GEORGIA GULF CORP /DE/
Form 10-K
April 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 Act). Yes o No x

Aggregate market value of the common stock held by non-affiliates of the registrant, computed using the closing price on the New York Stock Exchange for the registrant s common stock on June 30, 2006 was $856,077,540.

Indicate the number of shares outstanding of the registrant s common stock as of the latest practicable date.

Class	**Outstanding at March 27, 2007**
Common Stock, $0.01 par value	34,396,410 shares

DOCUMENTS INCORPORATED BY REFERENCE

(To the Extent Indicated Herein)

Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2007, in Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

PART I

Item 1. BUSINESS.

General

Georgia Gulf Corporation is a leading North American manufacturer and international marketer of two integrated chemical product lines, chlorovinyls and aromatics. Our primary chlorovinyls products are chlorine, caustic soda, vinyl chloride monomer (VCM), vinyl resins and vinyl compounds, and our aromatics products are cumene, phenol and acetone. On October 3, 2006, we completed the acquisition of Royal Group Technologies Limited (Royal Group), a leading North American manufacturer and marketer of vinyl-based building and home improvement products. Royal Group s core businesses now consist of five product lines: (i) window and door profiles; (ii) mouldings; (iii) siding; (iv) pipe and pipe fittings; and (v) deck, fence and rail and outdoor storage buildings.

The Royal Group acquisition furthered our chlorovinyls forward integration strategy by providing a growth platform that leverages Georgia Gulf s vinyl resins and vinyl compounds formulation expertise, which we have refined over the last 20 years, with Royal Group s experience and innovative product development. We believe the acquisition will allow us to strengthen our competitive position through further penetration of Royal Group s markets thereby increasing long-term shareholder value.

The following chart illustrates our chlorovinyls and building and home improvement products integration.

Segment Information

In connection with the acquisition of Royal Group, we reassessed how we internally report our financial information. We have identified four reportable segments through which we conduct our operating activities: chlorovinyls; window and door profiles and mouldings products; outdoor building products; and aromatics. These four segments reflect the organization used by our management for purposes of allocating resources and assessing performance. The chlorovinyls segment is a highly integrated chain of products, which includes chlorine, caustic soda, EDC, VCM and vinyl resins and compounds. Through the Royal Group acquisition, we acquired additional vinyl resin, vinyl compound and compound additives manufacturing facilities. These manufacturing operations are very similar to our

legacy chlorovinyls manufacturing facilities. Therefore, we have aggregated these manufacturing operations with our chlorovinyls reportable segment. In addition, we acquired manufacturing facilities for vinyl-based building and home improvement products. Our vinyl-based building and home improvement products are marketed under the Royal Group brand names, and are managed within two reportable segments, window and door profiles and mouldings; and outdoor building products, which includes the manufacturing of siding, pipe and pipe fittings, deck, fence, and rail and outdoor storage products. The aromatics segment includes cumene and the co-products phenol and acetone.

Reportable Segments	Key Products
Chlorovinyls	Chlorine/Caustic Soda
	VCM
	Vinyl Resins
	Vinyl Compounds
	Compound Additives
Window and Door Profiles and Mouldings	Window and Door Profiles
	Mouldings
Outdoor Building Products	Siding
	Pipe and Pipe Fittings
	Deck, Fence and Rail
	Outdoor Storage
Aromatics	Cumene
	Phenol/Acetone

For selected financial information concerning our four reportable segments and our domestic and international sales, see note 19 of the Notes to the Consolidated Financial Statements included in Item 8.

Dispositions of Assets

Since our acquisition of Royal Group, we have divested certain non-core operations and assets. In December 2006, we sold two properties in Woodbridge, Ontario. The first was a large warehouse and manufacturing facility which was also used as a distribution center. The second was a manufacturing facility that was sold in connection with the sale of the assets of an injection moulding business. We also decided to discontinue our U.S. and Canadian window coverings business. In connection with exiting this business in the U.S., in December 2006 we sold plants in Coral Springs, Florida and Houston, Texas. As part of our continuing program to exit non-core businesses, we sold Royal Group s Polish operations in October 2006 and Royal Group s Chinese operations in December 2006.

