

GEORGIA PACIFIC CORP  
Form DEF 14A  
April 01, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

## Georgia Pacific Corporation

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(Name of Registrant as Specified In Its Certificate)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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1) Amount  
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Notes:

Reg. (S) 240.14a-101.

SEC 1913 (3-99)



April 1, 2002

Dear Fellow Shareholder:

Please come to the Georgia-Pacific Corporation Annual Meeting of Shareholders at 11:00 a.m. on Tuesday, May 7, 2002. The Annual Meeting will be held at the Radisson Riverfront Hotel, 2 Tenth Street, in Augusta, Georgia.

During the last year, several important goals were achieved and we look forward to reporting to you on these and other important matters. In addition, we will vote on the matters set forth in the attached Notice of Annual Meeting and Proxy Statement.

We have again provided to you the option of voting by mail, telephone or the Internet. Your vote is important. Even if you plan to attend the meeting, please vote as soon as possible.

Sincerely,

A. D. Correll  
*Chairman, Chief Executive Officer and  
President*

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# NOTICE OF ANNUAL MEETING OF SHAREHOLDERS MAY 7, 2002

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## TIME

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11:00 a.m. local time on Tuesday, May 7, 2002

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## BUSINESS

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- (1) Elect 4 members of the Board of Directors.
  - (2) Consider and act on a shareholder proposal, if properly presented at the meeting, requesting that Georgia-Pacific endorse the CERES Principles.
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## DOCUMENTS

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The Proxy Statement, proxy card, and the Georgia-Pacific Annual Report on Form 10-K are included in this mailing. They are first being mailed to shareholders on or about April 1, 2002.

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## PLACE

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Radisson Riverfront Hotel  
2 Tenth Street  
Augusta, Georgia

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## RECORD DATE

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Owners of shares of common stock of Georgia-Pacific at the close of business on March 13, 2002 may attend and vote at the meeting.

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## EXECUTIVE OFFICES

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Georgia-Pacific Corporation  
133 Peachtree Street, N.E.  
Atlanta, Georgia 30303-1847

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## VOTING

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Even if you plan to attend the meeting in Augusta, please provide us with your voting instructions in one of the following ways as soon as possible:

- (1) Internet use the Internet address on the proxy card
- (2) Telephone use the toll-free number on the proxy card
- (3) Mail mark, sign, and date the proxy card and return it in the enclosed postage-paid envelope

By order of the Board of Directors,  
Kenneth F. Khoury  
*Vice President, Deputy General Counsel and Secretary*

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## QUESTIONS AND ANSWERS

**Q: Who is entitled to vote?**

A: Georgia-Pacific shareholders of record as of the close of business on March 13, 2002 are entitled to vote at the Annual Meeting.

**Q: What will I likely be voting on?**

A: There are 2 proposals scheduled to be voted on at the Annual Meeting:

- n the election of directors;
- and
- n a shareholder proposal requiring the Company to endorse the CERES Principles.

The Board of Directors knows of no other item to be voted on at the Annual Meeting.

**Q: When and where is the Annual Meeting?**

A: The Annual Meeting is scheduled to begin at 11:00 a.m. on Tuesday, May 7, 2002, at the Radisson Riverfront Hotel, 2 Tenth Street, in Augusta, Georgia.

**Q: What are the Board's recommendations?**

A: In summary, the Board of Directors recommends a vote:

- n FOR the election of the nominated slate of directors (see pages 4-7);
- and
- n AGAINST the endorsement of the CERES Principles (see pages 25-27).

**Q: How many votes are needed to approve each item?**

A: The affirmative vote of a plurality of the votes cast by the shares entitled to vote at the Annual Meeting is required to elect each director.

The votes cast favoring the shareholder proposal must exceed the votes cast in opposition for it to be adopted.

**Q: How will votes be counted and how will abstentions and broker or other nominee non-votes be treated?**

A: Unless you give other instructions, the persons named as proxies on the enclosed proxy card will vote in accordance with the recommendation of the Board of Directors. Accordingly, if no specification is made, shares properly represented by proxies will be voted FOR the director nominees named in Proposal No. 1 and AGAINST Proposal No. 2.

For purposes of the election of directors and the adoption of the shareholder proposal, abstentions will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum.

If you hold your shares in street or nominee name through a broker or other nominee, the broker or nominee may not be permitted to vote your shares with respect to the shareholder proposal. If you do not give your broker or nominee specific instructions, and your broker or nominee does not have discretionary authority to vote your shares, those shares will not be voted by the proxies and will have no effect on the result of the vote although they will count toward the presence of a quorum.

