

WESTLAKE CHEMICAL CORP
Form 10-Q
November 02, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2011

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

(Exact name of Registrant as specified in its charter)

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **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 (Do not check if a smaller reporting company)

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 October 27, 2011 was 66,602,742.

Table of Contents

INDEX

Item	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>1) Financial Statements</u>	1
<u>2) Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>3) Quantitative and Qualitative Disclosures about Market Risk</u>	31
<u>4) Controls and Procedures</u>	31
<u>PART II. OTHER INFORMATION</u>	
<u>1) Legal Proceedings</u>	31
<u>1A) Risk Factors</u>	31
<u>2) Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>6) Exhibits</u>	33

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WESTLAKE CHEMICAL CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 30, 2011	December 31, 2010
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 758,939	\$ 630,299
Accounts receivable, net	462,470	362,863
Inventories	466,248	450,028
Prepaid expenses and other current assets	11,443	15,482
Deferred income taxes	17,153	17,288
Total current assets	1,716,253	1,475,960
Property, plant and equipment, net	1,195,508	1,170,334
Equity investments	47,280	46,314
Restricted cash	116,729	150,288
Other assets, net	131,409	111,248
Total assets	\$ 3,207,179	\$ 2,954,144
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 196,393	\$ 204,774
Accrued liabilities	135,169	118,804
Total current liabilities	331,562	323,578
Long-term debt	764,543	764,482
Deferred income taxes	335,347	315,518
Other liabilities	46,604	45,496
Total liabilities	1,478,056	1,449,074
Commitments and contingencies (Notes 6 and 14)		
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; 66,602,742 and 66,256,144 shares issued and outstanding in 2011 and 2010, respectively	666	663
Common stock, held in treasury, at cost; 54,654 shares in 2011	(2,018)	
Additional paid-in capital	466,149	452,703
Retained earnings	1,277,901	1,058,737
Accumulated other comprehensive income		
Benefits liability, net of tax	(11,481)	(12,328)

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Cumulative translation adjustment	4,565	5,295
Unrealized holding losses on investments, net of tax	(6,659)	
Total stockholders' equity	1,729,123	1,505,070
Total liabilities and stockholders' equity	\$ 3,207,179	\$ 2,954,144

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands of dollars, except per share data and share amounts)			
Net sales	\$ 968,372	\$ 779,677	\$ 2,760,673	\$ 2,376,400
Cost of sales	821,305	644,822	2,278,927	2,057,841
Gross profit	147,067	134,855	481,746	318,559
Selling, general and administrative expenses	29,736	27,509	85,409	77,247
Income from operations	117,331	107,346	396,337	241,312
Other income (expense)				
Interest expense	(12,727)	(11,002)	(38,449)	(28,574)
Other income, net	1,457	622	4,296	1,536
Income before income taxes	106,061	96,966	362,184	214,274
Provision for income taxes	38,131	34,235	129,661	76,954
Net income	\$ 67,930	\$ 62,731	\$ 232,523	\$ 137,320
Earnings per share:				
Basic	\$ 1.02	\$ 0.95	\$ 3.50	\$ 2.08
Diluted	\$ 1.01	\$ 0.95	\$ 3.48	\$ 2.07
Weighted average shares outstanding:				
Basic	66,012,102	65,481,175	65,919,892	65,444,851
Diluted	66,381,932	65,677,989	66,307,604	65,603,089
Dividends per common share	\$ 0.0738	\$ 0.0635	\$ 0.2008	\$ 0.1785

