GEORGIA GULF CORP /DE/
Form 10-Q
November 02, 2006

# UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

## For the quarterly period ended September 30, 2006

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

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 October 27, 2006 |
| --- | --- |
| Common Stock, $0.01 par value | **34,220,062** |

**GEORGIA GULF CORPORATION FORM 10-Q**
**QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**
**INDEX**

**PART I. FINANCIAL INFORMATION.**

**Item 1.** FINANCIAL STATEMENTS.

**GEORGIA GULF CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

| (In thousands) | September 30, 2006 | December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **$ 11,231** | $ 14,298 |
| Receivables, net of allowance for doubtful accounts of $2,457 in 2006 and 2005 | **109,333** | 118,193 |
| Inventories | **191,967** | 195,628 |
| Prepaid expenses and other current assets | **3,819** | 13,306 |
| Deferred income taxes | **5,222** | 5,091 |
| Total current assets | **321,572** | 346,516 |
| Property, plant and equipment, net | **406,310** | 401,412 |
| Goodwill | **77,720** | 77,720 |
| Other assets, net | **173,023** | 175,305 |
| Total assets | **$ 978,625** | $ 1,000,953 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current portion of long-term debt | **$ 34,000** | $ 49,300 |
| Accounts payable | **182,164** | 202,179 |
| Interest payable | **3,429** | 1,226 |
| Accrued compensation | **16,221** | 14,986 |
| Income taxes payable | | 1,258 |
| Foreign exchange derivative obligation | **15,846** | |
| Other accrued liabilities | **23,063** | 15,237 |
| Total current liabilities | **274,723** | 284,186 |
| Long-term debt | **129,339** | 229,339 |
| Deferred income taxes | **95,345** | 107,959 |
| Other non-current liabilities | **18,997** | 16,457 |
| Total liabilities | **518,404** | 637,941 |
| Commitments and contingencies (note 8) | | |
| Stockholders equity | **460,221** | 363,012 |
| Total liabilities and stockholders equity | **$ 978,625** | $ 1,000,953 |
| Common shares outstanding | **34,219** | 34,238 |

See accompanying notes to condensed consolidated financial statements.

**GEORGIA GULF CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited)**

| (In thousands, except per share data) | Three Months Ended September 30, 2006 | 2005 | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Net sales | **$ 576,288** | $ 525,223 | **$ 1,746,320** | $ 1,754,794 |
| Operating costs and expenses: | | | | |
| Cost of sales | **513,402** | 464,884 | **1,511,876** | 1,577,036 |
| Selling, general and administrative expenses | **18,699** | 16,917 | **56,130** | 47,382 |
| Total operating costs and expenses | **532,101** | 481,801 | **1,568,006** | 1,624,418 |
| Operating income | **44,187** | 43,422 | **178,314** | 130,376 |
| Interest expense, net | **(2,779)** | (5,148) | **(10,588)** | (15,975) |
| Loss on foreign exchange derivative instruments | **(4,459)** | | **(15,846)** | |
| Income before income taxes | **36,949** | 38,274 | **151,880** | 114,401 |
| Provision for income taxes | **14,288** | 10,341 | **56,148** | 37,556 |
| Net income | **$ 22,661** | $ 27,933 | **$ 95,732** | $ 76,845 |
| Earnings per share: | | | | |
| Basic | **$ 0.66** | $ 0.82 | **$ 2.81** | $ 2.27 |
| Diluted | **$ 0.66** | $ 0.82 | **$ 2.78** | $ 2.24 |
| Weighted average common shares: | | | | |
| Basic | **34,110** | 33,900 | **34,087** | 33,855 |
| Diluted | **34,392** | 34,150 | **34,389** | 34,234 |

See accompanying notes to consolidated financial statements.

**GEORGIA GULF CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| **(In thousands)** | **Nine Months Ended September 30, 2006** | **2005** |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | **$ 95,732** | $ 76,845 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | **48,016** | 47,235 |
| Unrealized loss on foreign exchange derivative instruments | **15,846** | |
| Deferred income taxes | **(12,745)** | (14,914) |
| Tax (deficiency) benefit related to stock plans | **(194)** | 1,930 |
| Stock based compensation | **10,581** | 2,795 |
| Change in operating assets, liabilities and other | **9,977** | (62,027) |
| Net cash provided by operating activities | **167,213** | 51,864 |
| Cash flows used in investing activities: | | |
| Capital expenditures | **(47,497)** | (19,041) |
| Cash flows from financing activities: | | |
| Net change in revolving line of credit | **(115,300)** | (37,800) |
| Proceeds from issuance of common stock | **365** | 2,724 |
| Purchases and retirement of common stock | **(1,032)** | (1,682) |
| Tax benefits from employee share-based exercises | **1,430** | |
| Dividends paid | **(8,246)** | (8,185) |
| Net cash used in financing activities | **(122,783)** | (44,943) |
| Net change in cash and cash equivalents | **(3,067)** | (12,120) |
| Cash and cash equivalents at beginning of period | **14,298** | 21,088 |
| Cash and cash equivalents at end of period | **$ 11,231** | $ 8,968 |

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, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

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, 2005. There have been no material changes in the accounting policies followed by us during the period ended September 30, 2006, other than the adoption of Statement of Financial Accounting Standards ( SFAS ) No. 123R, *Share Based Payments* effective January 1, 2006 (See note 10, Stock-Based Compensation ).

**2. NEW ACCOUNTING PRONOUNCEMENTS**

In February 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 simplifies accounting for certain hybrid instruments currently governed by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, by allowing fair value remeasurement of hybrid instruments that contain an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the guidance in SFAS No. 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*, which provides that such beneficial interests are not subject to SFAS No. 133. SFAS No. 155 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125*, by eliminating the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. This statement is effective for financial instruments acquired or issued by us after December 31, 2006. We do not expect the adoption of SFAS No. 155 to have a material impact on our consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability must be initially measured at fair value, if practicable. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. We do not expect the adoption of SFAS No. 156 to have a material impact on our consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 Accounting For Income Taxes* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with FASB Statement No. 109 and prescribes a recognition threshold and measurement attribute for financial statement recognition of tax positions taken or to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We are currently evaluating the impact of FIN 48 on our consolidated financial statements.

On September 7, 2006, the FASB s 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* ( EITF 06-4 ) which requires the application of the provisions of SFAS No. 106*, Employers Accounting for Postretirement Benefits Other Than Pensions,* ( SFAS No. 106 ), 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. EITF 06-4 is effective for fiscal years beginning after December 15, 2006. We may have certain policies subject to the provisions of this new pronouncement and are currently evaluating the impact of adoption of EITF 06-4 will have on our consolidated financial statements.