**Q: How will voting on any other business be conducted?**

A: If any matter other than those currently scheduled to be voted on is properly raised and presented at the Annual Meeting, your vote gives authority to the persons named on the proxy card to vote on any such matter in their discretion. To the extent any other matter is voted on, generally the votes cast in favor of the matter must exceed those cast in opposition in order for the matter to be approved.

## QUESTIONS AND ANSWERS

**Q: How many votes is each share entitled to?**

A: Each share of Georgia-Pacific common stock is entitled to one vote.

**Q: How do I vote?**

A: You may vote:

- n by attending the Annual Meeting;
- n via the Internet at <http://eproxyvote.com/gp>;
- n by telephone at 1-877-PRX-VOTE (1-877-779-8683) as directed on your proxy card; or
- n by completing and mailing your proxy card.

Specific instructions for voting are described on the enclosed proxy card.

**Q: Can I change my vote?**

A: Yes. You may revoke your proxy by submitting a new proxy by one of the methods described in the previous question and answer, or by sending a written request to change your vote that must be received by our Secretary prior to the Annual Meeting. Giving your proxy does not deprive you of your right to vote in person should you attend the Annual Meeting.

**Q: Who will tabulate the votes?**

A: EquiServe Trust Company, N.A. will tabulate the votes and act as inspector of election.

**Q: How many votes does Georgia-Pacific need in order to hold the meeting?**

A: As of the record date, March 13, 2002, 230,203,993 shares of common stock of Georgia-Pacific were outstanding. Accordingly, the total number of possible votes is 230,203,993. A number of votes equal to or greater than a majority of the possible votes, or 115,101,997 (including abstentions), will constitute a quorum. No business may be transacted at the Annual Meeting without a quorum. If you are present at the Annual Meeting in person or by proxy, or vote by proxy card, telephone or the Internet, you will be considered part of the quorum.

**Q: Is my vote confidential?**

A: Proxy cards, ballots and voting tabulations that identify individual shareholders are mailed or returned directly to EquiServe Trust Company, and handled in a manner that protects your privacy. Your vote will not be disclosed except: (1) as needed to permit EquiServe to tabulate and certify the vote; (2) as required by law; (3) if we determine in good faith that a bona fide dispute exists as to the accuracy or authenticity of a proxy, ballot or vote; or (4) in the event of a proxy contest, unless all parties to the contest agree to follow Georgia-Pacific's confidentiality policy.

**Q: What does it mean if I get more than one proxy card?**

A: You may receive a proxy card for each account that you have, including shares held by the trustee in the Company's dividend reinvestment plan or any employee benefit plan. Please vote by proxy for all accounts to ensure that all of your shares are voted. The proxy card (or cards) you receive represents all of the shares you are entitled to vote. If you wish to consolidate multiple accounts, please contact our transfer agent, EquiServe Trust Company, at 1-800-519-3111.

**Q: How will shares in Georgia-Pacific employee benefit plans be voted?**

A: Shares held in our benefit plans that are entitled to vote will be voted pursuant to your instructions, except they are voted by the trustee. Shares held in any employee benefit plan that are entitled to vote but do not vote will not be counted. You must instruct the trustee to vote your shares by utilizing the voting methods described above; namely, by the Internet, by telephone or by completing and mailing your proxy card.



## QUESTIONS AND ANSWERS

**Q: When are shareholder proposals intended for inclusion in next year's Annual Meeting Proxy Statement due?**

**A:** The deadline for receipt of shareholder proposals intended to be included in the proxy statement or otherwise for next year's annual meeting is the close of business on December 2, 2002. They must be submitted in writing to Kenneth F. Khoury, Vice President, Deputy General Counsel and Secretary, Georgia-Pacific Corporation, 133 Peachtree Street, N.E., Atlanta, Georgia 30303.

**Q: What if I do not meet the deadline for including a proposal in the proxy statement for next year's annual meeting?**

**A:** Proposals not included in the proxy statement for next year's annual meeting may still be presented directly at the meeting. However, management will be able to vote proxies in its discretion on any such proposal if Georgia-Pacific: (1) receives notice of the proposal before the close of business on February 15, 2003, and advises shareholders in the annual meeting proxy statement about the nature of the matter and how management intends to vote on such matter; or (2) does not receive notice of the proposal prior to the close of business on February 15, 2003. Notices of intention to present proposals at next year's annual meeting should be addressed to Kenneth F. Khoury, Vice President, Deputy General Counsel and Secretary, Georgia-Pacific Corporation, 133 Peachtree Street, N.E., Atlanta, Georgia 30303.

**Q: Who are the proxy solicitors and what are the solicitation expenses?**

**A:** We have hired D.F. King & Co., Inc. to solicit proxies for \$10,000, plus its costs to assist in the distribution of proxy material and solicitation of votes by mail, telephone, facsimile or personal meetings. Our officers, directors and employees may also assist with solicitation efforts.

