

WESTLAKE CHEMICAL CORP
Form 10-Q
May 04, 2007
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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, 2007

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

2801 Post Oak Boulevard, Suite 600

Houston, Texas 77056

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

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(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 non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **Accelerated filer** **Non-accelerated filer**

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 May 1, 2007, was 65,467,880.

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

	March 31,	December 31,
	2007	2006
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,325	\$ 52,646
Accounts receivable, net	423,630	308,903
Inventories, net	417,651	456,276
Prepaid expenses and other current assets	10,456	16,086
Deferred income taxes	15,882	15,876
Total current assets	880,944	849,787
Property, plant and equipment, net	1,076,364	1,076,903
Equity investment	27,040	26,382
Other assets, net	126,133	129,026
Total assets	\$ 2,110,481	\$ 2,082,098
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 220,462	\$ 238,914
Accrued liabilities	86,090	82,998
Total current liabilities	306,552	321,912
Long-term debt	280,876	260,156
Deferred income taxes	285,623	281,828
Other liabilities	45,918	44,661
Total liabilities	918,969	908,557
Commitments and Contingencies (Notes 11 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; 65,467,880 and 65,268,585 shares issued and outstanding in 2007 and 2006, respectively	655	653
Additional paid-in capital	428,497	427,893
Retained earnings	771,982	754,921
Accumulated other comprehensive income		
Benefits liability, net of tax	(12,186)	(12,186)

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Cumulative translation adjustment	2,564	2,260
Total stockholders' equity	1,191,512	1,173,541
Total liabilities and stockholders' equity	\$ 2,110,481	\$ 2,082,098

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

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WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended	
	2007	2006
	March 31,	
	(in thousands of dollars, except per share data and share amounts)	
Net sales	\$ 718,802	\$ 618,779
Cost of sales	660,913	487,721
Gross profit	57,889	131,058
Selling, general and administrative expenses	25,223	20,179
Income from operations	32,666	110,879
Interest expense	(3,593)	(6,026)
Debt retirement cost		(25,853)
Other income, net	991	2,334
Income before income taxes	30,064	81,334
Provision for income taxes	10,392	29,997
Net income	\$ 19,672	\$ 51,337
Basic and diluted earnings per share	\$ 0.30	\$ 0.79
Weighted average shares outstanding:		
Basic	65,217,996	65,092,195
Diluted	65,324,517	65,230,772

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

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WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	\$ 19,672	\$ 51,337
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	24,355	20,475
Recovery of bad debts	(412)	(5)
Amortization of debt issue costs	189	287
Loss (gain) from disposition of fixed assets	39	(59)
Deferred tax expense	3,776	4,490
Equity in income of joint venture	(658)	(241)
Write-off of debt issuance costs		3,623
Changes in operating assets and liabilities		
Accounts receivable	(115,992)	25,516
Inventories	38,625	281
Prepaid expenses and other current assets	5,630	211
Accounts payable	(17,048)	(29,089)
Accrued liabilities	3,092	(10,720)
Other, net	(3,682)	653
Net cash (used for) provided by operating activities	(42,414)	66,759
Cash flows from investing activities		
Additions to property, plant and equipment	(18,873)	(28,549)
Settlements of derivative instruments	3,815	(27,445)
Net cash used for investing activities	(15,058)	(55,994)
Cash flows from financing activities		
Proceeds from the exercise of stock options	62	396
Dividends paid	(2,611)	(1,791)
Proceeds from borrowings	136,075	249,185
Repayment of borrowings	(115,375)	(256,000)
Capitalized debt costs		(4,084)
Net cash provided by (used for) financing activities	18,151	(12,294)
Net decrease in cash and cash equivalents	(39,321)	(1,529)
Cash and cash equivalents at beginning of period	52,646	237,895
Cash and cash equivalents at end of period	\$ 13,325	\$ 236,366

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

Table of Contents**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, 2006 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, 2006, filed with the SEC on February 26, 2007. 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, 2006.

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 presentation of the Company's financial position as of March 31, 2007, its results of operations for the three months ended March 31, 2007 and 2006 and the changes in its cash position for the three months ended March 31, 2007 and 2006.

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, 2007 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 February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and the Company has not yet determined the impact this interpretation might have on its financial position.

2. Stock-Based Compensation

The Board of Directors of the Company has adopted, and the stockholders have approved, the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the "2004 Plan"). Under 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 \$524 and \$429 for the three months ended March 31, 2007 and 2006, respectively.

