Pacific sold its mills at Ashdown, Arkansas; Woodland, Maine; and Nekoosa and Port Edwards, Wisconsin. Combined, these facilities represented 1.3 million tons of production or 47% of the segment's white paper capacity. Additionally, the segment permanently closed paper machines at Camas, Washington resulting in the reduction of another 140,000 tons, equal to 9%, of this segment's white paper capacity.

Market Pulp. Georgia-Pacific ranks eighth in the production of market pulp worldwide. The bleached pulp and paper segment includes three pulp mills with a combined annual capacity of nearly 1.7 million tons, approximately 19% of United States capacity. These mills produce primarily Southern softwood and Northern hardwood pulps sold to industrial users for the manufacture of many paper grades. The segment also is a major supplier of fluff pulp and other specialty pulps. Fluff pulp is used primarily in the manufacture of disposable diapers and other sanitary items.

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In August 2001, the Woodland, Maine market pulp mill, with an annual capacity of 380 thousand tons of Northern Hardwood was sold. The Corporation's Bellingham, Washington mill was permanently closed in 2001.

Bleached Board. The bleached pulp and paper segment produces bleached paperboard for use in frozen food containers, food service items and other products. The combined bleached board capacities at Naheola, Alabama and Crossett, Arkansas make Georgia-Pacific Corporation the fourth largest bleached board producer in North America.

Paper Distribution. Unisource is a leading distributor of printing and imaging paper, packaging systems, and facility and packaging supplies in North America. Unisource operates primarily in the United States, with 24 locations in Canada and 21 in Mexico, and is a large distributor for most major paper producers in North America, including Georgia-Pacific's paper, commercial tissue and packaging businesses. Unisource operates with 16 customer service centers, 95 major distribution centers, and 59 Paper Plus retail store locations in the United States. The paper distribution business is affected by the level of economic activity in the United States, Canada and Mexico and the pricing environment for paper and paper products.

Unisource sells and distributes high-quality printing, writing and copying papers to printers, publishers, business forms manufacturers and direct mail firms, as well as to corporate and retail copy centers, in-plant print facilities, government institutions and other paper intensive businesses. Unisource also sells and distributes a broad range of packaging and maintenance supplies, equipment and services (principally to manufacturers, food processors, and retailers); maintenance supplies and equipment such as carton erectors, baggers and filers as well as films, shrink-wrap and cushioning materials; shipping room supplies such as corrugated boxes, cushioning materials, tapes and labeling; and food service supplies such as films and food wraps, food containers and disposable apparel for food service workers. Roughly two thirds of Unisource's revenue is derived from printing and imaging and one third from packaging and supplies.

The business is the exclusive national distributor of Xerox®, one of the most recognized brand names in office papers.

Building Products Segment

Georgia-Pacific is a leading manufacturer and distributor of building products in the United States. The building products segment manufactures wood panels (including plywood, oriented strand board (OSB) and industrial panels), lumber, gypsum products, chemicals and other products. These products are manufactured at 127 facilities in the United States, 7 plants in Canada, 2 plants in South America, and a joint venture in South Africa. These products are sold directly to industrial customers, independent dealers and wholesalers, and large building product retailers or through our building products distribution business. The segment is the largest distributor of building products in North America.

The building products business is affected by the level of housing starts; the level of home repairs, remodeling and additions; commercial building activity; the availability and cost of financing; and changes in industry capacity. The demand for building products tends to be stronger during the second and third quarters when weather conditions favor construction. Exports for the building products segment in 2001 were \$167 million (approximately 2% of segment sales), primarily to the Caribbean and Europe.

Wood Panels. A leading producer of structural wood panels in the United States, Georgia-Pacific accounts for about 19% of North American capacity. The segment's 16 softwood plywood plants and seven OSB plants can produce approximately 7.9 billion square feet of panels annually. With most of these plants located in the Southeast, the business benefits from an ample supply of timber, favorable weather conditions, regional population growth, national economic growth and other factors. OSB is a structural panel made from wood strands arranged in layers and bonded with resin. OSB serves many of the same uses as unsanded plywood including roof decking, sidewall sheathing and floor underlayment.

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Industrial Wood Products. The building products segment leads in production of manufactured board products for industrial and construction applications. Seventeen mills manufacture hardboard, particleboard, panelboard, softboard, hardwood plywood, decorative panels and medium-density fiberboard. Applications include furniture, cabinets, housing, retail fixtures, and other industrial products. In 2001, the segment closed its Conway, North Carolina and Superior, Wisconsin hardboard plants. The combined capacity of these facilities was 345 million square feet (1/8 basis) or approximately 34% of its annual hardboard capacity as of January 1, 2001.

Lumber. The third largest lumber producer in North America, Georgia-Pacific annually manufactures about 2.5 billion board feet or approximately 4% of North American lumber production. Most of the Corporation's 33 lumber mills are located in the Southern United States. Lumber products are manufactured from Southern pine, a variety of Appalachian and Southern hardwoods, redwood, cedar, spruce, hemlock and Douglas fir. During 2001, the Corporation's Idabel, Oklahoma southern pine sawmill was sold and the Varnville, South Carolina pine sawmill was closed. The combined capacity of these facilities was 172 million board feet. Additionally, the Corporation's Tioga, Pennsylvania Appalachian hardwood sawmill, with a capacity of 18 million board feet, was sold.

The building products segment ranks as one of the top producers of pressure-treated lumber in the nation. With production from 12 facilities, the segment can sell more than one billion board feet of lumber annually. Pressure treated lumber is used primarily in construction of outdoor structures such as decks, fences, bridges and playground equipment.

Demand for the building products segment's engineered lumber products has increased in recent years as wood I-joists (made from veneer, OSB and sawn lumber) have increasingly become the product of choice for floor joist applications. Laminated veneer lumber (LVL) and wood I-joists are designed to meet the precise structural performance requirements of roofing and flooring systems. The segment produces both LVL and I-joists in two facilities.