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	\$ 232,523	\$ 137,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	98,244	96,322
Provision for doubtful accounts	917	651
Amortization of debt issue costs	1,289	1,748
Stock-based compensation expense	4,762	4,566
Loss from disposition of fixed assets	1,022	612
Impairment of long-lived assets	1,975	
Deferred income taxes	19,435	13,292
Equity in (income) loss of joint ventures	(2,443)	42
Changes in operating assets and liabilities		
Accounts receivable	(100,524)	(30,595)
Inventories	(16,220)	13,614
Prepaid expenses and other current assets	4,039	(7,902)
Accounts payable	(9,558)	(30,222)
Accrued liabilities	14,330	17,360
Other, net	(5,438)	(1,827)
Net cash provided by operating activities	244,353	214,981
Cash flows from investing activities		
Additions to property, plant and equipment	(111,823)	(51,237)
Proceeds from disposition of assets	2,456	849
Proceeds from repayment of loan to affiliate	763	333
Purchase of investments	(29,877)	
Settlements of derivative instruments	(331)	7,136
Net cash used for investing activities	(138,812)	(42,919)
Cash flows from financing activities		
Capitalized debt issuance costs	(2,540)	(1,419)
Dividends paid	(13,359)	(11,807)
Proceeds from exercise of stock options	5,323	1,280
Repurchase of common stock for treasury	(19)	
Utilization of restricted cash	33,694	22,625
Net cash provided by financing activities	23,099	10,679
Net increase in cash and cash equivalents	128,640	182,741
Cash and cash equivalents at beginning of period	630,299	245,592
Cash and cash equivalents at end of period	\$ 758,939	\$ 428,333

Supplemental cash flow information

Non-cash financing activity:

Proceeds from borrowings related to series 2009A revenue bonds (in restricted cash)	\$	\$ 93,943
---	----	-----------

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in thousands of dollars, except share amounts and 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, 2010 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, 2010, filed with the SEC on February 24, 2011. 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, 2010.

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 September 30, 2011, its results of operations for the three and nine months ended September 30, 2011 and 2010 and the changes in its cash position for the nine months ended September 30, 2011 and 2010.

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, 2011 or any other interim period. The preparation of financial statements in conformity with generally accepted accounting principles 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

Fair Value Measurement

In January 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update on fair value measurement disclosures. The new accounting guidance requires disclosures on significant transfers in and out of Levels 1 and 2 of the fair value hierarchy and gross presentation of Level 3 reconciliation components. It also clarifies two existing disclosure requirements regarding fair value disclosures by class of assets and liabilities rather than by major category and disclosures of valuation technique and the inputs used in determining fair value of each class of assets and liabilities for Levels 2 and 3 measurements. The accounting standards update is effective for reporting periods beginning after December 15, 2009, except for the gross presentation of the Level 3 reconciliation, which is effective for reporting periods beginning after December 15, 2010. With the exception of the gross presentation of the Level 3 reconciliation, the Company adopted the guidance as of January 1, 2010, and it did not have an impact on the Company's consolidated financial position or results of operations. The Company adopted the guidance pertaining to the gross presentation of the Level 3 reconciliation as of January 1, 2011, and the adoption did not have an impact on the Company's consolidated financial position or results of operations.

In May 2011, the FASB issued new accounting guidance changing some fair value measurement principles, such as by prohibiting the application of a blockage factor in fair value measurements and only requiring the application of the highest and best use concept when measuring nonfinancial assets. The accounting guidance will require, for recurring Level 3 fair value measurements, disclosure of quantitative information about unobservable inputs used, a description of the valuation processes used and a qualitative discussion about the sensitivity of the measurements. The accounting guidance further requires new disclosures about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the fair value hierarchy level of assets and liabilities not recorded at fair value but where fair value is disclosed. The accounting standards update will be effective for reporting periods beginning after December 15, 2011 and is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Presentation of Other Comprehensive Income

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

In June 2011, the FASB issued an accounting standards update on the presentation of other comprehensive income. The new accounting guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders equity. The new standard allows companies to present net income and other comprehensive income either in one continuous statement or in two separate, but consecutive, statements. The accounting standards update will be effective for fiscal years beginning after December 15, 2011 and is not expected to have an impact on the Company's consolidated financial position or results of operations.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)***Testing Goodwill for Impairment*

In September 2011, the FASB issued an accounting standards update to simplify how entities test goodwill for impairment. The new accounting guidance provides an entity with an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test under current accounting guidance. If an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test. Also under this new accounting guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test, but may resume performing the qualitative assessment in any subsequent period. The accounting standards update will be effective for reporting periods beginning after December 15, 2011 and is not expected to have a material impact on the Company's consolidated financial position or results of operations.

