

WESTLAKE CHEMICAL CORP  
Form 10-Q  
May 02, 2008  
[Index to Financial Statements](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended March 31, 2008

or

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-32260

**Westlake Chemical Corporation**

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**76-0346924**  
(I.R.S. Employer  
Identification Number)

**2801 Post Oak Boulevard, Suite 600**

**Houston, Texas 77056**

(Address of principal executive offices, including zip code)

**(713) 960-9111**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes**  **No**

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

**Large accelerated filer**  **Accelerated filer**  **Non-accelerated filer**  **Smaller reporting company**

(Do not check if a smaller  
reporting company)

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

The number of shares outstanding of the registrant's sole class of common stock, as of April 28, 2008, was 65,634,104.

**Index to Financial Statements**

**INDEX**

<b>Item</b>	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>1) Financial Statements</u>	3
<u>2) Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>3) Quantitative and Qualitative Disclosures about Market Risk</u>	26
<u>4) Controls and Procedures</u>	27
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>1) Legal Proceedings</u>	28
<u>1A) Risk Factors</u>	28
<u>2) Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>6) Exhibits</u>	28

**Index to Financial Statements****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WESTLAKE CHEMICAL CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>(in thousands of dollars, except par values and share amounts)</b>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 7,846	\$ 24,914
Accounts receivable, net	464,383	507,463
Inventories, net	532,051	527,871
Prepaid expenses and other current assets	10,988	14,232
Deferred income taxes	17,691	17,705
Total current assets	1,032,959	1,092,185
Property, plant and equipment, net	1,143,224	1,126,212
Equity investment	30,554	29,486
Restricted cash	186,673	199,450
Other assets, net	132,912	122,002
Total assets	\$ 2,526,322	\$ 2,569,335
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 260,058	\$ 314,951
Accrued liabilities	90,653	126,311
Total current liabilities	350,711	441,262
Long-term debt	554,807	511,414
Deferred income taxes	289,194	287,965
Other liabilities	42,731	42,024
Total liabilities	1,237,443	1,282,665
Commitments and Contingencies (Notes 12 and 15)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value, 150,000,000 shares authorized; 65,634,603 and 65,487,119 shares issued and outstanding in 2008 and 2007, respectively	655	655
Additional paid-in capital	432,143	431,197
Retained earnings	859,978	857,872
Accumulated other comprehensive income		
Benefits liability, net of tax	(9,014)	(9,234)
Cumulative translation adjustment	5,117	6,180

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Total stockholders' equity	1,288,879	1,286,670
Total liabilities and stockholders' equity	\$ 2,526,322	\$ 2,569,335

The accompanying notes are an integral part of these consolidated financial statements.

Index to Financial Statements

**WESTLAKE CHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended March 31,	
	2008	2007
	(in thousands of dollars, except per share data and share amounts)	
Net sales	\$ 915,061	\$ 718,802
Cost of sales	878,357	660,913
Gross profit	36,704	57,889
Selling, general and administrative expenses	22,845	25,223
Income from operations	13,859	32,666
Interest expense	(8,528)	(3,593)
Other income, net	2,408	991
Income before income taxes	7,739	30,064
Provision for income taxes	2,352	10,392
Net income	\$ 5,387	\$ 19,672
Basic and diluted earnings per share	\$ 0.08	\$ 0.30
Weighted average shares outstanding:		
Basic	65,259,558	65,217,996
Diluted	65,288,890	65,324,517

The accompanying notes are an integral part of these consolidated financial statements.