We will reimburse brokers and other custodians, nominees and fiduciaries for forwarding proxy and solicitation materials to owners of Georgia-Pacific stock in accordance with the fee schedule approved by the New York Stock Exchange.

**Q: May I access this year's proxy statement and annual report via the Internet?**

**A:** Yes. This proxy statement and our 2001 Annual Report on Form 10-K are available by accessing the Investor Information section on our Internet site at <http://www.gp.com>. In addition, most shareholders can elect to receive future proxy statements, annual reports and proxy cards over the Internet instead of receiving paper copies in the mail. Links will be provided to elect this option if you vote on the Internet in accordance with the instructions on your proxy card.

## NOMINEES AND DIRECTORS

Our Bylaws divide the Board into 3 classes, with the directors in each class serving for a term of 3 years and until their successors are elected and qualified.

### PROPOSAL 1 ELECTION OF DIRECTORS

The persons named on the enclosed proxy card will vote each properly executed proxy for the election of the following nominees as directors unless authority to so vote is withheld. If any named nominee becomes unavailable for election, the Board may substitute another nominee or reduce the number of directors to be elected. In the event the Board names a substitute nominee, the proxy would be voted for the substitute nominee. In order to comply with Georgia law requiring that classes of directors be apportioned so as to be as nearly equal in number as possible, the Board has re-classified Worley H. Clark, Jr., whose term was set to expire in 2003, to serve in Class III, the class of directors whose term expires in 2005. Mr. Clark has consented to this re-classification. Thus, as set forth below, Mr. Clark has been nominated for election as a director to hold office until the 2005 Annual Meeting and until his successor is duly elected and qualified. The terms of the remaining directors of the Company will continue as indicated below. Proxies can be voted for no more than 4 persons.

The Board of Directors recommends that shareholders vote **FOR** the election of the 4 nominees named below.

#### **CLASS III DIRECTOR NOMINEES, term ends May 3, 2005**

JAMES S. BALLOUN, 63, Chairman, Chief Executive Officer and President of Acuity Brands, Inc. (a manufacturer of lighting equipment and chemicals) since November 2001, has been one of our directors since 1998. Mr. Balloun served as Chairman, Chief Executive Officer and President of National Service Industries, Inc. (formerly, a diversified manufacturer and distributor of lighting equipment, chemicals, textiles and envelopes) from 1996 until October 2001 when it spun off Acuity Brands in a tax-free distribution to its shareholders. Mr. Balloun served as a director of McKinsey & Company, Inc. from 1976 until 1996.

Mr. Balloun is also a director of Acuity Brands, Inc., Radiant Systems, Inc. and Wachovia Corporation.

WORLEY H. CLARK, JR., 69, President of W.H. Clark Associates, Ltd. (a consulting firm) since 1994, has been one of our directors since November 27, 2000. Mr. Clark retired from Ondeo Nalco Company (formerly, Nalco Chemical Company) in 1994, where he served as Chairman and Chief Executive Officer. Mr. Clark served as a director of Fort James Corporation from 1993 until the completion of our acquisition of Fort James in 2000.

Mr. Clark is also a director of Merrill Lynch & Co., Inc., Bethlehem Steel Corporation, Valero Energy Corp., Millennium Chemicals, Inc. and the Merchants Exchange and Exchange Cubed, LLC. Mr. Clark also serves on the Board of Trustees of Rush Presbyterian St. Lukes Medical Center.

## NOMINEES AND DIRECTORS

ALSTON D. CORRELL, 60, our Chairman, Chief Executive Officer and President since December 1993, May 1993 and July 1991, respectively, has been one of our directors since 1992.

Mr. Correll is also a director of Norfolk Southern Corporation, Mirant Corporation and SunTrust Banks, Inc.

JOHN D. ZEGLIS, 54, Chief Executive Officer and Chairman, AT&T Wireless Group, since December 1999, and President since 1997, has been one of our directors since 2001. Mr. Zeglis served as Vice Chairman of AT&T from June to November of 1997, General Counsel and Senior Executive Vice President from 1996 to 1997 and Senior Vice President and General Counsel from 1986 to 1996.

Mr. Zeglis is also a director of Helmerich and Payne Corporation and Sara Lee Corporation.

### CONTINUING DIRECTORS

BARBARA L. BOWLES, 54, Chairman, Chief Executive Officer and Chief Investment Officer of Kenwood Group, Inc. (an investment advisory firm) since 1989, has been one of our directors since November 27, 2000. Her current term as director ends in 2004. Ms. Bowles served as a director of Fort James from 1997 until the completion of our acquisition of Fort James in 2000.