On September 7, 2006 the EITF reached a consensus on EITF Issue No. 06-5 *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4* ( EITF 06-5 ) which concluded that a policyholder should consider other amounts included in the contractual terms of an insurance policy, in addition to cash surrender value, when determining the asset value that could be realized under the terms of the insurance contract. These other amounts include: non-discretionary amounts (those items that are not contingent as of the balance sheet date) and time-based amounts (i.e., deferred acquisition costs tax) that would be accounted for on a present-value basis. Items that are probable to be received and/or subject to the insurance company s intent to pay would not be included in asset value. In addition, the amount that could be realized should be determined on an individual policy or certificate level. Amounts that would be realized upon surrender of all policies or certificates would not be included when measuring assets. EITF 06-5 is effective for fiscal years beginning after December 15, 2006 and would be recognized through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption for all life insurance contracts currently held. We are currently evaluating the impact of adopting EITF 06-5, but do not believe it will have a material impact on our consolidated financial statements.

In September 2006, the FASB issued 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 financial statements issued for fiscal years beginning after November 15, 2007, which will be 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.

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for fiscal years ending after November 15, 2006. Early application is encouraged, but not required. We are required to adopt SAB No. 108 for our fiscal year ending December 31, 2006. We are currently assessing the impact, if any, the adoption of SAB No. 108 will have on our consolidated financial statements. The cumulative effect, if any, of applying the provisions of SAB No. 108 will be reported as an adjustment to beginning-of-year retained earnings.

On September 29, 2006, the FASB issued SFAS No. No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends SFAS No. 87 and SFAS No. 106 to require recognition of the funding status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. We will adopt the balance sheet recognition provisions of SFAS No. 158 at December 31, 2006. The adoption of SFAS 158 is expected to reduce our stockholders equity at December 31, 2006 by approximately $5.5 million. SFAS No. 158 will not affect our results of operations.

**3. ACCOUNTS RECEIVABLE SECURITIZATION**

We have an agreement pursuant to which we sell an undivided percentage ownership interest in a defined pool of our trade receivables on a revolving basis through a wholly owned subsidiary to third parties (the Securitization ). As collections reduce accounts receivable included in the pool, we sell ownership interests in new receivables to bring the ownership interests sold up to a maximum of $165.0 million, as permitted by the Securitization. At September 30, 2006, and December 31, 2005, the unpaid balance of accounts receivable in the defined pool was approximately $277.4 million and $277.3 million, respectively. The balances of receivables sold as of September 30, 2006, and December 31, 2005, were $162.0 million and $141.0 million, respectively.

**4. INVENTORIES**

The major classes of inventories were as follows:

| **In thousands** | **September 30, 2006** | **December 31, 2005** |
|---|---|---|
| Raw materials and supplies | **$ 68,080** | $ 69,116 |
| Finished goods | **123,887** | 126,512 |
| Inventories | **$ 191,967** | $ 195,628 |

**5. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment consisted of the following:

| **In thousands** | **September 30, 2006** | **December 31, 2005** |
|---|---|---|
| Machinery and equipment | **$ 967,148** | $ 951,649 |
| Land and land improvements | **28,091** | 27,034 |
| Buildings | **31,897** | 31,897 |
| Construction-in-progress | **57,208** | 26,498 |
| Property, plant and equipment, at cost | **1,084,344** | 1,037,078 |
| Accumulated depreciation | **(678,034 )** | (635,666 ) |
| Property, plant and equipment, net | **$ 406,310** | $ 401,412 |

The increase in construction-in-progress is due primarily to a vinyl resins modernization project at our Plaquemine, Louisiana facility, which we announced in the first quarter of 2006. The total modernization project cost will be about $100.0 million and is expected to be completed in early 2008.

**6. OTHER ASSETS, NET**

Other assets, net of accumulated amortization, consisted of the following:

| In thousands | September 30, 2006 | December 31, 2005 |
|---|---|---|
| Advances for long-term purchase contracts | **$ 108,481** | $ 112,920 |
| Investment in joint ventures | **17,551** | 20,138 |
| Debt issuance costs | **4,632** | 5,516 |
| Prepaid pension costs | **19,846** | 21,041 |
| Deferred acquisition costs | **13,460** | |
| Other | **9,053** | 15,690 |
| Total other assets, net | **$ 173,023** | $ 175,305 |

Deferred acquisition costs of $13.5 million relate to the costs of issuance of debt and costs incurred in connection with the acquisition of Royal Group Technologies Limited ( Royal Group ).

**7. LONG-TERM DEBT**

Long-term debt consisted of the following:

| In thousands | September 30, 2006 | December 31, 2005 |
|---|---|---|
| Revolving credit facility expires 2009 | **$ 34,000** | $ 149,300 |
| 7.125% notes due 2013 | **100,000** | 100,000 |
| Other | **29,339** | 29,339 |
| Total debt | **163,339** | 278,639 |
| Less current portion | **34,000** | 49,300 |
| Long-term debt | **$ 129,339** | $ 229,339 |

On October 3, 2006, though we had no obligation to do so, we paid off $34.0 million of the borrowings under our revolving credit facility; therefore, we classified this debt as current. At September 30, 2006, we had a maximum borrowing capacity of $240.0 million under our revolving credit facility, and our unused revolving credit facility totaled $198.7 million, net of outstanding letters of credit for $7.3 million and current borrowings of $34.0 million.

Under the senior credit facility and the indenture related to the 7.125 percent notes, we are subject to certain restrictive covenants, the most significant of which require us to maintain certain financial ratios and limit our ability to pay dividends, make investments, grant liens, sell our assets and engage in certain other activities. As of and for the three months ended September 30, 2006, we were in compliance with all such covenants.

As discussed in Note 15, Subsequent Events we incurred a significant amount of additional indebtedness on October 3, 2006 in connection with our acquisition of Royal Group.

**8. COMMITMENTS AND CONTINGENCIES**

*Acquisition of Royal Group Technologies Limited and Related Financing.* On June 9, 2006, Rome Acquisition Corp., our wholly owned subsidiary, and Royal Group entered into an Arrangement Agreement pursuant to which we would acquire all of Royal Group s outstanding common shares. The acquisition was financed through the incurrence of significant additional indebtedness and closed on October 3, 2006. See Note 15, Subsequent Events for additional details regarding the acquisition and related financing.

*Legal Proceedings.* As previously reported, we had been a party to numerous individual and several class-action lawsuits filed against us, among other parties, arising out of an incident that occurred in September 1996 in which workers were exposed to a chemical substance on our premises in Plaquemine, Louisiana. The substance was later identified to be a form of mustard agent, which occurred as a result of an unforeseen chemical reaction. The vast majority of these claims have been settled. In addition, a federal appellate court recently upheld the dismissal by a federal trial court of the only two remaining claims in federal court. Only two pending state court claims now remain. Based on the present status of the proceedings, we believe that any liability ultimately imposed on us will not have a material effect on our financial position, results of operations, or cash flows.