Index to Financial Statements

**WESTLAKE CHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Three Months Ended March 31,	
	2008	2007
	(in thousands of dollars)	
<b>Cash flows from operating activities</b>		
Net income	\$ 5,387	\$ 19,672
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	26,001	24,355
Provision for (recovery of) bad debts	84	(412)
Amortization of debt issue costs	219	189
Stock-based compensation expense	947	524
Loss from disposition of fixed assets	2,385	39
Deferred income taxes	1,163	3,776
Equity in income of joint venture	(1,068)	(658)
Changes in operating assets and liabilities		
Accounts receivable	42,790	(115,992)
Inventories	(4,180)	38,625
Prepaid expenses and other current assets	3,244	5,630
Accounts payable	(54,893)	(17,048)
Accrued liabilities	(35,658)	3,092
Other, net	(14,675)	(4,206)
Net cash used for operating activities	(28,254)	(42,414)
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(42,984)	(18,873)
Proceeds from disposition of assets	214	
Settlements of derivative instruments	319	3,815
Net cash used for investing activities	(42,451)	(15,058)
<b>Cash flows from financing activities</b>		
Proceeds from the exercise of stock options		62
Dividends paid	(3,282)	(2,611)
Proceeds from borrowings	300,800	136,075
Repayment of borrowings	(257,427)	(115,375)
Utilization of restricted cash	13,546	
Net cash provided by financing activities	53,637	18,151
Net decrease in cash and cash equivalents	(17,068)	(39,321)
Cash and cash equivalents at beginning of period	24,914	52,646
Cash and cash equivalents at end of period	\$ 7,846	\$ 13,325

The accompanying notes are an integral part of these consolidated financial statements.





---

**Index to Financial Statements**

**WESTLAKE CHEMICAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

(dollars in thousands, except per share data)

**1. Basis of Financial Statements**

The accompanying unaudited consolidated interim financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) for interim periods. Accordingly, certain information and footnotes required for complete financial statements under generally accepted accounting principles in the United States have not been included. These interim consolidated financial statements should be read in conjunction with the December 31, 2007 financial statements and notes thereto of Westlake Chemical Corporation (the Company) included in the annual report on Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on February 20, 2008. These financial statements have been prepared in conformity with the accounting principles and practices as disclosed in the notes to the consolidated financial statements of the Company for the fiscal year ended December 31, 2007.

In the opinion of the Company's management, the accompanying unaudited consolidated interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial position as of March 31, 2008, its results of operations for the three months ended March 31, 2008 and 2007 and the changes in its cash position for the three months ended March 31, 2008 and 2007.

Results of operations and changes in cash position for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2008 or any other interim period. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

***Recent Accounting Pronouncements***

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. The Company adopted SFAS 157 as of January 1, 2008, except as noted below, and it did not have a material impact on its financial position and results of operations.

Relative to SFAS 157, the FASB issued FASB Staff Positions (FSP) 157-1 and 157-2. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, Accounting for Leases, (SFAS 13) and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination.

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 (SFAS 161). This statement does not change the accounting for derivatives but will require enhanced disclosures about derivative strategies and accounting practices. SFAS 161 is effective for fiscal years beginning after January 15, 2008, and the Company will comply with any necessary disclosure requirements beginning with the 2009 interim financial statements.



Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

**2. Accounts Receivable**

Accounts receivable consist of the following:

	March 31, 2008	December 31, 2007
Accounts receivable trade	\$ 441,337	\$ 498,073
Accounts receivable affiliates	1,413	1,365
Allowance for doubtful accounts	(3,614)	(3,546)
	439,136	495,892
Accounts receivable other	25,247	11,571
Accounts receivable, net	\$ 464,383	\$ 507,463

**3. Inventories**

Inventories consist of the following:

	March 31, 2008	December 31, 2007
Finished products	\$ 359,588	\$ 332,882
Feedstock, additives and chemicals	142,187	164,832
Materials and supplies	38,828	38,058
	540,603	535,772
Allowance for inventory obsolescence	(8,552)	(7,901)
Inventories, net	\$ 532,051	\$ 527,871

**4. Property, Plant and Equipment**

Depreciation expense on property, plant and equipment of \$21,954 and \$19,136 is included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2008 and 2007, respectively. In the three months ended March 31, 2008, the Company retired approximately \$2,385 of equipment taken out of service.