Ms. Bowles is also a director of The Black & Decker Corporation, Wisconsin Energy Corporation, Dollar General Corporation, The Chicago Urban League and Children's Memorial Hospital of Chicago.

JANE EVANS, 57, Chief Executive Officer of Opnix, Inc. (a provider of Internet traffic management and routing products) since May 2001, has been one of our directors since 1994. Her current term as director ends in 2003. From August 1995 to May 2001, Ms. Evans served as President and Chief Executive officer of GAMUT Interactive, Inc. (a provider of television and consumer operating systems). In May 2001, GAMUT filed for bankruptcy under Chapter 7 of the Bankruptcy Code. From April 1991 until March 1995, Ms. Evans was Vice President and General Manager of the Home and Personal Services Market Unit of US West Communications, Inc.

Ms. Evans is also a director of Hypercom Corporation, KB Home, Main Street and Main Incorporated, PETsMART, Inc. and Philip Morris Companies, Inc.

## NOMINEES AND DIRECTORS

DONALD V. FITES, 68, retired Chairman and Chief Executive Officer of Caterpillar Inc., a position he held from 1990 until February 1, 1999, has been one of our directors since 1992. His current term as director ends in 2004.

Mr. Fites is also a director of Caterpillar Inc., AT&T Wireless Services, Inc., Exxon Mobil Corporation, AK Steel Corporation, Oshkosh Truck Corporation and Wolverine World Wide, Inc.

RICHARD V. GIORDANO, 67, Chairman of BG Group plc (a purchaser, distributor and seller of gas and gas supported services) since January 1994, has been one of our directors since 1984. His current term as director ends in 2003. Mr. Giordano served as Chairman of BOC Group plc (a manufacturer of industrial gases and other products) from January 1994 until January 1996.

Mr. Giordano is also a director of Rio Tinto plc.

DAVID R. GOODE, 61, Chairman, President and Chief Executive Officer of Norfolk Southern Corporation since September 1992, has been one of our directors since 1992. His current term as director ends in 2004.

Mr. Goode is also a director of Norfolk Southern Corporation, Caterpillar Inc., Delta Air Lines, Inc. and Texas Instruments Incorporated.

M. DOUGLAS IVESTER, 54, retired Chairman and Chief Executive Officer of The Coca-Cola Company, a position he held from October 23, 1997 to February 17, 2000, has been one of our directors since 1993. His current term as director ends in 2003. Mr. Ivester served as President and Chief Operating Officer of The Coca-Cola Company from July 1994 to October 1997.

Mr. Ivester is also a director of SunTrust Banks, Inc., S1 Corporation and Service Central, Inc.

## **NOMINEES AND DIRECTORS**

LOUIS W. SULLIVAN, M.D., 68, President of Morehouse School of Medicine since January 1993, has been one of our directors since 1993. His current term as director ends in 2003. Dr. Sullivan served as Secretary of the United States Department of Health and Human Services from March 1989 until January 1993.

Dr. Sullivan is also a director of Bristol-Myers Squibb Company, CIGNA Corporation, Equifax Inc., Household International, Inc., Minnesota Mining & Manufacturing Company, BioSante Pharmaceuticals, Inc. and Endovascular Instruments, Inc.

JAMES B. WILLIAMS, 69, Chairman of the Executive Committee of SunTrust Banks, Inc. since March 31, 1998, has been one of our directors since 1989. His current term as director ends in 2004. Mr. Williams held the positions of Chairman and Chief Executive Officer of SunTrust Banks, Inc. from April 1991 and April 1990, respectively, until March 21, 1998.

Mr. Williams is also a director of SunTrust Banks, Inc., The Coca-Cola Company, Genuine Parts Company, Rollins, Inc., RPC Energy Services, Inc. and Marine Products Corporation.

### **RETIRING DIRECTOR**

One of the Board's policies and procedures requires a director to offer to resign upon a change in his or her principal employment. Accordingly, in connection with his retirement as Chairman and Chief Executive Officer of United Parcel Service, Inc., James P. Kelly submitted his resignation to the Board. On January 25, 2002, Mr. Kelly's resignation became effective. We would like to thank Mr. Kelly for his service on our Board.

As a result of the vacancy created by Mr. Kelly's retirement, the size of the Board of Directors was reduced to 12 members at the February 1, 2002 Board meeting.

## CORPORATE GOVERNANCE

### **Q: How is Georgia-Pacific managed?**

**A:** We are managed by a core group of officers who are governed by a Board of Directors, the number of which is currently set at 12 members by our Bylaws. Our Bylaws divide the Board into 3 classes of approximately equal size with each class being elected for three years.

### **Q: How does the Board of Directors operate?**

**A:** Our Board has adopted a set of policies and procedures that govern its composition and operation as well as that of its committees.

