GEORGIA GULF CORP /DE/
Form 10-Q
May 03, 2004

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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 March 31, 2004

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.)
400 Perimeter Center Terrace, Suite 595, Atlanta, Georgia (Address of principal executive offices)	**30346** (Zip Code)

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

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

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 April 27, 2004
Common Stock, $0.01 par value	33,002,770

GEORGIA GULF CORPORATION FORM 10-Q
QUARTERLY PERIOD ENDED MARCH 31, 2004
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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

GEORGIA GULF CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2004	December 31, 2003
ASSETS		
Cash and cash equivalents	$ 8,835	$ 1,965
Receivables, net of allowance for doubtful accounts of $4,450 in 2004 and 2003	146,737	86,914
Inventories	128,914	124,616
Prepaid expenses	6,520	7,043
Deferred income taxes	8,369	8,368
Total current assets	299,375	228,906
Property, plant and equipment, net	452,094	460,808
Goodwill	77,720	77,720
Other assets	89,801	89,351
Total assets	$ 918,990	$ 856,785
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$ 800	$ 1,000
Accounts payable	169,535	135,680
Interest payable	5,564	1,812
Income taxes payable	11,123	
Accrued compensation	8,806	15,058
Other accrued liabilities	9,439	9,614
Total current liabilities	205,267	163,164
Long-term debt	426,672	426,872
Deferred income taxes	122,495	122,617
Other non-current liabilities	10,116	7,693
Stockholders' equity	154,440	136,439
Total liabilities and stockholders' equity	$ 918,990	$ 856,785
Common shares outstanding	32,893	32,736

See accompanying notes to condensed consolidated financial statements.

GEORGIA GULF CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net sales	$ 496,687	$ 364,010
Operating costs and expenses:		
Cost of sales	445,787	342,826
Selling, general and administrative expenses	14,771	13,907
Total operating costs and expenses	460,558	356,733
Operating income	36,129	7,277
Interest expense, net	(6,268)	(9,892)
Income (loss) before income taxes	29,861	(2,615)
Provision (benefit) for (from) income taxes	11,123	(941)
Net income (loss)	$ 18,738	$ (1,674)
Earnings (loss) per share:		
Basic	$ 0.57	$ (0.05)
Diluted	$ 0.57	$ (0.05)
Weighted average common shares:		
Basic	32,609	32,210
Diluted	32,926	32,210

See accompanying notes to condensed consolidated financial statements.

GEORGIA GULF CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Cash flows from operating activities:		
Net income (loss)	$ 18,738	$ (1,674)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,772	16,193
Benefit from deferred income taxes	(122)	(857)
Tax benefit related to stock plans		179
Stock based compensation	1,296	300
Change in operating assets, liabilities and other	(21,105)	(37,279)
Net cash provided by (used in) operating activities	14,579	(23,138)
Cash flows used in investing activities:		
Capital expenditures	(5,480)	(5,122)
Cash flows from financing activities:		
Net change in revolving line of credit		26,850
Payments of long-term debt	(400)	(150)
Proceeds from issuance of common stock	1,206	8
Purchase and retirement of common stock	(406)	(96)
Dividends paid	(2,629)	(2,594)
Net cash (used in) provided by financing activities	(2,229)	24,018
Net change in cash and cash equivalents	6,870	(4,242)
Cash and cash equivalents at beginning of period	1,965	8,019
Cash and cash equivalents at end of period	$ 8,835	$ 3,777

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 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 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. Certain reclassifications of prior periods amounts have been made to conform to current period presentations. Our operating results for the period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

These financial statements should be read in conjunction with the audited financial statements and notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003. There have been no material changes in the accounting policies followed by us during fiscal year 2004.

NOTE 2: NEW ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Standards (SFAS) No. 132 "*Employers' Disclosures about Pensions and Other Postretirement Benefits*." This Statement retains the disclosures required by SFAS No. 132, which standardized the disclosure requirements for pensions and other postretirement benefits to the extent practicable and required additional information on changes in the benefit obligations and fair values of plan assets. Under revised SFAS No. 132, additional disclosures of the types of plan assets, investment strategy, measurement dates, plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods are required. This Statement is effective for financial statements with fiscal years ending after December 15, 2003. We have adopted revised SFAS No. 132 and included the additional disclosures in note 9 to our condensed consolidated financial statements.

NOTE 3: INVENTORIES

The major classes of inventories were as follows:

	March 31, 2004	December 31, 2003
	(In thousands)	
Raw materials and supplies	$ 50,099	$ 42,851
Finished goods	78,815	81,765
	$ 128,914	$ 124,616

NOTE 4: COMMITMENTS AND CONTINGENCIES

Legal Proceedings. We are a party to numerous individual and several class-action lawsuits filed against the company, 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. All of the actions claim one or more forms of compensable damages, including past and future wages, past and future physical and emotional pain and suffering. The lawsuits were originally filed in Louisiana state court in Iberville Parish.