Gypsum Products. Georgia-Pacific operates 18 gypsum board plants throughout the United States and Canada and is one of the three largest producers of gypsum wallboard in North America, with an annual capacity of 6.5 billion square feet. Gypsum products include wallboard, Dens specialty panels, fire-door cores, industrial plaster and joint compound. In addition, the business is substantially vertically integrated in both paper and gypsum rock, operating four recycled gypsum paperboard mills and nine gypsum quarries/mines. Gypsum reserves are approximately 302 million recoverable tons, an estimated 49-year supply at current production rates.

In June 2001, the Corporation announced that it would close gypsum wallboard plants at Savannah, Georgia, Long Beach, California, and Winnipeg, Manitoba, Canada. The Corporation also announced that it would indefinitely idle wallboard production lines at Acme, Texas; Sigurd, Utah; and Blue Rapids, Kansas, and reduce operations at its remaining gypsum wallboard production facilities. The plant closures and production curtailments affect approximately 45% of the Corporation's gypsum wallboard production capacity.

Chemicals. The Corporation's chemical business is a leading supplier of wood bonding resins, industrial thermosetting resins, paper chemicals, and tall oil based chemicals. These chemicals and resins are used in a variety of specialty applications, including production of wood panels, paper-making, roofing, thermal insulation, metalworking, coatings, fertilizers, and transportation. The business ships more than 4.1 billion pounds of bonding and thermosetting resins, formaldehyde, pulp chemicals, and paper chemicals annually from 19 United States and 2 South American plants. In January 2001, the business acquired the balance of its Chilean and Argentinean joint ventures from Masisa S.A. The business also operates through a joint venture in South Africa with Chemical Services, Ltd. In February 2001, the Corporation's Hampton, South Carolina formaldehyde plant, with a capacity of 65 million pounds, was permanently closed. In December 2001, the closure of the Houston, Texas formaldehyde plant with a capacity of 110 million pounds was announced to be effective during the first quarter of 2002.

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Building Products Distribution. The building products distribution business is the leading domestic wholesaler of building products. It sells building products to independent dealers, industrial customers and large home improvement centers from 64 locations throughout the United States and one in Canada. The building products distribution business provides a nationwide outlet for a significant portion of Georgia-Pacific's lumber and structural panel products. Approximately 72% of the business's sales are building products purchased from third parties. The Corporation's building products distribution business believes that its geographic coverage and product breadth are unmatched in North America.

The Timber Company

On October 6, 2001, the Corporation completed the spin off of its timber and timberlands business and its merger with and into Plum Creek. Accordingly, the Corporation has terminated the registration of The Timber Company common stock with the Securities and Exchange Commission and de-listed the stock from the New York Stock Exchange. The Timber Company has been treated as a discontinued operation in the accompanying consolidated financial statements.

Additional Information

Additional information pertaining to the Corporation's businesses, including operating segments, is set forth under the captions "Georgia-Pacific Corporation and Subsidiaries Management's Discussion and Analysis" and "Georgia-Pacific Corporation and Subsidiaries Sales and Operating Profits by Operating Segment" presented in Notes 1 and 2 of the Corporation's Notes to Consolidated Financial Statements, presented under Item 8 of this Form 10-K.

Timber Resources

The principal raw material used by the Corporation is timber and wood fiber. During 2001, The Timber Company supplied 10% of the overall timber requirements of Georgia-Pacific Group's facilities. Prior to 2001, the prices and terms of the transactions between The Timber Company and Georgia-Pacific Group were determined on an arms length basis pursuant to supply contracts put in place in 1997 at the time of the Corporation's recapitalization which created two separate classes of common stock: The Timber Group and Georgia-Pacific Group (see Note 15 of the Notes to Consolidated Financial Statements). The Corporation purchases its remaining timber requirements from third-party land owners in the open market. No single supplier, other than The Timber Company prior to its spin off and merger with Plum Creek, supplied more than 10% of the Corporation's timber requirements.

In preparation for the merger of The Timber Company and Plum Creek, Georgia-Pacific, Plum Creek and The Timber Company negotiated a new timber supply agreement which is effective for 10 years following the completion of the merger and subject to an automatic ten year renewal period, unless either party delivers a timely termination notice. This agreement covers four key southern timber basins: Southeast Arkansas, Mississippi, Florida and Southeast Georgia. Under the agreement, Plum Creek must offer to Georgia-Pacific specified percentages of its annual harvest, subject to absolute minimum and maximum limitations in each basin. Georgia-Pacific can elect between 36%-51% of such annual harvest each year in Mississippi, Florida and Southeast Georgia, and between 52%-65% in Southeast Arkansas. The total annual softwood volume will range from a minimum of 2.7 million tons to a maximum of 4.2 million tons. The prices for such timber will be negotiated at arms length between Plum Creek and Georgia-Pacific every six months.

Mineral Resources

Information pertaining to the Corporation's gypsum resources is set forth under the captions "Georgia-Pacific Group Building Products Gypsum Products" in this item.

Environment

Information pertaining to environmental issues and the Corporation's expenditures for pollution control facilities and equipment is set forth under the captions "Georgia-Pacific Corporation and Subsidiaries Management's Discussion and Analysis Liquidity and Capital Resources Investing Activities" and Note 14 of the Notes to Consolidated Financial Statements, and is presented under Items 7 and 8 of this Form 10-K.

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Employees

Information pertaining to persons employed by the Corporation is set forth under the captions Georgia-Pacific Corporation and Subsidiaries Management's Discussion and Analysis Liquidity and Capital Resources Other , and is presented under Item 7 of this Form 10-K.

Patents, Copyrights, Licenses, Trade Secrets and Trademarks

The Corporation is the owner of numerous patents, copyrights, trademarks, licenses and trade secrets, as well as substantial know-how and technology (herein collectively referred to as technology), relating to its products and the processes for their production, the packages used for its products, the design and operation of various processes and equipment used in its business and certain quality assurance and financial software. The manufacturing and processing of many of the Corporation's products are among the important trade secrets of the Corporation.

The Corporation also owns numerous trademarks which are very important to its business, especially its consumer products business. Depending on the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use. The Corporation has registered and licenses the right to use its trademarks in conjunction with certain merchandise other than products it manufactures. In part, the Corporation's success can be attributed to the existence of its trademarks.

