GEORGIA PACIFIC CORP
Form 10-Q
October 28, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2004

OR

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

For the transition period from __________ to ___________

Commission File Number 1-3506

GEORGIA-PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

Georgia	93-0432081
(State or other jurisdiction of incorporation or organization)	(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

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 October 25, 2004, Georgia-Pacific Corporation had 258,068,006 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

	Third Quarter		First Nine Months	
(In millions, except per share amounts)	2004	2003	2004	2003
Net sales	$4,741	$5,125	$15,151	$14,446
Costs and expenses:				
Cost of sales	3,511	3,966	11,369	11,334
Selling and distribution	257	326	919	952
Depreciation, amortization and accretion	231	242	711	728
General and administrative	212	211	656	609
Interest, net	167	200	542	606
Other income, net	(8)	(101)	(9)	(39)
Total costs and expenses	4,370	4,844	14,188	14,190

Income from continuing operations before income taxes	371	281	963	256
Provision for income taxes	132	97	352	69
Income from continuing operations	239	184	611	187
Income (loss) from discontinued operations, net of taxes	1	8	(4)	8
Income before accounting change	240	192	607	195
Cumulative effect of accounting change, net of taxes	--	--	--	28
Net income	$240	$192	$607	$223
Basic per share:				
Income from continuing operations	$ 0.93	$ 0.74	$ 2.40	$ 0.75
Income (loss) from discontinued operations, net of taxes	0.01	0.03	(0.02)	0.03
Income before accounting change	$ 0.94	$ 0.77	$ 2.38	$ 0.78
Cumulative effect of accounting change, net of taxes	--	--	--	0.11
Net income	$ 0.94	$ 0.77	$ 2.38	$ 0.89
Diluted per share:				
Income from continuing operations	$ 0.91	$ 0.73	$ 2.33	$ 0.75
Income (loss) from discontinued operations, net of taxes	--	0.03	(0.02)	0.03

Income before accounting change	$ 0.91	$ 0.76	$2.31	$ 0.78
Cumulative effect of accounting change, net of taxes	--	--	--	0.11
Net income	$ 0.91	$ 0.76	$ 2.31	$ 0.89
Shares (denominator):				
Weighted average shares outstanding	256.0	250.2	254.9	250.1
Dilutive securities:				
Options and restricted stock	7.2	2.1	7.5	0.7
Total assuming conversion	263.2	252.3	262.4	250.8

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

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

	First Nine Months	
(In millions, except per share amount)	2004	2003
Cash flows from operating activities		
	$ 607	$ 223
Net income		
Adjustments to reconcile net income to cash provided by operations	--	(28)
(excluding the effect of dispositions):	(14)	(39)
Cumulative effect of accounting changes, net of taxes	724	783
Other income, net	132	(67)
Depreciation, amortization and accretion	(481)	(282)
Deferred income taxes	(67)	27
Increase in receivables	208	74
(Increase) decrease in inventories	40	5
Increase in accounts payable	(38)	333
Change in other working capital	(203)	116

Change in taxes payable/receivable	31	37
Change in other assets and other long-term liabilities		
Other		
Cash provided by operations	939	1,182
Cash flows from investing activities		
	(448)	(480)
	(23)	(2)
Property, plant and equipment investments	1,416	27
Acquisitions	(14)	(14)
Net proceeds from sales of assets		
Other		
Cash provided by (used for) investing activities	931	(469)
Cash flows from financing activities		
	(5,270)	(6,318)
	3,919	5,680
Repayments of long-term debt	(14)	(48)
Additions to long-term debt	(35)	--
Fees paid to issue debt	(15)	(54)
Fees paid to retire debt	(303)	190
Net decrease in bank overdrafts	53	4
Net (decrease) increase in short-term debt	(97)	(94)
Proceeds from option plan exercises		
Cash dividends paid ($0.375 per share)		
Cash used for financing activities	(1,762)	(640)
Increase in cash	108	73
Balance at beginning of period	51	42
Balance at end of period	$ 159	$ 115

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)	October 2, 2004	January 3, 2004
ASSETS		
Current assets		
Cash and equivalents	$ 159	$ 51
Receivables, less allowances of $29 and $36, respectively	1,898	1,542
Inventories	1,793	1,848
Deferred income tax assets	125	117
Assets held for sale	--	739