In August 2004 and January and February 2005, the United States Environmental Protection Agency ( USEPA ) conducted environmental investigations of our manufacturing facilities in Aberdeen, Mississippi and Plaquemine, Louisiana, respectively. The USEPA has informed us that it has identified several areas of concern, and has indicated that such areas of concern may, in its view, constitute violations of applicable requirements, thus warranting monetary penalties and possible injunctive relief. In lieu of pursuing such relief through its traditional enforcement process, the USEPA has proposed that the parties enter into negotiations in an effort to reach a global settlement of the areas of concern and that such a global settlement cover our manufacturing facilities at Lake Charles, Louisiana and Oklahoma City, Oklahoma as well. During the second quarter of 2006, we were informed by USEPA that its regional office responsible for Oklahoma and Louisiana desired to pursue resolution of these matters on a separate track from the regional office responsible for Mississippi.

It is likely that any settlement, if achieved, will result in the imposition of monetary penalties, capital expenditures for installation of environmental controls, and/or other relief. We do not know the total cost of monetary penalties, environmental projects, or other relief that would be imposed in any settlement or order. While we expect that such costs will exceed $100,000, we do not expect that such costs will have a material effect on our financial position, results of operations, or cash flows.

In addition, we are subject to other claims and legal actions that may arise in the ordinary course of business. We believe that the ultimate liability, if any, with respect to these other claims and legal actions will not have a material effect on our financial position or on our results of operations.

*Environmental Regulation.* Our operations are subject to increasingly stringent federal, state and local laws and regulations relating to environmental quality. These regulations, which are enforced principally by the USEPA and comparable state agencies, govern the management of solid hazardous waste, emissions into the air and discharges into surface and underground waters, and the manufacture of chemical substances.

In October 2004 the USEPA notified us that we have been identified as a potentially responsible party ( PRP ) for a Superfund site in Galveston, Texas. The site is a former industrial waste recycling, treatment and disposal facility. Over one thousand PRPs have been identified by the USEPA. We contributed a relatively small proportion of the total amount of waste shipped to the site. In the notice, the USEPA informed us of the agency s willingness to settle with us and other PRPs that contributed relatively small proportions of the total quantity of waste shipped to the Superfund site. We believe that we can reach a settlement with the USEPA in this matter, and although there can be no assurance, we expect the amount of the settlement to be less than $100,000.

There are several serious environmental issues concerning the vinyl chloride monomer (VCM) facility at Lake Charles, Louisiana we acquired from CONDEA Vista Company ( CONDEA Vista is now Sasol North America, Inc.) on November 12, 1999. Substantial investigation of the groundwater at the site has been conducted, and groundwater contamination was first identified in 1981. Groundwater remediation through the installation of groundwater recovery wells began in 1984. The site currently contains about 90 monitoring wells and 18 recovery wells. Investigation to determine the full extent of the contamination is ongoing. It is possible that offsite groundwater recovery will be required, in addition to groundwater monitoring. Soil remediation could also be required.

Investigations are currently underway by federal environmental authorities concerning contamination of an estuary near the Lake Charles VCM facility we acquired known as the Calcasieu Estuary. It is likely that this estuary will be listed as a Superfund site and be the subject of a natural resource damage recovery claim. It is estimated that there are about 200 PRPs associated with the estuary contamination. CONDEA Vista is included among these parties with respect to its Lake Charles facilities, including the VCM facility we acquired. The estimated cost for investigation and remediation of the estuary is unknown and could be quite costly. Also, Superfund statutes may impose joint and several liability for the cost of investigations and remedial actions on any company that generated the waste, arranged for disposal of the waste, transported the waste to the disposal site, selected the disposal site, or presently or formerly owned, leased or operated the disposal site or a site otherwise contaminated by hazardous substances. Any or all of the responsible parties may be required to bear all of the costs of cleanup regardless of fault, legality of the original disposal or ownership of the disposal site. Currently, we discharge our wastewater to CONDEA Vista, which has a permit to discharge treated wastewater into the estuary.

CONDEA Vista has agreed to retain responsibility for substantially all environmental liabilities and remediation activity relating to the vinyls business we acquired from it, including the Lake Charles, Louisiana VCM facility. For all matters of environmental contamination that were currently known at the time of acquisition, we may make a claim for indemnification at any time; for environmental matters that were then unknown, we must generally make claims for indemnification before November 12, 2009. Further, our agreement with CONDEA Vista provides that CONDEA Vista will be subject to the presumption that all later discovered on-site environmental contamination arose before closing, and is therefore CONDEA Vista s responsibility; this presumption may only be rebutted if CONDEA Vista can show that we caused the environmental contamination by a major, unaddressed release.

At our Lake Charles VCM facility, CONDEA Vista will continue to conduct the ongoing remediation at its expense until November 12, 2009. After November 12, 2009, we will be responsible for remediation costs up to about $150,000 of expense per year, as well as costs in any year in excess of this annual amount up to an aggregate one-time amount of about $2.3 million. In prior years, as part of our ongoing assessment of our environmental contingencies, we determined these remediation costs to be probable and estimable and therefore recorded an accrual to other non-current liabilities that is currently $2.2 million.

The property owned by CONDEA Vista in Mansfield, Massachusetts, for which we negotiated an early lease termination, has been the subject of ongoing environmental investigations under an order with the Massachusetts Department of Environmental Protection. Groundwater investigations continue at the Mansfield property to address identified on-site groundwater contamination and investigate the possible off-site migration of contaminated groundwater. It is also possible that the USEPA may list the property as a Superfund site. The environmental investigations and actions are associated with the past operations at the property and were not assumed in our lease of the property. In addition, CONDEA Vista has indemnified us for claims related to this environmental contamination beyond an aggregate threshold amount of about $0.3 million, including coverage for potential joint and several liabilities under the environmental statutes. Upon removal of manufacturing equipment and termination of the lease, the site with buildings and infrastructure equipment reverted to CONDEA Vista.

As for employee and independent contractor exposure claims, CONDEA Vista is responsible for exposures before November 12, 2009, and we are responsible for exposures after November 12, 2009, on a pro rata basis determined by years of employment or service before and after November 12, 1999, by any claimant. There is, however, a presumption for claims brought before November 12, 2004, by current or former CONDEA Vista employees and contractors that, absent a showing of new acute exposure after

November 12, 1999, all responsibility will be deemed to have arisen before November 12, 1999, and will be solely CONDEA Vista s.

We believe that we are in material compliance with all current environmental laws and regulations. We estimate that any expenses incurred in maintaining compliance with these requirements will not materially affect earnings or cause us to exceed our level of anticipated capital expenditures. However, there can be no assurance that regulatory requirements will not change, and it is not possible to accurately predict the aggregate cost of compliance resulting from any such changes.