ITEM 2. PROPERTIES

The geographic location and capacity of the manufacturing facilities by segment is set forth on Exhibit 99.1 hereto which is hereby incorporated herein by this reference.

The Corporation's manufacturing and support facilities are designed according to the requirements of the products to be manufactured. Therefore, the type of construction varies from facility to facility. Management believes that its manufacturing facilities, taken as a whole, are well maintained and generally adequate for current operations.

Utilization of a particular facility varies based upon demand for the product. While it is not possible to measure with any degree of certainty the productive capacity of a facility, we have estimated capacity in Exhibit 99.1 which is incorporated herein by reference thereto.

The Corporation generally owns its manufacturing and other facilities, although warehouse and office facilities are often leased. The Corporation examines alternatives for its higher cost facilities, including modernizing, replacing or closing such facilities. The Corporation continually reviews many business opportunities and alternatives, including possible acquisitions or sales of properties.

Information concerning the Corporation's timber and mineral resources is presented under Item 1 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

Information pertaining to the Corporation's Legal Proceedings is set forth in Note 14 of the Corporation's Consolidated Financial Statements which are presented under Item 8 of this Form 10-K and are incorporated herein by reference thereto.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Georgia-Pacific common stock is listed on the New York Stock Exchange and trades under the symbol GP. As of the close of business on March 7, 2002, the closing stock price of one share of Georgia-Pacific common stock was \$28.14 and there were approximately 36,462 record holders of such stock.

Information with respect to the Market for the Corporation's Common Equity and Related Stockholder Matters is set forth in a table under the captions "Selected Financial Data - Financial Position, End of Year" in Note 16 of the Corporation's Consolidated Financial Statements under Item 8 of this Form 10-K, which are incorporated herein by reference thereto.

The Corporation expects to continue to pay quarterly dividends in the amounts set forth in Note 16 of the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K, which dividend information is incorporated herein by reference thereto.

On October 4, 2001 and pursuant to its 1995 Outside Directors Stock Plan (the "1995 Plan"), the Corporation issued 40,183 shares of Georgia-Pacific common stock, \$0.80 par value per share, to its nonemployee directors. The shares were issued to replace shares of common stock of The Timber Company which previously had been issued under the 1995 Plan and were either exchanged or canceled in connection with the spin-off and merger of The Timber Company. Accordingly, the Corporation received no cash consideration in connection with the issuance. The issuance to the directors was exempt from registration under the Securities Act of 1933, as amended (the "Act") pursuant to Section 4(2) of the Act because it was a transaction by an issuer that did not involve a public offering.

ITEM 6. SELECTED FINANCIAL DATA

Information with respect to Selected Financial Data for the Corporation is set forth under the captions "Selected Financial Data - Operations - Georgia-Pacific Corporation and Subsidiaries" and "Selected Financial Data - Financial Position, End of Year," which are presented under Item 8 of this Form 10-K, and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion summarizes the significant factors affecting the results of operations and financial condition of the Corporation during the three fiscal years ended December 29, 2001. This discussion should be read in conjunction with the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Supplemental Information set forth in Item 8 of this report.

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Georgia-Pacific Corporation manufactures and sells a wide variety of pulp and paper products (including pulp, paper, containerboard, packaging, commercial and consumer tissue products (including bath tissue, paper towels and napkins) and disposable tabletop products (including disposable cups, plates and cutlery) and manufactures and sells building products (including plywood, oriented strand board and industrial panels, lumber, gypsum products, chemicals and other products).

2001 Compared with 2000

The Corporation reported consolidated net sales of \$25.0 billion and a net loss of \$407 million for 2001, compared with net sales of \$22.1 billion and net income of \$505 million in 2000. Included in the 2001 results are a full year of net sales and operating profits from the Fort James operations that were consolidated with the Corporation beginning in December 2000.

Interest expense was \$1,080 million in 2001, compared with \$595 million in 2000. The increase is the result of higher debt levels, primarily related to the acquisition of Fort James, offset slightly by lower interest rates.

The Corporation reported a loss from continuing operations before income taxes of \$295 million and an income tax provision of \$181 million for the year ended December 29, 2001, compared with income from continuing operations before income taxes of \$553 million and an income tax provision of \$210 million for the year ended December 30, 2000. The effective rate in 2001 was different from the statutory rate primarily because of nondeductible goodwill amortization expense associated with business acquisitions and because of nondeductible goodwill applicable to assets sold (see Note 3 of the Notes to Consolidated Financial Statements). The effective tax rate in 2000 was different from the statutory rate due to the utilization of state tax credits and foreign sales corporation tax benefits that more than offset nondeductible goodwill amortization expense associated with business combinations.

During 2001, the Corporation recorded a pretax charge to earnings of \$350 million to cover all of its projected asbestos liabilities and defense costs, net of insurance recoveries, through 2011 (see Note 14 of the Notes to Consolidated Financial Statements).

Beginning in the third quarter of 2001, the Corporation began reporting The Timber Company as a discontinued operation. Income from discontinued operations decreased to \$70 million in 2001, compared with \$162 million in 2000. This decrease was primarily a result of a decline in both sales prices and sales volume. Included in the 2001 results was interest expense of \$31 million, a \$44 million pretax gain related to the sale of certain timber assets, and a \$24 million pretax charge for an insurance premium associated with the merger of the Corporation's timber and timberlands business with Plum Creek (see Note 3 of the Notes to Consolidated Financial Statements).

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The remaining discussion refers to the Selected Operating Segment Data table below which should be read in conjunction with the more detailed segment information set forth in Note 2 of the Notes to Consolidated Financial Statements and Sales and Operating Profits by Operating Segment.