2. Accounts Receivable

Accounts receivable consist of the following:

	September 30, 2011	December 31, 2010
Trade customers	\$ 442,622	\$ 353,035
Affiliates	234	475
Allowance for doubtful accounts	(10,563)	(9,710)
	432,293	343,800
Federal and state taxes	21,903	15,499
Other	8,274	3,564
Accounts receivable, net	\$ 462,470	\$ 362,863

3. Inventories

Inventories consist of the following:

	September 30, 2011	December 31, 2010
Finished products	\$ 241,703	\$ 219,568
Feedstock, additives and chemicals	180,270	189,007
Materials and supplies	44,275	41,453
Inventories	\$ 466,248	\$ 450,028

4. Property, Plant and Equipment

As of September 30, 2011, the Company had property, plant and equipment totaling \$1,195,508. The Company assesses these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, including when negative conditions such as significant current or projected operating losses exist. Other factors considered by the Company when determining if an impairment assessment is necessary include significant changes or projected changes in supply and demand fundamentals (which would have a negative impact on operating rates or margins), new technological developments, new competitors with significant raw material or other cost advantages, adverse changes associated with the U.S. and world economies and uncertainties associated with governmental actions. Long-lived assets assessed for impairment are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

In June 2011, as a result of excess capacity in the PVC pipe market and in an effort to reduce costs and optimize operations, the Company closed its Springfield, Kentucky PVC pipe facility. Asset impairment costs and severance and other costs related to the PVC pipe facility closure recorded during the nine months ended September 30, 2011 were \$1,975 and \$1,389, respectively. The Company determined the fair value of the impaired assets using internally developed, unobservable inputs (Level 3 inputs in the fair value hierarchy of fair value accounting) based on the projected cash flows of the pipe facility.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)**

Depreciation expense on property, plant and equipment of \$27,623 and \$26,433 is included in cost of sales in the consolidated statements of operations for the three months ended September 30, 2011 and 2010, respectively. Depreciation expense on property, plant and equipment of \$82,423 and \$78,989 is included for the nine months ended September 30, 2011 and 2010, respectively.

5. Other Assets

Investments reflected in other assets, net in the consolidated balance sheet at September 30, 2011 were \$21,218. These investments have been classified as available-for-sale.

The cost, gross unrealized losses and fair value of the investments were as follows:

	September 30, 2011		
	Cost	Gross Unrealized Losses ⁽¹⁾	Fair Value
Available-for-sale investments	\$ 27,877	\$ (6,659)	\$ 21,218

(1) All unrealized loss positions were held at a loss for less than 12 months.

Because the Company does not intend to sell, nor is it likely to be forced to sell, its available-for-sale investments, declines in fair value are mostly considered temporary. The Company regularly evaluates available evidence to determine if its investments are other-than-temporarily impaired. The Company considers the evidence to support the recovery of the cost basis of investments, the length of time the investments are in a loss position, value and growth expectations and overall market and sector fundamentals, in determining whether unrealized losses represent an other-than-temporary impairment.

See Note 9 for the fair value hierarchy of the Company's available-for-sale investments.

Amortization expense on other assets of \$5,664 and \$6,728 is included in the consolidated statements of operations for the three months ended September 30, 2011 and 2010, respectively. Amortization expense on other assets of \$17,110 and \$19,081 is included for the nine months ended September 30, 2011 and 2010, respectively.

6. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2011	December 31, 2010
6 ⁵ /8% senior notes due 2016	\$ 249,654	\$ 249,593

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

6 1/2% senior notes due 2029	100,000	100,000
6 3/4% senior notes due 2032	250,000	250,000
6 1/2% senior notes due 2035 (the 2035 GO Zone 6 1/2% Notes)	89,000	89,000
6 1/2% senior notes due 2035 (the 2035 IKE Zone 6 1/2% Notes)	65,000	65,000
Variable rate tax-exempt waste disposal revenue bonds due 2027	10,889	10,889
Long-term debt	\$ 764,543	\$ 764,482

The Company has a \$400,000 senior secured revolving credit facility. In September 2011, the Company entered into a second amendment and restatement to the revolving credit facility. The amendment and restatement extended the scheduled maturity date of the facility from September 8, 2013 to September 16, 2016, reduced the interest rate and facility fee payable under the facility, amended the covenants restricting the Company's ability to make distributions and acquisitions and make investments and, among other things:

includes a covenant requiring the Company to maintain a minimum fixed charge coverage ratio of 1.0:1 for successive 30-day periods after any date on which the borrowing availability under the facility is less than the greater of (1) 12.5% of the commitments under the facility and (2) \$50,000, until the borrowing availability exceeds the greater of the amount in clause (1) and the amount in clause (2) for a 30-day period;

generally allows the Company to incur up to \$150,000 in purchase money debt and eliminates a \$20,000 maximum limit on the amount of capital leases that it may enter into;

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)**

generally allows the Company to incur an amount of debt secured by liens on its assets that are not collateral under the facility up to the greater of (1) \$600,000 and (2) 30% of tangible assets;

generally allows the Company to enter into sale and leaseback transactions in an amount up to an aggregate of \$150,000; and

so long as no default or event of default has occurred or is continuing, allows the Company to prepay any debt with unrestricted cash and to prepay any of its existing senior notes with unrestricted or restricted cash.

The facility also includes a provision permitting the Company to increase the size of the facility, up to four times, in increments of at least \$25,000 each (up to a maximum of \$150,000) under certain circumstances if certain lenders agree to commit to such an increase.

Amounts drawn under the facility are limited to (1) 85% of the net amount of eligible accounts receivable, plus (2) the lesser of (a) 70% of the value of the lower of cost or market of eligible inventory, or (b) 85% of the appraised net orderly liquidation value of all eligible inventory, plus (3) 100% of cash held in an account with Bank of America and subject to a control agreement with Bank of America, minus (4) such reserves as Bank of America, the agent, may establish. Advances on inventory are limited to \$325,000. The facility includes a \$400,000 sub-limit for letters of credit, and any outstanding letters of credit will be deducted from availability under the facility.

At September 30, 2011, the Company had no borrowings outstanding under the revolving credit facility. Any borrowings under the facility will bear interest at either LIBOR plus a spread ranging from 1.75% to 2.25% or a base rate plus a spread ranging from 0.25% to 0.75%. The revolving credit facility also requires an unused commitment fee of 0.375% per annum. All interest rates under the facility are subject to monthly grid pricing adjustments based on prior month average daily loan availability. The revolving credit facility matures on September 16, 2016. As of September 30, 2011, the Company had outstanding letters of credit totaling \$17,662 and borrowing availability of \$382,338 under the revolving credit facility.

7. Stock-Based Compensation

Under the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the 2004 Plan), all employees and nonemployee directors 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 nonemployee 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). Total stock-based compensation expense related to the 2004 Plan was \$1,636 and \$1,587 for the three months ended September 30, 2011 and 2010, respectively, and \$4,762 and \$4,566 for the nine months ended September 30, 2011 and 2010, respectively.

