GEORGIA PACIFIC CORP
Form 10-Q
October 27, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 1, 2005

Commission File Number 1-3506

GEORGIA-PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

Georgia	**93-0432081**
(State or other jurisdiction of 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 ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of the close of business on October 24, 2005, Georgia-Pacific Corporation had 260,309,202 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)	**2005**	**2004**	**2005**	**2004**
Net sales	$ 4,713	$ 4,741	$ 14,127	$ 15,151
Costs and expenses:				
Cost of sales	3,587	3,516	10,654	11,386
Selling and distribution	269	252	806	902
Depreciation, amortization and accretion	233	231	699	711
General and administrative	198	212	566	656
Other losses (income), net	9	(8)	60	(9)
Operating profit	417	538	1,342	1,505
Interest, net	145	167	453	542
Income from continuing operations before income taxes	272	371	889	963
Provision for income taxes	129	132	347	352
Income from continuing operations	143	239	542	611
Income (loss) from discontinued operations, net of taxes	2	1	2	(4)
Net income	$ 145	$ 240	$ 544	$ 607
Basic per share:				
Income from continuing operations	$ 0.55	$ 0.93	$ 2.10	$ 2.40
Loss from discontinued operations, net of taxes	0.01	0.01	0.01	(0.02)
Net income	$ 0.56	$ 0.94	$ 2.11	$ 2.38
Diluted per share:				
Income from continuing operations	$ 0.54	$ 0.91	$ 2.05	$ 2.33
Loss from discontinued operations, net of taxes	0.01		0.01	(0.02)
Net income	$ 0.55	$ 0.91	$ 2.06	$ 2.31
Shares (denominator):				
Weighted average shares outstanding	258.9	256.0	258.3	254.9
Dilutive securities:				

Options and other equity securities	5.6	7.2	6.0	7.5
Total assuming conversion	264.5	263.2	264.3	262.4

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)	**2005**	**2004**
Cash flows from operating activities		
Net income	$ 544	$ 607
Adjustments to reconcile net income to cash provided by operations (excluding the effect of dispositions):		
Depreciation	670	696
Amortization of intangible assets, deferred charges and accretion	45	59
Stock compensation expense	20	85
Deferred income taxes	(35)	79
Other losses (income), net	60	(14)
Increase in receivables	(107)	(481)
Increase in inventories	(89)	(60)
(Decrease) increase in accounts payable	(26)	208
Change in other working capital	(11)	40
Change in taxes payable/receivable	244	(38)
Change in other assets and other long-term liabilities	(99)	(263)
Other, net	1	39
Cash provided by operations	1,217	957
Cash flows from investing activities		
Property, plant and equipment investments	(506)	(448)
Acquisitions		(23)
Net proceeds from sales of assets	74	1,416
Other	(4)	(14)
Cash (used for) provided by investing activities	(436)	931
Cash flows from financing activities		
Repayments of long-term debt	(3,263)	(5,264)
Additions to long-term debt	2,808	3,901
Fees paid to issue debt	(1)	(14)
Fees paid to retire debt	(14)	(35)
Net change in bank overdrafts	10	(15)
Net decrease in accounts receivable secured borrowings and short-term notes	(280)	(303)
Proceeds from option plan exercises	15	53
Cash dividends paid ($0.525 per share and $0.375 per share, respectively)	(137)	(97)
Other, net		(2)
Cash used for financing activities	(862)	(1,776)
Effect of exchange rate changes on cash and equivalents	(30)	(4)
(Decrease) increase in cash and equivalents	(111)	108
Balance at beginning of period	225	51
Balance at end of period	$ 114	159

Supplemental disclosures of cash flow information:		
Total interest cost, net continuing operations	$ 458	$ 552
Interest capitalized	(5)	(10)
Interest expense, net continuing operations	453	542
Interest expense, net discontinued operations		5
Total interest expense, net	$ 453	$ 547
Interest paid	$ 497	$ 582
Income tax paid, net	$ 127	$ 308
Debt assumed by buyer	$	$ 73

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

CONSOLIDATED BALANCE SHEETS (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

