

WESTLAKE CHEMICAL CORP  
Form 10-Q  
November 02, 2007  
[Index to Financial Statements](#)

---

**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 September 30, 2007

or

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-32260

---

**Westlake Chemical Corporation**

(Exact name of Registrant as specified in its charter)

---

Delaware  
(State or other jurisdiction of  
incorporation or organization)

2801 Post Oak Boulevard, Suite 600

Houston, Texas 77056

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

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

(Address of principal executive offices, including zip code)

(713) 960-9111

(Registrant's telephone number, including area code)

---

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

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

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

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

The number of shares outstanding of the registrant's sole class of common stock, as of October 30, 2007, was 65,486,692.

---

**Index to Financial Statements**

**INDEX**

<b>Item</b>	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>1) Financial Statements</u>	3
<u>2) Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>3) Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>4) Controls and Procedures</u>	29
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>1) Legal Proceedings</u>	30
<u>1A) Risk Factors</u>	30
<u>2) Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>6) Exhibits</u>	30

**Index to Financial Statements****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WESTLAKE CHEMICAL CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 30,	December 31,
	2007	2006
	(in thousands of dollars, except par values and share amounts)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 139,259	\$ 52,646
Accounts receivable, net	436,327	308,903
Inventories, net	466,399	456,276
Prepaid expenses and other current assets	7,216	16,086
Deferred income taxes	17,074	15,876
Total current assets	1,066,275	849,787
Property, plant and equipment, net	1,099,611	1,076,903
Equity investment	28,585	26,382
Other assets, net	120,375	129,026
Total assets	\$ 2,314,846	\$ 2,082,098
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 266,820	\$ 238,914
Accrued liabilities	100,530	82,998
Total current liabilities	367,350	321,912
Long-term debt	335,217	260,156
Deferred income taxes	296,653	281,828
Other liabilities	48,162	44,661
Total liabilities	1,047,382	908,557
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; 65,485,785 and 65,268,585 shares issued and outstanding in 2007 and 2006, respectively	655	653
Additional paid-in capital	430,402	427,893
Retained earnings	842,321	754,921
Accumulated other comprehensive income		
Benefits liability, net of tax	(12,186)	(12,186)
Cumulative translation adjustment	6,272	2,260

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Total stockholders' equity	1,267,464	1,173,541
Total liabilities and stockholders' equity	\$ 2,314,846	\$ 2,082,098

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

Index to Financial Statements

**WESTLAKE CHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands of dollars, except per share data)			
Net sales	\$ 840,160	\$ 672,417	\$ 2,341,626	\$ 1,960,463
Cost of sales	754,100	563,241	2,113,246	1,595,017
Gross profit	86,060	109,176	228,380	365,446
Selling, general and administrative expenses	26,305	22,165	73,680	60,703
Income from operations	59,755	87,011	154,700	304,743
Interest expense	(4,692)	(3,432)	(12,780)	(13,356)
Debt retirement cost				(25,853)
Other income, net	305	3,268	1,004	8,657
Income before income taxes	55,368	86,847	142,924	274,191
Provision for income taxes	17,027	25,191	47,021	94,029
Net income	\$ 38,341	\$ 61,656	\$ 95,903	\$ 180,162
Basic and diluted earnings per share:				
Basic	\$ 0.59	\$ 0.95	\$ 1.47	\$ 2.77
Diluted	\$ 0.59	\$ 0.95	\$ 1.47	\$ 2.76
Weighted average shares outstanding:				
Basic	65,238,376	65,134,582	65,227,147	65,110,448
Diluted	65,325,668	65,237,824	65,325,020	65,234,840

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

Index to Financial Statements

**WESTLAKE CHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in thousands of dollars)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 95,903	\$ 180,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,425	61,974
Provision for doubtful accounts	226	686
Amortization of debt issue costs	567	661
Loss from disposition of fixed assets	187	2,346
Deferred tax expense	15,997	9,617
Equity in income of joint venture	(1,895)	(1,731)
Write-off of debt issuance costs		3,623
Changes in operating assets and liabilities		
Accounts receivable	(129,327)	(32,970)
Inventories	(10,123)	26,942
Prepaid expenses and other current assets	8,870	(206)
Accounts payable	29,310	(32,594)
Accrued liabilities	17,532	20,048
Other, net	(9,671)	(24,690)
Net cash provided by operating activities	95,001	213,868
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(86,295)	(100,659)
Additions to equity investments	(308)	(4,574)
Settlement of acquisition purchase price	8,043	
Purchases of short-term investments		(134,625)
Sales and maturities of short-term investments		34,350
Proceeds from disposition of assets	33	20
Settlements of derivative instruments	3,339	(27,520)
Net cash used for investing activities	(75,188)	(233,008)
<b>Cash flows from financing activities</b>		
Proceeds from the exercise of stock options	303	1,404
Dividends paid	(8,503)	(6,192)
Proceeds from borrowings	287,884	249,185
Repayment of borrowings	(212,884)	(256,000)
Capitalized debt costs		(4,328)
Net cash provided by (used for) financing activities	66,800	(15,931)
Net increase (decrease) in cash and cash equivalents	86,613	(35,071)
Cash and cash equivalents at beginning of period	52,646	237,895

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Cash and cash equivalents at end of period	\$ 139,259	\$ 202,824
--	------------	------------

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



**Index to 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, 2006 financial statements and notes thereto of Westlake Chemical Corporation (the "Company") included in the annual report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on February 26, 2007. These financial statements have been prepared in conformity with the accounting principles and practices as disclosed in the notes to the consolidated financial statements of the Company for the fiscal year ended December 31, 2006.

In the opinion of the Company's management, the accompanying unaudited consolidated interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial position as of September 30, 2007, its results of operations for the three months and nine months ended September 30, 2007 and 2006 and the changes in its cash position for the nine months ended September 30, 2007 and 2006.

Results of operations and changes in cash position for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2007 or any other interim period. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

***Recent Accounting Pronouncements***

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

**2. Accounts Receivable**

Accounts receivable consist of the following:

	September 30, 2007	December 31, 2006
Accounts receivable - trade	\$ 426,947	\$ 292,356
Accounts receivable - affiliates	1,378	1,252
Allowance for doubtful accounts	(3,651)	(3,287)
	424,674	290,321
Accounts receivable - other	11,653	18,582
Accounts receivable - net	\$ 436,327	\$ 308,903



**Index to Financial Statements****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

**3. Inventories**

Inventories consist of the following:

	September 30, 2007	December 31, 2006
Finished product	\$ 291,371	\$ 290,048
Feedstock, additives and chemicals	145,966	137,669
Materials and supplies	36,770	36,499
	474,107	464,216
Allowance for inventory obsolescence	(7,708)	(7,940)
Inventories, net	\$ 466,399	\$ 456,276

**4. Property, Plant and Equipment**

Depreciation expense on property, plant and equipment of \$22,700 and \$18,623 is included in cost of sales in the consolidated statements of operations for the three months ended September 30, 2007 and 2006, respectively, and \$63,336 and \$54,722 is included for the nine months ended September 30, 2007 and 2006, respectively.

**5. Other Assets**

Amortization expense on other assets of \$4,198 and \$2,644 is included in the consolidated statements of operations for the three months ended September 30, 2007 and 2006, respectively, and \$14,656 and \$7,913 is included for the nine months ended September 30, 2007 and 2006, respectively.

**6. Acquisition**

On November 30, 2006, the Company acquired Eastman Chemical Company's polyethylene and Epolen® polymers business, related assets and a 200 mile, 10 inch pipeline from Mont Belvieu, Texas to Longview, Texas for a purchase price of \$235,028, subject to further adjustment based on final values of working capital at the purchase date. During the second quarter of 2007, the Company received \$8,043 to settle the working capital adjustment. The adjustment resulted in a final purchase price of \$226,985. This adjustment, along with other purchase price adjustments, has resulted in a goodwill balance of \$29,990 at September 30, 2007.