Option activity and changes during the nine months ended September 30, 2011 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	1,314,524	\$ 20.81		
Granted	99,380	45.83		

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Exercised	(273,577)	19.47		
Cancelled	(3,069)	42.74		
Outstanding at September 30, 2011	1,137,258	\$ 23.26	6.7	\$ 13,711
Exercisable at September 30, 2011	505,125	\$ 18.72	6.1	\$ 7,887

For options outstanding at September 30, 2011, the options had the following range of exercise prices:

Range of Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
\$14.24 \$19.29	507,625	6.4
\$20.53 \$27.24	259,723	7.8
\$30.07 \$45.83	369,910	6.4

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)**

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 quarter 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 September 30, 2011. This amount changes based on the fair market value of the Company's common stock. The total intrinsic value of options exercised was \$355 for the three months ended September 30, 2010, and \$8,147 and \$758 for the nine months ended September 30, 2011 and 2010, respectively. There were no options exercised during the three months ended September 30, 2011.

As of September 30, 2011, \$3,636 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.3 years. Income tax benefit realized from the exercise of stock options was \$44 for the three months ended September 30, 2010, and \$2,148 and \$135 for the nine months ended September 30, 2011 and 2010, respectively.

The Company uses 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 nine months ended September 30, 2011 and 2010. There were no options granted during the three months ended September 30, 2011 and 2010. Volatility was calculated using historical trends of the Company's common stock price.

	(143,121)	(143,121)
	Stock Option Grants	
	Nine Months Ended	
	September 30,	
	2011	2010
Weighted average fair value	\$ 19.22	\$ 8.19
Risk-free interest rate	2.8%	2.9%
Expected life in years	6	6
Expected volatility	41.9%	41.8%
Expected dividend yield	0.5%	1.1%

Non-vested restricted stock awards as of September 30, 2011 and changes during the nine months ended September 30, 2011 were as follows:

	(143,121)	(143,121)
	Weighted	
	Average	
	Number of	Grant Date
	Shares	Fair Value
Non-vested at December 31, 2010	654,241	\$ 19.97
Granted	78,828	45.03
Vested	(143,121)	19.64
Forfeited	(5,807)	20.33
Non-vested at September 30, 2011	584,141	\$ 23.43

As of September 30, 2011, there was \$5,721 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 1.3 years. The total fair value of shares of restricted stock that vested

was \$374 and \$168 for the three months ended September 30, 2011 and 2010, respectively. The total fair value of shares of restricted stock that vested was \$6,214 and \$1,354 for the nine months ended September 30, 2011 and 2010, respectively.

8. Derivative Commodity Instruments

The Company uses derivative instruments to reduce price volatility risk on raw materials and products as a substantial portion of its raw materials and products are commodities whose prices fluctuate as market supply and demand fundamentals change. Business strategies to protect against such instability include ethylene product feedstock flexibility and moving downstream into the olefins and vinyls products where pricing is more stable. The Company does not use derivative instruments to engage in speculative activities.

For derivative instruments that are designated and qualify as fair value hedges, the gains or losses on the derivative instruments, as well as the offsetting losses or gains on the hedged items attributable to the hedged risk, were included in cost of sales in the consolidated statements of operations for the three and nine months ended September 30, 2011. As of September 30, 2011, the Company had 34,650,000 gallons of feedstock forward contracts designated as fair value hedges.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)**

Gains and losses from changes in the fair value of derivative instruments that are not designated as hedging instruments were included in cost of sales in the consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010.

The exposure on commodity derivatives used for price risk management includes the risk that the counterparty will not pay if the market declines below the established fixed price. In such case, the Company would lose the benefit of the derivative differential on the volume of the commodities covered. In any event, the Company would continue to receive the market price on the actual volume hedged. The Company also bears the risk that it could lose the benefit of market improvements over the fixed derivative price for the term and volume of the derivative instruments (as such improvements would accrue to the benefit of the counterparty).