**9. DERIVATIVE INSTRUMENTS**

We enter into a variety of derivative instruments to manage various risks. We used foreign currency forward contracts to limit our exposure to fluctuations in Canadian foreign currency rates with respect to our acquisition of Royal Group that was denominated in Canadian dollars. We also use interest rate swap agreements to manage the interest rate risk of a portion of our forecasted variable rate debt. We also use commodity swap agreements to limit our exposure to rising raw material costs. We are exposed to counterparty credit risk for nonperformance and, in the event of nonperformance, to market risk for changes in interest rates, foreign currency rates, and commodity prices. We manage exposure to counterparty credit risk through minimum credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk.

We calculate the fair value of derivative instruments using quoted market prices as of September 30, 2006. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires that we recognize all derivative instruments on the balance sheet at fair value, and changes in the derivative s fair value must be currently recognized in earnings or accumulated other comprehensive income, depending on the designation of the derivative. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in comprehensive income, net of tax, and is recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings currently.

*Foreign Currency Forward Contracts.* We entered into foreign currency forward contracts to hedge the purchase price of the Royal Group, which was made in Canadian dollars. Since this was a hedge of the foreign currency exchange risk of a business combination, we were not permitted to designate it as a cash flow hedge under SFAS No. 133. We have designated the hedge as a fair value hedge to fix our foreign exchange rate related to the purchase price of the Royal Group with the changes in fair value recognized in earnings. For the nine months ended September 30, 2006, we had unrealized losses of $15.8 million related to these foreign currency forward contracts, which are included in the accompanying condensed consolidated balance sheet as of September 30, 2006, and statement of income for the nine months then ended.

Information regarding the notional amount of the foreign currency forward contracts, carrying value, fair market value, and weighted average of exchange rates of the contracts is summarized in the table below. The notional amount of these contracts represents the amount of Canadian dollars to be purchased at maturity and does not represent our exposure on these contracts.

| **As of September 30, 2006**<br>**Unaudited, in millions of U.S. dollars** | **Notional Amount of Derivatives** | **Carrying Value** | **Fair Market Value** | **Weighted Average CAD$/U.S.$ Exchange Rates** |
|---|---|---|---|---|
| Foreign Currency Forward Contracts | | | | |
| Buy Currency: | | | | |
| Canadian dollar | | | | |
| Due in 2006 | **$ 1,500.0** | **$ (15.8 )** | **$ (15.8 )** | **1.1039/1** |

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*Interest Rate Swaps.* In August and September 2006, we entered into five variable-to-fixed interest rate swap agreements, including two instruments with notional amounts of $75 million each and three instruments with notional amounts of $50 million each, which have been designated as cash flow hedges to effectively convert a portion of our outstanding variable rate term debt to a fixed rate, thus reducing the impact of interest rate fluctuations on future income. These agreements involve the receipt of floating rate interest in exchange for fixed rate interest payments at a weighted average rate of 5.221 percent over the life of the agreement without an exchange of the underlying principal amounts. The differential to be paid or received is accrued as interest rates change and recognized as an adjustment to interest expense related to the debt. Under SFAS No. 133, we recognized an unrealized loss of approximately $1.8 million related the interest rate swaps, which was recorded as part of long-term liabilities and accumulated other comprehensive income. We use the hypothetical derivative method of calculating ineffectiveness of the interest rate swap agreements, and any ineffectiveness will be reclassified into the statements of income throughout the term of the interest rate swap agreements, of which notional amounts of $75 million expire in the fourth quarter of 2009 and the remaining notional amounts of $225 million expire in the fourth quarter of 2008. The change in the fair value of these interest rate swap agreements from inception to September 30, 2006 was a liability of $1.8 million, which is included in other non-current liabilities and in accumulated other comprehensive loss, net of tax, in the accompanying condensed consolidated balance sheet.

*Commodity Swaps.* In September 2006, we entered into three NYMEX natural gas forward contracts totaling 465,000 million British Thermal Units ( MMBTU ) for October 2006 with a weighted average contract price of $5.22 per MMBTU. These contracts have been designated as cash flow hedges to fix the price on a portion of our October 2006 natural gas purchases. The fair value of our natural gas forward contracts was a liability of $0.5 million at September 30, 2006 and is included in other accrued liabilities and accumulated other comprehensive income (loss), net of tax in the accompanying condensed consolidated balance sheet.

**10. STOCK-BASED COMPENSATION**

On January 1, 2006, we adopted SFAS No. 123R, *Share Based Payment,* using the modified prospective method of adoption. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and shares purchased under an employee stock purchase plan to be recognized in the financial statements based on their fair values.

Upon our adoption of SFAS No. 123R, we began recording compensation cost related to the continued vesting of all stock options that were unvested as of January 1, 2006, as well as for all new stock option grants after our adoption date. The compensation cost to be recorded is based on the fair value at the grant date. The adoption of SFAS No. 123R did not have an effect on our recognition of compensation expense relating to restricted stock grants. SFAS No. 123R required the elimination of unearned compensation (contra-equity account) related to earlier awards against the appropriate equity accounts, additional paid-in capital, in our circumstance.

Prior to the adoption of SFAS No. 123R, cash flows resulting from the tax benefit related to stock-based compensation were presented in operating activities in the statements of cash flows, along with other tax cash flows, in accordance with the provisions of EITF Issue No. 00-15, *Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option*. SFAS No. 123R superseded EITF Issue No. 00-15, amended SFAS No. 95, *Statement of Cash Flows*, and requires tax benefits relating to excess share-based compensation deductions to be prospectively presented in the statements of cash flows as a financing activity cash inflow.

The impact of adopting SFAS No. 123R on our operating income, income before income taxes, net income, and basic and diluted earnings per share for three and nine months ended September 30, 2006, is as follows:

| **In thousands, except per share data** | **Three months ended September 30, 2006** | **Nine months ended September 30, 2006** |
|---|---|---|
| Impact of adopting SFAS No. 123R on operating income | 1,495 | 5,875 |
| Impact of adopting SFAS No. 123R on income before income taxes | 1,495 | 5,875 |
| Impact of adopting SFAS No. 123R on net income | 917 | 3,703 |
| Impact of adopting SFAS No. 123R on net income per share, basic and diluted | 0.03 | 0.11 |

SFAS No. 123R also required us to change the statement of cash flow classification of certain tax benefits from share-based compensation deductions beginning on January 1, 2006. As a result, we classified $1.4 million as cash from financing activities rather than cash from operating activities for the nine months ended September 30, 2006.

