

Edgar Filing: Solera National Bancorp, Inc. - Form 8-K

Solera National Bancorp, Inc.
Form 8-K
July 18, 2014

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: July 18, 2014 (July 14, 2014)
(Date of earliest event reported)

Solera National Bancorp, Inc.
(Exact name of registrant as specified in its charter)

| | | |
|---|---------------------------------------|---|
| Delaware (State or other jurisdiction of incorporation) | 000-53181 (Commission File Number) | 02-0774841 (IRS Employer Identification No.) |
|---|---------------------------------------|---|

319 S. Sheridan Blvd.
Lakewood, Colorado 80226
(Address of principal executive offices) (Zip Code)

(303) 209-8600
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)).

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)).

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers; Compensatory Arrangements of Certain Officers.

Departure of Chief Executive Officer and Chief Credit Officer

On July 14, 2014, John Carmichael was terminated as an at-will employee and for cause. As such, he no longer serves as President and Chief Executive Officer of either Solera National Bancorp, Inc. (the "Company") or its bank, Solera National Bank (the "Bank"). On July 15, 2014, Andrew Seaton resigned from his position as Senior Vice President and Chief Credit Officer of Solera National Bank.

Appointment of Interim Chief Executive Officer

Effective July 15, 2014, the Board appointed Robert J. Fenton to serve as the Company's and Bank's President and Chief Executive Officer. Mr. Fenton is expected to be appointed to the Board of Directors.

Mr. Fenton most recently served as the Bank's Executive Vice President and Chief Financial Officer from its opening in September 2007 until March 2014. He will receive a \$2,308 weekly salary and participation in standard employee benefits for his service as President and Chief Executive Officer.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SOLERA NATIONAL BANCORP, INC.

Dated: July 18, 2014

By: /s/ Robert J. Fenton
Name: Robert J. Fenton
Title: President and Chief Executive Officer

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195,628

Prepaid expenses and other

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

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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

19

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Income
Three Months Ended March 31, 2006
(Unaudited)

| In thousands | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales | \$ 3,322 | \$ 567,873 | \$ 4,417 | \$ (7,739) | \$ 567,873 |
| Operating costs and expenses: | | | | | |
| Cost of sales | | 488,885 | | | 488,885 |
| Selling, general and administrative expenses | 8,935 | 16,429 | 2,588 | (7,739) | 20,213 |
| Total operating costs and expenses | 8,935 | 505,314 | 2,588 | (7,739) | 509,098 |
| Operating income (loss) | (5,613) | 62,559 | 1,829 | | 58,775 |
| Other (expense) income: | | | | | |
| Interest expense, net | (1,052) | (3,285) | | | (4,337) |
| Equity in income of subsidiaries | 37,804 | 1,830 | | (39,634) | |
| Income before taxes | 31,139 | 61,104 | 1,829 | (39,634) | 54,438 |
| Provision (benefit) for (from) income taxes | (2,542) | 23,299 | | | 20,757 |
| Net income | \$ 33,681 | \$ 37,805 | \$ 1,829 | \$ (39,634) | \$ 33,681 |

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Income
Three Months Ended March 31, 2005
(Unaudited)

| In thousands | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales | \$ 2,699 | \$ 645,409 | \$ 2,890 | \$ (5,589) | \$ 645,409 |
| Operating costs and expenses: | | | | | |
| Cost of sales | | 563,099 | | | 563,099 |
| Selling, general and administrative expenses | 4,971 | 14,592 | 1,876 | (5,589) | 15,850 |
| Total operating costs and expenses | 4,971 | 577,691 | 1,876 | (5,589) | 578,949 |
| Operating income (loss) | (2,272) | 67,718 | 1,014 | | 66,460 |
| Other (expense) income: | | | | | |
| Interest expense, net | (710) | (4,737) | | | (5,447) |
| Equity in income of subsidiaries | 40,637 | 1,017 | | (41,654) | |
| Income before taxes | 37,655 | 63,998 | 1,014 | (41,654) | 61,013 |
| Provision (benefit) for (from) income taxes | (1,088) | 23,358 | | | 22,270 |
| Net income | \$ 38,743 | \$ 40,640 | \$ 1,014 | \$ (41,654) | \$ 38,743 |