Option activity and changes during the three months ended March 31, 2007 were as follows:

Options	Weighted Average	Weighted Average	Aggregate Intrinsic
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		Exercise	Remaining	Value
		Price	Term	
			(Years)	
Outstanding at December 31, 2006	356,284	\$ 20.57		
Granted	352,700	31.61		
Exercised	(3,471)	17.78		
Cancelled	(7,317)	28.39		
Outstanding at March 31, 2007	698,196	\$ 26.08	8.9	\$ 2,762
Exercisable at March 31, 2007	111,482	\$ 18.49	7.7	\$ 1,071

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

For options outstanding at March 31, 2007, the options had the following range of exercise prices:

Range of Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
\$14.50	217,913	7.4
\$25.42 - \$36.10	480,283	9.6

The aggregate intrinsic value in the table 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 2007 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, 2007. 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 and 2006 was \$57 and \$511.

As of March 31, 2007, \$5,323 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.7 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 each option's fair value for each option granted during the first three months of 2007 and 2006. Volatility was calculated using historical trends of the Company's common stock price.

	Stock Option Grants Three Months Ended March 31,	
	2007	2006
Weighted average fair value of grants	\$ 14.23	\$ 15.28
Risk-free interest rate	4.5%	4.8%
Expected life in years	6-10	6-7
Expected volatility	33.2%	33.9%
Expected dividend yield	0.5%	0.3%

Non-vested restricted stock awards as of March 31, 2007 and changes during the three months ended March 31, 2007 were as follows:

Number of Shares	Weighted Average Grant Date Fair Value
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Non-vested at December 31, 2006	53,928	\$ 30.85
Granted	198,811	31.61
Vested	(6,569)	36.10
Forfeited	(2,987)	31.65
Non-vested at March 31, 2007	243,183	\$ 31.32

As of March 31, 2007, there was \$6,483 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 4.8 years.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

3. Accounts Receivable

Accounts receivable consist of the following:

	March 31,	December 31,
	2007	2006
Accounts receivable trade	\$ 408,491	\$ 294,564
Accounts receivable affiliates	1,153	1,252
Allowance for doubtful accounts	(3,140)	(3,287)
	406,504	292,529
Accounts receivable other	17,126	16,374
Accounts receivable, net	\$ 423,630	\$ 308,903

4. Inventories

Inventories consist of the following:

	March 31,	December 31,
	2007	2006
Finished products	\$ 261,769	\$ 290,048
Feedstock, additives and chemicals	126,133	137,669
Materials and supplies	37,504	36,499
	425,406	464,216
Allowance for inventory obsolescence	(7,755)	(7,940)
Inventories, net	\$ 417,651	\$ 456,276

5. Property, Plant and Equipment

Depreciation expense on property, plant and equipment of \$19,136 and \$18,075 is included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2007 and 2006, respectively.

6. Other Assets

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Amortization expense on other assets of \$5,408 and \$2,687 is included in the consolidated statements of operations for the three months ended March 31, 2007 and 2006, 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 \$728 in connection with trading activity for the three months ended March 31, 2007 compared to a net gain of \$5,204 for the three months ended March 31, 2006. All of the 2007 net gain related to derivative gains. Of the 2006 net gain, \$4,813 related to derivative gains and \$391 related to sales of related physical feedstock positions. Gains and losses in connection with trading activity are included in cost of sales. Risk management asset balances of \$797 and \$5,721 were included in Accounts receivable, net and risk management liability balances of \$-0- and \$1,211 were included in current liabilities in the Company's consolidated balance sheets as of March 31, 2007 and December 31, 2006, respectively.

8. Income Taxes

The Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. The Company recognized no adjustments in the liability for unrecognized income tax benefits in the first quarter of 2007 as a result of the implementation of FIN 48. As of January 1, 2007, the total gross unrecognized tax benefits were \$9,637. Of this total, \$5,072, net of federal tax benefits, would favorably impact the effective income tax rate if recognized. There have been no significant changes to these amounts during the three months ended March 31, 2007.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of January 1, 2007, the Company had approximately \$3,069 of accrued interest and penalties related to uncertain tax positions. There has been no significant change to this amount during the three months ended March 31, 2007.