**5. Other Assets**

## Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Amortization expense on other assets of \$4,266 and \$5,408 is included in the consolidated statements of operations for the three months ended March 31, 2008 and 2007, respectively.

### **6. Stock-Based Compensation**

Under the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the 2004 Plan ), all employees of the Company, as well as certain individuals who have agreed to become the Company's employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2004 Plan. At the discretion of the administrator of the 2004 Plan, employees and non-employee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards or cash awards (any of which may be a performance award). The Company utilizes the fair value method to account for these awards, and the total compensation expense related to the 2004 Plan was \$947 and \$524 for the three months ended March 31, 2008 and 2007, respectively.

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Option activity and changes during the three months ended March 31, 2008 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	677,243	\$ 26.43		
Granted	239,891	19.29		
Exercised				
Cancelled	(138)	36.10		
Outstanding at March 31, 2008	916,996	\$ 24.56	8.4	\$ 430
Exercisable at March 31, 2008	283,140	\$ 19.61	6.8	\$ 430

For options outstanding at March 31, 2008, the options had the following range of exercise prices:

Range of Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
\$14.50 - \$19.29	435,294	8.3
\$25.42 - \$36.10	481,702	8.6

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first quarter of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2008. This amount changes based on the fair market value of the Company's common stock. The total intrinsic value of options exercised for the three months ended March 31, 2007 was \$57. There were no options exercised during the three months ended March 31, 2008.

As of March 31, 2008, \$7,702 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.8 years.

The Company used the Black-Scholes option pricing model to value its options. The table below presents the weighted average value and assumptions used in determining the fair value for each option granted during the first three months of 2008 and 2007. Volatility was calculated using historical trends of the Company's common stock price.

## Stock Option Grants

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Weighted average fair value	\$ 7.40	\$ 14.23
Risk-free interest rate	5.0%	4.5%
Expected life in years	6	6-10
Expected volatility	34.7%	33.2%
Expected dividend yield	1.0%	0.5%

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Non-vested restricted stock awards as of March 31, 2008 and changes during the three months ended March 31, 2008 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2007	228,761	\$ 31.45
Granted	147,767	19.29
Vested	(6,423)	36.10
Forfeited	(285)	31.61
Non-vested at March 31, 2008	369,820	\$ 26.54

As of March 31, 2008, there was \$7,324 of unrecognized stock-based compensation expense related to non-vested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 3.5 years. The total fair value of shares of restricted stock that vested during the three months ended March 31, 2008 and 2007 was \$89 and \$181, respectively.

**7. Derivative Commodity Instruments**

The Company uses derivative instruments, in conjunction with certain physical commodity positions, to reduce price volatility risk on commodities. The Company had a net gain of \$134 in connection with trading activity for the three months ended March 31, 2008 compared to a net gain of \$728 for the three months ended March 31, 2007. Of the 2008 net gain, \$492 related to derivative gains, partially offset by \$358 in losses related to sales of related physical feedstock positions. All of the 2007 period net gain related to derivative gains. Gains and losses in connection with trading activity are included in cost of sales. The fair value of risk management liability balances of \$6,673 and \$6,415 were included in current liabilities in the Company's consolidated balance sheets as of March 31, 2008 and December 31, 2007, respectively. Under SFAS 157, inputs used to measure fair value are classified in one of three levels:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table summarizes the classification of the trading liabilities by fair value measurement level at March 31, 2008:

	Level 1	Level 2	Total
Risk management liabilities	\$ 5,798	\$ 875	\$ 6,673

**8. Plant Closure**

## Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

The Company decided to permanently close the Pawling, New York facility and consolidate manufacturing of window and door components in Calgary, Canada. Asset impairments, severance and other costs recorded in the first quarter of 2008, related to this closure, were approximately \$2,522.

### **9. Income Taxes**

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 on January 1, 2007. There was no material change to the total gross unrecognized tax benefits for the three months ended March 31, 2008. Management anticipates reductions to the total amount of unrecognized tax benefits of \$2,741 within the next twelve months due to expiring statutes of limitations.