The fair values of derivative instruments in the Company's consolidated balance sheets were as follows:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value as of September 30, 2011	Fair Value as of December 31, 2010	Balance Sheet Location	Fair Value as of September 30, 2011	Fair Value as of December 31, 2010
Designated as hedging instruments						
Commodity forward contracts	Accounts receivable, net	\$ 68	\$	Accrued liabilities	\$ 1,848	\$
Not designated as hedging instruments						
Commodity forward contracts	Accounts receivable, net	\$ 3,126	\$ 47	Accrued liabilities	\$ 1,658	\$ 46
Total derivatives		\$ 3,194	\$ 47		\$ 3,506	\$ 46

The following tables reflect the impact of derivative instruments designated as fair value hedges and the related hedged item on the Company's consolidated statements of operations. For the three and nine months ended September 30, 2011, there was no material ineffectiveness with regard to the Company's qualifying hedges.

	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Derivatives in Fair Value Hedging Relationships					
Commodity forward contracts	Cost of sales	\$ (1,780)	\$	\$ (1,780)	\$
Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Hedged Items	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Firm commitment designated as the hedged item	Cost of sales	\$ 1,780	\$	\$ 1,780	\$

The impact of derivative instruments that have not been designated as hedges on the Company's consolidated statements of operations were as follows:

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

	\$(0,000)	\$(0,000)	\$(0,000)	\$(0,000)	\$(0,000)
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2011	2010	2011	2010
Commodity forward contracts	Cost of sales	\$ 371	\$ 531	\$ 838	\$ (1,622)

See Note 9 for the fair value of the Company's derivative instruments.

9. Fair Value Measurements

The Company reports certain assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Under the accounting guidance for fair value measurements, 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.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)**

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 tables summarize, by level within the fair value hierarchy, the Company's assets and liabilities that were accounted for at fair value on a recurring basis:

	September 30, 2011		
	Level 1	Level 2	Total
Derivative instruments			
Risk management assets	\$ 365	\$ 2,829	\$ 3,194
Risk management liabilities		(3,506)	(3,506)
Firm commitments			
Hedged portion of firm commitment		1,780	1,780
Marketable securities			
Available-for-sale investments	21,218		21,218

	December 31, 2010		
	Level 1	Level 2	Total
Derivative instruments			
Risk management assets	\$ 47	\$	\$ 47
Risk management liabilities	(46)		(46)

The Level 2 measurements are derived using forward curves supplied by industry recognized and unrelated third-party services. There were no transfers in and out of Levels 1 and 2 of the fair value hierarchy for the nine months ended September 30, 2011 and 2010.

In addition to the financial instruments above, the Company has other financial assets and liabilities subject to fair value measures. These financial assets and liabilities include cash and cash equivalents, accounts receivable, net, accounts payable and long-term debt, all of which are recorded at carrying value. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, net and accounts payable approximate their fair value due to the short maturities of these instruments. The carrying and fair values of the Company's long-term debt are summarized below:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
6 ⁵ / ₈ % senior notes due 2016	\$ 249,654	\$ 256,875	\$ 249,593	\$ 258,438
6 ¹ / ₂ % senior notes due 2029	100,000	106,823	100,000	99,875
6 ³ / ₄ % senior notes due 2032	250,000	257,718	250,000	251,925
2035 GO Zone 6 ¹ / ₂ % Notes	89,000	92,073	89,000	88,653
2035 IKE Zone 6 ¹ / ₂ % Notes	65,000	67,244	65,000	64,905
Variable rate tax-exempt waste disposal revenue bonds due 2027	10,889	10,889	10,889	10,889

10. Income Taxes

The effective income tax rate was 35.8% for the nine months ended September 30, 2011. The effective income tax rate for the 2011 period was above the statutory rate of 35.0% primarily due to state income taxes, partially offset by the domestic manufacturing deduction. The effective income tax rate was 35.9% for the nine months ended September 30, 2010. The effective income tax rate for the 2010 period was above the statutory rate of 35.0% primarily due to state income taxes, partially offset by state tax credits and the domestic manufacturing deduction.

Management anticipates no material reductions to the total amount of unrecognized tax benefits within the next twelve months.

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of September 30, 2011, the Company had no material accrued interest and penalties related to uncertain tax positions.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)**

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is no longer subject to examinations by tax authorities before the year 2005. During the first quarter of 2011, the Internal Revenue Service began an audit of the Company for the 2009 tax year, and such audit continued during the third quarter of 2011.