(In millions, except shares and per share amounts)	October 1, 2005	January 1, 2005
ASSETS		
Current assets		
Cash and equivalents	$ 114	$ 225
Receivables, less allowances of $28 and $26, respectively	1,803	1,766
Inventories	1,600	1,548
Deferred income tax assets	28	28
Taxes receivable		56
Other current assets	294	324
Total current assets	3,839	3,947
Property, plant and equipment		
Land, buildings, machinery and equipment, at cost	18,168	17,934
Accumulated depreciation	(10,153)	(9,529)
Property, plant and equipment, net	8,015	8,405
Goodwill, net	7,414	7,551
Intangible assets, net	646	701
Other assets	2,414	2,468
Total assets	$ 22,328	$ 23,072
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Secured borrowings and other short-term notes	$ 288	$ 568
Current portion of long-term debt	653	57
Accounts payable	1,583	1,668
Accrued compensation	259	323
Taxes payable	187	
Other current liabilities	1,022	1,000
Total current liabilities	3,992	3,616
Long-term debt, excluding current portion	6,999	8,064
Other long-term liabilities	3,535	3,698
Deferred income tax liabilities	1,391	1,469
Total liabilities	15,917	16,847
Commitments and contingencies (Note 11)		
Shareholders equity		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued or outstanding		
Junior preferred stock, no par value; 25,000,000 shares authorized; no shares issued or outstanding		
Common stock, par value $0.80; 400,000,000 shares authorized; 259,115,000 and 256,992,000 shares issued and outstanding	207	205
Additional paid-in capital	3,667	3,610
Retained earnings	2,497	2,090

Accumulated other comprehensive income	40	320
Total shareholders equity	6,411	6,225
Total liabilities and shareholders equity	$ 22,328	$ 23,072

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

Georgia-Pacific Corporation and Subsidiaries

	Third Quarter		First Nine Months	
(In millions)	**2005**	**2004**	**2005**	**2004**
Net income	$ 145	$ 240	$ 544	$ 607
Other comprehensive income (loss), net of tax:				
Derivative instruments:				
Fair market value adjustments on derivatives	4	2	9	2
Reclassification adjustments for gains included in net income	(7)		(9)	
Foreign currency translation adjustments	1	54	(284)	(11)
Unrealized loss on securities			(2)	
Minimum pension liability adjustment	1		6	26
Comprehensive income	$ 144	$ 296	$ 264	$ 624

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

GEORGIA-PACIFIC CORPORATION AND SUBSIDIARIES

October 1, 2005

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

Management is responsible for the unaudited financial statements included in this document. The financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our audited financial statements for the fiscal year ended January 1, 2005 in our Form 10-K filed with the SEC on March 1, 2005.

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

In March 2005, we corrected our accounting for an insurance policy with a three-year term expiring in June of 2005. From 2002 through 2004, we had recorded all payments made under the policy as prepaid insurance, which was amortized into expense. However, a portion of these payments was refundable based upon actual loss experience and, therefore, should have been recorded as a deposit rather than as an insurance expense. Losses covered by the deposit were to be expensed as incurred. We concluded that the resulting overstatement of insurance expense during 2002 through 2004 was not material, either individually or in the aggregate, to our results of operations, to trends for those periods affected, or to a fair presentation of our financial statements. Accordingly, results for the prior periods have not been restated. Instead, we reduced our insurance expense (cost of sales) and increased other current assets by $24 million to correct this error in the first quarter of 2005 and $1 million in the third quarter of 2005. We received a total cash refund of $31 million related to the refund of the deposit in the third quarter of 2005.

We recorded net losses related to our equity method investments of $2 million and $1 million for the third quarters of 2005 and 2004, respectively, and $5 million and $7 million for the first nine months of 2005 and 2004, respectively. Minority interests in income of less than wholly-owned consolidated subsidiaries totaled $4 million and $16 million for the third quarter and the first nine months of 2005, respectively, and $3 million and $13 million for the third quarter and first nine months of 2004, respectively. These amounts are included in cost of sales on our consolidated statements of operations.

We classify certain shipping and handling costs as selling and distribution expenses. Shipping and handling costs included in selling and distribution expenses were $62 million and $185 million for the third quarter and first nine months of 2005, respectively and $63 million and $233 million for the third quarter and first nine months of 2004, respectively.

Interest, net is interest expense of $538 million and $625 million, net of interest income of $85 million and $78 million, for the first nine months of 2005 and 2004, respectively. A majority of our interest income is associated with the notes received in connection with our sale of a 60% controlling interest in Unisource Worldwide, Inc. (Unisource) in 2002 and sales of various timberlands in prior years.