Subsequent to December 31, 2006, we have divested additional businesses and assets. In January 2007, we sold the operations of our captive trucking business to a large transportation services company. Following this sale the purchaser has agreed to provide us with transportation services for our building products operations. Also, in January 2007, we sold certain additional assets of our U.S. window coverings operations and in February 2007, we sold certain assets of our Canadian window coverings retail operations as well as certain assets of our Mexican window coverings operations. Also in February 2007, we sold our interest in a joint venture in Colombia. In March 2007, we sold most of the remaining Canadian and U.S. window coverings assets and sold seven of our other Canadian facilities, four of which we have agreed to leaseback on a long-term basis.

Temporary Plant Idlings

The phenol industry suffered from industry-wide supply and demand imbalance primarily as a result of capacity that was brought online in 1999 and 2000. Rather than continue running both of our phenol/acetone plants of our aromatics segment at lower capacity utilization rates, management temporarily idled the Pasadena, Texas phenol/acetone plant in the second quarter of 2002. Subsequently, we have been able to continue to meet all of our customers needs with phenol/acetone production from our Plaquemine, Louisiana plant. We intend to restart the Pasadena, Texas phenol/acetone plant when market conditions warrant. The net book value of our idled Pasadena, Texas phenol/acetone plant equipment was approximately $1.2 million as of December 31, 2006, and is included in property, plant and equipment on our consolidated balance sheet. We estimate we will incur costs of approximately $4.0 million to restart the plant.

Products and Markets

Chlorovinyls

The chlorovinyls segment is a highly integrated chain of products, which includes chlorine, caustic soda, VCM, vinyl resins and vinyl compounds. We have leading market positions in our key chemicals products. In North America, we are the third largest producer of VCM and vinyl resins, and the largest producer of vinyl compounds. The following table shows our total annual production capacities as of December 31, 2006, in our chlorovinyls product line:

Product Line	Capacity
Vinyl Compounds	2.2 billion pounds
Vinyl Resins	3.1 billion pounds
VCM	3.1 billion pounds
Caustic Soda	500,000 tons
Chlorine	450,000 tons
Compound Additives	162 million pounds

Vinyl Compounds and Compound Additives. Vinyl compounds are formulated to provide specific end-use properties that allow them to be processed directly into finished products. We produce flexible and rigid compounds, which are used in many different applications, including wire and cable insulation and jacketing, electrical outlet boxes and pipe fittings, window and furniture profiles and food-grade and general-purpose bottles. We also supply chlorinated vinyl compounds, or CPVC, to the extrusion and injection molding markets, mainly for production of hot water pipe and pipe fittings.

We have four vinyl compound facilities as part of our legacy business located in Aberdeen, Gallman, Madison and Prairie, Mississippi. As a result of the Royal Group acquisition, we acquired vinyl compounds manufacturing facilities, in Bradford and Vaughan, Ontario and a compound additives manufacturing facility located in Vaughan, Ontario. Additionally, certain Royal Group extrusion plants contain compounding facilities. Total compound capacity added through the Royal Group acquisition is approximately 1.2 billion pounds annually. Substantially all of the vinyl compounds produced by Royal Group are used internally in Royal Group s extrusion operations. The additives plant produces lubricants and stabilizers used in the production of compounds as well as impact modifiers and process aids, which are part of the typical compound formulations. Most additives are consumed internally.