**7. Stock-Based Compensation**

The Board of Directors of the Company has adopted, and the stockholders have approved, the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the 2004 Plan). Under the 2004 Plan, all employees of the Company, as well as certain individuals who have agreed to become the Company's employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2004 Plan. At the discretion of the administrator of the 2004 Plan, employees and non-employee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards or cash awards (any of which may be a performance award). The Company utilizes the fair value method to account for these awards, and the total compensation expense related to the 2004 Plan was \$721 and \$440 for the three months ended September 30, 2007.

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

and 2006, respectively and \$2,108 and \$1,384 for the nine months ended September 30, 2007 and 2006, respectively.

Option activity and changes during the nine months ended September 30, 2007 were as follows:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2006	356,284	\$ 20.57		
Granted	360,380	31.51		
Exercised	(20,540)	15.05		
Cancelled	(16,225)	26.67		
<b>Outstanding at September 30, 2007</b>	<b>679,899</b>	<b>26.39</b>	<b>8.4</b>	<b>\$ 2,141</b>
Exercisable at September 30, 2007	245,310	17.41	7.0	2,141

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

For options outstanding at September 30, 2007, the options had the following range of exercise prices:

Range of Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
\$14.50	197,674	6.8
\$25.42 - \$36.10	482,225	9.1

The aggregate intrinsic value in the table represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2007. This amount changes based on the fair market value of the Company's common stock. The total intrinsic value of options exercised for the three months ended September 30, 2007 and 2006 was \$221 and \$1,052, and the total intrinsic value of options exercised for the nine months ended September 30, 2007 and 2006 was \$278 and \$1,564, respectively.

As of September 30, 2007, \$4,650 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 4.7 years.

The Company used the Black-Scholes option pricing model to value its options. The table below presents the weighted average value and assumptions used in determining each option's fair value for each option granted during the third quarters of 2007 and 2006, and the first nine months of 2007 and 2006. Volatility was calculated using historical trends of the Company's common stock price.

	Stock Option Grants			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Weighted average fair value of grants	\$ 10.57	\$ 12.25	\$ 14.15	\$ 14.87
Risk-free interest rate	4.4%	4.5%	4.5%	4.8%
Expected life in years	6-7	6-7	6-10	6-7
Expected volatility	33.4%	34.1%	33.2%	34.0%
Expected dividend yield	0.7%	0.5%	0.5%	0.3%

Non-vested restricted stock awards as of September 30, 2007 and changes during the nine months ended September 30, 2007 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2006	53,928	\$ 30.85
Granted	202,499	31.53
Vested	(21,397)	30.20
Forfeited	(5,839)	31.49

Non-vested at September 30, 2007	229,191	31.49
----------------------------------	---------	-------

As of September 30, 2007, there was \$5,667 of unrecognized stock-based compensation expense related to non-vested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 4.3 years.

**8. Derivative Commodity Instruments**

The Company uses derivative instruments, in conjunction with certain physical commodity positions, to reduce price volatility risk on commodities. The Company had a net gain of \$6,424 in connection with trading activity for the nine months ended September 30, 2007 compared to a net gain of \$17,675 for the nine months ended September 30, 2006. Of the 2007 net gain, \$7,902 related to sales of related physical feedstock positions and was partially offset by \$1,478 related to

**Index to Financial Statements****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

derivative losses. Of the 2006 net gain, \$4,137 related to sales of related physical feedstock positions and \$13,538 related to derivative gains. Net trading gains in the third quarter of 2007 totaled \$1,616 (\$3,421 in gains related to sales of related physical feedstock positions, offset by \$1,805 related to derivative losses) compared to a net gain of \$5,390 (\$3,202 related to sales of related physical positions and \$2,188 related to derivative gains) for the third quarter of 2006. Gains and losses in connection with trading activity are included in cost of sales. Risk management asset balances of \$1,887 and \$5,721 were included in Accounts receivable, net and risk management liability balances of \$279 and \$1,211 were included in current liabilities in the Company's consolidated balance sheets as of September 30, 2007 and December 31, 2006, respectively.

**9. Income Taxes**

The Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. The Company recognized no adjustments in the liability for unrecognized income tax benefits. As of January 1, 2007, the total gross unrecognized tax benefits were \$9,637. Of this total, \$5,072, net of federal tax benefits, would favorably impact the effective income tax rate if recognized.

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of January 1, 2007, the Company had approximately \$3,069 of accrued interest and penalties related to uncertain tax positions. The Company has increased the accrued interest and penalties approximately \$820 during the nine months ended September 30, 2007.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to the examinations by tax authorities before the year 1999. The Company is currently under audit by the Internal Revenue Service for the 2005 tax year.

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

The effective income tax rate was 32.9% for the nine months ended September 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. The effective tax rate was 34.3% for the nine months ended September 30, 2006. The 2006 tax rate was below the statutory rate of 35% primarily due to adjustments to state income taxes and the extra-territorial exclusion income benefit.

**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		Nine Months	
	September 30,		Ended	
	2007	2006	2007	2006
	(in thousands)		(in thousands)	
Weighted average common shares basic	65,238	65,135	65,227	65,110

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Plus incremental shares from:

Assumed conversion of options	78	90	85	111
Restricted stock	10	13	13	14
Weighted average common shares diluted	65,326	65,238	65,325	65,235



Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

**11. Pension and Post-Retirement Benefits**

Components of Net Periodic Costs are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension		Post-Retirement		Pension		Post-Retirement	
	2007	2006	2007	2006	2007	2006	2007	2006
Service cost	\$ 260	\$ 267	\$ 78	\$ 89	\$ 780	\$ 800	\$ 234	\$ 272
Interest cost	557	471	146	122	1,671	1,413	438	390
Expected return on plan assets	(599)	(551)			(1,797)	(1,651)		
Amortization of transition obligation			28	28			85	85
Amortization of prior service cost	80	80	67	67	239	239	200	200
Amortization of net loss	132	99	104	87	397	299	311	241
Net periodic benefit cost	\$ 430	\$ 366	\$ 423	\$ 393	\$ 1,290	\$ 1,100	\$ 1,268	\$ 1,188

The Company made no contributions to the Salaried and Wage pension plans during the quarters ended September 30, 2007 and 2006 but contributed \$2,498 to the Salaried and Wage pension plans during the nine months ended September 30, 2006. The Company is not scheduled to contribute any funds to the pension plans during the fiscal year ending December 31, 2007.

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

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

## Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

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

In March 2005, the court dismissed PolyOne's claims against the Company and granted the Company's motion for summary judgment on its breach of contract claim against Goodrich. In July 2005, Goodrich agreed to pay the Company all past due amounts, including interest, in the amount of \$3,132. This reimbursement is reflected in the consolidated statement of operations for the year ended December 31, 2005, resulting in a \$2,606 reduction of selling, general and administrative expenses and \$526 of interest income. Goodrich further agreed to timely and fully pay the Company for all future services.

Index to Financial Statements

**WESTLAKE CHEMICAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

On October 30, 2007, the parties reached an agreement in principle to terminate the litigation. The principal elements of the agreement in principle are:

- (i) The Company will pay PolyOne, Goodrich's indemnitor, \$3,000 (such payment is reflected in the consolidated statement of operations for the three and nine months ended September 30, 2007, as an increase in the cost of sales);
- (ii) Goodrich will dismiss its claims asserted against the Company in the litigation relating to environmental costs paid or incurred through July 31, 2007, including its claim for legal fees and expenses;
- (iii) Goodrich and PolyOne will release the Company from all claims relating to past environmental costs paid or incurred through July 31, 2007, and legal fees and expenses asserted in the litigation;
- (iv) The Company will release Goodrich from all claims asserted by the Company in the litigation, including claims for legal fees and expenses;
- (v) PolyOne will 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;
- (vi) Either the Company or PolyOne may, from time to time in the future (but not more than once every five years), institute a proceeding to adjust that percentage (it being agreed that no such proceeding may be initiated until six months after the date of settlement); and
- (vii) The Company and PolyOne will negotiate a new environmental remediation utilities and services agreement to cover the Company's provision to or on behalf of PolyOne of certain environmental services at the site, including, among other things, the operation by the Company on behalf of PolyOne of groundwater remediation equipment.

The settlement is subject to the execution of definitive documentation and does not affect the administrative proceedings and related litigation discussed below.