The Board's policies and procedures generally address the following:

- n qualifications and term of directors;
- n responsibilities and operations of committees of the Board;
- n capital appropriations and operating plans;
- n development, performance assessment and succession planning of management; and
- n annual Board self-assessment.

### **Q: What are the significant policies and procedures governing executive officers and the Board?**

**A:** There are a number of policies under which our executive officers and Board operate. The significant ones are summarized below.

- n Under our Code of Business Conduct, no executive officer may have a substantial interest in businesses other than Georgia-Pacific or own more than 1% of the equity of a Georgia-Pacific supplier.
- n A majority of our directors and all of the members of our Audit and Compensation Committees must not be employees of Georgia-Pacific.
- n A director should offer to resign:
  - n in the event of prolonged ill-health, or
  - n after a change in principal employment.

### **Q: What are non-employee directors paid each year?**

**A:** Each director's compensation consists of:

- n \$40,000 in cash;
- n a restricted stock grant of Georgia-Pacific stock worth \$40,000 on the date of grant; and
- n group term life insurance in the amount of \$50,000.

Committee Chairmen also receive a \$5,000 annual fee.

Directors have the option to defer all or part of the cash compensation payable to them so long as they defer at least \$10,000 in each calendar year. A deferral gives a director the option of being paid as if such funds had been invested in:

- n shares of Georgia-Pacific stock; or
- n a promissory note with a floating interest rate equal to  $\frac{3}{4}\%$  over the six-month Treasury Bill rate.

The deferred fees (adjusted for investment gains or losses) are paid upon retirement in a single payment or in annual cash payments.

Effective February 2002, directors annually receive stock options to purchase shares of Georgia-Pacific stock worth \$40,000 on the date of grant. The options vest in equal increments over a three year period.



## CORPORATE GOVERNANCE

### BOARD COMMITTEES

#### Audit Committee

- n Members are James S. Balloun, David R. Goode (Chairman) and Louis W. Sullivan.
- n Met 5 times in 2001.
- n Reviews financial statements and periodic filings with the SEC and discusses them with management.
- n Reviews the scope and results of the audit of our financial statements by our independent accountants, including significant changes in accounting principles and practices, significant proposed adjustments and disagreements with management, if any.
- n Reviews policies and meets with management to assess whether Georgia-Pacific is in material compliance with applicable laws and regulations.
- n Reviews controls to prevent and detect employee conflicts of interest, misconduct and fraud.
- n Reviews the scope and adequacy of internal controls and the results of certain examinations performed by the Internal Audit Department.
- n Recommends independent accountants and reviews their services, independence and fees.
- n Consists of members who are independent, as defined by The New York Stock Exchange, Inc. listing standards.

#### Compensation Committee

- n Members are Worley H. Clark, Jr., Jane Evans, Donald V. Fites (Chairman) and Richard V. Giordano.
- n Met 5 times in 2001.
- n Evaluates the annual performance of Georgia-Pacific's executive officers.
- n Determines officer salaries.
- n Administers compensation programs, including:
  - n designing officer and other employee compensation plans;
  - n making stock grants and awards to officers and other employees; and
  - n setting performance targets for officers and other employees.

#### Finance Committee

- n Members are Barbara L. Bowles, M. Douglas Ivester, James B. Williams (Chairman) and John D. Zeglis.
- n Met 5 times in 2001.
- n Reviews financial plans and major financings.
- n Reviews management policies regarding borrowing, leasing, acquisitions, dispositions, and capital expenditures.
- n Recommends dividends.

#### Executive and Governance Committee

- n Members are Donald V. Fites, Richard V. Giordano (Chairman), David R. Goode and James B. Williams.
- n Met 13 times in 2001.
- n If necessary, exercises the power of the full Board between meetings except for certain fundamental transactions and matters of corporate governance.
- n Reviews corporate governance issues, including the composition, work, organization and compensation of the Board and its committees.
- n Conducts an annual evaluation of the performance of the Board as a whole.
- n Considers and recommends nominees for election as directors but will accept and consider recommendations from shareholders subject to the requirements described in the following paragraph.

Among its other duties, the Executive and Governance Committee generally identifies and recommends qualified nominees for election as directors through its own resources but will accept and consider recommendations from shareholders subject to the following requirements. Except as set forth below, shareholders making nominee recommendations must submit a written notice not less than 60, nor more than 75, days before the applicable meeting accompanied by:

- n the name and address of record of the nominating shareholder;





## CORPORATE GOVERNANCE

- n a representation that the shareholder is a record shareholder;
- n a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the person specified in the notice;
- n the class and number of shares held of record, owned beneficially, represented by proxy, by the shareholder, and each proposed nominee;
- n the name, age, business and residential address, and principal occupation or employment of each proposed nominee;
- n a description of all arrangements or understandings between the shareholder and each proposed nominee;
- n any other information regarding each nominee that is required to be included in a proxy statement filed pursuant to the rules of the Securities and Exchange Commission; and
- n the written consent of each proposed nominee to serve as a director if so elected.