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. Management does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

The effective income tax rate was 34.6% in 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. The effective tax rate was 36.9% for the first quarter of 2006. The 2006 tax rate was above the statutory rate of 35% primarily due to state income tax, partially offset by the manufacturing deduction.

9. 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,	
	2007	2006
	(in thousands)	
Weighted average common shares basic	65,218	65,092
Plus incremental shares from assumed conversions:		
Options	92	125
Restricted stock	15	14
Weighted average common shares diluted	65,325	65,231

10. Pension and Post-Retirement Benefit Costs

Components of Net Periodic Costs are as follows:

	Three Months Ended	
	March 31,	
	Pension	Post-Retirement

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	2007	2006	2007	2006
Service cost	\$ 260	\$ 267	\$ 78	\$ 91
Interest cost	557	471	146	134
Expected return on plan assets	(599)	(550)		
Amortization of transition obligation			28	28
Amortization of prior service cost	80	79	67	67
Amortization of net loss	132	100	104	77
Net periodic benefit cost	\$ 430	\$ 367	\$ 423	\$ 397

In the first quarters of 2007 and 2006, 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, 2007.

11. 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

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

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 Litigation 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 mid-1997 the Company began operating (pursuant to contract) a certain piece of groundwater remediation equipment at the complex owned by Goodrich.

For a number of years, PolyOne has asserted that the Company's operations after the 1990 and 1997 acquisitions have contributed to the contamination. In May 2003, Goodrich asserted that the Company is responsible for a portion of the costs of treating the complex's contaminated groundwater. Goodrich then began withholding payment of 45% of the monthly costs incurred by the Company to operate certain remediation equipment.

In October 2003, the Company sued Goodrich in the United States District Court for the Western District of Kentucky for breach of contract to recover its unpaid invoices for providing these services. Goodrich filed a counterclaim against the Company and a third-party complaint against PolyOne. PolyOne in turn filed motions to dismiss, counterclaims against Goodrich, and cross-claims against the Company, in which it alleged, among other things, that Goodrich and the Company had conspired to defraud PolyOne.

In March 2005, the court dismissed PolyOne's claims against the Company and granted the Company's motion for summary judgment on its breach of contract claim against Goodrich. In July 2005, Goodrich agreed to pay the Company all past due amounts, including interest, in the amount of \$3,132. This reimbursement is reflected in the consolidated statement of operations for the year ended December 31, 2005, resulting in a \$2,606 reduction of selling, general and administrative expenses and \$526 of interest income. Goodrich further agreed to timely and fully pay the Company for all future services. Goodrich reserved the right to seek reconsideration of the court's order, which, if granted, could require the Company to reimburse Goodrich for its payments to the Company under the July 2005 agreement. The case is continuing with respect to Goodrich's counterclaim against the Company and the claims between Goodrich and PolyOne. Trial is set for October 2007.

The current groundwater remediation activities at the Calvert City complex do not have a specified termination date but are expected to last for the foreseeable future. Since the Company acquired in mid-1997 the relevant portion of the complex where certain groundwater remediation equipment is located, the Company has spent \$24,131 through March 31, 2007 in operating this equipment, all of which has been reimbursed to the Company by Goodrich. Goodrich is continuing to reimburse the Company on a monthly basis as ongoing expenses for these services are incurred. The costs incurred to operate the groundwater remediation equipment were \$3,362 in 2006 and \$833 in the first quarter of 2007.

Administrative Proceedings. There are several administrative proceedings in Kentucky involving the Company, Goodrich and PolyOne and 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, 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, which is now due in September 2007. In October 2006, the Cabinet notified Goodrich and the

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Company that both were operators of former Pond 4 under RCRA, and ordered them to jointly submit an application for a RCRA permit no later than April 2007. Goodrich and the Company have both challenged the Cabinet's October 2006 order.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

All of these administrative proceedings have been consolidated. At a hearing on February 9, 2007, the administrative law judge vacated the hearing date and set a status conference for May 18, 2007 based on the fact that the parties are engaged in settlement discussions.

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, the Company's claim for indemnification of its costs incurred in connection with Pond 4 is still before the court.

PolyOne filed a separate lawsuit against the Company in March 2005 in the United States District Court for the Western District of Kentucky seeking to require the Company to apply for its own RCRA permit. Purportedly brought under the citizen suit provisions of RCRA, PolyOne's suit involves the same issues raised in the Goodrich and PolyOne challenges to the RCRA permit discussed above. The Company filed a motion to dismiss PolyOne's suit. On March 30, 2007, the court granted the Company's motion to dismiss. PolyOne has not appealed the dismissal of its suit.