Other Losses (Income), net

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

	Third Quarter		First Nine Months	
(In millions)	**2005**	**2004**	**2005**	**2004**
Asset impairments	$ 14	$	$ 19	$ 13
Early extinguishment of debt			17	53
Estimated loss on warehouse sublease	1		12	
Gain on sale of assets	(19)	(10)	(16)	(75)
Settlement of asbestos insurance receivable	(4)		(1)	
Tax-exempt bond liability reserve (Note 11)			11	
Unisource sales tax audit charge	7		7	
Change in environmental liabilities, net of insurance receivables	8		8	
Other	2	2	3	
Other losses (income), net	$ 9	$ (8)	$ 60	$ (9)

Stock-Based Compensation

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

	Third Quarter		First Nine Months	
(In millions, except per share amounts)	**2005**	**2004**	**2005**	**2004**
Net income as reported	$ 145	$ 240	$ 544	$ 607
APB No. 25 stock-based employee compensation expense for 2002 awards		4		17
Less stock-based employee compensation expense determined under the fair value based method, net of taxes		(1)		(4)
Pro forma net income	$ 145	$ 243	$ 544	$ 620
Stock based employee compensation cost, net of taxes, included in the determination of net income as reported	$ 16	$ 15	$ 16	$ 61

Basic net income per share:				
As reported	$ 0.56	$ 0.94	$ 2.11	$ 2.38
Pro forma	0.56	0.95	2.11	2.43
Diluted net income per share:				
As reported	$ 0.55	$ 0.91	$ 2.06	$ 2.31
Pro forma	0.55	0.92	2.06	2.36

Accounting Changes

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections a replacement of APB No. 20 and FASB Statement No. 3* (SFAS No. 154). SFAS No. 154 changes the requirements of accounting for and reporting a change in accounting principle and applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement, in the event that the accounting pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods financial statements unless it is impracticable. SFAS No. 154 also requires that a change in the method of depreciation, amortization or depletion of long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. The guidance contained in APB Opinion No. 20, *Accounting Changes* for reporting the correction of an error was carried forward in SFAS No. 154 without change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

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

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

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

Also in December 2004, the FASB issued Staff Position No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FSP 109-2). The AJCA provides for a special one-time tax deduction, or dividend received deduction (DRD), of 85% of certain foreign earnings that are repatriated to the United States and reinvested in qualified investments in the United States. Such qualified investments include: compensation and benefits for employees, hiring and training, capital and infrastructure investments, research and development, and advertising and marketing expenditures.

During the third quarter of 2005, we completed our evaluation of whether to repatriate unremitted earnings of certain of our non-U.S. subsidiaries under the provisions of the AJCA and determined to repatriate approximately $709 million of such earnings, of which approximately $673 million qualifies for the special one-time deduction. On September 28, 2005, we repatriated $200 million and anticipate completing the remaining repatriation by the end of 2005. We recorded income tax expense, net of current year generated tax credits, and a related income tax liability of approximately $36 million in the third quarter of 2005 based on total earnings to be repatriated of $709 million.

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

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs an Amendment of ARB No. 43, Chapter 4* (SFAS No. 151), which is the result of the FASB s efforts to converge U.S. accounting standards for inventory with International Accounting Standards. SFAS No. 151 requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We plan to adopt SFAS No. 151 at the beginning of our 2006 fiscal year and do not expect the adoption to have a material impact on our results of operations or financial position.

2. EARNINGS PER SHARE. Basic earnings per share is computed based on net income and the weighted average number of common shares outstanding. Diluted earnings per share reflects the assumed issuance of common shares under long-term incentive stock option plans. The decrease in dilutive securities during 2005 was due primarily to a decrease in the number of shares potentially issuable under our plans. The computation of diluted earnings per share does not assume conversion or exercise of securities that would have an antidilutive effect on earnings per share.

3. DIVESTITURES.

In August 2005, we completed the sale of our majority ownership in G-P Flakeboard, Inc., our Canadian medium-density fiberboard operations, to the minority interest owner, and the sale of our Richwood, WV, hardwood lumber mill. Total proceeds received were $69 million and we recorded a $20 million gain related to these sales.