Vinyl Resins. Vinyl resins are among the most widely used plastics in the world today, and we supply numerous grades of vinyl resins to a broad number of end-use markets. During 2006, 81 percent of legacy Georgia Gulf s vinyl resins production was sold to third parties who use our resins to formulate vinyl compounds which are then heated and shaped utilizing various extrusion, calendaring and moulding processes to create finished products. In 2006 the largest end-uses of our products were pipe and pipe

fittings and home siding and windows with the remaining 19 percent of legacy vinyl resins used internally during 2006 in the manufacture of our vinyl compounds. Since the acquisition of Royal Group, this segment has included the operations of a vinyl resins plant in Sarnia, Ontario. This plant has capacity to produce about 450 million pounds of vinyl resins, all of which is consumed internally in our building and home improvement products operations.

VCM. During 2006 we used about 99 percent of our VCM production in the manufacture of our vinyl resins in our legacy operations. VCM production not used internally is sold to other vinyl resins producers in domestic and international markets. As a result of the Royal Group acquisition, we are currently purchasing VCM to support vinyl resins production at the Sarnia plant.

Chlor-alkali Products. All of the chlorine we produce is used internally in the production of VCM. As a co-product of chlorine, caustic soda further diversifies our revenue base. We sell substantially all of our caustic soda domestically and overseas to customers in numerous industries, with the pulp and paper, chemical and alumina industries constituting our largest markets. Other markets for our caustic soda include soap and detergents and the water treatment industries.

Window and Door Profiles and Mouldings

In our window and door profiles and mouldings segment, we currently operate 21 manufacturing facilities located in Canada and the U.S. In addition we operate distribution centers, some of which are co-located with manufacturing plants, and three of which are free-standing facilities used exclusively for mouldings. The window and door profiles and mouldings segment consists of extruded vinyl window and door profiles as well as interior and exterior mouldings, in which we have leading market positions.

Window and Door Profiles. Our window and door profiles products represent the largest portion of revenues within our building and home improvement products lines. We manufacture and extrude vinyl window profiles including frames, sashes, trim and other components, as well as vinyl patio door components and fabricated patio doors, which are sold primarily to window and door fabricators. Our sales are primarily to the custom segment of the vinyl window profile market with the profile design customized to a window fabricator s specific requirements. Royal Group also offers a series of innovative window profile systems, which are sold to multiple fabricators. One such product is a high wind impact resistant window profile system, known as Royal Guard , which was developed to meet the growing demand for wind impact resistant windows, particularly in southern coastal areas of the United States.

Mouldings. We manufacture and market extruded decorative mouldings and millwork. Our decorative trim products are used for interior mouldings, such as crown, base and chair rail. For exterior mouldings, our products are used in applications such as brick mouldings, and as components used in the fabrication of doors, windows and spas. This product line includes a series of offerings, such as bendable trim and paintable/stainable trim. One of our latest offerings includes a series of trim boards, know as Royal TrimBoard®. These boards are intended as a lower maintenance alternative to wood products, in applications such as facia, soffit and window/door framing.

Outdoor Building Products

In our outdoor building products segment, our continuing operations include 14 manufacturing facilities, which produce siding, pipe and pipe fittings, deck, fence and rail and outdoor storage buildings. In addition, we operate distribution centers, some of which are co-located with manufacturing plants and 25 of which are free-standing facilities.

Siding. In our siding business, we manufacture vinyl siding and we also offer a wide range of complementary accessories including vinyl soffit, aluminum soffit, fascia and trim and molded vent mounts and exterior shutters. We have a broad product offering of vinyl siding styles and colors. We offer

Colorscapes , a premium vinyl siding that includes rich, dark, color-fast shades as well as Colorscapes WindLok system, which enables siding panels to withstand harsh wind conditions. In addition, we offer Royal DuraPlank vinyl siding that is designed to simulate the look and feel of real wood.