Monetary Relief. 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 of these proceedings could have on the Company's financial condition, results of operations, or cash flows. Any monetary liabilities that the Company might incur 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.

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 for a probable loss related to monetary penalties and other items to be expensed; however, based on correspondence with the EPA, the Company reduced its loss accrual by \$1,500 during the fourth quarter of 2006. 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.

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.

12. Segment Information

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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.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2007	2006
Net sales to external customers		
Olefins		
Polyethylene	\$ 343,531	\$ 189,456
Ethylene, styrene and other	140,695	150,261
Total olefins	484,226	339,717
Vinyls		
Fabricated finished goods	127,727	140,410
VCM, PVC and other	106,849	138,652
Total vinyls	234,576	279,062
	\$ 718,802	\$ 618,779
Intersegment sales		
Olefins	\$ 11,101	\$ 40,064
Vinyls	240	324
	\$ 11,341	\$ 40,388
Income (loss) from operations		
Olefins	\$ 27,219	\$ 59,565
Vinyls	7,792	54,411
Corporate and other	(2,345)	(3,097)
	\$ 32,666	\$ 110,879
Depreciation and amortization		
Olefins	\$ 15,656	\$ 11,750
Vinyls	8,661	8,697
Corporate and other	38	28
	\$ 24,355	\$ 20,475
Other income (expense), net		
Olefins	\$ 52	\$
Vinyls	62	47
Corporate and other	877	2,287
	991	2,334
Debt retirement cost		(25,853)

	\$ 991	\$ (23,519)
Capital expenditures		
Olefins	\$ 10,492	\$ 20,410
Vinyls	7,624	7,946
Corporate and other	757	193
	\$ 18,873	\$ 28,549

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WESTLAKE CHEMICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

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

	Three Months Ended	
	March 31,	
	2007	2006
Income from operations	\$ 32,666	\$ 110,879
Interest expense	(3,593)	(6,026)
Debt retirement cost		(25,853)
Other income, net	991	2,334
Income before taxes	\$ 30,064	\$ 81,334

	March 31,	December 31,
	2006	2006
Total Assets		
Olefins	\$ 1,446,794	\$ 1,390,513
Vinyls	588,183	578,507
Corporate and other	75,504	113,078
	\$ 2,110,481	\$ 2,082,098

13. Comprehensive Income Information

	Three Months Ended	
	March 31,	
	2007	2006
Net income	\$ 19,672	\$ 51,337
Other comprehensive income:		
Change in foreign currency translation	304	101
Comprehensive income	\$ 19,976	\$ 51,438

14. Long-Term Debt

Long-term indebtedness consists of the following:

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	March 31,	December 31,
	2007	2006
6 5/8% Senior notes due 2016	\$ 249,287	\$ 249,267
Revolving line of credit	20,700	
Loan related to tax-exempt revenue bonds	10,889	10,889
Long-term debt	\$ 280,876	\$ 260,156

As of March 31, 2007, the Company had borrowings under the revolving credit facility that bore interest at either LIBOR plus 1.00% or prime rate minus 0.50%. The revolving credit facility also requires an unused commitment fee of 0.25%. 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.

Table of Contents**WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

15. Guarantor Disclosures

The Company's payment obligations under its 6⁵/₈% 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 6⁵/₈% 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.

Condensed Consolidating Financial Information as of March 31, 2007

	Westlake			Eliminations	Consolidated
	Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Balance Sheet					
Current assets					
Cash and cash equivalents	\$ 11,142	\$ 88	\$ 2,095	\$	\$ 13,325
Accounts receivable, net	106,787	406,040	2,529	(91,726)	423,630
Inventories, net		403,861	13,790		417,651
Prepaid expenses and other current assets	10	10,270	176		10,456
Deferred income taxes	15,463		419		15,882
Total current assets	133,402	820,259	19,009	(91,726)	880,944
Property, plant and equipment, net		1,065,472	10,892		1,076,364
Equity investment	1,545,428	15,300	27,040	(1,560,728)	27,040
Other assets, net	41,681	114,719	5,762	(36,029)	126,133
Total assets	\$ 1,720,511	\$ 2,015,750	\$ 62,703	\$ (1,688,483)	\$ 2,110,481
Current liabilities					
Accounts payable	\$ 19,977	\$ 198,903	\$ 1,581	\$ 1	\$ 220,462
Accrued liabilities	(9,424)	94,346	1,183	(15)	86,090
Total current liabilities	10,553	293,249	2,764	(14)	306,552
Long-term debt	269,987	130,684	7,948	(127,743)	280,876
Deferred income taxes	236,574	47,536	1,512	1	285,623
Other liabilities	11,885	34,034		(1)	45,918
Stockholders' equity	1,191,512	1,510,247	50,479	(1,560,726)	1,191,512
Total liabilities and stockholders' equity	\$ 1,720,511	\$ 2,015,750	\$ 62,703	\$ (1,688,483)	\$ 2,110,481