Other current assets	362	301
Total current assets	4,337	4,598
Property, plant and equipment		
Land, buildings, machinery and equipment, at cost	17,711	17,758
Accumulated depreciation	(9,426)	(9,176)
Property, plant and equipment, net	8,285	8,582
Goodwill, net	7,478	7,484
Intangible assets, net	689	716
Assets held for sale	--	757
Other assets	2,216	2,268
Total assets	$ 23,005	$ 24,405

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

(In millions, except shares and per share amounts)	October 2, 2004	January 3, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Secured borrowings and other short-term notes	$ 386	$ 689
Current portion of long-term debt	558	789
Accounts payable	1,506	1,404
Accrued compensation	287	244
Liabilities held for sale	--	189
Other current liabilities	1,088	1,107
Total current liabilities	3,825	4,422
Long-term debt, excluding current portion	7,968	9,074
Liabilities held for sale	--	206
Other long-term liabilities	3,534	3,826
Deferred income tax liabilities	1,647	1,483

Commitments and contingencies

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; 256,370,000 and 252,980,000 shares issued and outstanding	205	202
Additional paid-in capital	3,579	3,473
Retained earnings	2,106	1,596
Long-term incentive plan deferred compensation	--	(1)
Accumulated other comprehensive income	141	124
Total shareholders' equity	6,031	5,394
Total liabilities and shareholders' equity	$ 23,005	$ 24,405

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

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

	Third Quarter		First Nine Months	
(In millions)	2004	2003	2004	2003
Net income	$ 240	$ 192	$ 607	$ 223
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	54	3	(11)	127
Derivative instruments:				
Fair market value adjustments on derivatives	2	(1)	2	(4)
Reclassification adjustments for losses	--	2	--	9
included in net income	--	--	--	4
Unrealized gain on securities	--	--	26	--
Minimum pension liability adjustment				
Comprehensive income	$ 296	$ 196	$ 624	$ 359

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
GEORGIA-PACIFIC CORPORATION
October 2, 2004

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 3, 2004 in our

Form 8-K filed with the SEC on May 20, 2004 reflecting our non-integrated pulp businesses as discontinued operations.

Certain 2003 amounts have been reclassified to conform with the 2004 presentation.

On May 7, 2004, we completed the sale of our non-integrated mills at Brunswick, Georgia, and New Augusta, Mississippi, as well as affiliated assets, to Koch Cellulose, LLC ("Koch") and its subsidiaries. These pulp businesses were reported as discontinued operations through the date of the sale and the related assets and liabilities were retroactively classified as held for sale in our January 3, 2004 balance sheet. We ceased depreciation of the related assets on February 26, 2004 (the date of the definitive agreement). These pulp businesses were previously reported in the bleached pulp and paper segment.

We classify certain shipping and handling costs as selling and distribution expenses. Shipping and handling costs included in selling and distribution expenses were $66 million and $250 million for the third quarter and first nine months of 2004, respectively, and $104 million and

$300 million for the third quarter and first nine months of 2003, respectively.

Other income, net

The following amounts are included in Other income, net

	Third Quarter		First Nine Months	
(In millions)	2004	2003	2004	2003
Asset impairments:				
Bellingham	$ --	$ --	$ 11	$ --
Old Town	--	--	--	74
White City	--	12	--	12
Other	--	1	2	8
Adjustment to asbestos insurance	--	(118)	--	(118)
receivables	--	--	53	--
Early extinguishment of debt	(16)	--	(49)	(14)
Gain on asset sales, retirements and disposals, net	8	4	(26)	(1)
Other				
Other income, net	$ (8)	$ (101)	$ (9)	$ (39)

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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 pro forma effects of the plans on net income and earnings per share as provided under SFAS No. 123. Because the fair market value on the date of grant was equal to the exercise price, no compensation expense had been recognized under APB No. 25 for stock options issued prior to 2003. Had compensation cost for the options 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:

Third Quarter	First Nine Months

(In millions, except per share amounts)	2004	2003	2004	2003
Net income as reported	$ 240	$ 192	$ 607	$ 223
Less total stock-based employee compensation expense determined under the fair value based method, net of taxes	--	(2)	(2)	(10)
Pro forma net income	240	189	605	213
Stock based employee compensation cost, net of taxes, included in the determination of net income as reported	15	9	61	46
Basic net income per share:				
As reported	0.94	0.77	2.38	0.89
Pro forma	0.94	0.76	2.37	0.85
Diluted net income per share:				
As reported	0.91	0.76	2.31	0.89
Pro forma	0.91	0.75	2.31	0.85

Accounting Changes

In January 2003, the Financial Accounting Standards Board (the "FASB") released Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 requires that all primary beneficiaries of Variable Interest Entities (VIE) consolidate that entity in their financial statements. FIN 46 is effective for VIEs created after January 31, 2003 and for VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financials statements for periods ending after March 14, 2004. We do not have interests in special purpose entities that are not consolidated.

