WESTLAKE CHEMICAL CORP
Form 10-Q
August 06, 2008
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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, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from ______ to ______

Commission File No. 001-32260

Westlake Chemical Corporation

(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 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.

Large accelerated filer	¨	**Accelerated filer**	x
Non-accelerated filer	¨	**Smaller reporting company**	¨
(Do not check if a smaller reporting company)			

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

The number of shares outstanding of the registrant s sole class of common stock, as of July 31, 2008, was 65,633,774.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2008	December 31, 2007
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,462	$ 24,914
Accounts receivable, net	641,504	507,463
Inventories, net	514,462	527,871
Prepaid expenses and other current assets	21,436	14,232
Deferred income taxes	17,636	17,705
Total current assets	1,217,500	1,092,185
Property, plant and equipment, net	1,159,799	1,126,212
Equity investment	31,690	29,486
Restricted cash	146,150	199,450
Other assets, net	130,833	122,002
Total assets	$ 2,685,972	$ 2,569,335
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 342,911	$ 314,951
Accrued liabilities	122,090	126,311
Total current liabilities	465,001	441,262
Long-term debt	549,438	511,414
Deferred income taxes	297,191	287,965
Other liabilities	39,914	42,024
Total liabilities	1,351,544	1,282,665
Commitments and Contingencies (Notes 12 and 15)		
Stockholders equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.01 par value, 150,000,000 shares authorized; 65,633,774 and 65,487,119 shares issued and outstanding in 2008 and 2007, respectively	656	655
Additional paid-in capital	433,272	431,197
Retained earnings	903,969	857,872
Accumulated other comprehensive income		
Benefits liability, net of tax	(8,795)	(9,234)
Cumulative translation adjustment	5,326	6,180

Total stockholders equity	1,334,428	1,286,670
Total liabilities and stockholders equity	$ 2,685,972	$ 2,569,335

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,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands of dollars, except per share data)			
Net sales	$ 1,106,449	$ 782,664	$ 2,021,510	$ 1,501,466
Cost of sales	1,009,989	698,233	1,888,346	1,359,146
Gross profit	96,460	84,431	133,164	142,320
Selling, general and administrative expenses	22,884	22,152	45,729	47,375
Income from operations	73,576	62,279	87,435	94,945
Interest expense	(9,287)	(4,495)	(17,815)	(8,088)
Other income (expense), net	2,199	(292)	4,607	699
Income before income taxes	66,488	57,492	74,227	87,556
Provision for income taxes	19,215	19,602	21,567	29,994
Net income	$ 47,273	$ 37,890	$ 52,660	$ 57,562
Basic and diluted earnings per share	$ 0.72	$ 0.58	$ 0.81	$ 0.88
Weighted average shares outstanding:				
Basic	65,264,781	65,224,697	65,262,169	65,221,365
Diluted	65,296,743	65,324,714	65,292,816	65,324,616

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, 2008	Six Months Ended June 30, 2007
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	$ 52,660	$ 57,562
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	53,378	50,716
Provision for bad debts	381	201
Amortization of debt issue costs	438	378
Stock-based compensation expense	2,076	1,387
Loss from disposition of fixed assets	3,150	25
Deferred income taxes	9,088	14,417
Equity in income of joint venture	(2,204)	(1,520)
Changes in operating assets and liabilities		
Accounts receivable	(134,628)	(92,807)
Inventories	13,409	(8,243)
Prepaid expenses and other current assets	(7,204)	1,440
Accounts payable	27,492	22,761
Accrued liabilities	(4,733)	(4,246)
Other, net	(21,350)	(7,893)
Net cash (used for) provided by operating activities	(8,047)	34,178
Cash flows from investing activities		
Additions to property, plant and equipment	(81,751)	(50,483)
Proceeds from disposition of assets	346	33
Settlements of derivative instruments	535	3,673
Addition to equity investment		(308)
Settlement of acquisition purchase price		8,043
Net cash used for investing activities	(80,870)	(39,042)
Cash flows from financing activities		
Proceeds from the exercise of stock options		62
Dividends paid	(6,563)	(5,229)
Proceeds from borrowings	620,235	191,684
Repayment of borrowings	(582,252)	(191,684)
Utilization of restricted cash	55,045	
Net cash provided by (used for) financing activities	86,465	(5,167)
Net decrease in cash and cash equivalents	(2,452)	(10,031)
Cash and cash equivalents at beginning of period	24,914	52,646
Cash and cash equivalents at end of period	$ 22,462	$ 42,615

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

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except per share data)

1. Basis of Financial Statements

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

In the opinion of the Company s management, the accompanying unaudited consolidated interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company s financial position as of June 30, 2008, its results of operations for the three and six months ended June 30, 2008 and 2007 and the changes in its cash position for the six months ended June 30, 2008 and 2007.

