GEORGIA GULF CORP /DE/
Form 10-Q
November 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o **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 1-9753

GEORGIA GULF CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**58-1563799** (I.R.S. Employer Identification No.)
115 Perimeter Center Place, Suite 460, Atlanta, Georgia (Address of principal executive offices)	**30346** (Zip Code)

(770) 395-4500
(Registrant's telephone number, including area code:)

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 ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 1, 2007
Common Stock, $0.01 par value	**34,392,370**

GEORGIA GULF CORPORATION FORM 10-Q

QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

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PART I. FINANCIAL INFORMATION.

Item 1. FINANCIAL STATEMENTS.

GEORGIA GULF CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)	September 30, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 7,987	$ 9,641
Receivables, net of allowance for doubtful accounts of $13,878 in 2007 and $16,147 in 2006	280,085	237,496
Inventories, net	403,565	339,405
Prepaid expenses	14,765	29,577
Income tax receivable	30,637	37,143
Deferred income taxes	30,947	30,664
Current assets held-for-sale and of discontinued operations		11,080
Total current assets	767,986	695,006
Property, plant and equipment, net	1,014,480	1,023,004
Goodwill	404,734	377,124
Intangible assets, net of accumulated amortization of $5,143 in 2007 and $1,156 in 2006	93,276	88,361
Deferred income taxes	23,052	
Other assets, net	204,339	204,813
Non-current assets held for sale and of discontinued operations	49,733	69,919
Total assets	$ 2,557,600	$ 2,458,227
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$ 25,567	$ 32,495
Accounts payable	270,878	215,282
Interest payable	37,793	21,290
Accrued compensation	35,191	37,218
Liability for unrecognized income tax benefits and other tax reserves	77,393	88,338
Other accrued liabilities	65,085	97,428
Total current liabilities	511,907	492,051
Long-term debt	1,426,659	1,465,639
Liability for unrecognized income tax benefits	36,767	
Deferred income taxes	126,951	88,476
Other non-current liabilities	25,998	18,538
Total liabilities	2,128,282	2,064,704
Commitments and contingencies (note 10)		
Stockholders' equity:		
Preferred stock $0.01 par value; 75,000 shares authorized; no shares issued		
Common stock $0.01 par value; 75,000 shares authorized; shares issued and outstanding: 34,392 in 2007 and 34,390 in 2006	344	344
Additional paid-in-capital	101,867	94,046
Retained earnings	274,830	324,007
Accumulated other comprehensive income (loss), net of tax	52,277	(24,874)

(In thousands)	September 30, 2007	December 31, 2006
Stockholders' equity	**429,318**	393,523
Total liabilities and stockholders' equity	**$ 2,557,600**	$ 2,458,227

See accompanying notes to condensed consolidated financial statements.

GEORGIA GULF CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine months Ended September 30, 2007	Nine months Ended September 30, 2006
Net sales	**$ 815,293**	$ 576,288	**$ 2,380,854**	$ 1,746,320
Operating costs and expenses:				
Cost of sales	**714,809**	513,402	**2,138,830**	1,511,876
Selling, general and administrative expenses	**55,779**	18,699	**172,907**	56,130
Total operating costs and expenses	**770,588**	532,101	**2,311,737**	1,568,006
Operating income	**44,705**	44,187	**69,117**	178,314
Interest expense, net	**(33,906)**	(2,779)	**(99,362)**	(10,588)
Foreign exchange (losses) gains	**(2,440)**	(4,459)	**3,070**	(15,846)
Income (loss) from continuing operations before income taxes	**8,359**	36,949	**(27,175)**	151,880
Provision for income taxes	**8,703**	14,288	**1,553**	56,148
(Loss) income from continuing operations	**(344)**	22,661	**(28,728)**	95,732
Income (loss) from discontinued operations, net of tax	**433**		**(9,974)**	
Net income (loss)	**$ 89**	$ 22,661	**$ (38,702)**	$ 95,732
Earnings (loss) per share:				
Basic:				
(Loss) income from continuing operations	**$ (0.01)**	$ 0.66	**$ (0.84)**	$ 2.81
Income (loss) from discontinued operations	**0.01**		**(0.29)**	
Net income (loss)	**$ 0.00**	$ 0.66	**$ (1.13)**	$ 2.81
Diluted:				
(Loss) income from continuing operations	**$ (0.01)**	$ 0.66	**$ (0.84)**	$ 2.78
Income (loss) from discontinued operations	**0.01**		**(0.29)**	
Net income (loss)	**$ 0.00**	$ 0.66	**$ (1.13)**	$ 2.78
Weighted average common shares:				
Basic	**34,359**	34,110	**34,343**	34,087
Diluted	**34,359**	34,392	**34,343**	34,389

See accompanying notes to condensed consolidated financial statements.