Prior to our adoption of SFAS No. 123R, we accounted for our stock-based compensation plans in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and complied with SFAS No. 123, *Accounting for Stock-Based Compensation, as amended,* for disclosure purposes. Under these provisions, no compensation was recognized for our stock option plans or our employee stock purchase plan ( ESPP ). For SFAS No. 123 purposes, the fair value of each stock option and stock purchase right for 2005 has been estimated as of the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | **Nine months ended September 30, 2005** | |
|---|---|---|
| | **Stock purchase plan rights** | **Stock option grants** |
| Grant date fair value | $ 14.19 | $ 19.35 |
| Assumptions: | | |
| Risk-free interest rate | 2.75% | 3.97% |
| Expected life | 1.0 year | 4.7 years |
| Expected volatility | 33% | 39% |
| Expected dividend yield | 0.64% | 0.61% |

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Had compensation expense been determined consistently with SFAS No. 123, additional compensation expense, net of tax, for the three and nine months ended September 30, 2005 from stock options and ESPP shares would have been approximately $0.8 million and $2.3 million, respectively. Our net income and earnings per common share would have been the following pro forma amounts:

| **In thousands, except per share data** | **Three months ended September 30, 2005** | **Nine months ended September 30, 2005** |
|---|---|---|
| Net income, as reported | $ 27,933 | $ 76,845 |
| Stock-based compensation included in net income, as reported | 549 | 1,613 |
| Stock-based compensation under SFAS No. 123 | (1,382 ) | (3,866 ) |
| Pro forma net income | 27,100 | 74,592 |
| Basic earnings per share: | | |
| As reported | $ 0.82 | $ 2.27 |
| Pro forma | 0.80 | 2.20 |
| Diluted earnings per share: | | |
| As reported | $ 0.82 | $ 2.24 |
| Pro forma | 0.80 | 2.19 |

Under the 1998 and 2002 Equity and Performance Incentive Plans, we are authorized by our stockholders to grant up to 4,500,000 shares of our common stock to employees and non-employee directors. As of September 30, 2006, we had various types of share-based payment arrangements with our employees and non-employee directors including restricted and deferred stock units, stock options and the ESPP, which are described below.

*Stock Options and ESPP.* For the nine months ended September 30, 2006 and 2005, we granted options to purchase 351,996 and 314,700 shares, respectively, to our key employees and non-employee directors. Option prices are equal to the closing price of our common stock on the day prior to the date of grant. Options vest over a one or three-year period from the date of grant and expire no more than ten years after the date of grant.

A summary of stock option activity under all plans is as follows:

| | **Nine months ended September 30, 2006** | | | |
|---|---|---|---|---|
| | **Shares** | **Weighted Average Remaining Contractual Terms** | **Weighted Average Exercise Price** | **Aggregate intrinsic Value (In thousands)** |
| Outstanding at beginning of year | **1,632,608** | | **$ 30.47** | |
| Granted | **351,996** | | **28.91** | |
| Exercised | **(16,866 )** | | **21.61** | **$ 98** |
| Forfeited | **(14,248 )** | | **43.34** | |
| Expired | **(3,667 )** | | **47.44** | |
| Outstanding at end of period | **1,949,823** | **6.2 years** | **$ 30.14** | **4,824** |
| Vested or expected to vest at end of period | **1,938,468** | **6.2 years** | **$ 30.11** | **4,824** |
| Exercisable at end of period | **1,308,559** | **5.0 years** | **$ 27.22** | **$ 4,804** |

The fair value of stock options granted and the ESPP shares for 2006 has been estimated as of the date of grant using the Black-Scholes option-pricing model. The use of a valuation model requires us to make certain assumptions with respect to selected model inputs. We use the historical volatility for our stock, as we believe that historical volatility is more representative than implied volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our history and expectation of dividend payouts. The weighted average fair value derived from the Black-Scholes model and the related weighted-average assumptions used in the model are as follows:

| | **Nine months ended September 30, 2006** | |
|---|---|---|
| | **ESPP** | **Stock option grants** |
| Grant date fair value | $ 10.08 | $ 10.21 |
| Assumptions | | |
| Risk-free interest rate | 4.85% | 4.82% |
| Expected life | 1.0 year | 4.5 years |
| Expected volatility | 44% | 39% |
| Expected dividend yield | 1.05% | 1.11% |

Compensation expense, net of tax, for the three and nine months ended September 30, 2006 from stock options and ESPP shares was approximately $0.9 million and $3.7 million, respectively.

*Restricted and Deferred Stock.* For the nine months ended September 30, 2006 and 2005, we granted 136,902 restricted stock units and deferred stock units and 116,375 shares of restricted stock and deferred stock units, respectively, to our key employees and non-employee directors. The restricted stock units and restricted stock vest over a three-year period and the deferred stock units vest over a one-year period. The weighted average grant date fair value per share of restricted and deferred stock units and restricted stock granted during the first nine months of 2006 and 2005 was $28.70 and $52.81, respectively. Compensation expense, net of tax, for the third quarters of 2006 and 2005 from restricted stock and deferred stock units was approximately $0.6 million and $0.5 million, respectively. Compensation expense, net of tax, for the nine months ended September 30, 2006 and 2005, was $3.0 million and $1.6 million, respectively.

A summary of restricted stock units and awards activity is as follows:

| | **Nine months ended September 30, 2006** | | | |
|---|---|---|---|---|
| | **Shares** | **Weighted Average Remaining Contractual Terms** | **Weighted Average Grant Date Fair Value** | **Aggregate Intrinsic Value (In thousands)** |
| Outstanding at beginning of year | **225,441** | | **$ 38.99** | |
| Granted | **136,902** | | **28.70** | |
| Vested | **(105,378 )** | | **33.34** | **$ 2,889** |
| Forfeited | **(2,055 )** | | **39.09** | |
| Outstanding at end of period | **254,910** | **1.8 years** | **35.80** | **6,990** |
| Vested or expected to vest at end of period | **250,161** | **1.8 years** | **35.73** | **$ 6,859** |

*Nonvested shares.* A summary of the status of the nonvested share activity under all plans is as follows:

| | Nine months ended September 30, 2006 | |
|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value |
| Nonvested at beginning of year | **837,092** | **$ 21.65** |
| Granted | **488,898** | **15.39** |
| Vested | **(421,846 )** | **18.74** |
| Forfeited and expired | **(19,970 )** | **43.65** |
| Nonvested at end of period | **884,174** | **$ 19.40** |

As of September 30, 2006, we had approximately $8.8 million of total unrecognized compensation cost related to nonvested share-based compensation, which we will record in our statement of income over a weighted average recognition period of less than two years. The total fair value of shares vested during the nine months ended September 30, 2006 and 2005, was $7.9 million and $5.5 million, respectively.

**11. EARNINGS PER SHARE**

There are no adjustments to Net income or Income before income taxes for the diluted earnings per share computations.