During the second quarter of 2004, we adopted FASB Staff Position ("FSP") FAS 106-2 ("the FSP"), *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. The FSP provides specific guidance on how to account for the subsidy provided by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act"). The FSP provides for either retroactive application to the date of enactment or prospective application from the date of adoption. We have elected retroactive application to the date of enactment, the impact of which

was a reduction to net postretirement benefit cost of approximately $4 million during the first nine months of 2004 and a reduction of the accumulated postretirement benefit obligation of approximately $67 million.

2. PROVISION FOR INCOME TAXES. The effective tax rate in 2004 was higher than the statutory rate primarily because taxes related to the sale of our interest in a Brazilian pulp business and taxes related to the sale of our domestic pulp business, partially offset by lower international income tax rates. The effective tax rate in 2003 was lower than the statutory rate primarily because of lower international income tax rates and the first quarter reversal of approximately $10 million of income tax contingency reserves no longer required in Europe.

3. EARNINGS PER SHARE. Basic earnings per share is computed based on net income and the weighted average number of common shares outstanding. Diluted earnings per share reflect the assumed issuance of common shares under long-term incentive stock option and stock purchase plans. The increase in dilutive securities during 2004 was due primarily to an increase in the number of shares potentially issuable under our performance awards. The computation of diluted earnings per share does not assume conversion or exercise of securities that would have an antidilutive effect on earnings per share.

4. SUPPLEMENTAL DISCLOSURES -- CONSOLIDATED STATEMENTS OF CASH FLOWS. The cash impact of interest and income taxes is reflected in the table below. The effect of foreign currency exchange rate changes on cash was not material in either period.

	First Nine Months	
(In millions)	2004	2003
Total interest costs	$ 552	$ 611
Interest capitalized	(10)	(5)
Interest expense	$ 542	$ 606
Interest paid	$ 558	$ 525
Income tax paid (refunds received), net	$ 308	$ (236)
Debt assumed by buyer in divestiture	$ 73	$ --

Interest expense allocated to discontinued operations was $5 million and $11 million for the first nine months of 2004 and 2003, respectively.

5. DIVESTITURES.

Building Products Distribution

On May 7, 2004, we completed the sale of our building products distribution segment to a new company owned by Cerberus Capital Management L.P., a private investment firm, and members of the building products distribution business' management team (the buyer), for $818 million. In addition, we received $173 million in cash in June to settle an intercompany payable related to product sold to the building products distribution business prior to closing. This transaction resulted in a pre-tax gain of $20 million ($12 million after-tax gain), a portion of which was recognized in the third quarter upon final working capital settlement with the buyer. The gain is included in "Other income, net" on the statements of operations.

In addition, we entered into a six-year agreement for the building products distribution business to continue purchasing structural panels, lumber and other building products manufactured by us. This supply agreement contains substantially similar terms as the previous arrangement between our building products manufacturing and building products distribution businesses. Because our continuing involvement with this business via this supply agreement is considered significant, the building products distribution business is not permitted to be reported as a discontinued operation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *"Accounting for the Impairment and Disposal of Long-Lived Assets."* The building products distribution business was deemed to be held for sale and the related assets

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and liabilities retroactively classified as such in our January 3, 2004 balance sheet. We ceased depreciation of the related assets on March 12, 2004 (the date of the definitive agreement).

The following are major classes of assets and liabilities for the building products distribution business that were held for sale at January 3, 2004:

BUILDING PRODUCTS DISTRIBUTION ASSETS AND LIABILITIES HELD FOR SALE
CONDENSED BALANCE SHEETS
(Unaudited)

(In millions)		
ASSETS		
Current assets	$	571
Property, plant and equipment, net		201
Total assets	$	772
LIABILITIES:		
Current liabilities	$	126
Deferred income tax liabilities		3
Total liabilities	$	129

Net assets	$ 643

Non-integrated Pulp Mills

On May 7, 2004, we completed the sale of our non-integrated mills at Brunswick, Georgia, and New Augusta, Mississippi, along with a short-line railroad, to Koch Cellulose, LLC ("Koch") and its subsidiaries for $511 million in cash and a receivable of approximately $9 million for working capital. In addition, Koch assumed $73 million of indebtedness. This transaction resulted in a pre-tax gain of $5 million and an after tax loss of $13 million that was included in discontinued operations on the statements of operations. In October 2004, we received $9 million in satisfaction of the working capital receivable.