The current groundwater remediation activities at the Calvert City complex do not have a specified termination date but are expected to last for the foreseeable future. Since the Company acquired in mid-1997 the relevant portion of the complex where certain groundwater remediation equipment is located, the Company has spent \$25,352 through September 30, 2007 in operating this equipment, all of which has been reimbursed to the Company by Goodrich. Goodrich has continued to reimburse the Company on a monthly basis as ongoing expenses for these services are incurred. Upon implementation of the settlement described above, PolyOne would bear these costs going forward, subject to possible adjustment of its 100% allocation also as indicated above. The costs incurred to operate the groundwater remediation equipment were \$2,054 in the first nine months of 2007 and \$2,388 in the first nine months of 2006.

## Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

*Administrative Proceedings.* There are several administrative proceedings in Kentucky involving the Company, Goodrich and PolyOne and the same manufacturing complex in Calvert City. In 2003, the Kentucky Environmental and Public Protection Cabinet ( 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. The permit application is now due on March 8, 2008. Goodrich and the Company have both challenged the Cabinet's October 2006 order.

All of these administrative proceedings have been consolidated. The hearing date has been postponed until January 14, 2008.

**Index to Financial Statements**

**WESTLAKE CHEMICAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

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

*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, parties have continued to engage in settlement discussions. The EPA has indicated that it will impose monetary penalties and require plant modifications that will involve capital expenditures. The Company expects that, based on the EPA's past practices, the amount of any monetary penalties would be reduced by a portion of the expenditures that the Company would agree to make for certain supplemental environmental projects. The Company has recorded an accrual for a probable loss related to monetary penalties and other items to be expensed; however, based on correspondence with the EPA, the Company reduced its loss accrual by \$1,500 during the fourth quarter of 2006. Although the ultimate amount of liability is not ascertainable, the Company believes that any amounts exceeding the recorded accruals should not materially affect the Company's financial condition. It is possible, however, that the ultimate resolution of this matter could result in a material adverse effect on the Company's results of operations or cash flows for a particular reporting period.

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

**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.

**Index to Financial Statements****WESTLAKE CHEMICAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Net sales to external customers</b>				
Olefins				
Polyethylene	\$ 393,237	\$ 188,047	\$ 1,119,241	\$ 583,923
Ethylene, styrene and other	177,181	173,478	450,243	465,971
Total olefins	570,418	361,525	1,569,484	1,049,894
Vinyls				
Fabricated finished goods	126,129	162,947	384,880	485,235
VCM, PVC and other	143,613	147,945	387,262	425,334
Total vinyls	269,742	310,892	772,142	910,569
	\$ 840,160	\$ 672,417	\$ 2,341,626	\$ 1,960,463
<b>Intersegment sales</b>				
Olefins	\$ 20,808	\$ 40,827	\$ 51,169	\$ 118,877
Vinyls	312	218	831	849
	\$ 21,120	\$ 41,045	\$ 52,000	\$ 119,726
<b>Income (loss) from operations</b>				
Olefins	\$ 57,032	\$ 41,851	\$ 126,967	\$ 163,445
Vinyls	5,420	48,944	34,029	147,606
Corporate and other	(2,697)	(3,784)	(6,296)	(6,308)
	\$ 59,755	\$ 87,011	\$ 154,700	\$ 304,743
<b>Depreciation and amortization</b>				
Olefins	\$ 17,791	\$ 12,293	\$ 50,934	\$ 35,872
Vinyls	8,882	8,747	26,381	26,005
Corporate and other	36	38	110	97
	\$ 26,709	\$ 21,078	\$ 77,425	\$ 61,974
<b>Other income (expense), net</b>				
Olefins	\$	\$	\$ 170	\$ (1)
Vinyls	(68)	71	21	156
Corporate and other	373	3,197	813	8,502
	305	3,268	1,004	8,657
Debt retirement cost				(25,853)

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

	\$ 305	\$ 3,268	\$ 1,004	\$ (17,196)
<b>Capital expenditures</b>				
Olefins	\$ 18,723	\$ 30,371	\$ 49,076	\$ 72,440
Vinyls	16,157	7,283	34,081	27,707
Corporate and other	932	118	3,138	512
	\$ 35,812	\$ 37,772	\$ 86,295	\$ 100,659

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Income from operations	\$ 59,755	\$ 87,011	\$ 154,700	\$ 304,743
Interest expense	(4,692)	(3,432)	(12,780)	(13,356)
Debt retirement cost				(25,853)
Other income, net	305	3,268	1,004	8,657
Income before taxes	\$ 55,368	\$ 86,847	\$ 142,924	\$ 274,191

	September 30, 2007	December 31, 2006
<b>Total Assets</b>		
Olefins	\$ 1,486,150	\$ 1,390,513
Vinyls	632,031	578,507
Corporate and other	196,665	113,078
	\$ 2,314,846	\$ 2,082,098

**14. Comprehensive Income Information**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$ 38,341	\$ 61,656	\$ 95,903	\$ 180,162
Other comprehensive income:				
Change in foreign currency translation	1,763	234	4,012	1,136
Comprehensive income	\$ 40,104	\$ 61,890	\$ 99,915	\$ 181,298

**15. Long-Term Debt**

Long-term indebtedness consists of the following:

September 30, 2007	December 31, 2006
-----------------------	----------------------



Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

6 <sup>5</sup> / <sub>8</sub> % Senior notes due 2016	\$ 249,328	\$ 249,267
Revolving line of credit	75,000	
Loan related to tax-exempt revenue bonds	10,889	10,889
Long-term debt	\$ 335,217	\$ 260,156

As of September 30, 2007, the Company had borrowings of \$75,000 under its \$300,000 senior secured revolving credit facility that bore interest at either LIBOR plus 1.00% or prime rate minus 0.50%. The revolving credit facility also requires an unused commitment fee of 0.25%. All interest rates under the facility are subject to quarterly grid pricing adjustments based on a fixed charge coverage ratio. The interest rate for borrowings under the facility in the third quarter of 2007 was 6.5%. The facility matures on January 6, 2011.

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

**16. Guarantor Disclosures**

The Company's payment obligations under its  $6\frac{1}{8}\%$  senior notes are fully and unconditionally guaranteed by each of its current and future domestic restricted subsidiaries that guarantee other debt of the Company or of another guarantor of the  $6\frac{5}{8}\%$  senior notes in excess of \$5,000 (the Guarantor Subsidiaries). Each Guarantor Subsidiary is 100% owned by the parent company. These guarantees are the joint and several obligations of the Guarantor Subsidiaries. The following unaudited condensed consolidating financial information presents the financial condition, results of operations and cash flows of Westlake Chemical Corporation, the Guarantor Subsidiaries and the remaining subsidiaries that do not guarantee the notes (the Non-Guarantor Subsidiaries), together with consolidating adjustments necessary to present the Company's results on a consolidated basis.

**Condensed Consolidating Financial Information as of September 30, 2007**

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Balance Sheet</b>					
Current assets					
Cash and cash equivalents	\$ 132,438	\$ 120	\$ 6,701	\$	\$ 139,259
Accounts receivable, net	42,090	423,114	(1,226)	(27,651)	436,327
Inventories, net		452,411	13,988		466,399
Prepaid expenses and other current assets	10	6,775	431		7,216
Deferred income taxes	16,797		277		17,074
Total current assets	191,335	882,420	20,171	(27,651)	1,066,275
Property, plant and equipment, net		1,087,337	12,274		1,099,611
Equity investment	1,654,702	15,300	28,585	(1,670,002)	28,585
Other assets, net	40,304	110,399	5,702	(36,030)	120,375
Total assets	\$ 1,886,341	\$ 2,095,456	\$ 66,732	\$ (1,733,683)	\$ 2,314,846
Current liabilities					
Accounts payable	\$ 24,473	\$ 241,497	\$ 850	\$	\$ 266,820
Accrued liabilities	7,327	92,191	1,268	(256)	100,530
Total current liabilities	31,800	333,688	2,118	(256)	367,350
Long-term debt	324,328	66,039	8,106	(63,256)	335,217
Deferred income taxes	250,067	44,968	1,618		296,653
Other liabilities	12,682	35,480			48,162
Stockholders' equity	1,267,464	1,615,281	54,890	(1,670,171)	1,267,464
Total liabilities and stockholders' equity	\$ 1,886,341	\$ 2,095,456	\$ 66,732	\$ (1,733,683)	\$ 2,314,846



Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information as of December 31, 2006

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

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information for the Three Months Ended September 30, 2007

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Operations</b>					
Net sales	\$	\$ 828,528	\$ 13,405	\$ (1,773)	\$ 840,160
Cost of sales		741,934	13,939	(1,773)	754,100
Gross profit		86,594	(534)		86,060
Selling, general and administrative expenses	482	25,464	359		26,305
Income (loss) from operations	(482)	61,130	(893)		59,755
Interest expense	469	(5,161)			(4,692)
Other income (expense), net	39,222	(426)	540	(39,031)	305
Income (loss) before income taxes	39,209	55,543	(353)	(39,031)	55,368
Provision for (benefit from) income taxes	868	16,670	(511)		17,027
Net income (loss)	\$ 38,341	\$ 38,873	\$ 158	\$ (39,031)	\$ 38,341

## Condensed Consolidating Financial Information for the Three Months Ended September 30, 2006

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Operations</b>					
Net sales	\$	\$ 660,684	\$ 13,897	\$ (2,164)	\$ 672,417
Cost of sales		553,552	11,853	(2,164)	563,241
Gross profit		107,132	2,044		109,176
Selling, general and administrative expenses	346	20,650	1,169		22,165
Income (loss) from operations	(346)	86,482	875		87,011
Interest expense	(437)	(2,995)			(3,432)
Other income (expense), net	60,821	161	818	(58,532)	3,268
Income (loss) before income taxes	60,038	83,648	1,693	(58,532)	86,847
Provision for (benefit from) income taxes	(1,618)	26,665	144		25,191
Net income (loss)	\$ 61,656	\$ 56,983	\$ 1,549	\$ (58,532)	\$ 61,656



Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information for the Nine Months Ended September 30, 2007

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Operations</b>					
Net sales	\$	\$ 2,312,418	\$ 35,749	\$ (6,541)	\$ 2,341,626
Cost of sales		2,084,699	35,088	(6,541)	2,113,246
Gross profit		227,719	661		228,380
Selling, general and administrative expenses	1,124	70,372	2,184		73,680
Income (loss) from operations	(1,124)	157,347	(1,523)		154,700
Interest expense	2,493	(15,273)			(12,780)
Other income (expense), net	95,476	(437)	2,369	(96,404)	1,004
Income (loss) before income taxes	96,845	141,637	846	(96,404)	142,924
Provision for (benefit from) income taxes	942	46,724	(645)		47,021
Net income (loss)	\$ 95,903	\$ 94,913	\$ 1,491	\$ (96,404)	\$ 95,903

## Condensed Consolidating Financial Information for the Nine Months Ended September 30, 2006

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Operations</b>					
Net sales	\$	\$ 1,930,503	\$ 37,820	\$ (7,860)	\$ 1,960,463
Cost of sales		1,569,676	33,201	(7,860)	1,595,017
Gross profit		360,827	4,619		365,446
Selling, general and administrative expenses	1,054	56,780	2,869		60,703
Income (loss) from operations	(1,054)	304,047	1,750		304,743
Interest expense	(1,893)	(11,463)			(13,356)
Other income (expense), net	173,832	561	2,208	(193,797)	(17,196)
Income (loss) before income taxes	170,885	293,145	3,958	(193,797)	274,191
Provision for (benefit from) income taxes	(9,277)	102,597	709		94,029
Net income (loss)	\$ 180,162	\$ 190,548	\$ 3,249	\$ (193,797)	\$ 180,162





Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information for the Nine Months Ended September 30, 2007

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Cash Flows</b>					
<b>Cash flows from operating activities</b>					
Net income	\$ 95,903	\$ 94,913	\$ 1,491	\$ (96,404)	\$ 95,903
<b>Adjustments to reconcile net income to net cash used for operating activities</b>					
Depreciation and amortization	567	75,113	2,312		77,992
Provision for doubtful accounts		45	181		226
Loss from disposition of fixed assets		187			187
Deferred tax expense	15,935		62		15,997
Equity in income of joint venture			(1,895)		(1,895)
Net changes in working capital and other	(123,910)	(66,123)	220	96,404	(93,409)
Net cash (used for) provided by operating activities	(11,505)	104,135	2,371		95,001
<b>Cash flows from investing activities</b>					
Additions to property, plant and equipment		(84,984)	(1,311)		(86,295)
Additions to equity investments			(308)		(308)
Acquisition of business	8,043				8,043
Proceeds from disposition of assets		33			33
Settlements of derivative instruments		3,339			3,339
Net cash provided by (used for) investing activities	8,043	(81,612)	(1,619)		(75,188)
<b>Cash flows from financing activities</b>					
Intercompany financing	22,430	(22,494)	64		
Proceeds from exercise of stock options	303				303
Dividends paid	(8,503)				(8,503)
Proceeds from borrowings	287,884				287,884
Repayments of borrowings	(212,884)				(212,884)
Net cash provided by (used for) financing activities	89,230	(22,494)	64		66,800
Net increase in cash and cash equivalents	85,768	29	816		86,613
Cash and cash equivalents at beginning of period	46,670	91	5,885		52,646
Cash and cash equivalents at end of period	\$ 132,438	\$ 120	\$ 6,701	\$	\$ 139,259

Index to Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

## Condensed Consolidating Financial Information for the Nine Months Ended September 30, 2006

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Statement of Cash Flows</b>					
Net income	\$ 180,162	\$ 190,548	\$ 3,249	\$ (193,797)	\$ 180,162
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>					
Depreciation and amortization	661	59,443	2,531		62,635
Provision for bad debts		686			686
Gain from disposition of fixed assets		2,346			2,346
Deferred tax expense	9,082		535		9,617
Equity in income of joint venture			(1,731)		(1,731)
Write-off of debt issuance costs		3,623			3,623
Net changes in working capital and other	(278,452)	32,745	8,440	193,797	(43,470)
Net cash provided by (used for) operating activities	(88,547)	289,391	13,024		213,868
Additions to property, plant and equipment		(98,989)	(1,670)		(100,659)
Additions to equity investment			(4,574)		(4,574)
Purchase of short-term investments	(134,625)				(134,625)
Sales and maturities of short-term investments	34,350				34,350
Settlements of futures contracts		(27,520)			(27,520)
Other		20			20
Net cash used for investing activities	(100,275)	(126,489)	(6,244)		(233,008)
Intercompany financing	162,913	(162,954)	41		
Proceeds from exercise of stock options	1,404				1,404
Dividends paid	(6,192)				(6,192)
Proceeds from borrowings	249,185				249,185
Repayments of borrowings	(256,000)				(256,000)
Capitalized debt costs	(4,328)				(4,328)
Net cash used for (provided by) financing activities	146,982	(162,954)	41		(15,931)
Net increase (decrease) in cash and cash equivalents	(41,840)	(52)	6,821		(35,071)
Cash and cash equivalents at beginning of period	231,957	151	5,787		237,895
Cash and cash equivalents at end of period	\$ 190,117	\$ 99	\$ 12,608	\$	\$ 202,824

## **Index to Financial Statements**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This discussion and analysis should be read in conjunction with information contained in the accompanying unaudited consolidated interim financial statements of Westlake Chemical Corporation and the notes thereto and the consolidated financial statements and notes thereto of Westlake Chemical Corporation included in Westlake Chemical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. The following discussion contains forward-looking statements. Please read "Forward-Looking Statements" for a discussion of limitations inherent in such statements.

We are a vertically integrated manufacturer and marketer of petrochemicals, polymers and fabricated products. Our two principal business segments are Olefins and Vinyls. We use the majority of our internally-produced basic chemicals to produce higher value-added chemicals and fabricated products.