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2006
(Unaudited)

| In thousands | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | | | |
| Net income | \$ 33,681 | \$ 37,805 | \$ 1,829 | \$ (39,634) | \$ 33,681 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 69 | 15,809 | 11 | | 15,889 |
| Deferred income taxes | | (4,209) | | | (4,209) |
| Tax (deficiency) benefit related to stock plans | (302) | | | | (302) |
| Stock based compensation | 5,571 | | | | 5,571 |
| Equity in net income of subsidiaries | (37,804) | (1,830) | | 39,634 | |
| Change in operating assets, liabilities and other | 1,134 | 17,506 | (1,830) | | 16,810 |
| Net cash provided by (used in) operating activities | 2,349 | 65,081 | 10 | | 67,440 |
| Cash flows used in investing activities: | | | | | |
| Capital expenditures | | (11,963) | | | (11,963) |
| Cash flows from financing activities: | | | | | |
| Net change in revolving line of credit | | (54,300) | | | (54,300) |
| Proceeds from issuance of common stock | 10 | | | | 10 |
| Purchase and retirement of common stock | (1,032) | | | | (1,032) |
| Tax benefits from employee share-based exercises | 1,421 | | | | 1,421 |
| Dividends paid | (2,748) | | | | (2,748) |
| Net cash (used in) provided by financing activities | (2,349) | (54,300) | | | (56,649) |
| Net change in cash and cash equivalents | | (1,182) | 10 | | (1,172) |
| Cash and cash equivalents at beginning of period | | 14,296 | 2 | | 14,298 |
| Cash and cash equivalents at end of period | \$ | \$ 13,114 | \$ 12 | \$ | \$ 13,126 |

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2005
(Unaudited)

| In thousands | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-------------------|---------------------------|-------------------------------|--------------|--------------|
| Cash flows from operating activities: | | | | | |
| Net income | \$ 38,743 | \$ 40,640 | \$ 1,014 | \$ (41,654) | \$ 38,743 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | | | |
| Depreciation and amortization | 166 | 15,483 | 29 | | 15,678 |
| Deferred income taxes | | (2,372) | | | (2,372) |
| Tax (deficiency) benefit related to stock plans | 1,353 | | | | 1,353 |
| Stock based compensation | 816 | | | | 816 |
| Equity in net income of subsidiaries | (40,637) | (1,017) | | 41,654 | |
| Change in operating assets, liabilities and other | 1,287 | (81,284) | (1,039) | | (81,036) |
| Net cash (used in) provided by operating activities | 1,728 | (28,550) | 4 | | (26,818) |
| Cash flows used in investing activities: | | | | | |
| Capital expenditures | | (5,706) | | | (5,706) |
| Cash flows from financing activities: | | | | | |
| Net change in revolving line of credit | | 15,900 | | | 15,900 |
| Proceeds from issuance of common stock | 2,410 | | | | 2,410 |
| Purchase and retirement of common stock | (1,410) | | | | (1,410) |
| Dividends paid | (2,728) | | | | (2,728) |
| Net cash provided by (used in) financing activities | (1,728) | 15,900 | | | 14,172 |
| Net change in cash and cash equivalents | | (18,356) | 4 | | (18,352) |
| Cash and cash equivalents at beginning of period | | 21,082 | 6 | | 21,088 |
| Cash and cash equivalents at end of period | \$ | \$ 2,726 | \$ 10 | \$ | \$ 2,736 |

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are a leading North American manufacturer and an international marketer of two integrated chemical product lines categorized into two operating segments, chlorovinyls and aromatics chemicals. Our primary chlorovinyls products include chlorine, caustic soda, vinyl chloride monomer (VCM), vinyl resins and vinyl compounds; our primary aromatic products include cumene, phenol and acetone. Most of our products are used by customers as raw materials to manufacture a diverse range of products, which serve numerous consumer markets for durable and non-durable goods and construction.