Table of Contents**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, 2006

	Westlake			Eliminations	Consolidated
	Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Balance Sheet					
Current assets					
Cash and cash equivalents	\$ 46,670	\$ 91	\$ 5,885	\$	\$ 52,646
Accounts receivable, net	65,041	287,327	6,510	(49,975)	308,903
Inventories, net		445,516	10,760		456,276
Prepaid expenses and other current assets	10	16,054	22		16,086
Deferred income taxes	15,463		413		15,876
Total current assets	127,184	748,988	23,590	(49,975)	849,787
Property, plant and equipment, net		1,065,965	10,938		1,076,903
Equity investment	1,515,188	15,300	26,382	(1,530,488)	26,382
Other assets, net	41,870	117,529	5,657	(36,030)	129,026
Total assets	\$ 1,684,242	\$ 1,947,782	\$ 66,567	\$ (1,616,493)	\$ 2,082,098
Current liabilities					
Accounts payable	26,811	206,239	5,864		238,914
Accrued liabilities	(10,059)	91,481	1,587	(11)	82,998
Total current liabilities	16,752	297,720	7,451	(11)	321,912
Long-term debt	249,267	88,953	7,932	(85,996)	260,156
Deferred income taxes	232,797	47,537	1,494		281,828
Other liabilities	11,885	32,776			44,661
Stockholders' equity	1,173,541	1,480,796	49,690	(1,530,486)	1,173,541
Total liabilities and stockholders' equity	\$ 1,684,242	\$ 1,947,782	\$ 66,567	\$ (1,616,493)	\$ 2,082,098

Table of Contents**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, 2007

	Westlake			Eliminations	Consolidated
	Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Statement of Operations					
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
Net income (loss)	\$ 19,672	\$ 18,486	\$ 371	\$ (18,857)	\$ 19,672

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2006

	Westlake			Eliminations	Consolidated
	Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Statement of Operations					
Net sales	\$	\$ 612,218	\$ 10,150	\$ (3,589)	\$ 618,779
Cost of sales		481,991	9,319	(3,589)	487,721
Gross profit		130,227	831		131,058
Selling, general and administrative expenses	538	18,783	858		20,179
Income (loss) from operations	(538)	111,444	(27)		110,879
Interest expense	(1,749)	(4,277)			(6,026)
Other income (expense), net	49,580	203	387	(73,689)	(23,519)

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Income (loss) before income taxes	47,293	107,370	360	(73,689)	81,334
Provision for (benefit from) income taxes	(4,044)	34,037	4		29,997
Net income (loss)	\$ 51,337	\$ 73,333	\$ 356	\$ (73,689)	\$ 51,337

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(UNAUDITED)

(dollars in thousands, except per share data)

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

	Westlake			Eliminations	Consolidated
	Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Statement of Cash Flows					
Cash flows from operating activities					
Net income (loss)	\$ 19,672	\$ 18,486	\$ 371	\$ (18,857)	\$ 19,672
Adjustments to reconcile net income (loss) to net cash used for operating activities					
Depreciation and amortization		23,660	695		24,355
(Recovery of) provision for bad debts		(455)	43		(412)
Gain from disposition of fixed assets		39			39
Deferred tax expense	3,776				3,776
Equity in income of joint venture			(658)		(658)
Net changes in working capital and other	(35,381)	(68,793)	(3,869)	18,857	(89,186)
Net cash used for operating activities	(11,933)	(27,063)	(3,418)		(42,414)
Cash flows from investing activities					
Additions to property, plant and equipment		(18,485)	(388)		(18,873)
Settlements of futures contracts		3,815			3,815
Net cash used for investing activities		(14,670)	(388)		(15,058)
Cash flows from financing activities					