The following table reconciles the denominator for the basic and diluted earnings per share computations shown on the condensed consolidated statements of income:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **In thousands** | **2006** | **2005** | **2006** | **2005** |
| Weighted average common shares basic | **34,110** | 33,900 | **34,087** | 33,855 |
| Plus incremental shares from assumed conversions: | | | | |
| Options and awards | **274** | 196 | **293** | 344 |
| Employee stock purchase plan rights | **8** | 54 | **9** | 35 |
| Weighted average common shares diluted | **34,392** | 34,150 | **34,389** | 34,234 |

Options to purchase 1.3 million and 0.5 million shares of common stock outstanding at September 30, 2006 and 2005, respectively, were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common stock during these periods.

**12. COMPREHENSIVE INCOME (LOSS) INFORMATION**

Our comprehensive income is comprised of net income (loss), additional minimum pension liability and (loss) on cash flow hedging derivative instruments, net of related income taxes. The components of accumulated other comprehensive loss and total comprehensive loss are shown as follows:

**Accumulated other comprehensive loss net of tax**

| In thousands | September 30, 2006 | December 31, 2005 |
|---|---|---|
| Minimum pension liability | **$ (199 )** | $ (199 ) |
| Net loss on cash flow hedging derivative instruments, net of tax benefit of $831 | **(1,426 )** | |
| Accumulated other comprehensive loss | **$ (1,625 )** | $ (199 ) |

The components and ending balance of total comprehensive income are as follows:

**Total comprehensive income**

| In thousands | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Net income | $ 22,661 | $ 27,933 | $ 95,732 | $ 76,845 |
| Net loss on cash flow hedging derivative instruments | (1,426 ) | | (1,426 ) | |
| Total comprehensive income | $ 21,235 | $ 27,933 | $ 94,306 | $ 76,845 |

**13. EMPLOYEE PENSION PLANS**

The following table provides the components for the net periodic benefit cost for all pension plans:

| In thousands | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Service cost | **$ 892** | $ 909 | **$ 2,675** | $ 2,547 |
| Interest cost | **1,344** | 1,383 | **4,033** | 3,969 |
| Expected return on plan assets | **(1,928 )** | (1,775 ) | **(5,786 )** | (5,350 ) |
| Other | **(5 )** | | **(13 )** | |
| Amortization of: | | | | |
| Transition obligation | **54** | 54 | **161** | 161 |
| Prior service cost | **96** | 76 | **287** | 228 |
| Net loss | **16** | 221 | **49** | 250 |
| Net periodic benefit cost | **$ 469** | $ 868 | **$ 1,406** | $ 1,805 |

Our major assumptions used to determine net periodic benefit cost for pension plans are presented as weighted-averages:

| | Nine months ended September 30, 2006 | 2005 |
|---|---|---|
| Discount rate | **5.75 %** | 6.00 % |
| Expected return on assets | **8.25 %** | 8.50 % |
| Rate of compensation increase | **4.27 %** | 4.31 % |

For the nine months ended September 30, 2006, we made no contributions to the plan trust. We made no contributions in the form of direct benefit payments for the nine months ended September 30, 2006, and $0.6 million in the form of direct benefit payments for the nine months ended September 30, 2005.

**14. SEGMENT INFORMATION**

We have two reportable segments through which we conduct our operating activities: chlorovinyls and aromatics. These two segments reflect the organization that we use for internal reporting. The chlorovinyls segment is a highly integrated chain of products that includes chlorine, caustic soda, vinyl chloride monomer and vinyl resins and compounds. The aromatics segment is also vertically integrated and includes cumene and the co-products phenol and acetone.

Earnings of each segment exclude interest income and expense, unallocated corporate expenses, and provision for (benefit from) income taxes. Intersegment sales and transfers are insignificant.

| In thousands | Three months ended September 30, 2006 | 2005 | Nine months ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| Segment net sales: | | | | |
| Chlorovinyls | **$ 415,362** | $ 388,247 | **$ 1,321,827** | $ 1,167,473 |
| Aromatics | **160,926** | 136,976 | **424,493** | 587,321 |
| Net sales | **$ 576,288** | $ 525,223 | **$ 1,746,320** | $ 1,754,794 |
| Segment operating income (loss): | | | | |
| Chlorovinyls | **$ 56,373** | $ 53,115 | **$ 215,807** | $ 148,090 |
| Aromatics | **(2,217 )** | (1,878 ) | **(7,649 )** | 3,627 |
| Unallocated corporate expenses | **(9,969 )** | (7,815 ) | **(29,844 )** | (21,341 ) |
| Total operating income | **$ 44,187** | $ 43,422 | **$ 178,314** | $ 130,376 |

***As a result of the acquisition of Royal Group discussed in Note 15, Subsequent Events we anticipate that our reportable segments will change.***

**15. SUBSEQUENT EVENT**

On October 3, 2006, we completed the acquisition of Royal Group. Under the terms of the arrangement agreement, we acquired all of the outstanding common stock of Royal Group for CAD$13.00 per share in cash ( CAD$ meaning Canadian dollars), or a total purchase price, including assumed debt and debt retired in conjunction with the closing, of approximately $1.5 billion. The acquisition was financed with significant indebtedness, including $500 million in aggregate principal amount of 9.5 percent senior unsecured notes due 2014 (the Senior Notes ), $200 million in aggregate principal amount of 10.75 percent Senior Subordinated Notes due 2016 (the Senior Subordinated Notes, and together with the Senior Notes, the New Notes ), and a new credit agreement that includes a tranche B term loan of $800 million and revolving credit facilities of up to $375 million (the Senior Secured Credit Facility ). Royal Group s results of operations and cash flows from the October 3, 2006 acquisition date will be included in our consolidated results of operations and cash flows, prospectively.

On October 3, 2006, we issued the New Notes. Interest on the Senior Notes is payable on April 15 and October 15 beginning April 15, 2007 at an annual rate of 9.5 percent. Interest on the Senior Subordinated Notes is payable on April 15 and October 15 beginning April 15, 2007 at an annual rate of 10.75 percent. The Senior Notes and Senior Subordinated Notes were both issued at a discount to yield 9.625 percent and 11.0 percent, respectively, under the effective interest method. The New Notes contain certain restrictive covenants including restrictions on debt incurrence, granting of liens, dividends, acquisitions and investments.

On October 3, 2006, we entered into the Senior Secured Credit Facility provided by a syndicate of banks and other financial institutions. The Senior Secured Credit Facility provides for a term loan of $800 million, all of which was borrowed on October 3, 2006 and revolving credit facilities of up to $375 million. The commitments under the revolving credit facilities expire on October 3, 2011. The term loan facility will mature on October 3, 2013. The term loan will amortize at a rate of 1.00 percent of the original principal amount thereafter per annum on a quarterly basis for the first six years of the term of the loan, with the balance paid in full from equal quarterly installments in the seventh year. The interest rate for the Senior Secured Credit Facility is the adjusted U.S. London Interbank Offered Rate or LIBOR, plus 2.0 percent per annum or the administrative agent bank s annual base rate ( ABR ) plus 1.0 percent per annum, and following delivery of financial information for the quarter ended December 31, 2006, the applicable margin for the loans under the revolving credit facilities will be set at a per annum rate determined by reference to a pricing grid based on our total leverage ratio. The Senior Secured Credit Facility contains customary affirmative and negative covenants, including restrictions on debt incurrence, granting of liens, dividends, acquisitions and investments. In addition, the Senior Secured Credit Facility contains financial covenants requiring compliance with both a minimum interest coverage ratio and a maximum leverage ratio. These covenants are subject to customary exceptions and step-downs. The Senior Secured Credit Facility also contains customary events of default. The Senior Secured Credit Facility also replaced our previously existing senior credit facility.

