

WESTLAKE CHEMICAL CORP

Form 10-Q

August 03, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2011

or

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

For the Transition Period from to

Commission File No. 001-32260

Westlake Chemical Corporation

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

2801 Post Oak Boulevard, Suite 600

Houston, Texas 77056

(Address of principal executive offices, including zip code)

(713) 960-9111

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's sole class of common stock, as of July 28, 2011 was 66,596,161.

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

	June 30, 2011	December 31, 2010
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 712,322	\$ 630,299
Accounts receivable, net	430,301	362,863
Inventories, net	508,198	450,028
Prepaid expenses and other current assets	20,410	15,482
Deferred income taxes	17,298	17,288
Total current assets	1,688,529	1,475,960
Property, plant and equipment, net	1,179,698	1,170,334
Equity investments	47,113	46,314
Restricted cash	124,204	150,288
Other assets, net	108,256	111,248
Total assets	\$ 3,147,800	\$ 2,954,144
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 223,666	\$ 204,774
Accrued liabilities	105,966	118,804
Total current liabilities	329,632	323,578
Long-term debt	764,522	764,482
Deferred income taxes	331,853	315,518
Other liabilities	47,965	45,496
Total liabilities	1,473,972	1,449,074
Commitments and contingencies (Notes 6 and 14)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value, 150,000,000 shares authorized; 66,596,161 and 66,256,144 shares issued and outstanding in 2011 and 2010, respectively	666	663
Additional paid-in capital	464,426	452,703
Retained earnings	1,214,884	1,058,737
Accumulated other comprehensive income		
Benefits liability, net of tax	(11,767)	(12,328)
Cumulative translation adjustment	5,619	5,295

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Total stockholders' equity	1,673,828	1,505,070
Total liabilities and stockholders' equity	\$ 3,147,800	\$ 2,954,144

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

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WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
(in thousands of dollars, except per share data and share amounts)				
Net sales	\$ 925,049	\$ 818,389	\$ 1,792,301	\$ 1,596,723
Cost of sales	757,954	692,365	1,457,622	1,413,019
Gross profit	167,095	126,024	334,679	183,704
Selling, general and administrative expenses	28,726	26,487	55,673	49,738
Income from operations	138,369	99,537	279,006	133,966
Other income (expense)				
Interest expense	(12,802)	(8,784)	(25,722)	(17,572)
Other income (expense), net	1,632	(180)	2,839	914
Income before income taxes	127,199	90,573	256,123	117,308
Provision for income taxes	46,150	33,631	91,530	42,719
Net income	\$ 81,049	\$ 56,942	\$ 164,593	\$ 74,589
Earnings per share:				
Basic	\$ 1.22	\$ 0.86	\$ 2.48	\$ 1.13
Diluted	\$ 1.21	\$ 0.86	\$ 2.46	\$ 1.13
Weighted average shares outstanding:				
Basic	65,999,090	65,458,705	65,873,023	65,426,388
Diluted	66,425,065	65,606,753	66,269,823	65,565,018
Dividends per common share	\$ 0.0635	\$ 0.0575	\$ 0.1270	\$ 0.1150

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

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WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	\$ 164,593	\$ 74,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65,383	64,121
Provision for doubtful accounts	811	546
Amortization of debt issue costs	863	788
Stock-based compensation expense	3,127	2,979
Loss (gain) from disposition of fixed assets	142	(51)
Impairment of long-lived assets	1,975	
Deferred income taxes	15,949	6,065
Equity in income of joint venture	(1,552)	(205)
Changes in operating assets and liabilities		
Accounts receivable	(68,249)	(96,785)
Inventories	(58,170)	(608)
Prepaid expenses and other current assets	(4,928)	(10,718)
Accounts payable	19,362	3,177
Accrued liabilities	(12,506)	13,868
Other, net	(1,495)	(2,172)
Net cash provided by operating activities	125,305	55,594
Cash flows from investing activities		
Additions to property, plant and equipment	(69,178)	(31,086)
Proceeds from disposition of assets	2,456	438
Proceeds from repayment of loan to affiliate	596	167
Settlements of derivative instruments	(222)	8,116
Net cash used for investing activities	(66,348)	(22,365)
Cash flows from financing activities		
Proceeds from exercise of stock options	5,323	702
Dividends paid	(8,446)	(7,606)
Utilization of restricted cash	26,189	16,974
Capitalized debt issuance costs		(86)
Net cash provided by financing activities	23,066	9,984
Net increase in cash and cash equivalents	82,023	43,213
Cash and cash equivalents at beginning of period	630,299	245,592
Cash and cash equivalents at end of period	\$ 712,322	\$ 288,805

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

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in thousands of dollars, except share amounts and 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, 2010 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, 2010, filed with the SEC on February 24, 2011. 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, 2010.

In the opinion of the Company's management, the accompanying unaudited consolidated interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial position as of June 30, 2011, its results of operations for the three and six months ended June 30, 2011 and 2010 and the changes in its cash position for the six months ended June 30, 2011 and 2010.

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, 2011 or any other interim period. The preparation of financial statements in conformity with generally accepted accounting principles 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

Fair Value Measurement

In January 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update on fair value measurement disclosures. The new accounting guidance requires disclosures on significant transfers in and out of Levels 1 and 2 of the fair value hierarchy and gross presentation of Level 3 reconciliation components. It also clarifies two existing disclosure requirements regarding fair value disclosures by class of assets and liabilities rather than by major category and disclosures of valuation technique and the inputs used in determining fair value of each class of assets and liabilities for Levels 2 and 3 measurements. The accounting standards update is effective for reporting periods beginning after December 15, 2009, except for the gross presentation of the Level 3 reconciliation, which is effective for reporting periods beginning after December 15, 2010. With the exception of the gross presentation of the Level 3 reconciliation, the Company adopted the guidance as of January 1, 2010, and it did not have an impact on the Company's consolidated financial position or results of operations. The Company adopted the guidance pertaining to the gross presentation of the Level 3 reconciliation as of January 1, 2011, and the adoption did not have an impact on the Company's consolidated financial position or results of operations.

In May 2011, the FASB issued new accounting guidance changing some fair value measurement principles, such as by prohibiting the application of a blockage factor in fair value measurements and only requiring the application of the highest and best use concept when measuring nonfinancial assets. The accounting guidance will require, for recurring Level 3 fair value measurements, disclosure of quantitative information about unobservable inputs used, a description of the valuation processes