WESTLAKE CHEMICAL CORP
Form 10-Q
August 05, 2009
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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 June 30, 2009

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	**76-0346924**
(State or other jurisdiction of incorporation or organization)	**(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** x **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**	x
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** x

The number of shares outstanding of the registrant s sole class of common stock, as of July 28, 2009 was 65,929,218.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2009	December 31, 2008
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 204,007	$ 90,239
Accounts receivable, net	321,738	347,323
Inventories, net	286,767	327,967
Prepaid expenses and other current assets	11,156	6,838
Deferred income taxes	26,641	26,622
Total current assets	850,309	798,989
Property, plant and equipment, net	1,200,958	1,197,452
Equity investment	32,865	30,107
Restricted cash	112,970	134,432
Other assets, net	137,742	126,009
Total assets	$ 2,334,844	$ 2,286,989
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 145,607	$ 112,833
Accrued liabilities	115,992	99,455
Total current liabilities	261,599	212,288
Long-term debt	510,359	510,319
Deferred income taxes	269,847	280,486
Other liabilities	45,383	44,836
Total liabilities	1,087,188	1,047,929
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; 65,924,176 and 65,658,142 shares issued and outstanding in 2009 and 2008, respectively	659	657
Additional paid-in capital	438,418	435,581
Retained earnings	818,727	814,873
Accumulated other comprehensive income		
Benefits liability, net of tax	(12,656)	(13,339)
Cumulative translation adjustment	2,508	1,288

Total stockholders equity	1,247,656	1,239,060
Total liabilities and stockholders equity	$ 2,334,844	$ 2,286,989

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 June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands of dollars, except per share data)			
Net sales	$ 574,865	$ 1,106,449	$ 1,063,116	$ 2,021,510
Cost of sales	519,203	1,009,989	987,390	1,888,346
Gross profit	55,662	96,460	75,726	133,164
Selling, general and administrative expenses	19,487	22,884	40,454	45,729
Income from operations	36,175	73,576	35,272	87,435
Other income (expense)				
Interest expense	(8,795)	(9,287)	(17,391)	(17,815)
Other income, net	1,303	2,199	3,780	4,607
Income before income taxes	28,683	66,488	21,661	74,227
Provision for income taxes	11,832	19,215	10,885	21,567
Net income	$ 16,851	$ 47,273	$ 10,776	$ 52,660
Basic and diluted earnings per share	$ 0.26	$ 0.72	$ 0.16	$ 0.80
Weighted average shares outstanding:				
Basic	65,925,121	65,634,070	65,861,550	65,597,811
Diluted	65,982,952	65,657,278	65,890,986	65,621,965

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)

	Six Months Ended June 30,	
	2009	**2008**
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	$ 10,776	$ 52,660
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	59,901	53,378
(Recovery of) provision for bad debts	(142)	381
Amortization of debt issue costs	687	438
Stock-based compensation expense	2,689	2,076
Loss from disposition of fixed assets	505	3,150
Deferred income taxes	(10,959)	9,088
Equity in income of joint venture	(2,758)	(2,204)
Changes in operating assets and liabilities		
Accounts receivable	25,837	(134,628)
Inventories	41,200	13,409
Prepaid expenses and other current assets	(4,318)	(7,204)
Accounts payable	33,521	27,492
Accrued liabilities	16,864	(4,733)
Other, net	(20,451)	(21,350)
Net cash provided by (used for) operating activities	153,352	(8,047)
Cash flows from investing activities		
Additions to property, plant and equipment	(50,363)	(81,751)
Acquisition of business	(6,297)	
Proceeds from disposition of assets	3,251	346
Settlements of derivative instruments	155	535
Net cash used for investing activities	(53,254)	(80,870)
Cash flows from financing activities		
Proceeds from the exercise of stock options	42	
Dividends paid	(6,922)	(6,563)
Proceeds from borrowings		620,235
Repayment of borrowings		(582,252)
Utilization of restricted cash	21,979	55,045
Capitalized debt issuance costs	(1,429)	
Net cash provided by financing activities	13,670	86,465
Net increase (decrease) in cash and cash equivalents	113,768	(2,452)
Cash and cash equivalents at beginning of period	90,239	24,914
Cash and cash equivalents at end of period	$ 204,007	$ 22,462

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

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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, 2008 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, 2008, filed with the SEC on February 19, 2009. 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, 2008.