These pulp businesses were reported as discontinued operations through the date of the sale and the related assets and liabilities were retroactively classified as held for sale in our January 3, 2004 balance sheet. We ceased depreciation of the related assets on February 26, 2004 (the date of the definitive agreement). These pulp businesses were previously reported in the bleached pulp and paper segment.

The following are major classes of assets and liabilities for these discontinued operations that were held for sale at January 3, 2004:

DISCONTINUED OPERATIONS
CONDENSED BALANCE SHEETS
(Unaudited)

(In millions)		
ASSETS		
Current assets	$	168
Property, plant and equipment, net		338
Goodwill, net		172
Other assets		1
Total assets	$	679
LIABILITIES:		
Current liabilities	$	63
Long-term debt		97
Deferred income tax liabilities		100
Other long-term liabilities		6
Total liabilities	$	266
Net assets	$	413

Operating results of these discontinued operations are shown below:

DISCONTINUED OPERATIONS
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Third Quarter		First Nine Months	
(In millions)	2004	2003	2004	2003
Net sales	$ --	$ 153	$ 220	$ 447
Costs and expenses:				
Cost of sales	1	112	179	351
Selling and distribution	--	5	6	13
Depreciation, amortization and	--	18	13	54
accretion	--	3	4	9
General and administrative	--	4	5	11
Interest, net	(3)	1	(5)	1
Other (income) losses, net				
Total costs and expenses	(2)	143	202	439
Income from discontinuing operations	2	10	18	8
before income taxes	1	2	22	--
Provision for income taxes				
Income (loss) from discontinued operations, net of taxes	$ 1	$ 8	$ (4)	$ 8

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 disposal transaction.

Other Asset Sales

During the second quarter of 2004, we sold all of our interests in a Brazilian pulp business for $71 million. This transaction resulted in a pre-tax gain of $24 million ($9 million after-tax gain) and was included in "Other income, net" on the statements of operations.

During the second quarter of 2004, we sold certain packaging assets and an aircraft and recognized a pre-tax gain of $26 million ($16 million after-tax gain). During the third quarter of 2004, we sold three hardwood lumber mills for proceeds of $27 million and recognized a pre-tax gain of $5 million ($3 million after tax). These gains are included in "Other income, net" on the statements of operations.

6. ASSET IMPAIRMENT AND RESTRUCTURING.

Bellingham

In June 2004, we signed a letter of intent with the Bellingham Port Authority (the "Port") to sell our Bellingham facilities to the Port and lease back certain of those facilities. The Port will assume most of our environmental liabilities associated with the facility. In connection with this agreement, we determined that the value of the related assets were impaired. Accordingly, in the second quarter of 2004, we recorded pre-tax charges to earnings of $11 million for asset impairments. Assuming the parties reach a formal agreement for this transaction, we expect closing to occur in the fourth quarter of 2004.

Old Town, Maine

On April 4, 2003, we announced that we would close tissue-manufacturing and converting operations at our Old Town, Maine mill. The mill's pulp and dryer operations are continuing to operate. The determination to close the tissue operations was based on excess capacity of tissue production, the mill's geographic location and high energy and fiber costs. In connection with this closure, we determined that the value of related tissue assets and certain pulp assets at this location was impaired. Accordingly, in the first quarter of 2003, we recorded a pre-tax impairment charge to earnings in the North America consumer products segment and bleached pulp and paper segment of $25 million and $49 million, respectively. In the third quarter of 2003, we recorded a pre-tax charge of $7 million and $4 million in the North American consumer products segment for related severance and business exit costs, respectively. Following the impairment charge, the carrying value of fixed assets was approximately $75 million. The fair value of the impaired assets was determined using the present value of expected future cash flows. This impairment charge was recorded in "Other losses, net" in the accompanying consolidated statements of operations.