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of January 1, 2008, the Company had approximately \$3,289 of accrued interest and penalties related to uncertain tax positions. The Company has increased the accrued interest and penalties by approximately \$394 during the three months ended March 31, 2008.



Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to the examinations by tax authorities before the year 1999. The Company is currently under audit by the Internal Revenue Service for the 2005 and 2006 tax years.

The effective income tax rate was 30.4% in the first quarter of 2008. The 2008 tax rate was below the statutory rate of 35% primarily due to state tax credits, tax exempt interest income and the domestic manufacturing deduction, partially offset by state income taxes. The effective tax rate was 34.6% for the first quarter of 2007. The 2007 tax rate was below the statutory rate of 35% primarily due to state tax credits and the domestic manufacturing deduction, partially offset by state income taxes.

**10. Earnings per Share**

There are no adjustments to Net income for the diluted earnings per share computations.

The following table reconciles the denominator for the basic and diluted earnings per share computations shown in the consolidated statements of operations:

	Three Months Ended March 31, 2008      2007 (in thousands)	
Weighted average common shares basic	65,260	65,218
Plus incremental shares from:		
Assumed exercise of options	26	92
Assumed vesting of restricted stock	3	15
Weighted average common shares diluted	65,289	65,325

**11. Pension and Post-Retirement Benefit Costs**

Components of Net Periodic Costs are as follows:

	Three Months Ended March 31, Post-retirement Pension      Healthcare 2008      2007      2008      2007			
Service cost	\$ 246	\$ 260	\$ 24	\$ 78
Interest cost	593	557	275	146
Expected return on plan assets	(615)	(599)		
Amortization of transition obligation			28	28
Amortization of prior service cost	80	80	53	67

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Amortization of net loss	135	132	42	104
Net periodic benefit cost	\$ 439	\$ 430	\$ 422	\$ 423

In the first quarters of 2008 and 2007, the Company made no contributions to the Salaried and Wage pension plans and has no current plan to contribute any additional funds to the plans during the fiscal year ending December 31, 2008.

**12. Commitments and Contingencies**

The Company is subject to environmental laws and regulations that can impose civil and criminal sanctions and that may require it to mitigate the effects of contamination caused by the release or disposal of hazardous substances into the environment. Under one law, an owner or operator of property may be held strictly liable for remediating contamination without regard to whether that person caused the contamination, and without regard to whether the practices that resulted in the contamination were legal at the time they occurred. Because several of the Company's production sites have a history of industrial use, it is impossible to predict precisely what effect these requirements will have on the Company.

Index to Financial Statements

**WESTLAKE CHEMICAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

*Contract Disputes with Goodrich and PolyOne.* In connection with the 1990 and 1997 acquisitions of the Goodrich Corporation chemical manufacturing complex in Calvert City, Kentucky, Goodrich agreed to indemnify the Company for any liabilities related to preexisting contamination at the complex. For its part, the Company agreed to indemnify Goodrich for post-closing contamination caused by the Company's operations. The soil and groundwater at the complex, which does not include the Company's nearby PVC facility, had been extensively contaminated by Goodrich's operations. In 1993, Goodrich spun off the predecessor of PolyOne, and that predecessor assumed Goodrich's indemnification obligations relating to preexisting contamination. PolyOne is now coordinating the investigation and remediation of contamination at the complex.

In 2003, litigation arose among the Company, Goodrich and PolyOne with respect to the allocation of the cost of remediating contamination at the site. The parties settled this litigation in December 2007 and the case was dismissed. In the settlement the parties agreed that, among other things: (1) PolyOne would pay 100% of the costs (with specified exceptions), net of recoveries or credits from third parties, incurred with respect to environmental issues at the Calvert City site from August 1, 2007 forward; (2) either the Company or PolyOne might, from time to time in the future (but not more than once every five years), institute a proceeding to adjust that percentage; and (3) the Company and PolyOne would negotiate a new environmental remediation utilities and services agreement to cover the Company's provision to or on behalf of PolyOne of certain environmental remediation services at the site. The current environmental remediation activities at the Calvert City complex do not have a specified termination date but are expected to last for the foreseeable future. The costs incurred to provide the environmental remediation services were \$2,912 in 2007.