### **Recent Developments**

In October 2007, we announced that we intend to expand our chlor-alkali and PVC resin units and build a large diameter PVC pipe plant, all at our Calvert City, Kentucky manufacturing complex. The expanded chlor-alkali unit is expected to add 50,000 ECUs, bringing our total capacity to 275,000 ECUs per year. The expansion is expected to improve the vertical integration of our vinyls business from chlorine downstream into VCM and PVC and increase caustic soda sales once the expansion is completed, which is expected to occur in the second half of 2009. The PVC resin plant expansion is expected to increase capacity by 300 million pounds per year, bringing our total PVC capacity to 1.7 billion pounds annually and is expected to be completed in the first half of 2009. The expansion is expected to consume VCM that is currently being sold on the merchant market and will enhance the integration of the vinyls product chain. We have also begun planning for the construction of a new large diameter PVC pipe facility with a capacity of approximately 50 million pounds per year of large diameter pipe. We expect this project will be completed in the second half of 2008, bringing our total annual capacity for PVC pipe to 850 million pounds. We expect this strategic capital investment, totaling approximately \$90.0 million, will enhance the vertical integration of our business, further strengthen our position in the large diameter pipe market and increase our ability to serve our customers through an improved overall product mix.

In April 2006, we announced that we had entered into a Memorandum of Understanding to study the development of an ethane-based ethylene, polyethylene and other derivatives project in the Republic of Trinidad and Tobago. The Government of the Republic of Trinidad and Tobago has expressed an interest in becoming a minority equity partner in the project. As currently envisioned, the project would use 37,500 barrels per day of ethane to produce 570,000 metric tons (1.25 billion pounds) per year of ethylene, which would in turn be used to produce polyethylene and other derivative products. The project could be expanded in the future as more ethane becomes available. The capital cost is currently estimated to be approximately \$1.9 billion. The size, scope, and cost of the project are subject to further definition in connection with a detailed feasibility study that we are currently performing. It is expected that the project will be financed through a project financing arrangement.

On November 30, 2006 we acquired Eastman Chemical Company's polyethylene business, related assets and a 200 mile, 10-inch pipeline from Mont Belvieu, Texas to Longview, Texas, all of which are headquartered in Longview, Texas (Longview). A more detailed description of this acquisition can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. See Note 6 to the accompanying unaudited consolidated financial statements for more information.

**Index to Financial Statements****Results of Operations****Segment Data**

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
	2007	2006	2007	2006
	(dollars in thousands)			
<b>Net External Sales</b>				
Olefins				
Polyethylene	\$ 393,237	\$ 188,047	\$ 1,119,241	\$ 583,923
Ethylene, styrene and other	177,181	173,478	450,243	465,971
Total olefins	570,418	361,525	1,569,484	1,049,894
Vinyls				
Fabricated finished goods	126,129	162,947	384,880	485,235
VCM, PVC and other	143,613	147,945	387,262	425,334
Total vinyls	269,742	310,892	772,142	910,569
	\$ 840,160	\$ 672,417	\$ 2,341,626	\$ 1,960,463

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
	2007	2006	2007	2006
	(dollars in thousands)			
<b>Income (loss) from operations</b>				
Olefins	\$ 57,032	\$ 41,851	\$ 126,967	\$ 163,445
Vinyls	5,420	48,944	34,029	147,606
Corporate and other	(2,697)	(3,784)	(6,296)	(6,308)
Total income from operations	59,755	87,011	154,700	304,743
Interest expense	(4,692)	(3,432)	(12,780)	(13,356)
Debt retirement cost				(25,853)
Other income, net	305	3,268	1,004	8,657
Provision for income taxes	(17,027)	(25,191)	(47,021)	(94,029)
Net income	\$ 38,341	\$ 61,656	\$ 95,903	\$ 180,162
Earnings per share (diluted)	\$ 0.59	\$ 0.95	\$ 1.47	\$ 2.76

	Three Months Ended September 30, 2007 Average		Nine Months Ended September 30, 2007 Average	
	Sales Price	Volume	Sales Price	Volume
<b>Product sales price and volume percentage change from prior year period</b>				
Olefins(1)	+10.7%	+47.1%	+2.8%	+46.7%
Vinyls	18.0%	+4.8%	20.8%	+5.6%
Company average(1)	2.1%	+27.1%	7.8%	+27.3%

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

- (1) Excluding the volumes attributable to the acquisition of the Longview facilities, the percentage increase in sales volumes for olefins and company average is 5.8% and 5.3%, respectively, for the third quarter and 6.1% and 5.9%, respectively, for the nine month period.

**Index to Financial Statements**

	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
<b>Average industry prices (1)</b>				
Ethane (cents/lb)	27.6	25.5	23.9	22.5
Propane (cents/lb)	29.0	26.0	26.2	24.4
Ethylene (cents/lb) (2)	50.2	50.7	44.9	49.2
Polyethylene (cents/lb) (3)	79.0	78.7	72.9	76.6
Styrene (cents/lb) (4)	68.1	70.1	68.0	64.1
Caustic (\$/short ton) (5)	450.0	361.7	405.0	393.1
Chlorine (\$/short ton) (6)	322.5	332.5	314.2	332.5
VCM (cents/lb) (7)	43.4	43.9	40.4	43.4
PVC (cents/lb) (8)	61.3	61.3	57.8	61.4

Source: CMAI

- (1) Industry pricing data was obtained through the Chemical Market Associates, Inc., or CMAI. We have not independently verified the data.
- (2) Represents average North American spot prices of ethylene over the period as reported by CMAI.
- (3) Represents average North American contract prices of polyethylene film over the period as reported by CMAI.
- (4) Represents average North American spot prices of styrene over the period as reported by CMAI.
- (5) Represents average North American spot prices of caustic soda (diaphragm grade) over the period as reported by CMAI.
- (6) Represents average North American contract prices of chlorine (into chemicals) over the period as reported by CMAI.
- (7) Represents North American contract prices of VCM over the period as reported by CMAI.
- (8) Represents North American contract prices of PVC over the period as reported by CMAI.

*Summary*

For the third quarter of 2007, net income was \$38.3 million, or \$0.59 per diluted share, a decrease of 37.9% from the third quarter of 2006 net income of \$61.7 million, or \$0.95 per diluted share. Income from operations was \$59.8 million on net sales of \$840.2 million for the third quarter of 2007 as compared to third quarter 2006 income from operations of \$87.0 million on net sales of \$672.4 million. Sales increased \$167.8 million, or 25.0%, over the third quarter of 2006, primarily as a result of additional polyethylene volumes from the acquisition of the Longview facilities in late 2006, partially offset by overall lower prices. The decline in income from operations was primarily due to weakness in our Vinyls segment, particularly our downstream products businesses, as a result of weakness in the residential construction market. Margins remained at low levels primarily due to rising feedstock costs and the vinyls industry's inability to raise prices to cover these cost increases. Our Vinyls segment third quarter 2007 income from operations was also negatively impacted by \$6.7 million for the settlement of the contract litigation with Goodrich and PolyOne and associated legal expenses related to past environmental issues at the Calvert City facilities. This decline was partially offset by an increase in income from operations for our Olefins segment. Our Olefins business benefited from the earnings from our Longview facilities, which were acquired in November 2006, and balanced industry supply and demand fundamentals for polyethylene.

For the nine months ended September 30, 2007, net income was \$95.9 million, or \$1.47 per diluted share, on net sales of \$2,341.6 million. This represents a decrease of \$84.3 million, or \$1.29 per diluted share, from the nine months ended September 30, 2006 net income of \$180.2 million, or \$2.76 per diluted share, which included an after-tax charge of \$16.3 million, or \$0.25 per diluted share, related to debt retirement costs incurred in the first quarter of 2006. Sales for the nine months ended September 30, 2007 increased over the first nine months of 2006 sales of \$1,960.5 million, primarily due to higher sales volumes for polyethylene. The significant increase in polyethylene sales for the first nine months of 2007 was a result of the additional volume from the Longview acquisition and was partially offset by lower average sales prices for our products. Income from operations was \$154.7 million for the first nine months of 2007 as compared to \$304.7 million for the first nine months of 2006. The 2007 results have been negatively impacted by a number of factors including a slowdown in housing starts and a dramatic drop in selling prices and margins that began early in the fourth quarter of 2006. Our Vinyls segment margins have remained at low levels throughout 2007 primarily due to the industry's inability to raise prices in the downstream products in order to cover the significant increase in feedstock costs. Our Olefins segment, however, has gained strength throughout 2007 largely due to balanced industry supply and demand fundamentals for polyethylene and strong export demand. Income from operations also benefited from earnings from our Longview facilities.