SELECTED OPERATING SEGMENT DATA**Georgia-Pacific Corporation and Subsidiaries**

	Year Ended		
	December 29, 2001	December 30, 2000	January 1, 2000
In millions			
Net sales:			
Consumer products	\$ 7,138	\$ 2,119	\$ 1,234
Packaging	2,610	2,735	2,511
Bleached pulp and paper	8,713	9,454	5,869
Building products	7,784	8,723	9,689
Other*	(1,229)	(981)	(894)
Total net sales	\$ 25,016	\$ 22,050	\$ 18,409
Operating profits (losses):			
Consumer products	\$ 792	\$ (17)	\$ 131
Packaging	384	512	324
Bleached pulp and paper	69	509	181
Building products	150	382	1,205
Other*	(610)	(238)	(251)
Operating profits	785	1,148	1,590
Interest expense	1,080	595	426
(Loss) income from continuing operations before income taxes	(295)	553	1,164
Provision for income taxes	181	210	448
(Loss) income from continuing operations	(476)	343	716
Income from discontinued operations, net of taxes	70	162	400
(Loss) income before extraordinary item and accounting change	(406)	505	1,116
Extraordinary item, net of taxes	(12)		
Cumulative effect of accounting change, net of taxes	11		
Net (loss) income	\$ (407)	\$ 505	\$ 1,116

* Includes the elimination of intersegment sales.

Consumer Products

The Corporation's consumer products segment reported net sales of \$7.1 billion and operating profits of \$792 million for the year ended December 29, 2001, which included net sales and operating profits from the operations of Fort James that were acquired at the end of November 2000. Fort James' results of operations were consolidated with those of the Corporation beginning in the fiscal month of December 2000. During 2000, the segment reported net sales of \$2.1 billion and an operating loss of \$17 million. Included in 2001 results was a one-time unusual charge

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of \$83 million for the closure of the Bellingham, Washington pulp mill. Included in 2000 results was a one-time unusual charge of \$204 million for the write-down of assets of the Corporation's away-from-home tissue business that was sold during the first quarter of 2001. Excluding these one-time charges, return on sales increased to 12% compared with 9% in 2000. The increase in 2001 operating profits was due principally to the inclusion of a full year of operating results of the Fort James businesses and significant savings

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from lower distribution and manufacturing costs and other synergies resulting from merging the Corporation's retail tissue business with the Fort James operations.

On March 30, 2001, the Corporation announced that it would permanently close its pulp mill and associated chemical plant at Bellingham, Washington. These operations had been temporarily closed since December 2000. The Bellingham pulp mill produced approximately 220,000 tons of pulp, including 135,000 tons of sulfite market pulp, and 260,000 tons of lignin annually. In connection with this closure, the Corporation recorded a pretax charge to earnings in the consumer products segment of approximately \$57 million for the write-off of assets, approximately \$14 million for the termination of approximately 420 hourly and salaried employees and approximately \$12 million for facility closing costs. Of the \$83 million total pretax charge to earnings, \$79 million was charged to cost of sales, \$3 million was charged to selling and distribution expense and \$1 million was charged to general and administrative expenses.

During 2002, the Corporation expects the consumer products segment to continue to produce improved operating profits driven by sales growth and cost reduction programs associated with the Fort James acquisition. Selling prices and direct material costs are not expected to differ materially from levels experienced in the 4th quarter of 2001.

Packaging

The Corporation's packaging segment reported net sales of \$2.6 billion and operating profits of \$384 million for the year ended December 29, 2001, compared with net sales of \$2.7 billion and operating profits of \$512 million in 2000. During 2000, the Corporation sold certain packaging assets resulting in a pre-tax gain of \$25 million. Excluding this gain on asset sales, return on sales decreased to 15% from 18% in 2000. Average selling prices decreased in 2001 for all packaging products. Average selling prices for linerboard and medium decreased 5% and 9%, respectively, and average selling prices for packaging decreased slightly. Sales volume decreased for packaging by 4% when compared with the prior year. These decreases were offset by a slight increase in sales volume for linerboard and a \$36 million cost savings year over year. The Corporation expects continued weakness in packaging markets in 2002 with gradual declines in selling prices.

During 2001 and 2000, the Corporation took market-related paper machine slowback or downtime at its containerboard mills to avoid excess inventories, resulting in a reduction in containerboard production of approximately 274,000 tons and 271,000 tons, respectively.

Bleached Pulp and Paper

The Corporation's bleached pulp and paper segment reported net sales of \$8.7 billion and operating profits of \$69 million for the year ended December 29, 2001. In 2000, the segment reported net sales of \$9.5 billion and operating profits of \$509 million. In August 2001, the bleached pulp and paper segment sold four paper and pulp facilities and recorded a pre-tax loss of \$63 million. Excluding this loss, return on sales decreased to 2% compared with 5% for the same period a year ago. The decrease in net sales and operating profits was due primarily to a decrease in average prices for all of the Corporation's bleached pulp and paper, offset somewhat by lower wood fiber and production costs. Average selling prices for market pulp and fluff pulp decreased 27% and 13%, respectively, while paper prices decreased 5% compared with 2000 prices.

During 2001, the Corporation incurred market-related downtime at its bleached pulp and paper mills, resulting in a reduction in pulp production of 104,000 tons and in paper production of 21,000 tons. In December 2000, the Corporation announced the permanent closure of its Kalamazoo, Michigan, paper mill and a permanent closure of a paper machine at its Nekoosa, Wisconsin, operations. In connection with the Kalamazoo paper mill closing, the Corporation recorded a fourth quarter 2000 charge of \$57 million for employee termination, asset write-down, mill closing and other costs. In 2000, the Corporation incurred market-related downtime at its pulp and paper mills resulting in a reduction in pulp and paper production of 17,000 tons and 60,000 tons,

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respectively. Divested operations contributed operating losses of \$64 million and operating profits of \$59 million to the segment's 2001 and 2000 results, respectively.

The segment's paper distribution business, which represents the operating results of Unisource, reported net sales of \$6.2 billion and operating profits of \$48 million in 2001, compared to net sales and operating profits of \$6.9 billion and \$158 million, respectively, in 2000. The decline in sales and operating profits for the paper distribution business is a direct result of declining prices and volumes in the printing business.