*Administrative Proceedings.* There are several administrative proceedings in Kentucky involving the Company, Goodrich and PolyOne related to the same manufacturing complex in Calvert City. In 2003, the Kentucky Environmental and Public Protection Cabinet ( Cabinet ) re-issued Goodrich's Resource Conservation and Recovery Act, or RCRA, permit which requires Goodrich to remediate contamination at the Calvert City manufacturing complex. Both Goodrich and PolyOne challenged various terms of the permit in an attempt to shift Goodrich's clean-up obligations under the permit to the Company.

In January 2004, the Cabinet notified the Company that the Company's ownership of a closed landfill (known as former Pond 4) requires it to submit an application for its own permit under RCRA. This could require the Company to bear the cost of performing remediation work at former Pond 4 and adjacent areas at the complex. The Company challenged the Cabinet's January 2004 order and has obtained several extensions to submit the required permit application. In October 2006, the Cabinet notified Goodrich and the Company that both were operators of former Pond 4 under RCRA, and ordered them to jointly submit an application for a RCRA permit. Goodrich and the Company have both challenged the Cabinet's October 2006 order.

All of these administrative proceedings have been consolidated. A hearing date has been scheduled for May 23, 2008.

*Litigation Related to the Administrative Proceedings.* The Company has the contractual right to reconvey title to former Pond 4 back to Goodrich, and the Company has tendered former Pond 4 back to Goodrich under this provision. In March 2005, the Company sued Goodrich in the United States District Court for the Western District of Kentucky to require Goodrich to accept the tendered reconveyance and to indemnify the Company for costs the Company incurred in connection with former Pond 4. Goodrich subsequently filed a third-party complaint against PolyOne, seeking to hold PolyOne responsible for any of Goodrich's former Pond 4 liabilities to the Company. Goodrich moved to dismiss the Company's suit against it, the Company filed a motion for partial summary judgment against Goodrich, and PolyOne moved to dismiss Goodrich's third-party complaint against it. On March 30, 2007, the court granted Goodrich's motion to dismiss the Company's claim that Goodrich is required to accept the tendered reconveyance. Although the Company's motion for partial summary judgment was denied on March 30, 2007, the Company's claim for indemnification of its costs incurred in connection with Pond 4 is still before the court.

*Monetary Relief.* Except as noted above, with respect to the settlement of the contract litigation among the Company, Goodrich and PolyOne, neither the court nor the Cabinet has established any allocation of the costs of remediation among the various parties that are involved in the judicial and administrative proceedings discussed above. The Company is not in a position at this time to state what effect, if any, the resolution

## Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

of these proceedings could have on the Company's financial condition, results of operations, or cash flows in 2008 and later years. Any cash expenditures that the Company might incur in the future with respect to the remediation of contamination at the complex would likely be spread out over an extended period. As a result, the Company believes it is unlikely that any remediation costs allocable to it will be material in terms of expenditures made in any individual reporting period.

**Index to Financial Statements****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

**(dollars in thousands, except per share data)**

*Environmental Investigations.* In 2002, the EPA's National Enforcement Investigations Center, or NEIC, investigated the Company's manufacturing complex in Calvert City. In early 2004, the NEIC investigated the Company's nearby PVC plant. The EPA subsequently submitted information requests to the Company under the Clean Air Act and RCRA. The Company and the EPA met in June 2004 to attempt to voluntarily resolve the notices of violation that were issued to the Company for the 2002 investigation and to voluntarily resolve any issues raised at the PVC plant in the 2004 investigation. Since then, parties have continued to engage in settlement discussions. The EPA has indicated that it will impose monetary penalties and require plant modifications that will involve capital expenditures. The Company expects that, based on the EPA's past practices, the amount of any monetary penalties would be reduced by a portion of the expenditures that the Company would agree to make for certain supplemental environmental projects. The Company has recorded an accrual in accrued liabilities for a probable loss related to monetary penalties and other items to be expensed. Although the ultimate amount of liability is not ascertainable, the Company believes that any amounts exceeding the recorded accruals should not materially affect the Company's financial condition. It is possible, however, that the ultimate resolution of this matter could result in a material adverse effect on the Company's results of operations or cash flows for a particular reporting period.