11. Earnings per Share

The Company has non-vested shares of restricted stock that are considered participating securities and computes basic and diluted earnings per share under the two-class method. Basic earnings per share for the periods are based upon the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share include the effect of certain stock options.

	00,000	00,000	00,000	00,000
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income	\$ 67,930	\$ 62,731	\$ 232,523	\$ 137,320
Less:				
Net income attributable to participating securities	(598)	(639)	(2,087)	(1,385)
Net income attributable to common shareholders	\$ 67,332	\$ 62,092	\$ 230,436	\$ 135,935

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

	00,000	00,000	00,000	00,000
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Weighted average common shares basic	66,012,102	65,481,175	65,919,892	65,444,851
Plus incremental shares from:				
Assumed exercise of options	369,830	196,814	387,712	158,238
Weighted average common shares diluted	66,381,932	65,677,989	66,307,604	65,603,089
Earnings per share:				
Basic	\$ 1.02	\$ 0.95	\$ 3.50	\$ 2.08
Diluted	\$ 1.01	\$ 0.95	\$ 3.48	\$ 2.07

Excluded from the computation of diluted earnings per share are options to purchase 99,592 and 698,340 shares of common stock for the three months ended September 30, 2011 and 2010, respectively, and 151,923 and 699,710 shares of common stock for the nine months ended September 30, 2011 and 2010, respectively. These options were outstanding during the periods reported but were excluded because the effect of including them would have been antidilutive.

12. Comprehensive Income Information

	00,000	00,000	00,000	00,000
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income	\$ 67,930	\$ 62,731	\$ 232,523	\$ 137,320
Other comprehensive income (loss):				
Amortization of benefits liability, net of tax	286	332	847	2,814
Change in cumulative foreign currency translation adjustment	(1,054)	371	(730)	191
Unrealized holding losses on available-for-sale investments, net of tax	(6,659)		(6,659)	
Comprehensive income	\$ 60,503	\$ 63,434	\$ 225,981	\$ 140,325

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *Continued*

(Unaudited)

(in thousands of dollars, except share amounts and per share data)

13. Pension and Post-Retirement Benefit Costs

Components of net periodic benefit cost are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension		Post-retirement Healthcare		Pension		Post-retirement Healthcare	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ 224	\$ 263	\$ 4	\$ 13	\$ 705	\$ 788	\$ 12	\$ 38
Interest cost	681	690	209	225	2,042	2,069	628	674
Expected return on plan assets	(570)	(484)			(1,709)	(1,452)		
Amortization of transition obligation			28	29			85	85
Amortization of prior service cost	74	74	47	53	223	223	140	159
Amortization of net loss	322	383	28	7	948	1,150	84	21
Net periodic benefit cost	\$ 731	\$ 926	\$ 316	\$ 327	\$ 2,209	\$ 2,778	\$ 949	\$ 977

The Company contributed \$1,692 and \$811 to the Salaried pension plan in the first nine months of 2011 and 2010, respectively, and contributed \$1,362 and \$705 to the Wage pension plan in the first nine months of 2011 and 2010, respectively. The Company expects to make additional contributions of \$442 to the Salaried pension plan and \$524 to the Wage pension plan during the fiscal year ending December 31, 2011.

14. 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.

Contract Disputes with Goodrich and PolyOne. In connection with the 1990 and 1997 acquisitions of the Goodrich Corporation (Goodrich) 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 Corporation (PolyOne), and that predecessor assumed Goodrich's indemnification obligations relating to preexisting contamination.

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 an arbitration 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

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

complex do not have a specified termination date but are expected to last for the foreseeable future. The costs incurred by PolyOne to provide the environmental remediation services were \$3,028 in 2010. On March 17, 2010, the Company received notice of PolyOne's intention to commence an arbitration proceeding under the settlement agreement. In this proceeding, PolyOne seeks to readjust the percentage allocation of costs and to recover approximately \$1,400 from the Company in reimbursement of previously paid remediation costs. The arbitration is currently stayed.