Selling prices for the Corporation's pulp and paper products continually decreased during 2001 and ended the year at levels lower than 2000. The Corporation expects pulp selling prices to remain relatively depressed through 2002. Selling prices for paper products are expected to gradually improve in 2002. Historically, selling prices for all of the Corporation's pulp and paper products have been volatile and difficult to predict. Sales volume is also expected to decrease significantly during 2002 related to the sale of the paper and pulp assets to Domtar in August 2001.

Building Products

The Corporation's building products segment reported net sales of \$7.8 billion and operating profits of \$150 million for the year ended December 29, 2001, compared with net sales of \$8.7 billion and operating profits of \$382 million in 2000. As a result of weak market conditions in this segment, the Corporation announced the closure of certain structural panels mills, lumber mills, industrial wood products mills, building products distribution centers and gypsum plants and recorded one-time net charges of \$88 million in 2001 related to these plant closures and asset impairments. In 2000, the Corporation recorded a restructuring charge of approximately \$8 million for asset write-offs, employee termination and facility closing costs of a gypsum facility. Excluding these unusual charges, return on sales was 3% in 2001 and 4% in 2000. The primary components of the decrease in 2001 net sales and operating profits were 10% lower average particleboard selling prices, 20% lower average OSB selling prices and a 24% decrease in average gypsum wallboard selling prices coupled with a 10% decrease in plywood sales volume, an 18% decrease in softwood lumber sales volume, a 15% decrease in particleboard sales volume and a 19% decrease in gypsum wallboard sales volume. These declines were slightly offset by a 15% increase in oriented strand board sales volume and a decline in wood costs. Despite the decline in markets for the building products segment, the building products distribution business contributed \$62 million of profits in 2001 compared with \$20 million in 2000. The Corporation expects moderate improvement in this segment's operating profits in 2002 resulting primarily from modest improvements in selling prices for most building products and slight reductions in wood costs.

In June 2001, the Corporation announced that it would close gypsum wallboard plants at Savannah, Georgia; Long Beach, California; and Winnipeg, Manitoba, Canada. The Corporation also announced that it would indefinitely idle wallboard production lines at Acme, Texas; Sigurd, Utah; and Blue Rapids, Kansas; and reduce operations at its remaining gypsum wallboard production facilities. The plant closures and production curtailments affect approximately 45% of the Corporation's gypsum wallboard production capacity. In connection with this announcement, the Corporation recorded a pretax charge to earnings in the building products segment of approximately \$57 million for the write-off and impairment of assets, approximately \$5 million for the termination of approximately 350 hourly and salaried employees, and approximately \$5 million for facility closing costs, most of which was charged to cost of sales.

During 2001, the Corporation also announced the closure of certain structural panels mills, lumber mills, industrial wood products mills, chemical plants and building products distribution centers. In connection with these announcements, the Corporation recorded a pretax charge to earnings in the building products segment of approximately \$14 million for the write-off and impairment of assets, approximately \$16 million for the termination of approximately 900 hourly and salaried employees, and approximately \$5 million for facility closing costs, most of which was charged to cost of sales.

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Other

The operating loss for the Other nonreportable segment, which includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales, increased by \$372 million to a loss of \$610 million in 2001 from a loss of \$238 million in 2000. This increase was primarily the result of the \$350 million charge recorded in the fourth quarter of 2001 for projected asbestos liabilities through the year 2011, net of anticipated insurance recoveries (See Note 14 of the Notes to Consolidated Financial Statements).

During 2001, the Corporation recorded pension expense of \$9.2 million and made pension contributions of \$13.3 million for its solely administered plans. Because of lower than expected returns on pension plan assets and a lower discount rate used to value the pension liabilities, the Corporation estimates its pension expense and pension contributions for its solely administered plans will increase to approximately \$133 million and \$98.4 million, respectively, in 2002.

Liquidity and Capital Resources

During 2001, the Corporation reduced debt by approximately \$3.3 billion. The main factors contributing to the debt reduction were proceeds from asset sales of \$2.3 billion (\$1.9 billion after taxes), the reduction of \$0.6 billion of debt assumed by Plum Creek when the Corporation's timber and timberlands business were merged into Plum Creek, and nearly \$0.8 billion of cash from operations and other resources. The Corporation also paid approximately \$133 million for acquisitions and the remaining ownership in various businesses during 2001. In 2002, the Corporation expects its cash flow from operations and financing activities (including proceeds from a successful Premium Equity Participating Security Units (PEPS Units) remarketing) to be sufficient to fund planned capital investments, pay dividends and make scheduled debt repayments. If the Corporation's 2002 cash flows are significantly less than expected or if the Corporation is unsuccessful in remarketing the PEPS Units, the Corporation could be required to draw down funds from available credit facilities. The following discussion provides further details of the Corporation's liquidity and capital resources.

Operating Activities

The Corporation generated cash from operations of \$1,482 million during 2001 and \$1,556 million in 2000. The decrease in cash provided by operations in 2001 was primarily a result of the net lower operating results in the building products, packaging and bleached pulp and paper segments, offset somewhat by a reduction in overall working capital requirements. Increased interest costs also contributed to the decrease in cash generated from operations.

Investing Activities

During 2001, capital expenditures for property, plant and equipment were \$739 million compared with \$909 million in 2000. Expenditures in 2001 included \$114 million in the building products segment, \$2 million in the discontinued timber segment, \$78 million in the packaging segment, \$149 million in the bleached pulp and paper segment, \$337 million in the consumer products segment, and \$59 million of other and general corporate. In 2002, the Corporation expects to make capital expenditures for property, plant and equipment of approximately \$720 million.

During 2001, the Corporation invested \$88 million for pollution control and abatement. The Corporation's 2002 capital expenditure budget currently includes approximately \$49 million for environment-related projects. Certain other capital projects being undertaken primarily for improving financial returns or safety will also include expenditures for pollution control.