---

**Index to Financial Statements****RESULTS OF OPERATIONS*****Third Quarter 2007 Compared with Third Quarter 2006***

*Net Sales.* Net sales increased by \$167.8 million to \$840.2 million in the third quarter of 2007 from \$672.4 million in the third quarter of 2006. This increase was primarily due to higher sales volumes for ethylene and polyethylene. Polyethylene sales volumes were significantly higher in the third quarter of 2007 as compared to the third quarter of 2006 largely due to the acquisition of the Longview facilities in late 2006.

*Gross Margin.* Gross margin percentage decreased to 10.2% in the third quarter of 2007 from 16.2% in the third quarter of 2006. This decrease was primarily due to the vinyls industry's inability to raise prices in order to cover the significant increase in feedstock costs. Our raw material cost in both segments normally tracks industry prices, which experienced an increase of 8.2% for ethane and 11.5% for propane as compared to the third quarter of 2006. Gross margin was also negatively impacted by our \$3.0 million settlement in connection with the Goodrich and PolyOne contract litigation. In addition, we had a \$1.6 million gain in connection with trading activity for the third quarter of 2007 compared to a \$5.4 million gain for the third quarter of 2006, a decrease of \$3.8 million (see Note 8 to the consolidated financial statements).

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$4.1 million, or 18.5%, in the third quarter of 2007 as compared to the third quarter of 2006. The increase was primarily due to operating expenses related to the acquisition of the Longview facilities and increased legal fees, largely due to the Goodrich and PolyOne contract litigation.

*Interest Expense.* Interest expense in the third quarter of 2007 increased by \$1.3 million to \$4.7 million from \$3.4 million in the third quarter of 2006, primarily due to higher average debt outstanding for the period as a result of borrowings under the revolving credit facility in the third quarter of 2007. In addition, during the 2006 period, we capitalized interest on our feedstock flexibility project, which was completed during the second quarter of 2007.

*Other Income, Net.* Other income, net decreased by \$3.0 million to income of \$0.3 million in the third quarter of 2007 from income of \$3.3 million in the third quarter of 2006 primarily due to lower interest income associated with lower cash balances.

*Income Taxes.* The effective income tax rate was 30.8% in the third quarter of 2007 as compared to 29.0% in the third quarter of 2006. The 2007 tax rate was below the statutory rate of 35% primarily due to state tax credits and the domestic manufacturing deduction, partially offset by state income taxes. The 2006 tax rate was below the statutory rate of 35% primarily due to adjustments to state income taxes and the extra-territorial exclusion income benefit.

***Olefins Segment***

*Net Sales.* Net sales increased by \$208.9 million, or 57.8%, to \$570.4 million in the third quarter of 2007 from \$361.5 million in the second quarter of 2006. This increase was primarily due to higher polyethylene sales volumes. The sales volume increase was largely due to the polyethylene sales volume from our Longview facilities, which were acquired in the fourth quarter of 2006.

*Income from Operations.* Income from operations increased by \$15.1 million, or 36.0%, to \$57.0 million in the third quarter of 2007 from \$41.9 million in the third quarter of 2006. This increase was primarily due to additional polyethylene volume as a result of the Longview acquisition and the negative impact of an unscheduled outage at our Lake Charles ethylene facility in the third quarter of 2006. These increases were partially offset by lower polyethylene prices and higher feedstock costs. In addition, trading activity resulted in a gain in the third quarter of 2007 of \$1.6 million as compared to a gain of \$5.4 million in the third quarter of 2006.

***Vinyls Segment***

*Net Sales.* Net sales decreased by \$41.2 million, or 13.3%, to \$269.7 million in the third quarter of 2007 from \$310.9 million in the third quarter of 2006. This decrease was due to lower selling prices for VCM, PVC resin and PVC pipe and lower sales volumes for PVC pipe. These decreases were partially offset by higher sales volumes for PVC resin and caustic soda and higher caustic soda sales prices. Average selling prices for the Vinyls segment decreased by 18.0% in the third quarter of 2007 as compared to the third quarter of 2006.

*Income from Operations.* Income from operations decreased by \$43.5 million to \$5.4 million in the third quarter of 2007 from \$48.9 million in the third quarter of 2006. This decrease was primarily due to lower selling prices and margins for most of our vinyls products as well as lower PVC pipe sales volumes. Selling prices and margins for PVC resin and PVC pipe have suffered over the last year due to weakness in the housing market. Sales prices and margins continued under pressure in the third quarter of 2007 due to the industry's inability to raise prices in response to higher feedstock costs, especially for





---

**Index to Financial Statements**

downstream products. Income from operations was also negatively impacted by \$6.7 million for the settlement of the Goodrich and PolyOne contract litigation and legal expenses associated with the litigation.

***Nine Months Ended September 30, 2007 Compared with Nine Months Ended September 30, 2006***

*Net Sales.* Net sales increased by \$381.1 million to \$2,341.6 million in the first nine months of 2007 from \$1,960.5 million in the first nine months of 2006. This increase was primarily due to higher sales volumes for polyethylene, ethylene, caustic and PVC resin. Polyethylene sales volumes were significantly higher in the first nine months of 2007 as compared to the first nine months of 2006 due to the acquisition of the Longview facilities. These increases were partially offset by overall lower sales prices for our major products.

*Gross Margin.* Gross margin percentage decreased to 9.8% in the first nine months of 2007 from 18.6% in the first nine months of 2006. This decrease was primarily due to lower sales prices for most of our major products and higher cost of raw materials. Our raw material cost in both segments normally tracks industry prices, which experienced an increase of 6.2% for ethane and 7.4% for propane as compared to the first nine months of 2006. In addition, we had a \$6.4 million gain in connection with trading activity for the first nine months of 2007 compared to a \$17.7 million gain for the first nine months of 2006, a decrease of \$11.3 million (see Note 8 to the consolidated financial statements).

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$13.0 million, or 21.4%, in the first nine months of 2007 as compared to the first nine months of 2006. The increase was primarily due to transition costs and other operating expenses related to the acquisition of the Longview facilities and increased legal fees, largely related to the Goodrich and PolyOne litigation.

*Interest Expense.* Interest expense in the first nine months of 2007 decreased by \$0.6 million to \$12.8 million from \$13.4 million in the first nine months of 2006, primarily due to lower average interest rates for the period. Average interest rates were lower due to the refinancing completed in the first quarter of 2006.

*Debt Retirement Cost.* As a result of the redemption of \$247.0 million aggregate principal amount of 8<sup>3</sup>/<sub>4</sub>% senior notes due July 15, 2011 and the repayment of \$9.0 million of our term loan, we recognized \$25.9 million in non-operating expense in the first quarter of 2006, consisting of a pre-payment premium on our 8<sup>3</sup>/<sub>4</sub>% senior notes of \$22.2 million and a write-off of \$3.7 million in previously capitalized debt issuance cost. We did not recognize any debt retirement costs in the first nine months of 2007.

*Other Income, Net.* Other income, net decreased by \$7.7 million to \$1.0 million in the first nine months of 2007 from \$8.7 million in the first nine months of 2006 primarily due to lower interest income associated with lower cash balances and the write-down of a long-term investment.

*Income Taxes.* The effective income tax rate was 32.9% in the first nine months of 2007 as compared to 34.3% in the first nine months of 2006. The 2007 tax rate was below the statutory rate of 35% primarily due to state tax credits and the domestic manufacturing deduction, partially offset by state income taxes. The 2006 tax rate was below the statutory rate of 35% primarily due to adjustments to state income taxes and the extra-territorial exclusion income benefit.

***Olefins Segment***

*Net Sales.* Net sales increased by \$519.6 million, or 49.5%, to \$1,569.5 million in the first nine months of 2007 from \$1,049.9 million in the first nine months of 2006. This increase was due to the additional polyethylene sales volume from our Longview facilities, which were acquired in the fourth quarter of 2006.