Results of Operations

The following table sets forth our condensed consolidated statement of income data for the periods ended March 31, 2006 and 2005, and the percentage of net sales of each line item for the periods presented.

| Dollars in millions | Three months ended | | March 31, 2005 | |
|--|--------------------|---------|----------------|---------|
| | March 31, 2006 | | | |
| Net sales | \$ 567.9 | 100.0 % | \$ 645.4 | 100.0 % |
| Cost of sales | 488.9 | 86.1 % | 563.1 | 87.2 % |
| Gross margin | 79.0 | 13.9 % | 82.3 | 12.8 % |
| Selling, general and administrative expenses | 20.2 | 3.5 % | 15.8 | 2.5 % |
| Operating income | 58.8 | 10.4 % | 66.5 | 10.3 % |
| Net interest expense | 4.3 | 0.8 % | 5.5 | 0.8 % |
| Provision for income taxes | 20.8 | 3.7 % | 22.3 | 3.5 % |
| Net income | \$ 33.7 | 5.9 % | \$ 38.7 | 6.0 % |

The following table sets forth certain financial data by segment for the periods ended March 31, 2006 and 2005, and the percentage of total of each line item for the periods presented.

| Dollars in millions | Three months ended | | March 31, 2005 | |
|---------------------|--------------------|---------|----------------|---------|
| | March 31, 2006 | | | |
| Net sales | | | | |
| Chlorovinyls | \$ 441.6 | 77.8 % | \$ 397.1 | 61.5 % |
| Aromatics | 126.3 | 22.2 % | 248.3 | 38.5 % |
| Total net sales | \$ 567.9 | 100.0 % | \$ 645.4 | 100.0 % |
| Gross margin | | | | |
| Chlorovinyls | \$ 82.7 | 104.7 % | \$ 66.7 | 81.0 % |
| Aromatics | (3.7) | (4.7)% | 15.6 | 19.0 % |
| Total gross margin | \$ 79.0 | 100.0 % | \$ 82.3 | 100.0 % |

Three Months Ended March 31, 2006 Compared With Three Months Ended March 31, 2005

Net Sales. For the three months ended March 31, 2006, net sales were \$567.9 million, a decrease of 12 percent compared to \$645.4 million for the same quarter last year primarily as a result of a 15 percent decrease in overall sales volumes. Our overall sales volume decrease from the same period last year is mainly attributable to a decrease in demand for our aromatics products as a result of increased global phenol capacity coming on line during 2005 and lower cumene spot sales. Our overall average sales price increase of 3 percent is primarily a result of increases in the prices of caustic soda and vinyl resins and compounds.

Chlorovinyls segment net sales totaled \$441.6 million for the three months ended March 31, 2006, an increase of 11 percent compared to net sales of \$397.1 million for the same quarter last year. Our overall average sales price increased by 13 percent, primarily as a result of increases in the prices of caustic soda of 48 percent, vinyl resins of 12 percent and vinyl compounds of 20 percent. The vinyl resins and compounds price increases reflect higher prices for the feedstock ethylene. Our overall chlorovinyls sales volumes were down 2 percent from the first quarter of 2005 due to our customers more tightly managing their inventories.

Aromatics segment net sales were \$126.3 million for the quarter ended March 31, 2006, a decrease of 49 percent compared to \$248.3 million for the first quarter of 2005. This decrease was primarily due to a decrease in our overall aromatics sales volumes of 41 percent as a result of cumene and phenol sales volume decreases of 58 percent and 14 percent, respectively. These decreases were due primarily to a 33 percent decrease in our phenol export sales volumes from the same quarter last year as a result of increased global phenol capacity during 2005 and a 91 percent decrease in our cumene export sales volume as a result of lower spot sales due to increased cumene capacity. The North American cumene, phenol and acetone industry operating rates were all in the mid to upper seventy percentiles for the first quarter of 2006, or down about 15 percent from the same quarter in 2005. Our overall average selling price decreased as a result of decreases in the prices of cumene of 14 percent, phenol of 15 percent and acetone of 18 percent. These sales price decreases reflect lower prices for the feedstock benzene and low industry operating rates.

Gross Margin. Total gross margin increased from 13 percent of sales for the three months ended March 31, 2005, to 14 percent of sales for the three months ended March 31, 2006. Gross margin remained relatively flat as higher sales prices offset higher raw materials and energy costs and lower sales and production volumes. Some of our primary raw materials and natural gas costs in both segments normally track crude oil and natural gas industry prices. Crude oil and natural gas industry prices experienced increases of 27 percent and 35 percent, respectively, from the first quarter of 2005 to the first quarter of 2006.