In September 1998, the state court trial judge granted the plaintiffs' motion permitting the filing of amended petitions that added the additional allegations that we had engaged in intentional conduct against the plaintiffs. Amended petitions making such allegations were filed. Our two insurers notified us that they were reserving their rights to deny coverage to the extent liability could be established due to such intentional conduct in accordance with their insurance policies. We disputed the insurers' reservation of rights. In December 1998, as required by the terms of the insurance policies, each insurer demanded arbitration of the issue of the insurers' duties relating to the intentional conduct allegations. As a result of the arbitrations relating to the insurance issue, as permitted by federal statute, the insurers removed the cases to United States District Court in December 1998.

Following the above removal of these actions and unsuccessful attempts by plaintiffs to remand the cases, in 1999 we were able to settle the claims of all but two worker plaintiffs (and their collaterals) who had filed suit prior to removal. These settlements included the vast majority of those claimants believed to be the most seriously injured. No further legal proceedings are required relating to these settled cases. Negotiations regarding the remaining claims of the two worker plaintiffs are ongoing.

Following these settlements, we were sued by approximately 400 additional plaintiff workers (and their collaterals) who claim that they were injured as a result of the incident. In 2001 after negotiation, including a mediation, we reached an agreement for the settlement of these additional claims. This settlement, which is on a class basis, will resolve the claims of all workers who claim to have been exposed and injured as a result of the incident other than those workers who opt out of the class settlement. We are aware of two worker plaintiffs and several collaterals who have filed suit in state court who have opted not to participate in the class settlement, as well as the two worker plaintiffs whose claims are pending in federal court (see discussion above). Based on the present status of the proceedings, we believe the liability ultimately imposed on us will not have a material effect on our financial position or results of operations.

Many of the workers injured in this accident were employed by contractors we hired to perform various services on our site. Under the contracts for services, the contractors agreed to hold us harmless and indemnify us for amounts we were required to pay for personal injuries to their workers. During the course of this litigation, we had made demands for the contractors to reimburse us for damage amounts we had paid to their employees. In August 2003, we recovered $3.1 million as reimbursement for amounts paid by us to one contractor's employees. We continue to pursue additional repayments from other contractors, but we do not believe any future recoveries will be material.

We are currently negotiating with the Louisiana Department of Environmental Quality to reach a global settlement that combines several pending enforcement matters relating to the operation of its production facilities in Lake Charles and Plaquemine, Louisiana. These proceedings allege violations due to unauthorized episodic releases, exceedences of permitted emission rates, exceedences of authorized emissions limitations, and allege violation of leak detection and repair requirements. We believe that if a global settlement is reached, the total penalty for the pending matters described above, when grouped together, will exceed $100,000, but will not have a material effect on our financial position or on our results of operations.

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 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 United States Environmental Protection Agency 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. See our annual report on

Form 10-K for the year ended December 31, 2003 for further information regarding our environmental issues.

At our Lake Charles vinyl chloride monomer facility, the former owner CONDEA Vista Company (now Sasol North America, Inc.) 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. During April 2004 as part of our ongoing assessment of our environmental contingencies, we determined these remediation costs to be probable and estimatable and therefore recorded a $2.7 million accrual to other non-current liabilities and a charge to cost of sales.

NOTE 5: STOCK-BASED COMPENSATION

Restricted Stock Awards. For the three months ended March 31, 2004 and 2003 we granted restricted stock awards for 108,542 and 117,000 shares, respectively, of our common stock to key employees of the company. The grant date fair value per share of restricted stock granted during the first three months of 2004 and 2003 was $27.11 and $18.85, respectively. The restricted shares vest over a three-year period. Compensation expense, net of tax, for the first quarter of 2004 and 2003 related to the vesting of all restricted stock awards was approximately $0.4 million and $0.2 million, respectively. The unamortized costs of all unvested restricted stock awards of approximately $4.9 million at March 31, 2004 are included in stockholders' equity and are being amortized on a straight-line basis over the three-year vesting period.

Stock Options. For the three months ended March 31, 2004 and 2003 we granted stock options for 326,533 and 329,500 shares, respectively, of our common stock to key employees of the company. The exercise price of stock options granted during the first three months of 2004 and 2003 was $27.21 and $19.04, respectively. 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. No compensation expense is recognized for our stock option plans.

Pro Forma Effect of Stock Compensation Plans. We account for our stock-based compensation plans in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and comply with SFAS No. 123, "Accounting for Stock-Based Compensation," for disclosure purposes. Under these provisions, no compensation has been recognized for our stock option plans or our stock purchase plan. For SFAS No. 123 purposes, the fair value of each stock option and stock purchase right for 2004 and 2003 has been estimated as of the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions for 2004 and 2003, respectively.