*EPA Audit of Ethylene Units in Lake Charles.* During 2007, the U.S. Environmental Protection Agency, or EPA, conducted an audit of the Company's ethylene units in Lake Charles, Louisiana, with a focus on leak detection and repair, or LDAR. By letter dated January 31, 2008, the U.S. Department of Justice, or DOJ, notified the Company that the EPA had referred the matter to the DOJ to bring a civil case against the Company alleging violations of various environmental laws and regulations. The DOJ informed the Company that it would seek monetary penalties and require the Company to implement an enhanced LDAR program for the ethylene units. The Company's representatives met with the EPA on February 14, 2008 to conduct initial settlement discussions. While the Company can offer no assurance as to an outcome, the Company believes that the resolution of this matter will not have a material adverse effect on the Company's financial condition, cash flows or results of operations.

In addition to the matters described above, the Company is involved in various routine legal proceedings incidental to the conduct of its business. The Company does not believe that any of these routine legal proceedings will have a material adverse effect on its financial condition, results of operations or cash flows.

**13. Segment Information**

The Company operates in two principal business segments: Olefins and Vinyls. These segments are strategic business units that offer a variety of different products. The Company manages each segment separately as each business requires different technology and marketing strategies.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Net sales to external customers</b>		
Olefins		
Polyethylene	\$ 444,163	\$ 343,531
Ethylene, styrene and other	216,658	140,695
<b>Total olefins</b>	<b>660,821</b>	<b>484,226</b>
Vinyls		
Fabricated finished products	91,606	127,727
VCM, PVC and other	162,634	106,849

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Total vinyls	254,240	234,576
	\$ 915,061	\$ 718,802
<b>Intersegment sales</b>		
Olefins	\$ 16,766	\$ 11,101
Vinyls	381	240
	\$ 17,147	\$ 11,341

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2008	2007
<b>Income (loss) from operations</b>		
Olefins	\$ 20,152	\$ 27,219
Vinyls	(3,085)	7,792
Corporate and other	(3,208)	(2,345)
	\$ 13,859	\$ 32,666
<b>Depreciation and amortization</b>		
Olefins	\$ 17,661	\$ 15,656
Vinyls	8,298	8,661
Corporate and other	42	38
	\$ 26,001	\$ 24,355
<b>Other income, net</b>		
Olefins	\$ 16	\$ 52
Vinyls	100	62
Corporate and other	2,292	877
	\$ 2,408	\$ 991
<b>Capital expenditures</b>		
Olefins	\$ 15,468	\$ 10,492
Vinyls	26,762	7,624
Corporate and other	754	757
	\$ 42,984	\$ 18,873

A reconciliation of total segment income from operations to consolidated income before taxes is as follows:

	Three Months Ended March 31,	
	2008	2007
Income from operations	\$ 13,859	\$ 32,666
Interest expense	(8,528)	(3,593)
Other income, net	2,408	991
Income before taxes	\$ 7,739	\$ 30,064

	March 31, 2008	December 31, 2007
<b>Total Assets</b>		
Olefins	\$ 1,588,016	\$ 1,612,146
Vinyls	679,607	664,745
Corporate and other	258,699	292,444
	<b>\$ 2,526,322</b>	<b>\$ 2,569,335</b>



Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

**14. Comprehensive Income Information**

	Three Months Ended March 31,	
	2008	2007
Net income	\$ 5,387	\$ 19,672
Other comprehensive income:		
Amortization of benefits liability, net of tax	220	
Change in cumulative translation adjustment	(1,063)	304
<b>Comprehensive income</b>	<b>\$ 4,544</b>	<b>\$ 19,976</b>