Chlorovinyls segment gross margin increased from 17 percent of sales for the three months ended March 31, 2005, to 19 percent of sales for the three months ended March 31, 2006. This \$16.4 million increase primarily reflects increases in the sales prices of all our chlorovinyls products outpacing increases in raw materials prices and lower overall sales and production volumes. Our overall raw materials and natural gas prices increased 17 percent compared to the first quarter of 2005.

Aromatics segment gross margin decreased from 6 percent of sales for the three months ended March 31, 2005, to a negative 3 percent of sales for the three months ended March 31, 2006. This \$19.3 million decrease from the same three months last year is due primarily to lower sales prices and volumes in all products and higher energy prices outpacing lower benzene prices. Our aromatics operating rate decreased from about 89 percent for the first quarter of 2005 to about 52 percent for the same period in 2006 due primarily to increased global phenol capacity during 2005 and lower cumene spot sales due to increased cumene capacity.

Selling, General and Administrative Expenses. Selling, general and administrative expenses totaled \$20.2 million for the three months ended March 31, 2006, an increase of \$4.4 million from \$15.8 million for the three months ended March 31, 2005. This increase was largely due to an increase in share-based compensation expense of \$4.4 million primarily as a result of the adoption of a new accounting pronouncement requiring all share-based payments to employees to be recognized in the financial statements based on their fair values and an increase in the discount on sale of an interest in our trade receivables of \$0.7 million due to an increase in the commercial paper rate in the three months ended March 31, 2006, as compared to the same period in 2005. The increases in selling, general and administrative expenses were partially offset by a decrease in legal and professional fees of \$0.4 million and

a decline in profit share incentive of \$0.5 million. Chlorovinyls and aromatics segment selling, general and administrative expenses remained relatively flat compared to the same period last year.

Net Interest Expense. Net interest expense decreased to \$4.3 million for the three months ended March 31, 2006, from \$5.5 million for the three months ended March 31, 2005. This decrease was attributable to lower overall debt balances during the first quarter of 2006 compared to the same quarter last year.

Provision for Income Taxes. The provision for income taxes was \$20.8 million for the three months ended March 31, 2006, compared with \$22.3 million for the three months ended March 31, 2005. The decrease in income taxes primarily resulted from a \$6.6 million decrease in pre-tax income. In addition, our overall effective income tax rate increased from 37 percent during the first quarter of last year to 38 percent for the same period in 2006 due to the phase out of the extraterritorial income tax deduction and other tax law changes.

Liquidity and Capital Resources

Our financial condition for the three months ended March 31, 2006 continued to improve as total debt was reduced \$54.3 million by cash provided from operations.

Operating Activities. For the three months ended March 31, 2006, we generated \$67.4 million of cash flow from operating activities as compared with \$26.8 million of cash used for the three months ended March 31, 2005. The increase in cash flow from operations of \$94.2 million from the first three months of 2005 to the first three months of 2006 is due primarily to a \$79.0 million advance payment for a long-term raw materials supply contract in the first quarter of 2005 and an increase of \$22.0 million in the interest sold in our trade receivables in the first quarter of 2006 as a result of an increase in eligible receivables under our securitization program. These increases in cash flows from operations were offset partially by a \$15.1 million increase in trade receivables in 2006. The major sources of cash flow for the first three months of 2006 were net income of \$33.7 million, the \$22.0 million increase in the interest sold in our trade receivables and the non-cash provision of \$15.9 million for depreciation and amortization. Total working capital at March 31, 2006, was a surplus of \$74.4 million versus a surplus of \$62.3 million at December 31, 2005. Significant changes in working capital for the first three months of 2006 included an increase in accounts receivable and a decrease in trade payables. The increase in accounts receivable was due mainly to higher sales volumes. The decrease in trade payables was primarily due to a decrease in raw material prices in chlorovinyls as well as a decrease in our overall natural gas price. The accounts payable decrease was mostly offset by an increase in our income taxes payable balance of \$13.1 million.