Georgia-Pacific may require each proposed nominee to submit reasonable additional information that will help determine his or her eligibility to serve as a director. If less than 70 days notice or prior public disclosure of the meeting is given or made to shareholders, the notice nominating a director must be received by the 10th day following the date of the notice of the meeting or public disclosure of the meeting.

The final selection of the Board's nominees is within the sole discretion of the Board.

### Meetings of the Board

The Board met 7 times in 2001. The Board and its committees met a total of 35 times in 2001. Average director attendance at all Board and committee meetings was 82%. All members of the Board attended at least 75% of all Board and committee meetings in 2001.

## AUDIT COMMITTEE REPORT AND RELATED MATTERS

To the Board of Directors:

We have reviewed and discussed with management Georgia-Pacific's audited financial statements as of and for the year ended December 29, 2001.

We have discussed with Georgia-Pacific's independent auditors, Arthur Andersen LLP, the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, and issued by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from Arthur Andersen required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, and issued by the Independence Standards Board, and have discussed with the auditors the auditors' independence.

We have also considered whether the provision of services provided by Arthur Andersen, not related to the audit of the financial statements referred to above and to the reviews of the interim financial statements included in Georgia-Pacific's Form 10-Qs for the quarters ended March 31, 2001, June 30, 2001, and September 29, 2001, is compatible with maintaining Arthur Andersen's independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 29, 2001.

In performing all of these functions, we act only in an oversight capacity. Management is responsible for the financial reporting process, including its system of internal control, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent auditors are responsible for auditing these financial statements and expressing an opinion as to the statements' conformity with generally accepted accounting principles. Our members are not professionally engaged in the practice of accounting or auditing and are not experts in either of those fields or auditor independence. We rely, without independent verification, on the information provided to us and on the representations made by management and the independent auditors.

The foregoing report has been furnished by the Audit Committee of Georgia-Pacific's Board of Directors.

David R. Goode, Chairman  
James S. Balloun  
Louis W. Sullivan

The foregoing report of the Audit Committee shall not be deemed to be incorporated by reference in any previous or future documents filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Georgia-Pacific specifically incorporates the Report by reference in any such document.

### **Audit Fees**

The aggregate fees billed by Arthur Andersen for professional services rendered for the audit of the Company's annual financial statements for fiscal year 2000 and the reviews of the financial statements included in Georgia-Pacific's Form 10-K and Form 10-Qs for such fiscal year were \$2,200,000.

### **Financial Information Systems Design and Implementation Fees**

There were no fees billed by Arthur Andersen for professional services rendered for financial information systems design and implementation for fiscal year 2001.

## **AUDIT COMMITTEE REPORT AND RELATED MATTERS**

### **All Other Fees**

The aggregate fees billed by Arthur Andersen for professional services rendered, other than as stated under the captions Audit Fees and Financial Information Systems Design and Implementation Fees above, were \$4,183,000. All but \$116,000 of these fees were incurred for services performed in connection with the preparation of financial statements, including their audit as appropriate, relating to divestitures and employee benefit plans of the Company and domestic or international tax-related services. The Audit Committee considers the provision of these services to be compatible with maintaining the independence of Arthur Andersen.

### **Future Engagement of Arthur Andersen**

Arthur Andersen has audited the accounts of Georgia-Pacific and its subsidiaries since 1948. A representative of Arthur Andersen is expected to be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so and is expected to be available to respond to appropriate questions.

The Company's Board of Directors and the Audit Committee have been monitoring the situation arising from Arthur Andersen's role as auditors of Enron Corporation and the indictment of Arthur Andersen by the United States Government on charges of obstructing justice. In addition, the Audit Committee has discussed these matters with senior representatives of Arthur Andersen. The Audit Committee has made no final decision regarding the retention of Arthur Andersen to audit the Company's accounts for 2002. The Audit Committee will continue to monitor and evaluate further developments to assure that Arthur Andersen's ability to perform a satisfactory audit for 2002 will not be impaired. During this monitoring and evaluation period, the Audit Committee has informed management that it will consider another independent auditing firm to audit the Company's financial statements in the event it becomes necessary to replace Arthur Andersen.