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

Fort James and Other

In connection with the acquisition of Fort James, we recorded liabilities totaling approximately $78 million for employee termination costs relating to approximately 960 hourly and salaried employees. In addition, we determined that we would strategically reposition our communication papers

business to focus on faster-growing paper segments by retiring four high-cost paper machines and associated pulping facilities at our Camas, Washington mill and recorded liabilities of approximately $26 million to exit these activities. In addition, we recorded liabilities of $35 million primarily for lease and contract termination costs at administrative facilities that have been or will be closed in California, Connecticut, Illinois, Virginia, Wisconsin and Europe. During 2003, 2002 and 2001, approximately 940 employees were terminated and approximately $74 million of the reserve was used to pay termination benefits. The remaining employee terminations and Camas closing activities (primarily demolition activities) are expected to be completed by the fourth quarter of 2004 due to timing of receipt of the requisite permits. The leases and contracts at the administrative facilities expire through 2012. The following table provides a rollforward of these reserves from January 3, 2004 through October 2, 2004:

Type of Cost (In millions)	Liability Balance at January 3, 2004	Use	Liability Balance at October 2, 2004
Employee termination	$ 4	$ --	$ 4
Facility closing costs	30	(10)	20
Total	$ 34	$ (10)	$ 24

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

(In millions)	October 2, 2004	January 3, 2004
Raw materials	$ 638	$ 625
Finished goods	778	832
Supplies	503	489
LIFO reserve	(126)	(98)
Total inventories	$ 1,793	$ 1,848

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

On May 7, 2004, we sold our non-integrated pulp mills at Brunswick, Georgia, and New Augusta, Mississippi, along with a short-line railroad to Koch. The goodwill associated with the pulp mill and the railroad was $169 million and $3 million, respectively, at January 3, 2004, and was included in net

assets held for sale effective February 26, 2004 (the date of the definitive agreement)

The changes in the carrying amount of goodwill for the first nine months of 2004 are as follows:

(In millions)	North America Consumer Products	International Consumer Products	Packaging	Building Products Manufacturing	Consolidated
Balance as of January 3,					
2004		$ 987			
Goodwill acquired during		--			
the year	$ 5,831	--	$ 630	$ 36	$ 7,484
Reclassifications	--		1	--	1
Foreign currency	2		--	--	2
translation	--	(9)	--	--	(9)
Balance as of October 2, 2004	$ 5,833	$ 978	$ 631	$ 36	$ 7,478

Intangible Assets

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

	As of October 2, 2004		As of January 3, 2004	
(In millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks	$ 680	$ 58	$ 677	$ 40
Patents and other	137	70	132	53
Total	$ 817	$ 128	$ 809	$ 93

Aggregate Amortization Expense:	$ 24
First nine months of 2004	=====
Estimated Amortization Expense:	$ 29
	29
For fiscal year 2004	20

For fiscal year 2005	20
For fiscal year 2006	20
For fiscal year 2007	
For fiscal year 2008	

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

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

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

	First Nine Months	
(In millions)	2004	2003
Asset retirement obligation at the beginning of the year	$ 49	$ 67
Net transition adjustments	--	(21)
Accretion expense	3	3
Revisions in estimated cash flow	(1)	--
Payments	(1)	(1)
Write-offs	(1)	--
Asset retirement obligation at the end of the third quarter	$ 49	$ 48

The asset retirement obligation liability balances were as follows:

(In millions)	October 2, 2004	January 3, 2004
Amounts of liability for asset retirement obligations at beginning of period	$ 49	$ 46
Amounts of liability for asset retirement obligations at end of period	$ 49	$ 49

10. DEBT. Our debt decreased by $1,736 million to $8,912 million at October 2, 2004 from $10,648 million at January 3, 2004. This decrease includes the effect of changes in foreign currency exchange rates of $15 million during this time period. For the nine months ended October 2, 2004, the weighted average interest rate on our total debt, including outstanding interest rate exchange agreements, was 7.2%.

As of October 2, 2004, we had $386 million outstanding under our $700 million accounts receivable secured borrowing program. G-P Receivables, Inc. ("G-P Receivables") is our wholly owned subsidiary and is the special purpose entity into which some of our receivables and the receivables of participating domestic subsidiaries are sold. G-P Receivables, in turn, sells an interest in the receivables to the various banks and entities. This program is accounted for as a secured borrowing. The receivables outstanding under these programs and the corresponding debt are included as "Receivables" and "Secured borrowings and other short-term notes," respectively, in the accompanying balance sheets. As collections reduce previously pledged interests, new receivables may be pledged. G-P Receivables is a separate corporate entity and its assets will be available first and foremost to satisfy the claims of its creditors. We repurchased the receivable interest sold into the program related to the building products distribution segment and the non-integrated pulp business upon their divestiture. Those receivables were transferred to the purchasers of those businesses pursuant to the divestitures described in

Note 5. The amount of those repurchases was $416 million and $12 million, respectively.