Investing Activities. Net cash used in investing activities was \$12.0 million for the three months ended March 31, 2006, as compared to \$5.7 million for the same period last year. The increase 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 increase our vinyl resin capacity by approximately 450 million pounds in early 2008.

Financing Activities. Cash used in financing activities was \$56.6 million for the three months ended March 31, 2006, as compared to \$14.2 million of cash provided by financing activities for the same period last year. The change during the first three months of 2006 compared to the same period in 2005 was primarily due to reducing total debt by \$54.3 million in 2006 and increasing it by \$15.9 million in 2005. In 2006, we reduced debt through the use of cash provided by operations of \$32.3 million and by increasing the interest sold in our trade receivables by \$22.0 million.

On March 31, 2006, our balance sheet debt consisted of a \$95.0 million senior secured revolving credit facility, which matures on November 21, 2009; \$100.0 million principal amount of 7.125 percent senior unsecured notes, which are due December 15, 2013; and \$29.3 million in other debt. Under our revolving

credit facility, we have a maximum borrowing capacity of \$240.0 million. At March 31, 2006, our unused revolving credit facility totaled \$138.4 million, net of outstanding letters of credit for \$6.6 million and current borrowings of \$95.0 million. Over the next twelve months, assuming adequate cash flows, we expect to pay off \$30.0 million of our revolving credit facility of \$95.0 million, and therefore, we have classified this debt as current.

Under our 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. Our ability to meet these covenants, satisfy our debt obligations and pay principal and interest on our debt, fund working capital, and make anticipated capital expenditures will depend on our future performance, which is subject to general macroeconomic conditions and other factors, some of which are beyond our control. Management believes that based on current and projected levels of operations and conditions in our markets, cash flow from operations, together with our cash and cash equivalents of \$13.1 million and the availability to borrow an additional \$138.4 million under the revolving credit facility at March 31, 2006, will be adequate for the foreseeable future to make required payments of principal and interest on our debt, meet certain restrictive covenants that require us to maintain certain financial ratios, and fund our working capital and capital expenditure requirements. However, if our expectations regarding our business prove incorrect, we may not be able to meet certain restrictive covenants and maintain compliance with certain financial ratios. In that event, we would attempt to obtain waivers or covenant relief from our lenders. Although we have successfully negotiated covenant relief in the past, there can be no assurance we can do so in the future. As of and for the three months ended March 31, 2006, we were in compliance with all such covenants.

During the first three months of 2006 and 2005, we paid quarterly dividends of \$0.08 per share, or \$2.7 million in both quarters.

We conduct our business operations through our wholly owned subsidiaries as reflected in the consolidated financial statements. As we are essentially a holding company, we must rely on distributions, loans and other intercompany cash flows from our wholly owned subsidiaries to generate the funds necessary to satisfy the repayment of our existing debt. Provisions in the senior credit facility and the indenture related to the 7.125 percent notes limit payments of dividends, distributions, loans or advances to us by our subsidiaries.

Off-Balance Sheet Arrangement. 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 a third party (the *Securitization*). Our *Securitization* provides one of our cheapest sources of funds and enables us to reduce our annual interest expense. The funded balance has the effect of reducing accounts receivable and short-term liabilities by the same amount. As collections reduce accounts receivable included in the pool, we sell ownership interests in new receivables to bring the ownership interests sold up to \$165.0 million, as permitted by the *Securitization*. The balance in the interest of receivables sold at March 31, 2006, and December 31, 2005, was \$163.0 million and \$141.0 million, respectively. We used the \$22.0 million in proceeds to pay down our revolving credit facility.

Continued availability of the *Securitization* is conditioned upon compliance with covenants, related primarily to operation of the *Securitization* as set forth in the related agreements. As of March 31, 2006, we were in compliance with all such covenants. If the *Securitization* agreement was terminated, we would not be required to repurchase previously sold receivables, but would be prevented from selling additional receivables to the third party. In the event that the *Securitization* agreement was terminated, we would have to source these funding requirements with availability under our senior credit facility or obtain alternative financing.