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 June 30, 2009, its results of operations for the three and six months ended June 30, 2009 and 2008 and the changes in its cash position for the six months ended June 30, 2009 and 2008.

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, 2009 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 Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 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 for nonfinancial assets and nonfinancial liabilities that are recognized on a nonrecurring basis, which the Company adopted effective January 1, 2009. The adoption of SFAS 157 did not have a material impact on the Company s consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R), which replaces SFAS 141, Business Combinations (SFAS 141). SFAS 141R retains the fundamental requirements in SFAS 141 that the purchase method of accounting be used for all business combinations. This statement further establishes principals and requirements for how the acquiring entity recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141R as of January 1, 2009 and will apply it to future acquisitions.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 addresses the accounting and reporting for entities that consolidate a noncontrolling interest, sometimes called a minority interest. The Company adopted SFAS 160 as of January 1, 2009. This statement does not have any impact on the Company s consolidated financial statements as there are no noncontrolling interests in the Company s consolidated subsidiaries.

In March 2008, the FASB issued 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 requires enhanced disclosures about derivative strategies and accounting practices. The Company adopted SFAS 161 as of January 1, 2009.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted In Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). This FSP addresses whether instruments, such as the Company s restricted stock awards, are participating securities prior to vesting for inclusion in the computation of earnings per share. The guidance in this FSP concludes that unvested share-based payment awards that contain nonforfeitable rights to dividends should be

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

included in the computation of earnings per share. The Company s unvested restricted stock awards contain rights to dividends. Accordingly, this FSP applies to the Company s earnings per share computation. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. As a result, the Company has amended its computation of weighted average common shares for purposes of its basic and diluted earnings per share calculations in the interim financial statements included in this Quarterly Report on Form 10-Q. The earnings per share calculations for the three and six months ended June 30, 2008 have also been amended to reflect the new computation. The change in the calculation was insignificant and did not change the originally reported basic and diluted earnings per share of $0.72 for the three months ended June 30, 2008. The basic and diluted earnings per share for the six months ended June 30, 2008 have been adjusted to $0.80 from the originally reported basic and diluted earnings per share of $0.81 to reflect the retrospective application of FSP EITF 03-6-1.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1), which provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plans. This would require additional disclosures about investment policies and strategies, the reporting of fair value by asset category and other information about fair value measurements. FSP FAS 132(R)-1 is effective January 1, 2009 and early application is permitted. Upon initial application, the provisions of FSP FAS 132(R)-1 are not required for earlier periods that are presented for comparative purposes. The Company will expand its disclosures in accordance with FSP FAS 132(R)-1 in its annual report on Form 10-K for the year ending December 31, 2009. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial position or results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board (APB) Opinion 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). This FSP amends SFAS 107, Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods in addition to the required disclosures in annual financial statements. This FSP also amends APB Opinion 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009. The Company has included the required disclosure in this Quarterly Report on Form 10-Q. See Note 7 to the consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 includes a new required disclosure of the date through which an entity has evaluated subsequent events and is effective for interim reporting periods ending after June 15, 2009. The Company adopted SFAS 165 for the quarter ended June 30, 2009.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166). SFAS 166 eliminates the qualifying special-purpose entity concept, introduces a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarifies and changes the derecognition criteria for a transfer to be accounted for as a sale, changes the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor and requires extensive new disclosures. SFAS 166 is effective for annual reporting periods beginning after November 15, 2009 but is not expected to have a material impact on the Company s consolidated financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 amends the consolidation guidance for variable-interest entities under FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities and requires an analysis to determine who should consolidate a variable-interest entity, as well as when it would be necessary to reassess who should consolidate a variable-interest entity. SFAS 167 also eliminates the exemption for qualifying special purpose entities. SFAS 167 is effective for annual reporting periods beginning after November 15, 2009. The Company is currently evaluating the effect that the adoption of SFAS 167 will have on its consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 replaces SFAS 162 and establishes the FASB