Pipe and Pipe Fittings. We manufacture pipe and pipe fittings for the municipal and electrical markets, as well as pipe for plumbing applications. Our municipal pipe and pipe fittings product lines are used in potable water applications as well as for storm and sewer applications. Our plumbing lines are used in residential and industrial applications to move storm and sanitary wastewater from the building to the municipal sewer at the property line. This offering is primarily targeted at drain, waste and vent applications. Electrical, pipe, conduit and fittings are available in a wide variety of sizes and configurations, to meet the needs of both commercial and residential applications.

In recent years, Royal Group has enhanced its pipe and pipe fittings product offering with a series of new products. During 2006, Royal Group introduced a municipal pipe joint restraining system that significantly reduces labor required to restrain joints, known as Bulldog .

Deck, Fence and Rail. We manufacture vinyl deck, fence and rail that is used for do-it-yourself (D-I-Y) and professionally installed segments of the market. Products directed at the D-I-Y segment such as D-I-Y fencing are made in pre-built sections designed for quick and easy installation, and are sold through big-box home improvement retail stores. We offer many different fence styles for the professional installer. We also offer decorative columns and rail to complement our fence products. Royal Group s deck, fence and rail product lines are positioned as a lower-maintenance alternative to conventional wood and metal products.

Outdoor Storage. In our outdoor storage business, we manufacture vinyl buildings that are primarily used for home improvement and storage. These products are modular, easy to assemble, low-maintenance, outdoor storage building kits, with extruded, interlocking, vinyl panels being the primary component of the kits. These vinyl storage buildings are sold primarily through big-box home improvement retail stores in the United States and Canada.

Aromatics

The aromatics segment is also integrated and includes cumene and the co-products phenol and acetone. We are the second largest worldwide producer of cumene.

The following table shows our total annual production capacities as of December 31, 2006 in our aromatics product line:

Product Line	Capacity
Phenol*	660 million pounds
Acetone*	408 million pounds
Cumene	1.8 billion pounds

* Capacity includes our plant in Pasadena (160 million pounds of phenol and 100 million pounds of acetone), which has been temporarily idled.

Cumene. Cumene is used as an intermediate to make phenol and acetone. About 51 percent of our cumene was consumed internally during 2006 to produce phenol and acetone. Cumene production not used internally is sold to other phenol and acetone manufacturers in domestic and international markets.

Phenol. Our phenol is primarily sold to producers of phenolic resins and to manufacturers of engineering plastics. Phenolic resins are used as adhesives for wood products such as plywood and Oriented Strand Board, or OSB. Engineering plastics are used in compact discs, digital video discs, automobiles, household appliances, electronics and protective coating applications. We also sell phenol for use in insulation, electrical parts, oil additives and pharmaceuticals. In 2006 the majority of our phenol was sold to phenolic resins manufacturers.

Acetone. As a co-product of phenol, acetone further diversifies our revenue base. Acetone is a chemical used primarily in the production of acrylic resins, engineering plastics and industrial solvents. We sell the majority of our acetone into the acrylic resins market, where it is used in the manufacture of various plastics and coatings used for signage, automotive parts, household appliances, paints and industrial coatings. Other uses range from solvents for automotive and industrial applications to pharmaceuticals and cosmetics.

Production, Raw Materials and Facilities

Our operations are highly vertically integrated as a result of our production of some of the key raw materials and intermediates used in the manufacture of our products. Our operational integration enhances our control over production costs and capacity utilization rates, as compared to our non-integrated competitors.

Chemical Products. In our chlorovinyls product line, we produce chlorine and its co-product caustic soda by electrolysis of salt brine. We produce VCM by reacting purchased ethylene with chlorine, which is both produced internally and purchased from third parties; our legacy internal production of VCM slightly exceeds our legacy internal demand requirements. We produce vinyl resins by polymerization of VCM in a batch reactor process. We formulate our vinyl compounds by blending our vinyl resins with various additives such as plasticizers, impact modifiers, stabilizers and pigments, most of which are purchased. We also have the capacity to produce ethylene dichloride, an intermediate in the manufacture of VCM, for external sales. In our aromatics product line, we produce cumene utilizing benzene and propylene purchased from third parties. Cumene is then oxidized to produce cumene hydroperoxide, which is split into the co-products phenol and acetone.