On October 27, 2006, we completed the divestiture of Royal Group s American Building Products Poland operations for approximately $7.5 million.

**16. SUPPLEMENTAL GUARANTOR INFORMATION**

Our payment obligations under our 7.125 percent senior subordinated notes are guaranteed by Great River Oil & Gas Corporation, Georgia Gulf Lake Charles, LLC and Georgia Gulf Chemicals & Vinyls, LLC, some of our wholly owned subsidiaries (the Guarantor Subsidiaries ). The guarantees are full, unconditional and joint and several. Georgia Gulf Corporation is in essence a holding company for all of its wholly owned subsidiaries. The following unaudited condensed consolidating balance sheets, statements of income and statements of cash flows present the financial statements of the parent company, and the combined financial statements of our Guarantor Subsidiaries and our remaining subsidiaries (the Non-Guarantor Subsidiaries ). Provisions in our Senior Secured Credit Facility limit payment of dividends, distributions, loans and advances to us by our subsidiaries.

**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Balance Sheet Information**
**September 30, 2006**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ | $ 11,220 | $ 11 | $ | $ 11,231 |
| Receivables, net | 128,417 | 37,019 | 122,934 | (179,037 ) | 109,333 |
| Inventories | | 191,967 | | | 191,967 |
| Prepaid expenses and other current assets | | 3,737 | 82 | | 3,819 |
| Deferred income taxes | | 5,222 | | | 5,222 |
| Total current assets | 128,417 | 249,165 | 123,027 | (179,037 ) | 321,572 |
| Property, plant and equipment, net | 143 | 406,167 | | | 406,310 |
| Goodwill | | 77,720 | | | 77,720 |
| Other assets, net | 8,101 | 164,922 | | | 173,023 |
| Investment in subsidiaries | 534,493 | 122,236 | | (656,729 ) | |
| Total assets | $ 671,154 | $ 1,020,210 | $ 123,027 | $ (835,766 ) | $ 978,625 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| Current portion of long-term debt | $ | $ 34,000 | $ | $ | $ 34,000 |
| Accounts payable | 53,371 | 307,029 | 801 | (179,037 ) | 182,164 |
| Interest payable | 3,001 | 428 | | | 3,429 |
| Accrued compensation | 545 | 15,676 | | | 16,221 |
| Foreign exchange derivative obligation | 15,846 | | | | 15,846 |
| Other accrued liabilities | | 23,063 | | | 23,063 |
| Total current liabilities | 72,763 | 380,196 | 801 | (179,037 ) | 274,723 |
| Long-term debt, net of current portion | 129,339 | | | | 129,339 |
| Deferred income taxes | | 95,345 | | | 95,345 |
| Other non-current liabilities | 8,831 | 10,166 | | | 18,997 |
| Total liabilities | 210,933 | 485,707 | 801 | (179,037 ) | 518,404 |
| Stockholders equity | 460,221 | 534,503 | 122,226 | (656,729 ) | 460,221 |
| Total liabilities and stockholders equity | $ 671,154 | $ 1,020,210 | $ 123,027 | $ (835,766 ) | $ 978,625 |

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**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Balance Sheet Information**
**December 31, 2005**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ | $ 14,296 | $ 2 | $ | $ 14,298 |
| Receivables, net | 139,077 | 53,571 | 134,081 | (208,536 ) | 118,193 |
| Inventories | | 195,628 | | | 195,628 |
| Prepaid expenses and other current assets | | 13,272 | 34 | | 13,306 |
| Deferred income taxes | | 5,091 | | | 5,091 |
| Total current assets | 139,077 | 281,858 | 134,117 | (208,536 ) | 346,516 |
| Property, plant and equipment, net | 173 | 401,239 | | | 401,412 |
| Goodwill | | 77,720 | | | 77,720 |
| Other assets, net | 15,657 | 159,648 | | | 175,305 |
| Investment in subsidiaries | 419,400 | 116,230 | | (535,630 ) | |
| Total Assets | $ 574,307 | $ 1,036,695 | $ 134,117 | $ (744,166 ) | $ 1,000,953 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| Current portion of long-term debt | $ | $ 49,300 | $ | $ | $ 49,300 |
| Accounts payable | 73,258 | 319,561 | 17,896 | (208,536 ) | 202,179 |
| Interest payable | 597 | 629 | | | 1,226 |
| Accrued compensation | | 14,986 | | | 14,986 |
| Income taxes payable | | 1,258 | | | 1,258 |
| Other accrued liabilities | | 15,237 | | | 15,237 |
| Total current liabilities | 73,855 | 400,971 | 17,896 | (208,536 ) | 284,186 |
| Long-term debt | 129,339 | 100,000 | | | 229,339 |
| Deferred income taxes | | 107,959 | | | 107,959 |
| Other non-current liabilities | 8,101 | 8,356 | | | 16,457 |
| Total liabilities | 211,295 | 617,286 | 17,896 | (208,536 ) | 637,941 |
| Stockholders equity | 363,012 | 419,409 | 116,221 | (535,630 ) | 363,012 |
| Total liabilities and stockholders equity | $ 574,307 | $ 1,036,695 | $ 134,117 | $ (744,166 ) | $ 1,000,953 |

**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Statement of Income Information**
**Three Months Ended September 30, 2006**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 3,010 | $ 576,288 | $ 6,010 | $ (9,020) | $ 576,288 |
| Operating costs and expenses: | | | | | |
| Cost of sales | 129 | 513,273 | | | 513,402 |
| Selling, general and administrative expenses | 6,389 | 18,151 | 3,179 | (9,020) | 18,699 |
| Total operating costs and expenses | 6,518 | 531,424 | 3,179 | (9,020) | 532,101 |
| Operating income (loss) | (3,508) | 44,864 | 2,831 | | 44,187 |
| Other (expense) income: | | | | | |
| Interest expense, net | (978) | (1,801) | | | (2,779) |
| Unrealized loss on derivative instruments | (4,459) | | | | (4,459) |
| Equity in income of subsidiaries | 28,181 | 2,831 | | (31,012) | |
| Income before taxes | 19,236 | 45,894 | 2,831 | (31,012) | 36,949 |
| Provision for income taxes | (3,425) | 17,713 | | | 14,288 |
| Net income | $ 22,661 | $ 28,181 | $ 2,831 | $ (31,012) | $ 22,661 |