Accounting Standards Codification™ (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP). Rules and interpretive releases of the SEC under

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

authority of federal securities laws continue to be authoritative sources of GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. The issuance of SFAS 168 and the Codification will not change GAAP. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

2. Accounts Receivable

Accounts receivable consist of the following:

	June 30, 2009	December 31, 2008
Trade customers	$ 294,875	$ 293,318
Affiliates	1,327	1,226
Allowance for doubtful accounts	(7,437)	(14,438)
	288,765	280,106
Federal and state taxes	23,180	54,886
Other	9,793	12,331
Accounts receivable, net	$ 321,738	$ 347,323

3. Inventories

Inventories consist of the following:

	June 30, 2009	December 31, 2008
Finished products	$ 140,535	$ 173,982
Feedstock, additives and chemicals	109,662	119,881
Materials and supplies	44,252	42,415
	294,449	336,278
Allowance for inventory obsolescence	(7,682)	(8,311)
Inventories, net	$ 286,767	$ 327,967

4. Property, Plant and Equipment

As of June 30, 2009, the Company had property, plant and equipment totaling $1,200,958. 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. There were no negative conditions, or triggering events, that required the Company to perform an impairment review for the three and six months ended June 30, 2009.

Depreciation expense on property, plant and equipment of $24,814 and $22,433 is included in cost of sales in the consolidated statements of operations for the three months ended June 30, 2009 and 2008, respectively, and $48,875 and $44,387 is included for the six months ended June 30, 2009 and 2008, respectively.

5. Other Assets

Amortization expense on other assets of $6,468 and $5,163 is included in the consolidated statements of operations for the three months ended June 30, 2009 and 2008, respectively, and $11,713 and $9,429 is included for the six months ended June 30, 2009 and 2008, respectively.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

6. 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 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). Total compensation expense related to the 2004 Plan was $1,380 and $1,130 for the three months ended June 30, 2009 and 2008, respectively, and $2,689 and $2,076 for the six months ended June 30, 2009 and 2008, respectively.

Option activity and changes during the six months ended June 30, 2009 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	910,329	$ 24.72		
Granted	493,540	14.24		
Exercised	(2,186)	15.81		
Cancelled	(2,265)	18.14		
Outstanding at June 30, 2009	1,399,418	$ 21.05	8.1	$ 4,295
Exercisable at June 30, 2009	395,423	$ 21.59	6.5	$ 1,081

For options outstanding at June 30, 2009, the options had the following range of exercise prices:

Range of Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
$14.24 - $19.29	901,610	8.5
$20.83 - $27.22	98,490	6.9
$30.07 - $36.10	399,318	7.6

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 second quarter of 2009 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 June 30, 2009. This amount changes based on the fair market value of the Company s common stock. The total intrinsic value of options exercised during the three and six months ended June 30, 2009 was $5 and $6, respectively. There were no options exercised during the three and six months ended June 30, 2008.

As of June 30, 2009, $5,732 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.5 years.

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 first six months of 2009 and 2008. There were no options granted during the three months ended June 30, 2009 and 2008. Volatility was calculated using historical trends of the Company s common stock price.

	Stock Option Grants	
	Six Months Ended June 30,	
	2009	**2008**
Weighted average fair value	$ 5.48	$ 7.40
Risk-free interest rate	2.8%	5.0%
Expected life in years	6-7	6-7
Expected volatility	42.5%	34.7%

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

	Stock Option Grants Six Months Ended June 30, 2009	2008
Expected dividend yield	1.5%	1.0%

Non-vested restricted stock awards as of June 30, 2009 and changes during the six months ended June 30, 2009 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2008	363,432	$ 26.32
Granted	265,698	14.24
Vested	(6,428)	36.10
Forfeited	(1,850)	21.29
Non-vested at June 30, 2009	620,852	$ 21.06

As of June 30, 2009, there was $7,418 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 2.7 years. No restricted stock vested during the three months ended June 30, 2009 and 2008. The total fair value of shares of restricted stock that vested during the six months ended June 30, 2009 and 2008 was $83 and $89, respectively.