	Stock purchase plan rights		**Stock option grants**	
	Three months ended March 31,		**Three months ended March 31,**	
	2004	**2003**	**2004**	**2003**
Risk-free interest rate	1.29%	1.38%	4.00%	3.65%
Expected life	1 year	1 year	8 years	8 years
Expected volatility	29%	44%	40%	44%
Expected dividend yield	1.11%	1.34%	1.18%	1.70%

Using the above assumptions, additional compensation expense under the fair value method would be:

	Three months ended March 31, 2004	Three months ended March 31, 2003
	(In thousands)	
For stock option grants	$ 738	$ 673
For stock purchase plan rights	192	306
Total	930	979
Provision for income taxes	353	372
Total, net of taxes	$ 577	$ 607

Had compensation expense been determined consistently with SFAS No. 123, utilizing the assumptions previously detailed, our net income and earnings per common share would have been the following pro forma amounts:

	Three months ended March 31, 2004	Three months ended March 31, 2003
	(In thousands, except per share data)	
Net income (loss)		
As reported	$ 18,738	$ (1,674)
Pro forma	18,161	(2,281)
Basic earnings (loss) per share:		
As reported	$ .57	$ (0.05)
Pro forma	.56	(0.07)
Diluted earnings (loss) per share:		
As reported	$ .57	$ (0.05)
Pro forma	.55	(0.07)

NOTE 6: SEGMENT INFORMATION

We have identified 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 general plant services, and provision (benefit) for income taxes. Intersegment sales and transfers are insignificant.

	Three months ended March 31, 2004	Three months ended March 31, 2003
	(In thousands)	
Segment net sales:		
Chlorovinyls	$ 350,670	$ 304,422
Aromatics	146,017	59,588
Net sales	$ 496,687	$ 364,010
Segment operating income (loss):		
Chlorovinyls	$ 38,320	$ 14,457
Aromatics	3,806	(1,770)
Corporate and general plant services	(5,997)	(5,410)
Total operating income	$ 36,129	$ 7,277

NOTE 7: 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 March 31, 2004	Three months ended March 31, 2003
	(In thousands)	
Weighted average common shares basic	32,609	32,210
Plus incremental shares from assumed conversions:		
Options and awards	303	
Employee stock purchase plan rights	14	
Weighted average common shares diluted	32,926	32,210

NOTE 8: COMPREHENSIVE INCOME (LOSS) INFORMATION

The components and ending balance of accumulated other comprehensive income (loss) are shown as follows:

Accumulated other comprehensive loss net of tax

	March 31, 2004	December 31, 2003

	(In thousands)	
Unrealized gains on derivative contract, net of tax of $122	$	$ 204
Additional minimum pension liability, net of tax of $268	(478)	(478)
Total accumulated other comprehensive loss	$ (478)	$ (274)

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Total comprehensive income (loss)

	Three months ended March 31, 2004	Three months ended March 31, 2003
	(In thousands)	
Net income (loss)	$ 18,738	$ (1,674)
Other comprehensive income		
Total comprehensive income (loss)	$ 18,738	$ (1,674)

NOTE 9: EMPLOYEE RETIREMENT PLANS

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

	Three months ended March 31, 2004	Three months ended March 31, 2003
	(In thousands)	
Service cost	$ 767	$ 676
Interest cost	1,211	1,035
Expected return on plan assets	(1,385)	(1,129)
Amortization of:		
Transition obligation	56	56
Prior service cost	83	20
Net loss	1	105
Net periodic benefit cost	$ 733	$ 763

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

	Three months ended March 31, 2004	Three months ended March 31, 2003
Discount rate	6.25%	6.75%
Expected return on assets	8.75%	8.75%
Rate of compensation increase	4.31%	6.15%

We disclosed in our financial statements for the year ended December 31, 2003 an expected contribution for all pension plans during 2004 of $1.2 million to the plan trust and $0.6 million in the form of direct benefit payments. During the current period, we have made no contributions to the pension plans.

NOTE 10: SUPPLEMENTAL GUARANTOR INFORMATION

Our payment obligations under our 7.125 percent senior subordinated notes are guaranteed by GG Terminal Management Corporation, 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. 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").

On November 12, 1999, we essentially became a holding company by transferring our operating assets and employees to our wholly owned subsidiary Georgia Gulf Chemicals & Vinyls, LLC. Provisions in our senior 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
March 31, 2004
(In thousands)
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$	$ 8,823	$ 12	$	$ 8,835
Receivables, net	167,810	13,033	141,878	(175,984)	146,737
Inventories		128,914			128,914
Prepaid expenses		6,495	25		6,520
Deferred income taxes		8,369			8,369
Total current assets	167,810	165,634	141,915	(175,984)	299,375
Property, plant and equipment, net	119	451,975			452,094
Goodwill		77,720			77,720
Other assets	15,665	74,136			89,801
Investment in subsidiaries	223,215	105,319		(328,534)	
Total assets	$ 406,809	$ 874,784	$ 141,915	$ (504,518)	$ 918,990
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	$	$ 800	$	$	$ 800
Accounts payable	11,520	297,415	36,584	(175,984)	169,535
Interest payable	5,561	3			5,564
Accrued income taxes		11,123			11,123
Accrued compensation		8,806			8,806
Other accrued liabilities		9,439			9,439
Total current liabilities	17,081	327,586	36,584	(175,984)	205,267
Long-term debt, net of current portion	227,872	198,800			426,672
Deferred income taxes		122,495			122,495
Other non-current liabilities	7,416	2,700			