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (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 as noted below, and it did not have a material impact on its financial position and results of operations.

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

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

In March 2008, the 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 will require enhanced disclosures about derivative strategies and accounting practices. SFAS 161 is effective for fiscal years beginning after January 15, 2008, and the Company will comply with any necessary disclosure requirements beginning with the 2009 interim financial statements.

2. Accounts Receivable

Accounts receivable consist of the following:

	June 30, 2008	December 31, 2007
Accounts receivable trade	$ 625,422	$ 498,073
Accounts receivable affiliates	1,919	1,365
Allowance for doubtful accounts	(3,914)	(3,546)
	623,427	495,892
Accounts receivable other	18,077	11,571
Accounts receivable, net	$ 641,504	$ 507,463

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(dollars in thousands, except per share data)

3. Inventories

Inventories consist of the following:

	June 30, 2008	December 31, 2007
Finished products	$ 313,813	$ 332,882
Feedstock, additives and chemicals	169,685	164,832
Materials and supplies	39,574	38,058
	523,072	535,772
Allowance for inventory obsolescence	(8,610)	(7,901)
Inventories, net	$ 514,462	$ 527,871

4. Property, Plant and Equipment

Depreciation expense on property, plant and equipment of $22,433 and $21,500 is included in cost of sales in the consolidated statements of operations for the three months ended June 30, 2008 and 2007, respectively, and $44,387 and $40,636 is included for the six months ended June 30, 2008 and 2007, respectively.

5. Other Assets

Amortization expense on other assets of $5,163 and $5,050 is included in the consolidated statements of operations for the three months ended June 30, 2008 and 2007, respectively, and $9,429 and $10,458 is included for the six months ended June 30, 2008 and 2007, respectively.

6. Stock-Based Compensation

Under the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the 2004 Plan), all employees of the Company, as well as certain individuals who have agreed to become the Company s employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2004 Plan. At the discretion of the administrator of the 2004 Plan, employees and non-employee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards or cash awards (any of which may be a performance award). The Company utilizes the fair value method to account for these awards, and the total compensation expense related to the 2004 Plan was $1,130 and $863 for the three months ended June 30, 2008 and 2007, respectively, and $2,076 and $1,387 for the six months ended June 30, 2008 and 2007, respectively.

Option activity and changes during the six months ended June 30, 2008 were as follows:

	Options	Weighted Average	Weighted Average	Aggregate Intrinsic

		Exercise Price	Remaining Term (Years)	Value
Outstanding at December 31, 2007	677,243	$ 26.43		
Granted	239,891	19.29		
Exercised				
Cancelled	(6,062)	18.45		
Outstanding at June 30, 2008	911,072	$ 24.60	8.2	$ 70
Exercisable at June 30, 2008	277,216	$ 19.64	6.7	$ 70

For options outstanding at June 30, 2008, the options had the following range of exercise prices:

Range of Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
$14.50 $19.29	430,715	8.1
$25.42 $36.10	480,357	8.3

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(dollars in thousands, except 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 second quarter of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2008. This amount changes based on the fair market value of the Company s common stock. The total intrinsic value of options exercised for the three and six months ended June 30, 2007 was $0 and $57, respectively. There were no options exercised during the three and six months ended June 30, 2008.

As of June 30, 2008, $5,176 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.5 years.

The Company used the Black-Scholes option pricing model to value its options. The table below presents the weighted average value and assumptions used in determining the fair value for each option granted during the first six months of 2008 and 2007. There were no options granted during either of the three months ended June 30, 2008 and 2007. Volatility was calculated using historical trends of the Company s common stock price.