GEORGIA GULF CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Nine months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net (loss) income	**$ (38,702)**	$ 95,732
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	**111,935**	48,016
Foreign exchange (gains) losses	**(7,300)**	15,846
Deferred income taxes	**(11,612)**	(12,745)
Excess tax benefit related to stock plans	**(714)**	(194)
Stock based compensation	**9,221**	10,581
Change in operating assets, liabilities and other	**857**	9,977
Net cash provided by operating activities from continuing operations	**63,685**	167,213
Net cash provided by operating activities from discontinued operations	**398**	
Net cash provided by operating activities	**64,083**	167,213
Cash flows from investing activities:		
Capital expenditures	**(72,624)**	(47,497)
Proceeds from sales of property, plant and equipment, assets held-for sale and discontinued operations	**79,642**	
Net cash provided by (used in) investing activities	**7,018**	(47,497)
Cash flows from financing activities:		
Net change in revolving line of credit	**(6,591)**	(115,300)
Repayment of long-term debt	**(152,921)**	
Proceeds from lease financing	**95,865**	
Proceeds from issuance of common stock		365
Purchases and retirement of common stock	**(685)**	(1,032)
Tax benefits from employee share-based exercises		1,430
Dividends paid	**(8,325)**	(8,246)
Net cash used in financing activities	**(72,657)**	(122,783)
Effect of exchange rate changes on cash and cash equivalents	**(98)**	
Net change in cash and cash equivalents	**(1,654)**	(3,067)
Cash and cash equivalents at beginning of period	**9,641**	14,298
Cash and cash equivalents at end of period	**$ 7,987**	$ 11,231

See accompanying notes to condensed consolidated financial statements.

GEORGIA GULF CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying condensed consolidated financial statements do reflect all the adjustments that, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. Such adjustments are of a normal, recurring nature. Our operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006. There have been no material changes in the significant accounting policies followed by us during the period ended September 30, 2007 other than the adoption of FIN 48 as defined and discussed in note 2 below.

2. NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48" or the "Interpretation") which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under the Interpretation, we recognize the financial statement effects of a tax position when it is more likely than not, based upon the technical merits, that the position will be sustained upon examination. Conversely, we derecognize a previously recognized tax position in the first period in which it is no longer more likely than not that the tax position would be sustained upon examination. A tax position that meets the more likely than not recognition threshold will initially and subsequently be measured as the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority. We also recognize interest expense by applying a rate of interest to the difference between the tax position recognized in accordance with the Interpretation and the amount previously taken or expected to be taken in a tax return. We classify interest expense and related penalties, if any, with respect to our uncertain tax positions in the provision for income taxes.

As of September 30, 2007, our liability for unrecognized income tax benefits was approximately \$106.1 million. Of this amount, approximately \$30.7 million relates to accrued interest and penalties. If recognized, \$18.5 million of this amount would affect our effective tax rate. The implementation of FIN 48 resulted in an increase in the liability for unrecognized tax benefits of approximately \$1.4 million, a decrease in retained earnings as of January 1, 2007 of approximately \$0.7 million and an increase in goodwill of approximately \$0.7 million. For the three and nine months ended September 30, 2007, we recognized approximately \$2.6 million and \$7.5 million, respectively, of additional interest expense in our income tax provision related to our liability for unrecognized income tax benefits. Our liability for unrecognized income tax benefits increased during the three and nine months ended September 30, 2007, primarily as the result of foreign currency translation adjustments and the accrual of additional interest expense in our income tax provision related to our liability for unrecognized income tax benefits offset by reductions due to the lapsing of the statute of limitations on certain issues.

During the next twelve months, it is reasonably possible that uncertain tax positions in Canada and the U.S. will be recognized as a result of the lapse of the applicable statute of limitations with the taxing authorities. The aggregate amount of these positions is about $6.2 million.

In addition, we continue to negotiate with the province of Quebec to reach a settlement with respect to their assessments resulting from the retroactive application of tax law changes promulgated by Bill 15, which amended the Quebec Taxation Act and other legislative provisions. Over the last several years, Royal Group Technologies Limited ("Royal Group"), in connection with its tax advisors, established tax structures that used a Quebec Trust to minimize its overall tax liabilities in Canada. Bill 15 has eliminated the ability to use the Quebec Trust structure on a retroactive basis. As of September 30, 2007, we have recorded an unrecognized tax benefit of $44.7 million related to the Quebec Trust matter. This amount increased during the three months ended September 30, 2007 primarily as the result of foreign currency translation adjustments and the accrual of additional interest expense in our income tax provision related to this matter. Although we are unable to estimate the final settlement amount at this time, it could differ significantly from the amount recorded as of September 30, 2007.

The following table describes the tax years that remain subject to examination by major tax jurisdiction:

Tax Jurisdiction	**Open Years**
United States	2002 - 2006
Canada	2002 - 2006
Various States	2000 - 2006

Our overall effective income tax rate from continuing operations decreased from 37 percent for the nine months ended September 30, 2006 to a negative 5.7 percent for the nine months ended September 30, 2007 due primarily to interest accrued on the liability for our unrecognized income tax benefits and the elimination of the extraterritorial income tax deduction regime combined with an inability to use the domestic manufacturing deduction as a result of lower estimated taxable income, offset by the benefits of state tax credits and lower tax rates in Canada.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for our fiscal year beginning January 1, 2008. We do not expect the adoption of SFAS No. 157 to have a material impact on our consolidated financial statements.