*Income from Operations.* Income from operations decreased by \$36.4 million, or 22.3%, to \$127.0 million in the first nine months of 2007 from \$163.4 million in the first nine months of 2006. This decrease was primarily due to the sharp decrease in product prices and margins which began early in the fourth quarter of 2006 and continued in 2007. There have been several price increases during the first nine months of 2007, but margins were still below 2006 levels due to higher feedstock costs. In addition, trading activity resulted in a gain in the first nine months of 2007 of \$6.4 million as compared to a gain of \$17.7 million in the first nine months of 2006. Results for the 2006 period were negatively impacted by an unscheduled outage at our Lake Charles ethylene facility.

***Vinyls Segment***

*Net Sales.* Net sales decreased by \$138.5 million, or 15.2%, to \$772.1 million in the first nine months of 2007 from \$910.6 million in the first nine months of 2006. This decrease was due to lower selling prices for all of our major vinyls products. The decreased sales prices were partially offset by higher sales volumes for PVC resin and caustic. Average selling prices for the Vinyls segment decreased by 20.8% in the first nine months of 2007 as compared to the first nine months of 2006.



---

**Index to Financial Statements**

*Income from Operations.* Income from operations decreased by \$113.6 million, or 77.0%, to \$34.0 million in the first nine months of 2007 from \$147.6 million in the first nine months of 2006. This decrease was primarily due to lower selling prices for all of our major vinyls products and higher feedstock costs which was partially offset by higher sales volumes for PVC resin and caustic soda. Margins and demand in the first nine months of 2006 were very strong due to supply constraints resulting from the impact from Hurricanes Katrina and Rita. Selling prices, margins and sales volumes for PVC resin and PVC pipe fell dramatically in the fourth quarter of 2006 due to weakness in the housing market, falling energy prices and seasonal slowdowns. These margins have remained under pressure during 2007 due to the continued weakness in the housing market, higher feedstock costs and the inability to raise prices for our downstream products in response to these higher costs. Income from operations was also negatively impacted by \$6.7 million for the settlement of the Goodrich and PolyOne contract litigation and legal expenses associated with the litigation.

**CASH FLOW DISCUSSION FOR NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006****Cash Flows***Operating Activities*

Operating activities provided cash of \$95.0 million in the first nine months of 2007 compared to \$213.9 million in the first nine months of 2006. The \$118.9 million decrease in cash flows from operating activities was primarily due to lower income from operations in 2007 and unfavorable changes in working capital, which were partially offset by \$25.9 million of debt retirement costs incurred in 2006. Income from operations decreased by \$150.0 million in the first nine months of 2007 as compared to the first nine months of 2006. Changes in components of working capital, which we define for purposes of this cash flow discussion as accounts receivable, inventories, prepaid expense and other current assets less accounts payable and accrued liabilities, used cash of \$83.7 million in the first nine months of 2007, compared to \$18.8 million of cash used in the first nine months of 2006, an increase in cash use of \$64.9 million. In the first nine months of 2007, accounts receivable increased by \$129.3 million largely due to increased sales while inventory increased by \$10.1 million. Accounts payable and accrued liabilities increased by \$46.8 million during the first nine months of 2007. The primary reason for the \$18.8 million use of cash related to working capital in the first nine months of 2006 was due to an increase in accounts receivable of \$33.0 million and a decrease in accounts payable and accrued liabilities of \$12.5 million, partially offset by a decrease in inventory of \$26.9 million.

*Investing Activities*

Net cash used for investing activities during the first nine months of 2007 was \$75.2 million compared to \$233.0 million in the first nine months of 2006. The primary reason for the decrease in net cash used was the purchase of short-term investments in the third quarter of 2006. In addition, capital expenditures were \$86.3 million in the first nine months of 2007 compared to \$100.7 million in the first nine months of 2006. The 2006 period included significant expenditures related to a project designed to upgrade the feedstock flexibility in our ethylene unit. The costs related to this project were lower in the 2007 period as the project was put into service during the second quarter of 2007. The remaining capital expenditures in the first nine months of 2007 and 2006 primarily related to maintenance capital, safety and environmental projects. In addition, we received \$8.0 million as an adjustment to the purchase price of the Longview facilities in the 2007 period. The cash settlement of derivative instruments in the first nine months of 2006 related to derivative losses recognized in 2005.

*Financing Activities*

Net cash provided by financing activities during the first nine months of 2007 was \$66.8 million compared to cash used by financing activities of \$15.9 million in the first nine months of 2006. The 2007 activity was primarily related to borrowings under our revolving credit facility, partially offset by the payment of cash dividends. During the first nine months of 2006, we received proceeds of \$249.2 million from the issuance of our 6 <sup>5</sup>/<sub>8</sub>% senior notes, which was offset by the repayment of \$256.0 million of debt and the payment of \$6.2 million of cash dividends. We also incurred \$4.3 million in costs associated with the refinancing that were capitalized during the first nine months of 2006 that will be amortized over the term of the new debt.

**Liquidity and Capital Resources***Liquidity and Financing Arrangements*

Our principal sources of liquidity are from cash and cash equivalents, cash from operations, borrowings under a revolving credit facility and long-term financing. In addition, on October 24, 2007 the Louisiana State Bond Commission awarded us a \$250.0 million allocation under The Gulf Opportunity Zone Act of 2005. The allocation award together with the Louisiana Governor's allocation letter dated October 26, 2007, will allow us to issue tax-exempt bonds in a principal amount of up to that level through an approved conduit issuer for the purpose of funding

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

capital expenditures within the Louisiana Parishes of Ascension and Calcasieu. We anticipate issuing the bonds within 120 days from the date of the

---

**Index to Financial Statements**

allocation letter. Also, as discussed previously, we are currently performing a feasibility study in connection with the potential development of an ethane-based ethylene, polyethylene and other derivatives project in the Republic of Trinidad and Tobago. The capital cost is currently estimated to be approximately \$1.9 billion, in which we would be a majority partner. If this project is approved, construction could commence in 2008. It is expected that we would invest some level of cash and the remainder would be financed through a project financing arrangement. We believe that our sources of liquidity as described above, along with any additional project financing, will be adequate to fund our cash requirements.

***Cash***

Cash balances were \$139.3 million at September 30, 2007 compared to \$52.6 million at December 31, 2006. This increase was the result of a \$75.0 million borrowing under our revolving line of credit to provide liquidity for capital expenditures and operating expenses.

***Debt***

Our \$300.0 million senior secured revolving credit facility is a source of liquidity. During the first nine months of 2007, borrowings under the revolving credit facility bore interest at either LIBOR plus 1.00% or prime rate minus 0.50%. The revolving credit facility also requires an unused commitment fee of 0.25%. All interest rates under the facility are subject to quarterly grid pricing adjustments based on a fixed charge coverage ratio. The interest rate for borrowings under the facility in the third quarter of 2007 was 6.5%. The facility matures on January 6, 2011.

As of September 30, 2007, our long term debt totaled \$335.2 million, consisting of \$249.3 million principal amount of 6<sup>5</sup>/<sub>8</sub>% senior notes due 2016, a \$10.9 million loan from the proceeds of tax-exempt revenue bonds (supported by a \$11.3 million letter of credit) and \$75.0 million of borrowings under our revolving credit facility. Debt outstanding under the revolving credit facility and the tax-exempt bonds bears interest at variable rates.

On January 13, 2006, we issued \$250.0 million of 6<sup>5</sup>/<sub>8</sub>% aggregate principal amount of senior notes due 2016, the proceeds of which, together with cash on hand, were used to redeem our 8<sup>3</sup>/<sub>4</sub>% senior notes due 2011 and repay our term loan as follows:

On January 18, 2006, we repaid the entire \$9.0 million outstanding under our term loan, plus accrued but unpaid interest.