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On April 15, 1998, the United States Environmental Protection Agency promulgated a set of regulations known as the Cluster Rule that establishes new requirements for air emissions and wastewater discharges from pulp and paper mills. The Cluster Rule requires pulp and paper mills to become elemental chlorine free in the pulp bleaching process. The Corporation estimates that it will make capital expenditures up to approximately \$543 million through April 2006 in order to comply with the Cluster Rule's requirements. Of that total, approximately \$425 million was spent through 2001 and an additional \$21 million is expected to be spent in 2002. The work performed in 2001 essentially completed the projects required during the first three years of the Cluster Rule. Remaining expenditures are for air emissions controls under MACT II regulations (to be completed by January 2004) and the MACT I regulations (to be completed by April 2006). Air regulations under the Cluster Rule are called MACT regulations, with MACT I regulations representing rules regarding pulping and bleaching and MACT II regulations representing rules regarding combustion sources.

Investments to purchase timberlands (including purchases of timberlands by The Timber Company prior to its spin off and merger with Plum Creek) totaled \$31 million in 2001 compared with \$59 million in 2000.

At the end of November 2000, the Corporation completed a tender offer pursuant to which it purchased each outstanding share of common stock of Fort James Corporation for \$29.60 per share in cash and 0.2644 shares of Georgia-Pacific common stock. The Corporation is paying cash and issuing Georgia-Pacific shares as the untendered Fort James shares are delivered to the Corporation's exchange agent for cancellation. Through December 29, 2001, the Corporation had paid approximately \$6,186 million in cash (\$46 million of which was paid during 2001) and issued approximately 53.9 million shares of Georgia-Pacific common stock (0.2 million shares of which were issued during 2001) valued at \$1,485 million for such shares. The fair value of the Georgia-Pacific common shares was determined based on the average trading prices of Georgia-Pacific common stock for the two trading days before and after July 16, 2000 (the date of the announcement of the Fort James acquisition). The Corporation expects to pay an additional \$7 million in cash and issue approximately 57,000 shares valued at \$2 million for Fort James common stock that had not been tendered as of December 29, 2001. In addition, the Corporation assumed \$3.3 billion of Fort James debt in the acquisition.

During 2001, the Corporation acquired the remaining 46% interest it did not previously own in Color-Box, LLC, a joint venture with Chesapeake Corporation for approximately \$59 million. The results of operations of this joint venture were consolidated with those of the Corporation beginning in July 2001. The Corporation has accounted for this acquisition using the purchase method to record a new cost basis for the additional share of assets acquired and liabilities assumed. During the first quarter of 2000, the Corporation contributed certain packaging assets with a net book value of \$34 million to this joint venture. In exchange for these assets, the Corporation received a 54% interest in the joint venture. This investment in the joint venture was accounted for under the equity method until July 2001 because the joint venture partner had substantive participating rights.

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

On August 7, 2001, the Corporation completed the sale of a portion of its paper and pulp assets to Domtar Inc. for \$1.65 billion in cash. The assets involved in this transaction were the Corporation's stand-alone uncoated free sheet paper mills at Ashdown, Arkansas; Nekoosa and Port Edwards, Wisconsin; and Woodland, Maine, as well as associated pulp facilities. The Corporation used the net proceeds of approximately \$1.53 billion (\$1.14 billion after taxes) to repay debt. In connection with this sale, the Corporation recorded a pretax loss of \$63 million in the third quarter of 2001 in the bleached pulp and paper segment. This loss was reflected in Other loss on the accompanying consolidated statements of income. In addition, the Corporation recorded a provision for income taxes of \$197 million, principally applicable to \$630 million of non-deductible goodwill related to the assets sold.

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Pursuant to a consent decree executed with the United States Department of Justice in connection with the Fort James acquisition, the Corporation sold a portion of its away-from-home tissue manufacturing assets (formerly Georgia-Pacific Tissue) to SCA for approximately \$850 million. The sale was completed on March 2, 2001, with net proceeds of approximately \$581 million (\$660 million after tax benefit) used to repay debt. In the fourth quarter of 2000, the Corporation recorded a pretax loss of \$204 million in the consumer products segment for the write-down of these assets to their net realizable value; accordingly, no significant gain or loss was recognized upon completion of the sale in 2001.

On October 6, 2001, the Corporation completed the spin off of its timber and timberland business and its merger with and into Plum Creek. In accordance with the merger agreement, shareholders of The Timber Company received 1.37 shares of Plum Creek stock for each share of The Timber Company stock. This transaction was valued at approximately \$3.4 billion.

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

During 2001, the Corporation sold various assets including two lumber mills, industrial wood products property, certain paper distribution assets, timber assets and corporate aircraft for a total of \$202 million in cash and recognized a pretax gain of \$70 million. Of the total gain recognized, \$44 million related to the sale of certain timber assets associated with The Timber Company and was included in income from discontinued operations in the accompanying consolidated statements of income, with the remainder reflected in other losses, net.

Financing Activities

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

The Corporation maintains a high portion of its debt as long-term at fixed interest rates. The Corporation intends to manage the maturities of its long-term debt so that no more than \$500 million matures in any one year and if it does then the sum of the maturities of any two consecutive years does not exceed \$1 billion. Generally, the Corporation seeks to have 75% of its aggregate debt at fixed rates so as to minimize exposure to fluctuating interest rates. Short-term debt is used in modest proportions and generally for seasonal working capital variations and/or financing some of its accounts receivable. The Corporation utilizes bank credits for temporary short and/or intermediate term financing usually bridging known or expected events. Additionally, the Corporation maintains committed, available borrowing capacity to allow for seasonal, timing, or unexpected needs. Currently, unused capacity exceeds \$1.4 billion.

The Corporation intends to review its aggregate debt objective to achieve greater flexibility to finance growth and investment opportunities. The Corporation may determine that a lower debt target than its cash flow and its variances otherwise would justify is appropriate.

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The Corporation's total debt, excluding senior deferrable notes, decreased by \$3,340 million to \$12,214 million at December 29, 2001 from \$15,554 million at December 30, 2000. The decrease was primarily due to the Corporation utilizing cash generated from the sale of assets and cash flow from operations. The Plum Creek merger (see Note 3 of the Notes to Consolidated Financial Statements) also reduced outstanding borrowings under the credit facilities by \$646 million. At December 29, 2001, the weighted average interest rate on the Corporation's total debt, excluding senior deferrable notes and including outstanding interest rate exchange agreements, was 6.70%.