The significant raw materials we purchase from third parties include ethylene, benzene, natural gas, refinery grade propylene (propylene), compound additives and chlorine. Since acquiring the vinyl resins plant in Sarnia, we now also purchase VCM. The majority of our purchases of ethylene and chlorine are made under long-term supply agreements, and we purchase natural gas, benzene and propylene in both the open market and under long-term contracts. We believe we have reliable sources of supply for our raw materials under normal market conditions. We cannot, however, predict the likelihood or impact of any future raw material shortages. Any shortages could have a material adverse impact on our results of operations.

Plaquemine, Louisiana Facilities. Our operations at these facilities include the production of chlorine, caustic soda, VCM, vinyl resins, phenol and acetone. We have a long-term lease on a nearby salt dome with reserves in excess of twenty years from which we supply our salt brine requirements. We use all of our chlorine production in the manufacture of VCM at this facility and we sell substantially all of our caustic soda production externally. All of the ethylene requirements for our VCM production are supplied by pipeline. Most of our Plaquemine VCM production is consumed on-site in our vinyl resins production or shipped to our other vinyl resins facilities with the remainder sold to third parties. We manufacture a significant portion of our vinyl resins production at this facility. As part of a modernization project at this facility, we are increasing our vinyl resins production capacity by as much as 450 million pounds annually beginning in early 2008. See Management s Discussion and Analysis of Financial Condition and Results

of Operations Liquidity and Capital Resources. Our cumene requirements for the production of phenol and its co-product acetone are shipped from our Pasadena, Texas facility by dedicated barges.

Our 250-megawatt cogeneration facility supplies all of the electricity and steam needs at our Plaquemine facilities. We also own an on-site air separation unit operated by a third party that provides all of the Plaquemine facility s nitrogen and oxygen gas requirements.

Lake Charles, Louisiana Facilities. We produce VCM at our Lake Charles, Louisiana facility and through our manufacturing joint venture, PHH Monomers, LLC, which is located in close proximity to our Lake Charles VCM facility. PHH Monomers is a joint venture with PPG Industries, Inc. that entitles us to 50 percent of the VCM production. Virtually all of the chlorine and ethylene needs of our Lake Charles VCM facility and PHH Monomers facility are supplied by pipeline. VCM from these facilities supplies our Aberdeen, Mississippi and Oklahoma City, Oklahoma vinyl resins facilities. On occasion, a small portion of VCM produced at the Lake Charles facilities is sold to third parties.

Aberdeen, Mississippi, Oklahoma City, Oklahoma, and Sarnia, Ontario Facilities. We produce vinyl resins at our Aberdeen, Mississippi and Oklahoma City, Oklahoma facilities from VCM supplied by railcar from our various VCM facilities. In addition, the Aberdeen facility produces plasticizers, which are consumed internally for flexible vinyl compound production. We produce vinyl resins at our Sarnia, Ontario facility from purchased VCM supplied by railcar.

Vinyl Compounds Facilities. We operate compound facilities in Aberdeen, Gallman, Madison and Prairie, Mississippi and Bradford and Vaughan, Ontario. We also produce vinyl compounds in certain of our extrusion plants. All of these vinyl compound facilities are supplied from our vinyl resins facilities by railcar, truck or in the case of Aberdeen, pipeline. Additionally, we produce some of our compound additives and purchase the remainder from various sources at market prices.