	Stock Option Grants Six Months Ended June 30, 2008	2007
Weighted average fair value	$ 7.40	$ 14.23
Risk-free interest rate	5.0%	4.5%
Expected life in years	6	6-10
Expected volatility	34.7%	33.2%
Expected dividend yield	1.0%	0.5%

Non-vested restricted stock awards as of June 30, 2008 and changes during the six months ended June 30, 2008 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2007	228,761	$ 31.45
Granted	147,767	19.29
Vested	(6,423)	36.10
Forfeited	(1,112)	26.10
Non-vested at June 30, 2008	368,993	$ 26.55

As of June 30, 2008, there was $6,650 of unrecognized stock-based compensation expense related to non-vested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 3.2 years. The total fair value of shares of restricted stock that vested during the three months ended June 30, 2008 and 2007 was $0 and $38, respectively, and the total fair value of shares of restricted stock that vested during the six months ended June 30, 2008 and 2007 was $89 and $219, 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 loss of $6,882 in connection with trading activity for the six months ended June 30, 2008 compared to a net gain of $4,808 for the six months ended June 30, 2007. All of the 2008 net loss was related to derivative losses. Of the 2007 net gain, $1,707 related to derivative gains and $3,101 related to sales of related physical feedstock positions. Net trading losses in the second quarter of 2008 totaled $7,016, all of which were attributable to derivative losses, compared to a net gain of $4,080 ($962 related to commodity derivative gains and $3,118 related to sales of related physical feedstock positions) for the second quarter of 2007. Gains and losses in connection with trading activity are included in cost of sales. The fair value of risk management liability balances of $13,855 and $6,415 were included in current liabilities in the Company s consolidated balance sheets as of June 30, 2008 and December 31, 2007, respectively. Under SFAS 157, inputs used to measure fair value are classified in one of three levels:

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

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

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

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(dollars in thousands, except per share data)

The following table summarizes the classification of the trading liabilities by fair value measurement level at June 30, 2008:

	Level 1	Level 2	Total
Risk management liabilities	$ 6,009	$ 7,846	$ 13,855

8. Plant Closure

The Company decided to permanently close the Pawling, New York facility and consolidate manufacturing of window and door components in Calgary, Canada in the first quarter of 2008. Asset impairments, severance and other costs recorded in the first six months of 2008 related to this closure were approximately $2,663.

9. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 on January 1, 2007. The total gross unrecognized tax benefits for the six months ended June 30, 2008 were reduced by $2,069 due to the settlement of tax audits. Management anticipates additional reductions to the total amount of unrecognized tax benefits of $2,741 within the next twelve months due to expiring statutes of limitations.

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of January 1, 2008, the Company had approximately $3,289 of accrued interest and penalties related to uncertain tax positions. The Company has increased the accrued interest and penalties by approximately $537 during the six months ended June 30, 2008. There was also a reduction in interest and penalties of $807 due to the settlement of tax audits, resulting in a net decrease of $270 during the six months ended June 30, 2008.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is no longer subject to the examinations by tax authorities before the year 1999. During the second quarter, the Internal Revenue Service completed the audit of the Company for the 2005 and 2006 tax years.

The effective income 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. The effective tax rate was 34.3% for the six months ended June 30, 2007. The 2007 tax rate was below the statutory rate of 35% primarily due to state tax credits and the domestic manufacturing deduction, partially offset by state income taxes.

10. Earnings per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)		(in thousands)	
Weighted average common shares basic	65,265	65,225	65,262	65,221
Plus incremental shares from:				
Assumed exercise of options	23	87	25	90
Assumed vesting of restricted stock	9	13	6	14
Weighted average common shares diluted	65,297	65,325	65,293	65,325

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(dollars in thousands, except per share data)

11. Pension and Post-Retirement Benefit Costs

Components of Net Periodic Costs are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension		Post-Retirement		Pension		Post-Retirement	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 247	$ 260	$ 23	$ 78	$ 493	$ 520	$ 47	$ 156
Interest cost	594	557	275	146	1,187	1,114	550	292
Expected return on plan assets	(614)	(599)			(1,229)	(1,198)		
Amortization of transition obligation			29	29			57	57
Amortization of prior service cost	79	79	53	66	159	159	106	133
Amortization of net loss	134	133	41	103	269	265	83	207
Net periodic benefit cost	$ 440	$ 430	$ 421	$ 422	$ 879	$ 860	$ 843	$ 845

The Company contributed $600 to the Wage pension plan in the first six months of 2008. No other contributions were made in the first six months of 2008 and 2007 to the Salaried and Wage pension plans, and the Company has no current plan to contribute any additional funds to the plans during the fiscal year ending December 31, 2008.

12. Commitments and Contingencies

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

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

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

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

In January 2004, the Cabinet notified the Company that the Company s ownership of a closed landfill (known as former Pond 4) requires it to submit an application for its own permit under RCRA. This could require the Company to bear the cost of performing

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(dollars in thousands, except per share data)

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. The case has been continued, and a status conference is scheduled for December 10, 2008.