The Corporation had commitments totaling \$1.3 billion and CN \$95 million (approximately \$59 million) under its United States and Canadian accounts receivable secured borrowing programs, respectively, of which \$1.2 billion and CN \$95 million was outstanding under these programs at December 29, 2001. Of the \$1.3 billion in the United States program, \$400 million will expire in September 2002 and the remaining \$900 million expires in December 2002. The Canadian program expires in May 2004. The Corporation expects to renew these agreements prior to expiration. The receivables outstanding under these programs and the corresponding debt are included as Receivables and Commercial paper and other short-term notes, respectively, on the accompanying consolidated balance sheets. All accounts receivable programs are accounted for as secured borrowings. As collections reduce previously pledged interests, new receivables may be pledged.

On November 1, 2001, the Corporation issued \$27 million of 6.375% fixed rate industrial revenue bonds, due November 1, 2026. On October 24, 2001, the Corporation also replaced \$28 million of its variable rate industrial revenue bonds, due October 1, 2007, with \$28 million of 4.875% fixed rate industrial revenue bonds due October 1, 2007.

The Corporation consolidated a \$10 million variable rate industrial revenue bond due September 1, 2021, in connection with acquiring ownership of Color-Box (see Note 3 of the Notes to Consolidated Financial Statements). On June 25, 2001, the Corporation also redeemed \$42 million of its 7.9% fixed rate industrial revenue bonds, due October 1, 2005, and issued \$42 million of 6.5% fixed rate industrial revenue bonds due June 1, 2031.

On May 3, 2001, the Corporation replaced \$1.5 billion of its Capital Markets Bridge Facility by issuing \$500 million of 7.5% Notes Due May 15, 2006, \$600 million of 8.125% Notes Due May 15, 2011, and \$400 million of 8.875% Notes Due May 15, 2031. The \$10.4 million underwriting fee associated with the transaction is being amortized over the term of the notes.

On March 15, 2001, the Corporation redeemed \$300 million of its 6.235% Senior Notes Due March 15, 2011 and recorded an extraordinary loss of approximately \$12 million (net of taxes of \$7 million).

In October 2000, the Corporation negotiated several new unsecured financing facilities totaling \$5,400 million with terms ranging from 6 to 18 months and an unsecured revolving credit facility totaling \$3,750 million with a term of 5 years. The proceeds from these unsecured facilities were used to partially finance the Fort James acquisition, and for ongoing working capital and other general corporate requirements of the Corporation. During 2001, proceeds from the sale of assets (see Note 3 of the Notes to Consolidated Financial Statements), the merger of the Corporation's timber and timberland business with Plum Creek (see Note 3 of the Notes to Consolidated Financial Statements), increases in the accounts receivable secured borrowing program, and the issuance on May 3, 2001 of notes (described above) were used to reduce the unsecured financing facilities.

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The Corporation's amounts outstanding under the credit agreements include the following:

	December 29, 2001
In millions	
Commitments:	
Multi-Year Revolving Credit Facility	\$ 3,750
Capital Markets Bridge Facility	925
	4,675
Credit facilities available	4,675
Amounts Outstanding:	
Letter of Credit Agreements	(265)
Money Markets, average rate of 2.8%	(90)
Multi-Year Revolving Credit Facility due November 2005, average rate of 3.7%	(1,935)
Capital Markets Bridge Facility due August 2002, average rate of 3.9%	(925)
	(3,215)
Total credit balance	(3,215)
Total credit available *	\$ 1,460

* At December 29, 2001, the Corporation was limited to \$717 million of available credit pursuant to certain restrictive debt covenants and its outstanding debt balance at December 29, 2001. This limitation on available credit will be reduced as the Corporation pays down debt.

Borrowings under the agreements bear interest at competitive market rates. These interest rates may be adjusted according to a rate grid based on the Corporation's long-term debt ratings. Fees associated with these revolving credit facilities include a facility fee of 0.2% per annum on the aggregate commitments of the lenders as well as up-front fees totaling \$5.5 million and \$34 million as of December 29, 2001 and December 30, 2000, respectively. The fees are being amortized over the term of the agreements. Fees and margins may also be adjusted according to a pricing grid based on the Corporation's long-term debt ratings. At December 29, 2001 and December 30, 2000, \$3,215 million and \$7,700 million, respectively, was borrowed under the credit agreements at a weighted-average interest rate of 3.4% and 7.9%, respectively. Amounts outstanding under the revolving credit facilities are included in Commercial paper and other short-term notes and Long-term debt, excluding current portion on the accompanying consolidated balance sheets.

In connection with the acquisition of Fort James during 2000, the Corporation assumed debt totaling \$3.3 billion, including \$927 million of short-term debt, \$141 million (including premium) of capital leases, \$197 million of industrial revenue bonds, \$1,642 million of notes, \$218 million (net of discount) of Euro-denominated bonds and \$156 million of European debt. Shortly after the acquisition, all of the commercial paper was replaced by borrowings issued under the Corporation's revolving credit facilities. The Corporation subsequently fully and unconditionally guaranteed all of Fort James' publicly held debt issued pursuant to an Indenture with The Bank of New York, as trustee, dated as of November 1, 1991, as amended by a first supplemental Indenture dated as of September 19, 1997 and second supplemental Indenture dated as of February 19, 2001.

In order to finance a portion of the Unisource acquisition in July 1999, the Corporation issued 17,250,000 of 7.5% PEPS Units for \$862.5 million. Each PEPS Unit consists of a purchase contract that obligates the holder to purchase shares of Georgia-Pacific common stock for \$50 on or prior to August 16, 2002 and a senior deferrable note of the Corporation due August 16, 2004. The amount of shares purchased per PEPS Unit will be based on the average closing price of Georgia-Pacific common stock over a 20-day trading period ending August 13, 2002. Assuming an average stock price of less than or equal to \$47.375 per share, the Corporation expects to issue approximately 18.2 million shares of Georgia-Pacific common stock in 2002. Each purchase contract yields interest of 0.35% per year, paid quarterly, on the \$50 stated amount of the PEPS Unit. Each senior deferrable note yields interest of 7.15% per year, paid quarterly, until August 16, 2002. The terms of the PEPS offering include a remarketing of the senior deferrable notes on August 16, 2002 that, if successfully completed, would generate \$862.5 million for repayment of debt. The interest rate will be reset at a rate that will be equal to or greater than 7.15%. Management is considering certain other financing activities that could include issuance of

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different securities to replace these senior deferrable notes prior to their scheduled remarketing. The liability related to the PEPS Units is classified as Senior deferrable notes on the accompanying consolidated balance sheets.