Contractual Obligations. Our aggregate future payments under contractual obligations by category at March 31, 2006, were as follows:

| In Millions | Total | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 and thereafter |
|---------------------------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------------|
| Contractual obligations: | | | | | | | |
| Long-term debt obligations | \$ 311 | \$ 12 | \$ 14 | \$ 14 | \$ 125 | \$ 7 | \$ 139 |
| Operating lease obligations | 75 | 16 | 17 | 13 | 10 | 6 | 13 |
| Purchase obligations | 4,709 | 631 | 745 | 727 | 628 | 454 | 1,524 |
| Asset retirement obligations | 11 | | | | | | 11 |
| Other | 1 | 1 | | | | | |
| Total | \$ 5,107 | \$ 660 | \$ 776 | \$ 754 | \$ 763 | \$ 467 | \$ 1,687 |

(1)

Long-Term Debt. Includes principal and interest payments based upon our interest rates as of March 31, 2006. Long-term debt obligations are listed based on when they are contractually due. Therefore, the \$95.0 million balance on our revolving credit facility is included in 2009.

Operating Leases. We lease railcars, storage terminals, computer equipment, automobiles and warehouse and office space under non-cancelable operating leases with varying maturities through the year 2014. We did not have any capital lease obligations as of March 31, 2006.

Purchase Obligations. The purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms. We have certain long-term raw material supply contracts and energy purchase agreements with various terms extending through 2014. These commitments are designed to assure sources of supply for our normal requirements. Amounts are based upon contractual raw material volumes and market rates as of March 31, 2006.

Asset Retirement Obligations. We have acquired certain assets that are subject to certain legal obligations upon asset retirement (i.e. removal of hazardous waste, demolition, etc.). We estimate the asset retirement obligations by capitalizing the present value of such obligations based on a credit-adjusted risk-free rate, recording an equivalent liability, and depreciating the asset and accreting the liability over the estimable life of the obligation.

Outlook

The second quarter has traditionally been one of our stronger quarters due to the spring building season. Based on current chemical industry forecasts, we believe we will have increased overall sales and earnings in the second quarter of 2006 as compared to the same quarter last year due primarily to anticipated continued strong industry supply and demand fundamentals in our chlorovinyls segment. In addition, we experienced planned and unplanned outages in our chloralkali plant during the second quarter of last year. Chemical Data, Inc. (CDI) is currently projecting the second quarter North American industry operating rates for vinyl resins, our primary business in this segment, to increase from 93 percent in the second quarter of 2005 to 95 percent in the second quarter of 2006. Based on the forecasted operating rates, we believe we will be able to increase sales prices and recover increased costs for feedstocks and energy.

As for our aromatics business, we expect only modest improvements, as this segment will continue to be negatively impacted by the 2005 start-up of additional global phenol capacity. CDI projects North American industry operating rates for phenol and acetone to decrease from about 84 percent in the second quarter of 2005 to an average of about 80 percent for the same period in 2006, which includes announced incremental capacity additions. CDI projects cumene North American industry operating rates to decrease

to 80 percent largely due to the January 2006 restart of a one billion pound cumene facility that represents about 11 percent of the North American capacity.

With regard to feedstock costs, Chemical Market Associates, Inc. forecasts crude oil to increase about 21 percent and natural gas prices to remain flat, from the second quarter of 2005 to 2006. This would adversely impact the cost of most of our raw materials, including ethylene, benzene and propylene, which are derivatives of crude oil and natural gas.

Forward-Looking Statements

This Form 10-Q and other communications to stockholders may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, our outlook for future periods, supply and demand, pricing trends and market forces within the chemical industry, cost reduction strategies and their results, planned capital expenditures, long-term objectives of management and other statements of expectations concerning matters that are not historical facts. Predictions of future results contain a measure of uncertainty and, accordingly, actual results could differ materially due to various factors. Factors that could change forward-looking statements are, among others:

- changes in the general economy;
- changes in demand for our products or increases in overall industry capacity that could affect production volumes and/or pricing;
- changes and/or seasonality and cyclicity in the industries to which our products are sold;
- availability and pricing of raw materials;
- technological changes affecting production;
- difficulty in plant operations and product transportation;
- governmental and environmental regulations; and
- other unforeseen circumstances.

A number of these factors are discussed in this Form 10-Q and in our other periodic filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2005.