7. Derivative Commodity Instruments and Fair Value of Financial Instruments

The Company uses derivative instruments, in conjunction with certain physical commodity positions, 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. Due to the short-term nature of the commodities and associated derivatives, the Company did not designate any of its commodity derivative instruments as hedges under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

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 case, 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 securities (as such improvements would accrue to the benefit of the counterparty).

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 inventory held as part of a trading strategy and risk management assets and liabilities by fair value measurement level at June 30, 2009:

	Level 1	Level 2	Total
Inventory	$	$ 29,247	$ 29,247
Risk management assets	$ 7,604	$ 2,809	$ 10,413
Risk management liabilities	$ 7,567	$ 5,206	$ 12,773

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

The fair and carrying values of the Company s derivative commodity instruments and financial instruments as of June 30, 2009 and December 31, 2008 are summarized below:

	June 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Commodity Instruments:				
Natural gas futures contracts	$ 6,129	$ 6,129	$ 1,346	$ 1,346
Crude oil futures contracts	$ (6,093)	$ (6,093)	$ (7,348)	$ (7,348)
Other forward/futures contracts	$ (2,396)	$ (2,396)	$ 675	$ 675
Financial Instruments:				
$6\,^{5}/_{8}$% senior notes due 2016	$ 249,470	$ 218,910	$ 249,430	$ 137,500
$6\,^{3}/_{4}$% senior notes due 2032	$ 250,000	$ 201,993	$ 250,000	$ 136,325

The following tables reflect the fair values of derivative instruments in the Company s consolidated balance sheets and the gain (loss) from trading activities in its consolidated statements of operations.

Derivatives Not Designated as Hedging Instruments Under SFAS 133	Asset Derivatives			Liability Derivatives		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	June 30, 2009	December 31, 2008	Balance Sheet Location	June 30, 2009	December 31, 2008
Commodity contracts	Accounts receivable, net	$ 10,413	$	Current liabilities	$ 12,773	$ 5,327

Derivatives Not Designated as Hedging Instruments Under SFAS 133	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended June 30,		Six Months Ended June 30,	
		2009	2008	2009	2008
		Gain	Loss	Gain	Loss
Commodity contracts	Cost of sales	$ 3,294	$ (7,016)	$ 7,143	$ (6,882)
Physical commodities	Cost of sales	6,503		5,105	
Total		$ 9,797	$ (7,016)	$ 12,248	$ (6,882)

8. Acquisition

On March 26, 2009, the Company completed the acquisition of a Janesville, Wisconsin PVC pipe plant. The plant has an estimated pipe production capacity of 175 million pounds per year and has the ability to produce PVC pipe in sizes varying up to 24 inches for use in a variety of applications including sewer, water, plumbing and irrigation. The purchase price was $6,297, and no goodwill was recognized as a result of this acquisition. Because of the size of the acquisition, no pro forma disclosures are required.

9. Income Taxes

There was no material change to the total gross unrecognized tax benefits for the six months ended June 30, 2009. Management anticipates reductions to the total amount of unrecognized tax benefits of an additional $1,570 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 June 30, 2009, the Company had $1,163 of accrued interest and penalties related to uncertain tax positions.

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 2001. During the second quarter of 2008, the Internal Revenue Service completed the audit of the Company for the tax years 2005 and 2006. During the second quarter of 2009, the Internal Revenue Service notified the Company that it plans to begin an audit of the Company for the 2007 tax year.