## COMPENSATION COMMITTEE REPORT

### What is Georgia-Pacific's executive compensation philosophy?

We have designed our executive compensation to attract, retain and reward quality people in a highly competitive business environment. Our annual and long-term incentive compensation strategy is designed to link our strategic business objectives and the enhancement of shareholder returns with the compensation of our managers. We believe that our long-term stock-based incentive compensation plans align the interests of management and shareholders. We often work with outside consultants to ensure that we have the appropriate mix of compensation arrangements.

### What comprises total executive compensation?

- n base salaries;
- n annual cash bonuses for achieving annual corporate and business unit goals; and
- n long-term, stock-based incentives consisting of stock options, performance rights and/or restricted stock.

Total executive compensation targets, including payments and awards under our incentive plans, are set by us at approximately the median, or 50th percentile, of compensation practices at a cross-section of United States industrial companies, representing a range of industries which are similar to Georgia-Pacific in terms of size and complexity of operations. As selected by the Compensation Committee, these companies may include companies listed in the Standard & Poor's Paper and Forest Products Industry Index (except Georgia-Pacific) and the Standard & Poor's Household Products (nondurables) Index. We believe the industrial companies we have selected to be in Georgia-Pacific's peer group compete with us in the hiring and retention of executives. Cash and stock-based incentive compensation targets are set at levels that we believe will result in overall compensation to executives below, at or above the median of those industrial companies depending upon our relative Economic Value Added (described below) or total shareholder return performance as compared to our peers.

**Base Salaries.** Base salaries of all officers, including the executive officers named in the Summary Compensation Table on page 17 are set at a level approximating median pay for similar positions at the cross-section of United States industrial companies discussed above. There is some variation from the median based on individual performance, the nature of responsibilities and competitive marketplace data.

**Annual Performance Bonuses.** Annual bonuses are paid under the Economic Value Incentive Plan (the EVIP). Payments under this plan depend on the achievement of performance targets (discussed below) set at the beginning of each year which have both objective and subjective components. Performance above or below these targets results in proportionately higher or lower bonuses up to the maximum (200% of target bonus) or down to the threshold (50% of target bonus) level. A bonus will not be paid unless the threshold level is achieved. No participant (other than Mr. Correll) was entitled to receive a bonus of more than 125% of his or her base salary in 2001.

*Georgia-Pacific EVIP.* For 2001, annual bonuses were based on Georgia-Pacific's relative Economic Value Added (EVA) performance as compared to a peer group of companies in the Standard & Poor's Paper and Forest Products Industry Index (except G-P) and the Standard & Poor's Household Products (nondurables) Index.

We use EVA as our principal financial metric to measure our ability to generate net after-tax operating profits in excess of our cost of capital (both equity and debt).

As discussed in last year's proxy statement, the EVIP was amended in early 2001 to further strengthen the link between Georgia-Pacific's performance and awards that can be earned under

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the EVIP. Key changes approved by shareholders in 2001 expanded the group of possible peer group companies, increased the maximum bonus payable for a given year (in dollar terms and as a percent of salary), eliminated The Timber Company from the EVIP calculation, and reflected changes related to the broad level pay structure used by certain business units.

Target bonuses are determined based on a percentage of a participant's base salary grade midpoint and range from 35% to 110% for all officers, and 10% to 35% for all other participants. The executive officers named in the Summary Compensation Table on page 17 had target bonuses ranging from 65% to 80% of their base salary grade midpoint (other than Mr. Correll whose target award is 110% of midpoint).

The objective portion of the bonus (based on a target relative EVA of Georgia-Pacific) determines up to 50% of the target bonus. For 2001, the relative percentile ranking EVA performance targets were:

Minimum Threshold	30th percentile
Minimum Target	54th percentile
Minimum Maximum	100th percentile

On a relative EVA basis, Georgia-Pacific performed at the 68th percentile level in 2001. Although these results were strong, as indicated in the Summary Compensation Table on page 17, two executive officers were granted stock options after year end in lieu of the cash awards earned for 2001 under the EVIP. And, as discussed on the following page, the Chief Executive Officer received no bonus for 2001. As a result of these actions, for 2001 the average participant received a cash award of 123% of his or her target objective bonus.

The subjective portion of the bonus determines up to 50% of the target bonus. It is based on the CEO's assessment of:

- actual performance compared to targeted performance of business units, divisions or segments for the plan year; and
- actions taken by business units, divisions or segments to increase EVA in future years.

For example, officers working in our Consumer Products segment received an average aggregate award of 105% of target for the subjective portion of the EVIP. In measuring this performance, Mr. Correll considered, among other objective criteria, the segment's financial performance and synergies created by the integration of the former Fort James operations into Georgia-Pacific's Consumer Products segment. In 2001, the Consumer Products segment exceeded pre-tax profit (excluding unusual items and divested operations) goals and EBITDA (earnings before interest, taxes, depreciation and amortization) goals by 7.9% and 2.4%, respectively. In 2001, \$203 million in synergies associated with the successful integration of the former Fort James operations were realized, which exceeded planned synergies by 60%.