On September 21, 2004, we elected to call $250 million of our 8.25% debentures due March 1, 2023 and $250 million of our 8.125% debentures due June 15, 2023. These debentures will be redeemed on or about October 28, 2004 using funds available under our existing credit facilities. We have classified the related debt as "Current portion of long-term debt" on the accompanying balance sheets as of October 2, 2004. In the fourth quarter of 2004, we expect to record a pretax charge of $22 million for call premiums and to write off deferred debt issuance costs.

On July 2, 2004, we entered into a new $2.5 billion, five-year, senior unsecured credit facility ("Senior Credit Facility") that includes a $500 million non-amortizing term loan. This new credit facility matures July 2, 2009 and replaces a $2.25 billion, five-year credit facility that would have matured November 3, 2005. In connection with this new facility, we recorded a pre-tax charge of approximately $3 million to write off certain previously deferred debt issuance costs during the second quarter of 2004.

On December 11, 2003, we completed a private placement of $500 million of 8% senior notes, due in 2024. Net proceeds from the private placement were used to pay down a portion of our five-year credit facility that would have matured in November 2005, described above. On July 1, 2004, we completed an offer to exchange these notes for new notes with substantially identical terms that are registered under the Securities Act. We paid approximately $7 million in fees and expenses associated with these transactions. The fees are being amortized over the term of the senior notes.

On March 1, 2004, we redeemed $243 million of our 9.875% debentures due November 1, 2021. On March 31, 2004, we also redeemed $250 million of our 9.625% debentures due March 15, 2022. In connection with these transactions we recorded a pre-tax charge of $26 million for call premiums and to write off deferred debt issuance costs during the first quarter of 2004. This charge for the early extinguishment of debt was included in "Other losses, net" in the accompanying statements of operations.

On April 20, 2004, we redeemed $250 million of our 9.5% debentures due May 15, 2022. On May 6, 2004, we also redeemed $240 million of our 9.125% debentures due July 1, 2022. In connection with these transactions, we recorded a pre-tax charge of $24 million for call premiums and to write off deferred debt issuance costs during the second quarter of 2004. This charge for the early extinguishment of debt was included in "Other losses, net" in the accompanying statements of operations.

On April 2, 2004, we borrowed a total of $400 million of 2.6% short-term notes which were repaid on May 7, 2004. Net proceeds from this borrowing were used to pay down a portion of our five-year credit facility that would have matured in November 2005, described above.

In connection with the sale of our non-integrated pulp mills and short-line railroad to Koch on May 7, 2004 (see

Note 5), Koch assumed $73 million of indebtedness. In addition, we defeased an outstanding $24 million tax-exempt bond on April 30, 2004 in order to transfer certain assets to Koch.

On July 14, 2004, Moody's Investors Service ("Moody's") upgraded our liquidity rating from SGL-3 (adequate) to SGL-2 (good). Moody's indicated that the upgrade was in response to our Senior Credit Facility that we entered into on July 2, 2004.

On May 4, 2004, Standard & Poor's Ratings Services revised its outlook on our long-term debt to 'stable' from 'negative' and affirmed its rating of BB+. Standard & Poor's Ratings Services indicated that the ratings actions reflect our improving financial profile and much better liquidity. On April 28, 2004, Fitch Ratings increased our senior unsecured long-term debt ratings to BB+ from BB and changed our rating outlook to 'stable'. Fitch Ratings indicated that this upgrade is primarily due to debt reductions resulting from expected asset sales as well as increased cash flows from operations. Additionally, on April 14, 2004, Moody's revised the outlook for our Senior Implied Ba2 debt rating to 'stable' from 'negative' citing our plans to reduce debt with proceeds from our expected asset sales.

At October 2, 2004, we had $630 million outstanding under our new Senior Credit Facility at a weighted-average interest rate of 3.1% with a maturity date of July 2, 2009. In addition, $559 million of borrowing capacity under this facility was committed to support outstanding letters of credit and similar instruments. Amounts outstanding under this facility are included in "Long-term debt, excluding current portion" in the accompanying consolidated balance sheets.

The amounts outstanding under our Senior Credit Facility include the following:

(In millions)	October 2, 2004
Commitments:	
Revolving Loans	$ 2,000
Term Loans	500