In December 2001, the Corporation amended its restrictive covenants under the unsecured financing facilities to require a maximum leverage ratio (funded indebtedness, excluding senior deferrable notes, to net worth plus funded indebtedness) of 72.50% on December 29, 2001, March 30, 2002 and June 29, 2002; 70.00% on September 28, 2002, December 28, 2002 and March 29, 2003; 67.50% on June 28, 2003 and September 27, 2003; and 65.00% on January 3, 2004 and thereafter. The restrictive covenants also require a minimum interest coverage ratio (earnings before interest, taxes, depreciation and amortization, EBITDA, to interest charges) of 2.25 to 1.00 on December 29, 2001, March 30, 2002, June 29, 2002 and September 28, 2002; 2.50 to 1.00 on December 28, 2002 and March 29, 2003; 2.75 to 1.00 on June 28, 2003 and September 27, 2003; and 3.00 to 1.00 on January 3, 2004 and thereafter. In addition, the restrictive covenants require a minimum net worth that changes quarterly and a maximum debt level of \$13,065 million. The Corporation was in compliance with its debt covenants as of December 29, 2001 with a leverage ratio of 71.35%, an interest coverage ratio of 2.59 to 1.00, and a debt balance of \$12,214 million. The \$17.9 million fee associated with amending the restrictive covenants is being amortized over the term of the financing facilities.

In 1999, the Corporation entered into a financing arrangement to enhance the return of the deposit made in connection with a 1995 sale-leaseback transaction by issuing NZ\$724 million of 5.74% Debentures Due April 5, 2005 that were legally defeased with deposits of an equal amount. Because they were legally defeased, generally accepted accounting principles do not require the debentures and related deposits to be reflected on the Corporation's consolidated balance sheets. Accordingly, the Corporation has not reflected the debentures or the related deposits on the accompanying consolidated balance sheets.

In conjunction with the sale of 194,000 acres of the Corporation's California timberlands in 1999, the Corporation received notes from the purchaser in the amount of \$397 million. These notes were monetized on October 25, 2000, through the issuance of commercial paper secured by the notes. Net proceeds of \$342 million from this monetization were used to reduce debt allocated to The Timber Company. Proceeds from the notes received from the purchaser will be used to fund payments required for the notes payable. The notes receivable and notes payable are reflected in Other assets and Other long-term liabilities, respectively, on the accompanying consolidated balance sheets. In conjunction with the sale of 440,000 acres of the Corporation's Maine timberlands in 1999, the Corporation received notes from the purchaser in the amount of \$51 million. These notes were monetized through the issuance of notes payable in a private placement with the proceeds used to reduce debt allocated to The Timber Company. Proceeds from the notes received from the purchaser will be used to fund payments required for the notes payable. The notes receivable and notes payable are reflected in Other assets and Other long-term liabilities, respectively, on the accompanying consolidated balance sheets. Additionally, in connection with the sale of 127,000 acres of the Corporation's California timberlands in 1997, the Corporation received notes from the purchaser in the amount of \$270 million. The Corporation monetized these notes receivable through the issuance of notes payable in a private placement. The notes receivable are included in Other assets and the notes payable are included as Other long-term liabilities on the accompanying consolidated balance sheets.

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

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

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The following table presents principal (or notional) amounts and related weighted average interest rates by year of expected maturity for the Corporation's debt obligations and interest rate exchange agreements as of December 29, 2001. For obligations with variable interest rates, the tables set forth payout amounts based on current rates and do not attempt to project future interest rates.

As of December 29, 2001

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value December 29, 2001
(In millions, except percentages)								
Commercial paper and other short-term								
Notes						\$ 1,359	\$ 1,359	\$ 1,359
Average interest rates						2.5%	2.5%	2.5%
Credit facilities	\$ 925			\$ 1,935			\$ 2,860	\$ 2,860
Average interest rates	3.9%			3.6%			3.7%	3.7%
Notes and debentures	\$ 462	\$ 580	\$ 336	\$ 4	\$ 600	\$ 4,700	\$ 6,682	\$ 6,679
Average interest rates	8.9%	6.7%	6.7%	4.7%	7.5%	8.4%	7.8%	7.8%
Euro-denominated Bonds			\$ 266				\$ 266	\$ 257
Average interest rates			4.8%				4.8%	6.6%
Revenue bonds	\$ 75	\$ 3	\$ 31	\$ 21		\$ 739	\$ 869	\$ 833
Average interest rates	1.9%	5.2%	2.0%	5.6%		5.6%	5.2%	5.8%
Capital leases	\$ 5	\$ 5	\$ 6	\$ 7	\$ 7	\$ 96	\$ 126	\$ 148
Average interest rates	12.0%	11.6%	2.5%	2.3%	10.8%	10.8%	10.0%	8.0%
European Debt	\$ 22	\$ 24	\$ 23	\$ 11	\$ 11	\$ 46	\$ 137	\$ 137
Average interest rates	6.8%	6.7%	6.2%	4.9%	4.7%	3.6%	6.1%	6.7%
Other loans	\$ 8						\$ 8	\$ 8
Average interest rates	4.6%						4.6%	3.7%
Senior deferrable notes			\$ 863				\$ 863	\$ 889
Average interest rates			7.2%				7.2%	3.6%
Total debt maturity	\$ 1,497	\$ 612	\$ 1,525	\$ 1,978	\$ 618	\$ 6,940		
Notional amount of interest rate exchange								
Agreements (variable to fixed)								
Average interest rate paid (fixed)								