For 2001, the average participant received 98% of his or her combined objective and subjective target EVIP bonus.

As discussed above, and unlike prior years when awards for certain executive officers were based on performance of both Georgia-Pacific Group and The Timber Company, for 2001 awards for all executive officers were based solely on Georgia-Pacific's performance.

**Long-Term Equity Incentive Compensation.** The Georgia-Pacific Corporation Long-Term Incentive Plan gives Georgia-Pacific the ability to structure incentives for employees that are tied directly to the price performance of the Company's common stock. The Compensation Committee has the authority under this Plan to set the terms and conditions of any grants and awards.

The Georgia-Pacific LTIP authorizes grants of stock options, restricted stock and performance rights with respect to Georgia-Pacific stock. On

## COMPENSATION COMMITTEE REPORT

January 29, 2001, all Georgia-Pacific executive officers and other key employees were granted options to purchase Georgia-Pacific stock. On that date, the fair market value of Georgia-Pacific stock was \$29.47. This price fixed the exercise price of the options. These options will expire on January 28, 2011 and will vest and become exercisable in substantially equal amounts over three years beginning January 29, 2002. In 2001, the Committee did not grant awards under the Georgia-Pacific LTIP to managers of The Timber Company since the Company's timber and timberlands business was merged into Plum Creek Timber Company in October of that year.

In addition, in 2001 performance rights were granted to key executive officers. These performance rights provide for the issuance of stock to these officers upon the achievement of a specified relative total shareholder return as compared to our peers in the Standard & Poor's Paper and Forest Products Industry Index and the Standard & Poor's Household Products (nondurables) Index. Depending upon the achieved relative total shareholder return, 0% to 200% of the target number of shares may be awarded. For the performance period ending on December 31, 2001, 52% of the target level award of restricted shares (which was set forth in our proxy statement for 2001) were issued.

### Policy on Income Tax Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code precludes the deductibility of an executive's compensation that exceeds \$1 million per year unless the compensation is paid under a performance-based plan that has been approved by shareholders. Georgia-Pacific has obtained shareholder approval for its long-term incentive plans; however, our policy is to maximize long-term shareholder value, and tax deductibility is only one factor considered in setting compensation.

### Chief Executive Officer Compensation

Mr. Correll participates in the compensation programs described in this report. His compensation for 2001 is summarized on the pages that immediately follow this report. The specific bases for our determination of Mr. Correll's compensation in 2001 included:

- n Financial results at Georgia-Pacific, including:
  - n EVA of Georgia-Pacific for 2001 that ranked at the 68<sup>th</sup> percentile of all companies in our peer group; and
  - n Free cash flow results that exceeded our plan for the year.
- n The successful integration of Fort James Corporation (acquired in late 2000);
- n Successful merger of The Timber Company into Plum Creek, thereby realizing substantial value for shareholders of The Timber Company;
- n Sustained efforts and development of a major transformation strategy to redirect the focus of Georgia-Pacific away from commodities and into consumer/branded products;
- n Sale of various assets (commercial tissue and uncoated free sheet mills) that contributed to debt reduction in excess of our plan;
- n Aggressive leadership in areas of interest to Georgia-Pacific's diverse constituency;
- n Building a strong management team;
- n Maintaining a safe working environment; and
- n Environmental stewardship.

Mr. Correll's base salary, annual bonus and long-term stock-based incentive awards are intended to keep his compensation competitive with a group of comparable industrial companies in the forest and paper products industry, the consumer products industry and general industry over the short and long term. We believe the grants of options and performance rights to him from time to time are consistent with our philosophy of properly aligning the interests of Mr. Correll and our shareholders.

## COMPENSATION COMMITTEE REPORT

Despite the results cited above, Mr. Correll was awarded no bonus under the EVIP for 2001. Although the Committee strongly supports Mr. Correll's efforts and his strategy for Georgia-Pacific, we nonetheless exercised our negative discretion under the plan to reduce his award to \$0. In so doing, we focused on several key factors including, but not limited to, the following:

- n Georgia-Pacific's failure to meet its overall business plan for earnings; and
- n The decline in Georgia-Pacific's stock price during 2001 and over the past three years, and resulting loss of value to our shareholders.

The foregoing report has been furnished by the Compensation Committee of Georgia-Pacific's Board of Directors.

Donald V. Fites, Chairman

Worley H. Clark, Jr.

Jane Evans

Richard V. Giordano



## **SUMMARY COMPENSATION TABLE**

**Annual Compensation**

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