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

The effective income tax rate was 50.3% for the six months ended June 30, 2009. The 2009 tax rate was above the statutory rate of 35% primarily due to the loss of the domestic manufacturing deduction due to the carry back of the year-to-date taxable loss and an increase in state income tax liabilities. The effective tax rate was 29.1% for the six months ended June 30, 2008. The 2008 tax rate was below the statutory rate of 35% primarily due to state tax credits, the domestic manufacturing deduction and a reduction of unrecognized tax benefits, partially offset by state income taxes.

10. Earnings per Share

Effective for the 2009 interim financial statements, the Company implemented FSP EITF 03-6-1, which requires that the Company s restricted stock be included in the computation of basic earnings per share. As a result, the weighted average common shares for the three and six months ended June 30, 2008 have been adjusted to reflect this implementation. The earnings per share calculation for the three and six months ended June 30, 2008 have also been amended to reflect the new computation. The change in the calculation was insignificant and did not change the originally reported basic and diluted earnings per share of $0.72 for the three months ended June 30, 2008. The basic and diluted earnings per share for the six months ended June 30, 2008 have been adjusted to $0.80 from the originally reported basic and diluted earnings per share of $0.81 to reflect the retrospective application of FSP EITF 03-6-1.

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Weighted average common shares basic	65,925,121	65,634,070	65,861,550	65,597,811
Plus incremental shares from:				
Assumed exercise of options	57,831	23,208	29,436	24,154
Weighted average common shares diluted	65,982,952	65,657,278	65,890,986	65,621,965

Excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2009 and 2008 are options to purchase 737,103 and 720,248 shares of common stock, respectively. These options were outstanding during the periods reported but were excluded because the option exercise price was greater than the average market price of the shares.

11. Pension and Post-Retirement Benefit Costs

Components of net periodic benefit cost are as follows:

Three Months Ended June 30,		Six Months Ended June 30,	
Pension	Post-Retirement	Pension	Post-Retirement

	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	$ 199	$ 247	$ 20	$ 23	$ 445	$ 493	$ 41	$ 47
Interest cost	614	594	280	275	1,237	1,187	560	550
Expected return on plan assets	(394)	(614)			(864)	(1,229)		
Amortization of transition obligation			29	29			57	57
Amortization of prior service cost	62	79	53	53	142	159	106	106
Amortization of net loss	343	134	26	41	694	269	52	83
Net periodic benefit cost	$ 824	$ 440	$ 408	$ 421	$ 1,654	$ 879	$ 816	$ 843

The Company contributed $459 and $0 to the Salaried pension plan in the first six months of 2009 and 2008, respectively, and contributed $0 and $600 to the Wage pension plan in the first six months of 2009 and 2008, respectively. The Company expects to make additional contributions of $918 to the Salaried plan and $151 to the Wage plan during the fiscal year ending December 31, 2009.

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

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.

Contract Disputes with Goodrich and PolyOne. In connection with the 1990 and 1997 acquisitions of the Goodrich Corporation, or 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, or 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 by PolyOne to provide the environmental remediation services were $3,790 in 2008.

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, or 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. 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, and the case is pending before the Cabinet.

Change in Regulatory Regime. On May 22, 2009, the Cabinet sent a letter to the U.S. Environmental Protection Agency, or 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, or CERCLA. In its response to the Cabinet on May 29, 2009, the EPA stated that it concurred with the Cabinet s request and would incorporate work previously conducted under the Cabinet s 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. On June 26, 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 specified a period of 60 days during which the Company could negotiate the performance and funding of response activities at the site. The EPA s letter of June 26 also identified Goodrich and PolyOne, among others, as potentially responsible parties at the plant site. The Company met with the EPA and will address the EPA s requirements as the Company deems appropriate.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 or 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. 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 in 2009 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.

Environmental Investigations at Calvert City. In 2002, the National Enforcement Investigations Center, or NEIC, of the EPA 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 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, the 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 has recorded an accrual 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 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 Company s representatives met with the EPA in February 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, 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.

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(UNAUDITED)

(dollars in thousands, except per share data)

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales to				