Critical Accounting Policies

We have adopted a new accounting policy in addition to those critical accounting policies listed in Part II. Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005.

Stock-Based Compensation Expense for 2006 and Thereafter. Effective January 1, 2006 we adopted SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS 123R. SFAS 123R requires all share-based payments to employees and non-employee directors, including grants of stock options, restricted and deferred stock units, restricted stock and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payment awards. The Black-Scholes model meets the requirements of SFAS 123R; however, the fair values generated by the model may not be indicative of the actual fair values of our awards as it does not consider certain factors important to our awards, such as continued employment, periodic vesting requirements and limited transferability. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of

assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. 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 fair value of our restricted and deferred stock units and restricted stock is based on the fair market value of our stock on the date of grant. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized in our financial statements in 2006 and thereafter is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value our awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions. Had we adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on our results of operations would have approximated the impact of SFAS 123 assuming the application of the Black-Scholes option pricing model as described in the disclosure of pro forma net income and pro forma net income per share in Notes 9 of our Notes to Unaudited Condensed Consolidated Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of certain market risks related to Georgia Gulf, see Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no significant developments with respect to our exposure to market risk.

Item 4. CONTROLS AND PROCEDURES

Enterprise Resource Planning System (ERP)

We are in the process of implementing phase I of a multiple phase implementation of a new ERP information system throughout our wholly owned subsidiaries. Implementing a new ERP system results in changes to business processes and related internal controls. We believe that we are adequately controlling the transition to the new processes and controls such that we do not expect any material adverse impact to our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including the our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2006, to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes, including the changes for the new ERP system noted above, in our internal control over financial reporting during our fiscal quarter ended March 31, 2006, that have materially affected, or are reasonably likely to materially affect, the our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are involved in certain other legal proceedings that are described in our Annual Report on Form 10-K for the year ended December 31, 2005. During the three months ended March 31, 2006, there were no material developments in the status of these proceedings.

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.

Item 1A. Risk Factors

In addition to those risk factors listed in Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005, we are highly dependent on our information systems infrastructure in order to process orders, track inventory, ship products in a timely manner, prepare invoices to our customers and otherwise carry on our business in the ordinary course. Key to the success of our strategy to drive greater productivity and cost savings was the implementation of phase I in the first quarter of 2006 of a multiple phase implementation of a new ERP information system. If we experience significant problems with the implementation of this system, the resulting disruption could adversely affect our business, sales, results of operations and financial condition. The transition to our new ERP system involves numerous risks, including:

- difficulties in integrating the system with our current operations;
- potential delay in the processing of customer orders for shipment of products;
- diversion of management's attention away from normal daily business operations;
- increased demand on our operations support personnel;
- initial dependence on an unfamiliar system while training personnel in its use; and
- increased operating expenses resulting from training, conversion and transition support activities.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding repurchases by Georgia Gulf Corporation of shares of its common stock on a monthly basis during the quarter ended March 31, 2006.

Issuer Purchases of Equity Securities(1)

| Period | Total Number of Shares Purchased | Average Price Paid per Share |
|--------------------------------|-------------------------------------|---------------------------------|
| January 1 - January 31, 2006 | | \$ |
| February 1 - February 28, 2006 | 11,630 | 28.70 |
| March 1 - March 31, 2006 | 23,827 | 29.29 |
| Total | 35,457 | \$ 29.10 |

(1) Georgia Gulf did not repurchase any of its equity securities during the period covered by this report pursuant to any publicly announced plan or program, and no such plan or program is presently in effect. All purchases reflected in the table above reflect acquisitions of common stock in connection with the transfer of common stock to Georgia Gulf by employees in satisfaction of tax withholding obligations upon vesting of restricted stock awards.

Item 6. EXHIBITS

Exhibits

- 31 Rule 13a-14(a)/15d-14(a) Certifications.
- 32 Section 1350 Certifications.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GEORGIA GULF CORPORATION
(Registrant)

Date: May 5, 2006

/s/ EDWARD A. SCHMITT
Edward A. Schmitt
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 5, 2006

/s/ JAMES T. MATTHEWS
James T. Matthews
Vice President Finance, Treasurer and Chief Financial
Officer (Principal Financial Officer)