Pasadena, Texas Facilities. At our Pasadena, Texas facilities we have the capability to produce cumene, phenol and acetone. We produce cumene utilizing purchased benzene and propylene. Our cumene facility is integrated by pipeline with our phenol and acetone facility at Pasadena. Currently, due to the temporary idling of phenol and acetone production at Pasadena (discussed above), all of the cumene production at this facility is either shipped to the Plaquemine phenol and acetone facility or sold to third parties. We purchase propylene and benzene at market prices from various suppliers delivered by multiple transportation modes to our cumene facility. A portion of the benzene is supplied under contracts at market prices, and the propylene is provided from numerous refineries at market prices. Based on current industry capacity, we believe we have adequate access to benzene and propylene under normal conditions.

Building and Home Improvement Products. In our building and home improvement product lines, we produce vinyl window and door profiles, mouldings, siding, pipe and pipe fittings and outdoor products. The principal raw material we use in production is vinyl resin, which is blended with other compound additives to form vinyl compounds, which are then extruded. We believe chlorovinyls segment internal production of vinyl resins, compounds and most compound additives assures quality and facilitates efficient production. Additives assist in processing vinyl resins efficiently and can be used to make the resulting product flexible or rigid, to add color or texture or other desired properties. For example, UV inhibitors may be added to protect an exterior product from sun damage, which could cause fading.

Extrusion is a process by which vinyl compounds are heated until they melt and then forced through a uniquely shaped opening, referred to as a die, to form various shapes and thicknesses. For example, when producing decking, a slip resistant design may be etched onto the planks. Variations in extrusion are used to give products other desired qualities. For example, in producing mouldings, we use cellular extrusion, which involves the process of encapsulating air bubbles in the vinyl extrusion, which reduces weight and cost. As the extruded product leaves the die, it is immediately cooled resulting in resolidification of the vinyl into a product matching the die pattern. Cooling is accomplished by using water and/or air.

We also produce pipe fittings through injection molding. These products are produced by heating vinyl compounds until they melt and then injecting them under pressure into a hollow mold to create three dimensional parts.

Facilities. We operate numerous manufacturing facilities in Canada and the U.S. to produce our building and home improvement products. Vinyl resins and vinyl compounds as well as compound additives from the plants operated by our chlorovinyls segment are supplied to our facilities by truck or rail. We also purchase additional additives from various sources at market prices. The other principal costs to produce these products is electricity to power our facilities.

Operation of numerous manufacturing facilities located strategically near customers, such as is the case in our window and door profiles, facilitates marketing and customer support and also minimizes transportation costs. Transportation costs limit sales of pipe from our facilities. Because our pipe plants are located in Ontario and British Columbia, sales of our pipe are concentrated within the northeastern and northwestern portions of Canada and the U.S. Our products are delivered primarily by truck.

Seasonality

Operating income for all four of our reportable segments is affected by the seasonality of the construction industry, which experiences its highest level of activity during the spring and summer months. Therefore, our second and third quarter operating income is typically the strongest. Our first and fourth quarter operating income usually reflects a decrease in construction activity due to colder weather and holidays.

Inventory Practices and Product Returns

In our chlorovinyls business, by the nature of our products, we do not maintain significant inventories and product returns are insignificant.

As is typical for the industry, in our home improvement and building products business, we maintain stocks of inventories in most of our product lines. We generally build additional inventory in advance of the peak construction season to assure product availability.

Generally, our home improvement and building products may be returned only if defective, other than pipe and pipe fittings products, which generally may be returned as long as such products are in resalable condition. However, in certain circumstances, we may allow the return of products as a customer accommodation, such as in the case of a change in product lines, in which case we generally receive a restocking fee.

Sales and Marketing

No single customer accounted for more than 10 percent of our consolidated revenues for the years ended December 31, 2006, 2005 and 2004. In addition to our domestic sales, we export some of our products.

Chemical Products. Our sales and marketing program is aimed at supporting our existing customers and expanding and diversifying our customer base. In our chemicals business, we have a dedicated sales force organized by product line and region. In addition, we use distributors to market products to smaller customers. We have a product development and technical service staff that primarily supports our vinyl resins and vinyl compounds businesses. This staff works closely with customers to qualify existing Georgia Gulf products for use by our customers.

