

WESTLAKE CHEMICAL CORP

Form 10-Q

November 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2008

or

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

For the Transition Period from _____ to _____

Commission File No. 001-32260

Westlake Chemical Corporation

(Exact name of Registrant as specified in its charter)

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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 is a large accelerated filer, an accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

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 October 31, 2008, was 65,655,133.

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

	September 30, 2008 (in thousands of dollars, except par values and share amounts)	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,452	\$ 24,914
Accounts receivable, net	562,804	507,463
Inventories, net	491,185	527,871
Prepaid expenses and other current assets	13,593	14,232
Deferred income taxes	17,576	17,705
Total current assets	1,107,610	1,092,185
Property, plant and equipment, net	1,181,572	1,126,212
Equity investment	32,009	29,486
Restricted cash	146,695	199,450
Other assets, net	128,925	122,002
Total assets	\$ 2,596,811	\$ 2,569,335
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 275,896	\$ 314,951
Accrued liabilities	115,893	126,311
Total current liabilities	391,789	441,262
Long-term debt	515,948	511,414
Deferred income taxes	291,177	287,965
Other liabilities	39,003	42,024
Total liabilities	1,237,917	1,282,665
Commitments and Contingencies (Notes 12 and 15)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value, 150,000,000 shares authorized; 65,655,133 and 65,487,119 shares issued and outstanding in 2008 and 2007, respectively	657	655
Additional paid-in capital	434,531	431,197
Retained earnings	927,886	857,872
Accumulated other comprehensive income		
Benefits liability, net of tax	(8,576)	(9,234)
Cumulative translation adjustment	4,396	6,180
Total stockholders' equity	1,358,894	1,286,670

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Total liabilities and stockholders' equity	\$ 2,596,811	\$ 2,569,335
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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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands of dollars, except per share data)			
Net sales	\$ 1,073,735	\$ 840,160	\$ 3,095,245	\$ 2,341,626
Cost of sales	1,001,948	754,100	2,890,294	2,113,246
Gross profit	71,787	86,060	204,951	228,380
Selling, general and administrative expenses	22,999	26,305	68,728	73,680
Income from operations	48,788	59,755	136,223	154,700
Interest expense	(8,093)	(4,692)	(25,908)	(12,780)
Other income, net	1,267	305	5,874	1,004
Income before income taxes	41,962	55,368	116,189	142,924
Provision for income taxes	14,598	17,027	36,165	47,021
Net income	\$ 27,364	\$ 38,341	\$ 80,024	\$ 95,903
Basic and diluted earnings per share	\$ 0.42	\$ 0.59	\$ 1.23	\$ 1.47
Weighted average shares outstanding:				
Basic	65,275,499	65,238,376	65,266,645	65,227,147
Diluted	65,341,150	65,325,668	65,309,045	65,325,020

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)

	Nine Months Ended September 30, 20082007 (in thousands of dollars)	
Cash flows from operating activities		
Net income	\$ 80,024	\$ 95,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,527	77,425
Provision for bad debts	2,057	226
Amortization of debt issue costs	662	567
Stock-based compensation expense	3,126	2,108
Loss from disposition of fixed assets	4,479	187
Deferred income taxes	3,096	15,997
Equity in income of joint venture	(2,523)	(1,895)
Changes in operating assets and liabilities		
Accounts receivable	(57,604)	(129,327)
Inventories	36,686	(10,123)
Prepaid expenses and other current assets	639	8,870
Accounts payable	(40,785)	29,310
Accrued liabilities	(10,945)	17,532
Other, net	(23,853)	(11,779)
Net cash provided by operating activities	76,586	95,001
Cash flows from investing activities		
Additions to property, plant and equipment	(127,163)	(86,295)
Proceeds from disposition of assets	573	33
Settlements of derivative instruments	344	3,339
Addition to equity investment		(308)
Settlement of acquisition purchase price		8,043
Net cash used for investing activities	(126,246)	(75,188)
Cash flows from financing activities		
Proceeds from the exercise of stock options	208	303
Dividends paid	(10,010)	(8,503)
Proceeds from borrowings	851,635	287,884
Repayment of borrowings	(847,162)	(212,884)
Utilization of restricted cash	55,045	
Capitalized debt issuance costs	(2,518)	
Net cash provided by financing activities	47,198	66,800
Net (decrease) increase in cash and cash equivalents	(2,462)	86,613
Cash and cash equivalents at beginning of period	24,914	52,646
Cash and cash equivalents at end of period	\$ 22,452	\$ 139,259

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

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WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except per share data)

1. Basis of Financial Statements

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

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

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. The Company adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination. The adoption of SFAS 157 has not had a material impact on the Company's financial position or results of operations. In addition, the adoption of this statement with respect to non-recurring nonfinancial assets and liabilities in the future is not expected to have a material impact on the Company's financial position or results of operations.

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). This statement does not change the accounting for derivatives but will require enhanced disclosures about derivative strategies and accounting practices. SFAS 161 is effective for fiscal years beginning after January 15, 2008, and the Company will comply with any necessary disclosure requirements beginning with the 2009 interim financial statements.

2. Accounts Receivable

Accounts receivable consist of the following:

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	September 30, 2008	December 31, 2007
Accounts receivable trade	\$ 540,077	\$ 498,073
Accounts receivable affiliates	1,775	1,365
Allowance for doubtful accounts	(5,568)	(3,546)
	536,284	495,892
Accounts receivable other	26,520	11,571
Accounts receivable, net	\$ 562,804	\$ 507,463

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Inventories consist of the following:

	September 30, 2008	December 31, 2007
Finished products	\$ 296,974	\$ 332,882
Feedstock, additives and chemicals	160,501	164,832
Materials and supplies	41,070	38,058
	498,545	535,772
Allowance for inventory obsolescence	(7,360)	(7,901)
Inventories, net	\$ 491,185	\$ 527,871

4. Property, Plant and Equipment

Depreciation expense on property, plant and equipment of \$23,218 and \$22,700 is included in cost of sales in the consolidated statements of operations for the three months ended September 30, 2008 and 2007, respectively, and \$67,605 and \$63,336 is included for the nine months ended September 30, 2008 and 2007, respectively.

5. Other Assets

Amortization expense on other assets of \$5,155 and \$4,198 is included in the consolidated statements of operations for the three months ended September 30, 2008 and 2007, respectively, and \$14,584 and \$14,656 is included for the nine months ended September 30, 2008 and 2007, respectively.

6. Stock-Based Compensation

Under the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the "2004 Plan"), all employees and non-employee directors of the Company, as well as certain individuals who have agreed to become the Company's employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2004 Plan. At the discretion of the administrator of the 2004 Plan, employee