On September 7, 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, which requires the application of the provisions of SFAS No. 106*, Employers' Accounting for Postretirement Benefits Other Than Pensions,* to endorsement split-dollar life insurance arrangements. SFAS No. 106 would require us to recognize a liability for the discounted future benefit obligation that we will have to pay upon the death of the underlying insured employee. An endorsement-type arrangement generally exists when we own and control all incidents of ownership of the underlying policies. The conclusion reached is consistent with that of EITF 06-10 *"Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements."* EITF Issue Nos. 06-4 and 06-10 are effective for fiscal years beginning after December 15, 2007. We do not expect the adoption of EITF Issue No. 06-4 or 06-10 to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided the entity also elects to apply the provisions of SFAS No. 157. We have not decided if we will choose to measure any eligible financial assets and liabilities at fair value.

On June 14, 2007, the EITF reached a consensus on EITF Issue No. 06-11, *"Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards,"* which states that an entity should recognize a realized tax benefit associated with dividends on affected securities charged to retained earnings as an increase in additional paid-in capital ("APIC"). The amount recognized in APIC should be included in the APIC pool. When an entity's estimate of forfeitures increases or actual forfeitures exceed its income, the amount reclassified is limited to the APIC pool balance on the reclassification date. EITF Issue No. 06-11 is effective in fiscal years beginning after December 15, 2007 with early adoption permitted. We are currently evaluating the impact, if any, of EITF Issue No. 06-11 on our financial position and results of operations.

3. BUSINESS ACQUISITION, DIVESTITURES AND DISCONTINUED OPERATIONS

Acquisition. On October 3, 2006, we completed the acquisition of Royal Group, a leading North American manufacturer and marketer of vinyl-based building and home improvement products. We have included the results of Royal Group's operations in our condensed consolidated financial statements since that date.

Goodwill. During the nine months ended September 30, 2007, we continued to complete the preliminary allocation of the fair values of assets acquired and liabilities assumed, including, but not limited to, certain legal and tax contingencies, and the valuation of property, plant and equipment, spare parts, finite and indefinite lived intangible assets, and assets held for sale and discontinued operations associated with our October 3, 2006 acquisition of Royal Group, which are subject to change up to twelve months from the closing date of the acquisition. The following table provides the detail of the changes made to goodwill during the nine months ended September 30, 2007.

	In thousands
Goodwill at January 1, 2007	$ 377,124
Adjustments to preliminary purchase allocation of Royal Group	(1,938)
Foreign currency translation adjustment	29,548
Goodwill at September 30, 2007	$ 404,734

Indefinite lived intangible assets. At September 30, 2007 and December 31, 2006 we also have trade names related to the acquisition of Royal Group of $17.2 million and $15.4 million, respectively, with the change resulting from foreign currency translation adjustments.

Finite-lived intangible assets. The following represents the summary of finite-lived intangible assets as of September 30, 2007 and December 31, 2006. Total estimated amortization expense for the next five fiscal years is approximately $4.6 million per year.

Finite-lived intangible assets at September 30, 2007 **In thousands**	**Chlorovinyls**	**Window and Door Profiles and Mouldings Products**	**Outdoor Building Products**	**Total**
Gross carrying amount for finite-lived intangible assets:				
Customer relationships	$ 1,000	$ 34,000	$ 11,000	$ 46,000
Technology		31,000		31,000
Total	1,000	65,000	11,000	77,000
Accumulated amortization for finite-lived intangible assets:				
Customer relationships	(59)	(1,876)	(625)	(2,560)
Technology		(2,583)		(2,583)
Total	(59)	(4,459)	(625)	(5,143)
Foreign currency translation adjustment:				
Customer relationships	125	3,083	967	4,175
Technology				
Total	125	3,083	967	4,175
Net carrying amount for finite-lived intangible assets:				
Customer relationships	1,066	35,207	11,342	47,615
Technology		28,417		28,417
Total	$ 1,066	$ 63,624	$ 11,342	$ 76,032

Finite-lived intangible assets at December 31, 2006 **In thousands**	**Chlorovinyls**	**Window and Door Profiles and Mouldings Products**	**Outdoor Building Products**	**Total**
Gross carrying amount for finite-lived intangible assets:				
Customer relationships	$ 1,000	$ 34,000	$ 11,000	$ 46,000
Technology		31,000		31,000
Total	1,000	65,000	11,000	77,000
Accumulated amortization for finite-lived intangible assets:				
Customer relationships	(14)	(472)	(153)	(639)
Technology		(517)		(517)
Total	(14)	(971)	(153)	(1,156)
Foreign currency translation adjustment:				
Customer relationships	(37)	(2,428)	(411)	(2,876)
Technology				