Bellingham Tissue Operation

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

Building Products Distribution

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

Discontinued Operations

On May 7, 2004, we sold our stand-alone market pulp mills at Brunswick, Georgia, and New Augusta, Mississippi, and a short-line railroad. The results of operations associated with these businesses have been reported as discontinued operations in the accompanying consolidated statements of operations. During the third quarter of 2005, we recorded a $2 million credit for income tax true-ups related to the sale. Operating results of these discontinued operations are:

DISCONTINUED OPERATIONS

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions)	Third Quarter	First Nine Months
2004		
Net sales	$	$ 220
Costs and expenses:		
Cost of sales	1	179
Selling and distribution		6
Depreciation, amortization and accretion		13
General and administrative		4
Interest, net		5
Other income, net	(3)	(5)
Total costs and expenses	(2)	202
Income from discontinued operations before income taxes	2	18
Provision for income taxes	1	22
Income (loss) from discontinued operations, net of taxes	$ 1	$ (4)

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

During the third quarter and first nine months of 2004, we sold non-strategic assets and included the related gains and losses in Other losses (income), net on the consolidated statements of operations. These sales are detailed in the following table:

	Pre-tax Gain Included in Other Losses (Income), Net	
(In millions)	**Third Quarter**	**First Nine Months**
2004:		
Brazilian pulp business	$ (2)	$ 24
Packaging assets		23
Other	5	7

4. ASSET IMPAIRMENTS AND RESTRUCTURING.

2005:

On September 29, 2005, we approved a restructuring program within our North America Consumer Products segment, primarily in our commercial tissue operations. As part of this program, along with planned restructuring activities in our International Consumer Products segment, we plan to:

- Reduce structural costs in our commercial tissue operations by optimizing the inherent low cost papermaking at our mills in Savannah, Georgia, and Muskogee, Oklahoma, and right-sizing the Green Bay, Wisconsin mills;
- Relocate various other tissue operations within the U.S. to more cost-efficient locations; and
- Reduce costs in our International Consumer Products segment through the implementation of restructuring in Kunheim, France, and further investments and rationalization to improve operating efficiencies in the United Kingdom and the Nordic region.

We estimate that during the course of the entire two-year program, the workforce within our North America and International Consumer Products segments will be reduced by approximately 1,100 positions. As a result of the restructuring, we expect to incur a total of approximately $106 million in restructuring charge. Of the $106 million, $87 million is related to our North America Consumer products segment and $19 million is related to our International Consumer products segment. During the third quarter of 2005, $41 million of the estimated $106 million was expensed in the following categories:

(In millions)

Cost of sales	$ 24
Selling and distribution	
Depreciation, amortization and accretion	2
General and administrative	
Other losses (income), net	15
Income (loss) before income taxes	$ (41)

Of the $106 million, we expect to incur approximately $21 million in employee-related costs, including severance and other termination benefits; approximately $53 million in net asset impairment charges, accelerated depreciation, and storeroom writeoffs; and approximately $32 million in other facility-related exit costs. We expect to incur net cash expenditures of approximately $49 million in connection with these charges.

Activities related to restructuring for the third quarter of 2005 were as follows:

(In millions)	Work Force Reductions	Facility Exit Costs	Asset Impairments	Other	Total
Beginning reserve balance	$	$	$	$	$
Additions	16	1	24		41
Costs charged against reserve		(1)			(1)
Reclassifications of reserve to other balance sheet accounts:					
Inventories			(8)		(8)
Property plant & equipment			(16)		(16)
Other assets					
Ending reserve balance	$ 16	$	$	$	$ 16

During the first six months of 2005, we had asset impairment charges of approximately $5 million primarily related to the closure of our Caledonia gypsum mine and asset impairments at our Green Bay Broadway facility.

2004:

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

2001:

In connection with the acquisition of Fort James Corporation (Fort James), in 2001 we recorded liabilities of $35 million, primarily for lease and contract termination costs at administrative facilities that were closed in California, Connecticut, Illinois, Virginia, Wisconsin and Europe. These leases and contracts expire through 2012. The current remaining balance of the reserve for the lease agreements is approximately $10 million.

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

(In millions)	October 1, 2005	January 1, 2005
Raw materials	$ 724	$ 685
Finished goods	761	743
Supplies	281	278
LIFO reserve	(166)	(158)
Total inventories	$ 1,600	$ 1,548

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

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

(In millions)	North America Consumer Products	International Consumer Products	Packaging	Building Products	Consolidated
Balance as of January 3, 2004	$ 5,831	$ 987	$ 630	$ 36	$ 7,484
Goodwill acquired during the year			1		1
Reclassifications	2				2
Foreign currency translation		(9)			(9)
Balance as of October 2, 2004	$ 5,833	$ 978	$ 631	$ 36	$ 7,478
Balance as of January 1, 2005	$ 5,816	$ 1,067	$ 631	$ 37	$ 7,551
Tax related adjustments	(12)	(5)			