Litigation Related to the Administrative Proceedings. The Company has the contractual right to reconvey title to former Pond 4 back to Goodrich, and the Company has tendered former Pond 4 back to Goodrich under this provision. In March 2005, the Company sued Goodrich in the United States District Court for the Western District of Kentucky to require Goodrich to accept the tendered reconveyance and to indemnify the Company for costs the Company incurred in connection with former Pond 4. Goodrich subsequently filed a third-party complaint against PolyOne, seeking to hold PolyOne responsible for any of Goodrich s former Pond 4 liabilities to the Company. Goodrich moved to dismiss the Company s suit against it, the Company filed a motion for partial summary judgment against Goodrich, and PolyOne moved to dismiss Goodrich s third-party complaint against it. On March 30, 2007, the court granted Goodrich s motion to dismiss the Company s claim that Goodrich is required to accept the tendered reconveyance. Although the Company s motion for partial summary judgment was denied on March 30, 2007, the Company s claim for indemnification of its costs incurred in connection with Pond 4 is still before the court. A status conference was held on July 9, 2008, and the case was continued for ninety days.

Monetary Relief. Except as noted above, with respect to the settlement of the contract litigation among the Company, Goodrich and PolyOne, neither the court nor the Cabinet has established any allocation of the costs of remediation among the various parties that are involved in the judicial and administrative proceedings discussed above. The Company is not in a position at this time to state what effect, if any, the resolution of these proceedings could have on the Company s financial condition, results of operations or cash flows in 2008 and later years. Any cash expenditures that the Company might incur in the future with respect to the remediation of contamination at the complex would likely be spread out over an extended period. As a result, the Company believes it is unlikely that any remediation costs allocable to it will be material in terms of expenditures made in any individual reporting period.

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, 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 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. Although the ultimate amount of liability is not ascertainable, the Company believes that any amounts exceeding the recorded accruals should not materially affect the Company s financial condition. It is possible, however, that the ultimate resolution of this matter could result in a material adverse effect on the Company s results of operations or cash flows for a particular reporting period.

EPA Audit of Ethylene Units in Lake Charles. During 2007, the U.S. Environmental Protection Agency, or EPA, conducted an audit of the Company s ethylene units in Lake Charles, Louisiana, with a focus on leak detection and repair, or LDAR. By letter dated January 31, 2008, the U.S. Department of Justice, or DOJ, notified the Company that the EPA had referred the matter to the DOJ to bring a civil case against the Company alleging violations of various environmental laws and regulations. The DOJ informed the Company that it would seek monetary penalties and require the Company to implement an enhanced LDAR program for the ethylene units. The Company s representatives met with the EPA on February 14, 2008 to conduct initial settlement discussions. While the Company can offer no assurance as to an outcome, the

Company believes that the resolution of this matter will not have a material adverse effect on the Company s financial condition, cash flows or results of operations.

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

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(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, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net sales to external customers				
Olefins				
Polyethylene	$ 499,024	$ 382,473	$ 943,187	$ 726,004
Ethylene, styrene and other	266,938	132,367	483,596	273,062
Total olefins	765,962	514,840	1,426,783	999,066
Vinyls				
Fabricated finished products	145,047	131,024	236,653	258,751
VCM, PVC and other	195,440	136,800	358,074	243,649
Total vinyls	340,487	267,824	594,727	502,400
	$ 1,106,449	$ 782,664	$ 2,021,510	$ 1,501,466
Intersegment sales				
Olefins	$ 35,620	$ 19,260	$ 52,386	$ 30,361
Vinyls	455	279	836	519
	$ 36,075	$ 19,539	$ 53,222	$ 30,880
Income (loss) from operations				
Olefins	$ 57,804	$ 42,716	$ 77,956	$ 69,935
Vinyls	18,354	20,817	15,269	28,609
Corporate and other	(2,582)	(1,254)	(5,790)	(3,599)
	$ 73,576	$ 62,279	$ 87,435	$ 94,945
Depreciation and amortization				
Olefins	$ 19,182	$ 17,487	$ 36,843	$ 33,143
Vinyls	8,143	8,838	16,441	17,499
Corporate and other	52	36	94	74
	$ 27,377	$ 26,361	$ 53,378	$ 50,716

Other income (expense), net				
Olefins	$ 42	$ 119	$ 58	$ 170
Vinyls	67	28	166	90
Corporate and other	2,090	(439)	4,383	439
	$ 2,199	$ (292)	$ 4,607	$ 699
Capital expenditures				
Olefins	$ 14,036	$ 19,861	$ 29,504	$ 30,353
Vinyls	23,985	10,300	50,747	17,924
Corporate and other	746	1,449 &nbs		