**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Statement of Income Information**
**Three Months Ended September 30, 2005**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 3,425 | $ 525,223 | $ 2,188 | $ (5,613 ) | $ 525,223 |
| Operating costs and expenses: | | | | | |
| Cost of sales | | 464,884 | | | 464,884 |
| Selling, general and administrative expenses | 4,703 | 15,799 | 2,028 | (5,613 ) | 16,917 |
| Total operating costs and expenses | 4,703 | 480,683 | 2,028 | (5,613 ) | 481,801 |
| Operating income (loss) | (1,278 ) | 44,540 | 160 | | 43,422 |
| Other (expense) income: | | | | | |
| Interest expense, net | (1083 ) | (4,065 ) | | | (5,148 ) |
| Equity in income of subsidiaries | 29,670 | 164 | | (29,834 ) | |
| Income before taxes | 27,309 | 40,639 | 160 | (29,834 ) | 38,274 |
| Provision for income taxes | (624 ) | 10,965 | | | 10,341 |
| Net income | $ 27,933 | $ 29,674 | $ 160 | $ (29,834 ) | $ 27,933 |

**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Statement of Income Information**
**Nine Months Ended September 30, 2006**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 9,342 | $ 1,746,320 | $ 14,758 | $ (24,100 ) | $ 1,746,320 |
| Operating costs and expenses: | | | | | |
| Cost of sales | | 1,511,876 | | | 1,511,876 |
| Selling, general and administrative expenses | 21,231 | 50,246 | 8,753 | (24,100 ) | 56,130 |
| Total operating costs and expenses | 21,231 | 1,562,122 | 8,753 | (24,100 ) | 1,568,006 |
| Operating income (loss) | (11,889 ) | 184,198 | 6,005 | | 178,314 |
| Other income (expense): | | | | | |
| Interest expense, net | (2,984 ) | (7,604 ) | | | (10,588 ) |
| Unrealized loss on derivative instruments | (15,846 ) | | | | (15,846 ) |
| Equity in income of subsidiaries | 115,094 | 6,005 | | (121,099 ) | |
| Income before taxes | 84,375 | 182,599 | 6,005 | (121,099 ) | 151,880 |
| Provision for income taxes | (11,356 ) | 67,504 | | | 56,148 |
| Net income | $ 95,731 | $ 115,095 | $ 6,005 | $ (121,099 ) | $ 95,732 |

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**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Statement of Income Information**
**Nine Months Ended September 30, 2005**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 9,065 | $ 1,754,794 | $ 8,453 | $ (17,518 ) | $ 1,754,794 |
| Operating costs and expenses: | | | | | |
| Cost of sales | | 1,577,036 | | | 1,577,036 |
| Selling, general and administrative expenses | 13,883 | 44,926 | 6,091 | (17,518 ) | 47,382 |
| Total operating costs and expenses | 13,833 | 1,621,962 | 6,091 | (17,518 ) | 1,624,418 |
| Operating income (loss) | (4,818 ) | 132,832 | 2,362 | | 130,376 |
| Other income (expense): | | | | | |
| Interest expense, net | (2,727 ) | (13,248 ) | | | (15,975 ) |
| Equity in income of subsidiaries | 81,913 | 2,373 | | (84,286 ) | |
| Income before taxes | 74,368 | 121,957 | 2,362 | (84,286 ) | 114,401 |
| Provision for income taxes | (2,477 ) | 40,033 | | | 37,556 |
| Net income | $ 76,845 | $ 81,924 | $ 2,362 | $ (84,286 ) | $ 76,845 |

**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Statement of Cash Flows Information**
**Nine Months Ended September 30, 2006**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income | $ 95,732 | $ 115,094 | $ 6,005 | $ (121,099 ) | $ 95,732 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 211 | 47,772 | 33 | | 48,016 |
| Unrealized loss on foreign exchange derivative instruments | 15,846 | | | | 15,846 |
| Deferred income taxes | | (12,745 ) | | | (12,745 ) |
| Tax deficiency related to stock plans | (194 ) | | | | (194 ) |
| Stock based compensation | 10,581 | | | | 10,581 |
| Equity in net income of subsidiaries | (115,094 ) | (6,005 ) | | 121,099 | |
| Change in operating assets, liabilities and other | 401 | 15,605 | (6,029 ) | | 9,977 |
| Net cash provided by operating activities | 7,483 | 159,721 | 9 | | 167,213 |
| Cash flows used in investing activities: | | | | | |
| Capital expenditures | | (47,497 ) | | | (47,497 ) |
| Cash flows from financing activities: | | | | | |
| Net change in revolving line of credit | | (115,300 ) | | | (115,300 ) |
| Proceeds from issuance of common stock | 365 | | | | 365 |
| Purchases and retirement of common stock | (1,032 ) | | | | (1,032 ) |
| Tax benefits from employee share-based exercises | 1,430 | | | | 1,430 |
| Dividends paid | (8,246 ) | | | | (8,246 ) |
| Net cash used in financing activities | (7,483 ) | (115,300 ) | | | (122,783 ) |
| Net change in cash and cash equivalents | | (3,076 ) | 9 | | (3,067 ) |
| Cash and cash equivalents at beginning of period | | 14,296 | 2 | | 14,298 |
| Cash and cash equivalents at end of period | $ | $ 11,220 | $ 11 | $ | $ 11,231 |

**Georgia Gulf Corporation and Subsidiaries**
**Supplemental Condensed Consolidating Statement of Cash Flows Information**
**Nine Months Ended September 30, 2005**
**(Unaudited)**

| (In thousands) | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income | $ 76,845 | $ 81,924 | $ 2,362 | $ (84,286) | $ 76,845 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 501 | 46,649 | 85 | | 47,235 |
| Deferred income taxes | | (14,914) | | | (14,914) |
| Tax benefit related to stock plans | 1,930 | | | | 1,930 |
| Stock based compensation | 2,795 | | | | 2,795 |
| Equity in net income of subsidiaries | (81,913) | (2,373) | | 84,286 | |
| Change in operating assets, liabilities and other | 6,985 | (66,565) | (2,447) | | (62,027) |
| Net cash provided by operating activities | 7,143 | 44,721 | | | 51,864 |
| Cash flows used in investing activities: | | | | | |
| Capital expenditures | | (19,041) | | | (19,041) |
| Cash flows from financing activities: | | | | | |
| Net change in revolving line of credit | | (37,800) | | | (37,800) |
| Proceeds from issuance of common stock | 2,724 | | | | 2,724 |
| Purchase and retirement of common stock | (1,682) | | | | (1,682) |
| Dividends paid | (8,185) | | | &#1 | |