**15. Long-Term Debt**

Long-term indebtedness consists of the following:

	March 31, 2008	December 31, 2007
6 <sup>5</sup> / <sub>8</sub> % senior notes due 2016	\$ 249,368	\$ 249,348
Revolving line of credit	44,550	1,177
6 <sup>3</sup> / <sub>4</sub> % senior notes due 2032	250,000	250,000
Loan related to tax-exempt waste disposal revenue bonds	10,889	10,889
<b>Long-term debt</b>	<b>\$ 554,807</b>	<b>\$ 511,414</b>

As of March 31, 2008, the Company had borrowings under the revolving credit facility that bore interest at either LIBOR plus 1.50% or the prime rate. The revolving credit facility also requires an unused commitment fee of 0.30%. All interest rates under the facility are subject to quarterly grid pricing adjustments based on a fixed charge coverage ratio. The facility matures on January 6, 2011.

**16. Guarantor Disclosures**

The Company's payment obligations under its 6<sup>5</sup>/<sub>8</sub>% senior notes and 6<sup>3</sup>/<sub>4</sub>% senior notes are fully and unconditionally guaranteed by each of its current and future domestic restricted subsidiaries that guarantee other debt of the Company or of another guarantor of the 6<sup>5</sup>/<sub>8</sub>% senior notes or the 6<sup>3</sup>/<sub>4</sub>% senior notes in excess of \$5,000 (the Guarantor Subsidiaries). Each Guarantor Subsidiary is 100% owned by the parent company. These guarantees are the joint and several obligations of the Guarantor Subsidiaries. The following unaudited condensed consolidating financial information presents the financial condition, results of operations and cash flows of Westlake Chemical Corporation, the Guarantor Subsidiaries and the remaining subsidiaries that do not guarantee the notes (the Non-Guarantor Subsidiaries), together with consolidating adjustments necessary to present the Company's results on a consolidated basis.



Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information as of March 31, 2008

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Balance Sheet</b>					
Current assets					
Cash and cash equivalents	\$ 1,094	\$ 99	\$ 6,653	\$	\$ 7,846
Accounts receivable, net	243,211	431,238	4,110	(214,176)	464,383
Inventories, net		519,730	12,321		532,051
Prepaid expenses and other current assets	430	10,228	330		10,988
Deferred income taxes	17,344		347		17,691
Total current assets	262,079	961,295	23,761	(214,176)	1,032,959
Property, plant and equipment, net		1,131,443	11,781		1,143,224
Equity investment	1,683,514	23,250	30,554	(1,706,764)	30,554
Restricted cash	186,673				186,673
Other assets, net	42,854	120,215	5,875	(36,032)	132,912
Total assets	\$ 2,175,120	\$ 2,236,203	\$ 71,971	\$ (1,956,972)	\$ 2,526,322
Current liabilities					
Accounts payable	\$ 27,931	\$ 231,245	\$ 882	\$	\$ 260,058
Accrued liabilities	14,222	74,979	1,661	(209)	90,653
Total current liabilities	42,153	306,224	2,543	(209)	350,711
Long-term debt	543,918	256,711	4,180	(250,002)	554,807
Deferred income taxes	287,885		1,309		289,194
Other liabilities	12,285	30,446			42,731
Stockholders' equity	1,288,879	1,642,822	63,939	(1,706,761)	1,288,879
Total liabilities and stockholders' equity	\$ 2,175,120	\$ 2,236,203	\$ 71,971	\$ (1,956,972)	\$ 2,526,322

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information as of December 31, 2007