On two redemption dates, February 8, 2006 and February 13, 2006, we redeemed the entire \$247.0 million principal amount outstanding of our 8<sup>3</sup>/<sub>4</sub>% senior notes due 2011, and paid a make-whole premium of \$22.2 million, plus accrued and unpaid interest. As a result of the early redemption of the 8<sup>3</sup>/<sub>4</sub>% senior notes due 2011 and the repayment of the term loan, we recognized \$25.9 million in non-operating expense in the first quarter of 2006 consisting of a pre-payment premium on the 8<sup>3</sup>/<sub>4</sub>% senior notes of \$22.2 million and a write-off of \$3.7 million in previously capitalized debt issuance cost.

The 6<sup>5</sup>/<sub>8</sub>% senior notes are unsecured and were issued with an original issue discount of \$0.8 million. There is no sinking fund and no scheduled amortization of the notes prior to maturity. The notes are subject to redemption and the holders may require us to repurchase the notes upon a change of control. All domestic restricted subsidiaries that guarantee other debt of ours or of another guarantor of the senior notes in excess of \$5.0 million are guarantors of the notes.

The agreements governing the 6<sup>5</sup>/<sub>8</sub>% senior notes and the revolving credit facility each contain customary covenants and events of default. Accordingly, these agreements impose significant operating and financial restrictions on us. These restrictions, among other things, provide limitations on incurrence of additional indebtedness, the payment of dividends, certain investments and acquisitions and sales of assets. These limitations are subject to a number of important qualifications and exceptions, including, without limitation, an exception for the payment of our regular quarterly dividend of up to \$0.20 per share (currently \$0.05 per share). The 6<sup>5</sup>/<sub>8</sub>% senior notes indenture does not allow distributions unless, after giving pro forma effect to the distribution, our fixed charge coverage ratio is at least 2.0 and such payment, together with the aggregate amount of all other distributions after January 13, 2006, is less than the sum of 50% of our consolidated net income for the period from October 1, 2003 to the end of the most recent quarter for which financial statements have been filed, plus 100% of net cash proceeds received after October 1, 2003 as a contribution to our common equity capital or from the issuance or sale of certain securities, plus several other adjustments. The amount allowed under this restriction was \$474,485 at September 30, 2007. The revolving credit facility also restricts dividend payments unless, after giving effect to such payment, the availability under the line of credit equals or exceeds \$60.0 million. None of the agreements require us to maintain specified financial ratios, except that the revolving credit facility requires us to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 when availability falls below \$60.0 million. In addition, the 6<sup>5</sup>/<sub>8</sub>% senior notes indenture and the revolving

credit facility restrict our ability to create liens, to engage in certain affiliate transactions and to engage in sale-leaseback transactions.

## **Index to Financial Statements**

Our ability to make payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our revolving credit facility will be adequate to meet our liquidity needs for the foreseeable future.

### ***Off-Balance Sheet Arrangements***

None

## **FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Certain of the statements contained in this report are forward-looking statements. All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These include such matters as:

timing and results of the planned expansions of our chlor-alkali and PVC resin units and building of a large diameter PVC pipe plant at our Calvert City, Kentucky manufacturing complex;

timing, size, scope, cost and other matters related to the project in the Republic of Trinidad and Tobago;

anticipated future results of operations;

industry outlook;

production capacities;

our ability to borrow additional funds under our credit facility;

our ability to meet our liquidity needs;

expected outcomes of legal and administrative proceedings and their expected effects on our financial position, results of operations and cash flows; and

compliance with present and future environmental regulations and costs associated with environmentally related penalties, capital expenditures and remedial actions.

We have based these statements on assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe were appropriate in the circumstances when the statements were made. These statements are subject to a number of assumptions, risks and uncertainties, including those described in "Risk Factors" in Westlake Chemical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and the following:

general economic and business conditions;

timing, duration and impact of turnarounds;

the cyclical nature of the chemical industry;

the availability, cost and volatility of raw materials and energy;

uncertainties associated with the United States and worldwide economies, including those due to political tensions in the Middle East and elsewhere;

current and potential governmental regulatory actions in the United States and regulatory actions and political unrest in other countries;

industry production capacity and operating rates;

the supply/demand balance for our products;

competitive products and pricing pressures;

access to capital markets;

terrorist acts;

operating interruptions (including leaks, explosions, fires, natural disasters, weather-related incidents, mechanical failure, unscheduled downtime, labor difficulties, transportation interruptions, spills and releases and other environmental risks);

changes in laws or regulations;



---

**Index to Financial Statements**

technological developments;

our ability to implement our business strategies; and

creditworthiness of our customers.

Many of these factors are beyond our ability to control or predict. Any of the factors, or a combination of these factors, could materially affect our future results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Every forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

***Commodity Price Risk***

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. Accordingly, product margins and the level of our profitability tend to fluctuate with changes in the business cycle. We try to protect against such instability through various business strategies. Our strategies include ethylene product feedstock flexibility and moving downstream into the olefins and vinyls products where pricing is more stable. We use derivative instruments in certain instances to reduce price volatility risk on feedstocks and products. Based on our open derivative positions at September 30, 2007, a hypothetical \$1.00 increase in the price of a MMBTU of natural gas would have increased our income before taxes by \$6.8 million, a hypothetical \$1.00 increase in the price of a barrel of crude oil would have decreased our income before taxes by \$1.0 million, a hypothetical \$0.10 increase in the price of a gallon of ethane would have increased our income before taxes by \$2.0 million and a hypothetical \$0.10 increase in the price of a gallon of propane would have decreased our income before taxes by \$1.2 million. Additional information concerning derivative commodity instruments appears in Note 8 to the consolidated financial statements.

***Interest Rate Risk***

We are exposed to interest rate risk with respect to fixed and variable rate debt. At September 30, 2007, we had variable rate debt of \$85.9 million outstanding. All of the debt under our credit facility and tax exempt revenue bonds is at variable rates. We do not currently hedge our variable interest rate debt, but we may do so in the future. The average variable interest rate for our variable rate debt of \$85.9 million as of September 30, 2007 was 6.19%. A hypothetical 100 basis point increase in the average interest rate on our variable rate debt would increase our annual interest expense by approximately \$0.9 million. Also, at September 30, 2007, we had \$249.3 million of fixed rate debt. We are subject to the risk of higher interest cost if and when this debt is refinanced. If interest rates are 1% higher at the time of refinancing, our annual interest expense would increase by approximately \$2.5 million.

**Item 4. Controls And Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Vice President, Chief Financial Officer and Treasurer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Vice President, Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures are effective, in all material respects, with respect to (i) the accumulation and communication to our management, including our Chief Executive Officer and our Chief Financial Officer, of information required to be disclosed by us in the reports that we submit under the Exchange Act, and (ii) the recording, processing, summarizing and reporting of such information within the time periods specified in the SEC's rules and forms.

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Index to Financial Statements****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

Westlake Chemical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (the 2006 Form 10-K), filed on February 26, 2007, contained a description of various legal proceedings in which we are involved, including environmental proceedings at our facilities in Calvert City, Kentucky. See Note 12 to the consolidated financial statements for an update of certain of those proceedings, which information is incorporated by reference herein.

**Item 1A. Risk Factors**

For a discussion of risk factors, please read Item 1A, Risk Factors in the 2006 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information on our purchase of equity securities during the quarter ended September 30, 2007.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 2007			N/A	N/A
August 2007			N/A	N/A
September 2007	3,369	\$ 26.82	N/A	N/A
	3,369	\$ 26.82	N/A	N/A

- (1) The shares of common stock purchased during the third quarter of 2007 represent shares withheld by us in satisfaction of withholding taxes due upon the vesting of restricted stock granted to our employees under the 2004 Plan.

**Item 6. Exhibits****Exhibit No.**

- 31.1 Rule 13a-14(a) / 15d-14(a) Certification (Principal Executive Officer).  
31.2 Rule 13a-14(a) / 15d-14(a) Certification (Principal Financial Officer).  
32.1 Section 1350 Certification (Principal Executive Officer and Principal Financial Officer).



**Index to Financial Statements**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**WESTLAKE CHEMICAL CORPORATION**

Date: November 2, 2007

By: /s/ Albert Chao  
Albert Chao  
President and Chief Executive Officer

(Principal Executive Officer)

Date: November 2, 2007

By: /s/ M. Steven Bender  
M. Steven Bender  
Vice President, Chief Financial Officer & Treasurer

(Principal Financial Officer)