

WESTLAKE CHEMICAL CORP

Form 10-Q

May 06, 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 March 31, 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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

2801 Post Oak Boulevard, Suite 600

Houston, Texas 77056

(Address of principal executive offices, including zip code)

(713) 960-9111

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the registrant's sole class of common stock, as of April 28, 2009 was 65,924,543.

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

	March 31, 2009	December 31, 2008
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 179,343	\$ 90,239
Accounts receivable, net	281,011	347,323
Inventories, net	283,873	327,967
Prepaid expenses and other current assets	10,294	6,838
Deferred income taxes	26,617	26,622
Total current assets	781,138	798,989
Property, plant and equipment, net	1,210,748	1,197,452
Equity investment	31,870	30,107
Restricted cash	120,763	134,432
Other assets, net	143,701	126,009
Total assets	\$ 2,288,220	\$ 2,286,989
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 132,904	\$ 112,833
Accrued liabilities	79,255	99,455
Total current liabilities	212,159	212,288
Long-term debt	510,339	510,319
Deferred income taxes	289,397	280,486
Other liabilities	45,217	44,836
Total liabilities	1,057,112	1,047,929
Commitments and Contingencies (Notes 13 and 16)		
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; 65,924,043 and 65,658,142 shares issued and outstanding in 2009 and 2008, respectively	659	657
Additional paid-in capital	436,902	435,581
Retained earnings	805,337	814,873
Accumulated other comprehensive income		
Benefits liability, net of tax	(12,989)	(13,339)
Cumulative translation adjustment	1,199	1,288

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Total stockholders' equity	1,231,108	1,239,060
Total liabilities and stockholders' equity	\$ 2,288,220	\$ 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 March 31,	
	2009	2008
	(in thousands of dollars, except per share data and share amounts)	
Net sales	\$ 488,251	\$ 915,061
Cost of sales	468,187	878,357
Gross profit	20,064	36,704
Selling, general and administrative expenses	20,967	22,845
(Loss) income from operations	(903)	13,859
Other income (expense)		
Interest expense	(8,596)	(8,528)
Other income, net	2,477	2,408
(Loss) income before income taxes	(7,022)	7,739
(Benefit from) provision for income taxes	(947)	2,352
Net (loss) income	\$ (6,075)	\$ 5,387
Basic and diluted (loss) earnings per share	\$ (0.09)	\$ 0.08
Weighted average shares outstanding:		
Basic	65,797,273	65,561,552
Diluted	65,797,273	65,587,292

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,	
	2009	2008
	(in thousands of dollars)	
Cash flows from operating activities		
Net (loss) income	\$ (6,075)	\$ 5,387
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:		
Depreciation and amortization	28,987	26,001
(Recovery of) provision for bad debts	(90)	84
Amortization of debt issue costs	318	219
Stock-based compensation expense	1,309	947
Loss from disposition of fixed assets	293	2,385
Deferred income taxes	8,105	1,163
Equity in income of joint venture	(1,763)	(1,068)
Changes in operating assets and liabilities		
Accounts receivable	66,402	42,790
Inventories	44,094	(4,180)
Prepaid expenses and other current assets	(3,456)	3,244
Accounts payable	20,818	(54,893)
Accrued liabilities	(19,873)	(35,658)
Other, net	(18,766)	(14,675)
Net cash provided by (used for) operating activities	120,303	(28,254)
Cash flows from investing activities		
Additions to property, plant and equipment	(32,792)	(42,984)
Acquisition of business	(6,297)	
Proceeds from disposition of assets		214
Settlements of derivative instruments	(1,352)	319
Net cash used for investing activities	(40,441)	(42,451)
Cash flows from financing activities		
Proceeds from the exercise of stock options	14	
Dividends paid	(3,461)	(3,282)
Proceeds from borrowings		300,800
Repayment of borrowings		(257,427)
Utilization of restricted cash	14,026	13,546
Capitalized debt issuance costs	(1,337)	
Net cash provided by financing activities	9,242	53,637
Net increase (decrease) in cash and cash equivalents	89,104	(17,068)
Cash and cash equivalents at beginning of period	90,239	24,914
Cash and cash equivalents at end of period	\$ 179,343	\$ 7,846

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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 March 31, 2009, its results of operations for the three months ended March 31, 2009 and 2008 and the changes in its cash position for the three months ended March 31, 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, and the adoption of SFAS 157 did not have a material impact on the Company's financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis to November 15, 2008. The Company adopted SFAS 157 with respect to nonfinancial assets and nonfinancial liabilities that are recognized on a nonrecurring basis as of January 1, 2009, and such adoption did not have a material impact on the Company's 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.

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.

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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 has complied with necessary disclosure requirements beginning with the interim financial statements included in this Quarterly Report on Form 10-Q. See Note 7 to the consolidated financial statements.

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

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

(UNAUDITED)

(dollars in thousands, except per share data)

guidance in this FSP concludes that unvested share-based payment awards that contain nonforfeitable rights to dividends should be included in the computation of earnings per share. The Company's unvested restricted stock awards contain rights to dividends, so 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 calculation for the three months ended March 31, 2008 has also been amended to reflect the new computation, but the change in the calculation was insignificant and did not change the originally reported earnings per basic and diluted share of \$0.08 for the three months ended March 31, 2008.

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. We will expand our disclosures in accordance with FSP FAS 132(R)-1 in our annual report on Form 10-K for the year ending December 31, 2009; however, the adoption of this standard is not expected to have a significant impact on our consolidated results of operations, financial position or cash flows.

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.

2. Accounts Receivable

Accounts receivable consist of the following:

	March 31, 2009	December 31, 2008
Trade customers	\$ 246,876	\$ 293,318
Affiliates	1,270	1,226
Allowance for doubtful accounts	(13,705)	(14,438)
	234,441	280,106
Federal and state taxes	27,971	54,886
Other	18,599	12,331
Accounts receivable, net	\$ 281,011	\$ 347,323

3. Inventories

Inventories consist of the following:

	March 31, 2009	December 31, 2008
Finished products	\$ 149,096	\$ 173,982
Feedstock, additives and chemicals	98,996	119,881
Materials and supplies	43,566	42,415
	291,658	336,278
Allowance for inventory obsolescence	(7,785)	(8,311)
Inventories, net	\$ 283,873	\$ 327,967

4. Property, Plant and Equipment

Depreciation expense on property, plant and equipment of \$24,061 and \$21,954 is included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2009 and 2008, respectively.

5. Other Assets

Amortization expense on other assets of \$5,244 and \$4,266 is included in the consolidated statements of operations for the three months ended March 31, 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). The Company utilizes the fair value method to account for these awards, and the total compensation expense related to the 2004 Plan was \$1,309 and \$947 for the three months ended March 31, 2009 and 2008, respectively.

Option activity and changes during the three months ended March 31, 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	(500)	14.50		
Cancelled	(642)	25.24		