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Balance Sheet</b>					
Current assets					
Cash and cash equivalents	\$ 16,173	\$ 96	\$ 8,645	\$	\$ 24,914
Accounts receivable, net	183,723	492,974	(2,307)	(166,927)	507,463
Inventories, net		515,465	12,406		527,871
Prepaid expenses and other current assets	10	13,867	355		14,232
Deferred income taxes	17,344		361		17,705
Total current assets	217,250	1,022,402	19,460	(166,927)	1,092,185
Property, plant and equipment, net		1,113,365	12,847		1,126,212
Equity investment	1,671,979	23,250	29,486	(1,695,229)	29,486
Restricted cash	199,450				199,450
Other assets, net	43,053	109,302	5,677	(36,030)	122,002
Total assets	\$ 2,131,732	\$ 2,268,319	\$ 67,470	\$ (1,898,186)	\$ 2,569,335
Current liabilities					
Accounts payable	\$ 29,319	\$ 284,658	\$ 974	\$	\$ 314,951
Accrued liabilities	16,654	108,702	1,055	(100)	126,311
Total current liabilities	45,973	393,360	2,029	(100)	441,262
Long-term debt	500,525	213,647	102	(202,860)	511,414
Deferred income taxes	286,603		1,362		287,965
Other liabilities	11,961	30,063			42,024
Stockholders' equity	1,286,670	1,631,249	63,977	(1,695,226)	1,286,670
Total liabilities and stockholders' equity	\$ 2,131,732	\$ 2,268,319	\$ 67,470	\$ (1,898,186)	\$ 2,569,335

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information for the Three Months Ended March 31, 2008

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Operations</b>					
Net sales	\$	\$ 907,504	\$ 9,589	\$ (2,032)	\$ 915,061
Cost of sales		871,574	8,815	(2,032)	878,357
Gross profit		35,930	774		36,704
Selling, general and administrative expenses	780	21,084	981		22,845
Income (loss) from operations	(780)	14,846	(207)		13,859
Interest expense	(5,037)	(3,423)	(68)		(8,528)
Other income (expense), net	10,708	140	1,240	(9,680)	2,408
Income (loss) before income taxes	4,891	11,563	965	(9,680)	7,739
Provision for (benefit from) income taxes	(496)	2,783	65		2,352
Net income (loss)	\$ 5,387	\$ 8,780	\$ 900	\$ (9,680)	\$ 5,387

## Condensed Consolidating Financial Information for the Three Months Ended March 31, 2007

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Operations</b>					
Net sales	\$	\$ 710,839	\$ 10,126	\$ (2,163)	\$ 718,802
Cost of sales		653,829	9,247	(2,163)	660,913
Gross profit		57,010	879		57,889
Selling, general and administrative expenses	294	23,708	1,221		25,223
Income (loss) from operations	(294)	33,302	(342)		32,666
Interest expense	573	(4,166)			(3,593)
Other income (expense), net	18,734	287	827	(18,857)	991
Income (loss) before income taxes	19,013	29,423	485	(18,857)	30,064
Provision for (benefit from) income taxes	(659)	10,937	114		10,392

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Net income (loss)	\$ 19,672	\$ 18,486	\$ 371	\$ (18,857)	\$ 19,672
-------------------	-----------	-----------	--------	-------------	-----------

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information for the Three Months Ended March 31, 2008

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Cash Flows</b>					
<b>Cash flows from operating activities</b>					
Net income (loss)	\$ 5,387	\$ 8,780	\$ 900	\$ (9,680)	\$ 5,387
<b>Adjustments to reconcile net income (loss) to net cash used for operating activities</b>					
Depreciation and amortization	219	25,225	776		26,220
(Recovery of) provision for bad debts		182	(98)		84
Stock-based compensation expense		914	33		947
Gain from disposition of fixed assets		2,385			2,385
Deferred tax expense	1,164		(1)		1,163
Equity in income of joint venture			(1,068)		(1,068)
Net changes in working capital and other	(28,198)	(42,466)	(2,388)	9,680	(63,372)
Net cash used for operating activities	(21,428)	(4,980)	(1,846)		(28,254)
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment		(42,733)	(251)		(42,984)
Settlements of futures contracts		319			319