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 (the Cabinet) re-issued Goodrich's Resource Conservation and Recovery Act (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. The Company intervened in the proceedings. The Cabinet has suspended all corrective action under the RCRA permit in deference to a remedial investigation and

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

(in thousands of dollars, except share amounts and per share data)

feasibility study (RIFS) being conducted pursuant to an Administrative Settlement Agreement (AOC), which became effective on December 9, 2009. See "Change in Regulatory Regime" below. The proceedings have been postponed. Periodic status conferences will be held to evaluate whether additional proceedings will be required. On September 19, 2011, the Company filed a motion to dismiss the remaining proceedings.

Change in Regulatory Regime. In May 2009, the Cabinet sent a letter to the U.S. Environmental Protection Agency (EPA) requesting the EPA 's assistance in addressing contamination at the Calvert City site under the U.S. Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). In its response to the Cabinet also in May 2009, the EPA stated that it concurred with the Cabinet 's request and would incorporate work previously conducted under the Cabinet 's RCRA authority into the EPA 's cleanup efforts under CERCLA. Since 1983, the EPA has been addressing contamination at an abandoned landfill adjacent to the Company 's plant which had been operated by Goodrich and which was being remediated pursuant to CERCLA. During the past two years, the EPA has directed Goodrich and PolyOne to conduct additional investigation activities at the landfill and at the Company 's plant. In June 2009, the EPA notified the Company that the Company may have potential liability under section 107(a) of CERCLA at its plant site. Liability under section 107(a) of CERCLA is strict and joint and several. The EPA also identified Goodrich and PolyOne, among others, as potentially responsible parties at the plant site. The Company negotiated, in conjunction with the other potentially responsible parties, the AOC and an order to conduct the RIFS. The parties submitted and received EPA approval for a RIFS work plan to implement the AOC. The parties are conducting the RIFS.

Monetary Relief. Except as noted above with respect to the settlement of the contract litigation among the Company, Goodrich and PolyOne, none of the court, the Cabinet nor the EPA has established any allocation of the costs of remediation among the various parties that are involved in the judicial and administrative proceedings discussed above. At this time, the Company is not able to estimate the loss or reasonable possible loss, if any, on the Company 's financial statements in 2011 and later years that could result from the resolution of these proceedings. 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.

EPA Audit of Ethylene Units in Lake Charles. During 2007, the EPA conducted an audit of the Company 's ethylene units in Lake Charles, Louisiana, with a focus on leak detection and repair, or LDAR. In January 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 EPA has proposed a settlement and provided a draft consent decree, which would require the Company 's Lake Charles facilities to undertake an enhanced LDAR program and would require payment of a civil penalty. The Company is engaged in negotiations with the EPA. The Company has recorded an accrual for a probable loss related to monetary penalties. Although the ultimate amount of liability is not ascertainable, the Company believes that the resolution of this matter will not have a material adverse effect on the Company 's financial condition, results of operations or cash flows.

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.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued****(Unaudited)****(in thousands of dollars, except share amounts and per share data)****15. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales to external customers				
Olefins				
Polyethylene	\$ 444,077	\$ 422,036	\$ 1,358,631	\$ 1,244,467
Ethylene, styrene and other	251,597	133,121	587,438	453,041
Total Olefins	695,674	555,157	1,946,069	1,697,508
Vinyls				
PVC, caustic soda and other	198,046	134,411	583,214	401,330
Building products	74,652	90,109	231,390	277,562
Total Vinyls	272,698	224,520	814,604	678,892
	\$ 968,372	\$ 779,677	\$ 2,760,673	\$ 2,376,400
Intersegment sales				
Olefins	\$ 109,140	\$ 85,670	\$ 327,584	\$ 205,846
Vinyls	376	248	1,100	