Building and Home Improvement Products. In our building products business, sales and marketing activities vary by product line and distribution channel. Our window and door profiles are primarily sold by

our dedicated sales force and supported by marketing support activities that may include brochure development for window fabricators, technical advisory and design services for fabricators and advertising directed at installers suggesting that they look for windows fabricated with Royal Group profiles. Our mouldings products are distributed primarily by our dedicated sales force to independent dealers, fabricators, distributors and home centers, who resell the products directly to builders, installers or homeowners. The majority of our vinyl siding and accessories sales are in the United States, where products are distributed through independent building product distributors, who are solicited primarily by Royal Group s dedicated sales force. In Canada, vinyl siding and accessories are distributed through company-owned as well as independent building product distributors. These distributors generally sell to professional building product installers in the United States and Canada. Sales of pipe and pipe fittings are supported by solicitations by our employees of distributors (direct customers) as well as solicitations intended to encourage purchases from those distributors by end users. The majority of pipe and pipe fitting sales occur in Canada, where products are sold nationally through pipe distributors to contractors. In the United States, we sell our pipe fittings nationally but sell our pipe only in the Northeast and Northwest due to close proximity to Canadian manufacturing plants and higher costs associated with shipping to other regions. Deck, fence and rail products are sold through retail home improvement stores, and are also sold to professionals through distributors. The sales force for these products is primarily company employees. Recently, we moved sales of outdoor storage buildings to the moulding sales force to leverage their significant experience with our retail home improvement customers. Royal Group engages in advertising programs primarily directed at trade professionals that are intended to develop awareness and interest in its products. In addition, Royal Group displays its products at a series of national and regional trade shows.

We believe significant cross-marketing opportunities exist between our building and home improvement product lines. To capitalize on this opportunity, the name Royal Group Technologies Limited was changed to Royal Group, Inc. on February 5, 2007. We intend to use the simplified name to enhance brand awareness. In addition, we are adding the tag line, Great Ideas Taking Shape ™ to marketing materials, to emphasize Royal Group s goal of creating, manufacturing and marketing innovative building and home improvement products.

Competition

We experience competition from numerous manufacturers in our chlorovinyls and aromatics businesses and our building and home improvement products businesses. Some of our competitors have substantially greater financial resources and are more highly diversified than us. We compete on a variety of factors including price, product quality, delivery and technical service.

In our chemicals business, we face competition from numerous manufacturers of chemicals and vinyl resins and compounds. In our building and home improvement products business, we face competition for each of our products from other manufacturers of vinyl products as well as numerous manufacturers of traditional materials. We believe that our vinyl building and home improvement products are preferred by builders and homeowners because of their durability and ease of installation and maintenance as compared to traditional building materials. In the window and door profile market, we face competition from manufacturers of wood, aluminum and fiberglass products. In the siding market, we face competition from manufacturers of cement, brick, wood, stucco, stone, concrete and aluminum products. We face competition from manufacturers of wood and aluminum products in the outdoor storage market and manufacturers of concrete and metal products in the pipe and pipe fittings market. Similarly, we face competition from manufacturers of composite materials, wood and metal products in the deck, fence and rail markets. Over the past several years, the vinyl building products industry has been intensifying, with growth rates subsiding in recent years in certain market sectors such as vinyl siding and vinyl window profiles. In addition, competition for certain price-sensitive products from countries such as China is increasing.

In all businesses, we believe that we are well-positioned to compete as a result of integrated product lines and the operational efficiency of our plants and, in the case of our chemical plants, the location of our facilities near major water and/or rail transportation terminals. We also believe that for many of our extruded products, our ability to produce our dies internally is a competitive advantage over producers who must rely on third parties. For example, we believe our ability to produce our own dies generally results in our responding more quickly and efficiently to the customer.

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 (USEPA) and comparable state agencies and Canadian federal and provincial 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.

Subseque