WESTLAKE CHEMICAL CORP
Form 10-Q
May 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2013
or	
..	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the Transition Period from to

Commission File No. 001-32260

Westlake Chemical Corporation
(Exact name of Registrant as specified in its charter)

Delaware	76-0346924
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2801 Post Oak Boulevard, Suite 600
Houston, Texas 77056
(Address of principal executive offices, including zip code)
(713) 960-9111
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 x No ¨

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

Large accelerated filer	x	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 x

The number of shares outstanding of the registrant's sole class of common stock as of April 30, 2013 was 66,777,348.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$777,887	$790,078
Marketable securities	94,903	124,873
Accounts receivable, net	407,580	400,159
Inventories	408,074	399,298
Prepaid expenses and other current assets	14,536	14,700
Deferred income taxes	22,298	22,305
Total current assets	1,725,278	1,751,413
Property, plant and equipment, net	1,629,309	1,510,048
Equity investments	43,914	43,736
Other assets, net		
Intangible assets, net	48,108	48,292
Deferred charges and other assets, net	112,616	58,707
Total other assets, net	160,724	106,999
Total assets	$3,559,225	$3,412,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$232,061	$217,050
Accrued liabilities	167,754	181,460
Total current liabilities	399,815	398,510
Long-term debt	763,790	763,761
Deferred income taxes	355,975	326,290
Other liabilities	49,854	51,379
Total liabilities	1,569,434	1,539,940
Commitments and contingencies (Notes 7 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; 67,232,590 and 67,187,224 shares issued at March 31, 2013 and December 31, 2012, respectively	672	672
Common stock, held in treasury, at cost; 284,493 shares at March 31, 2013 and December 31, 2012	(13,302)	(13,302)
Additional paid-in capital	503,187	496,254
Retained earnings	1,510,266	1,399,472
Accumulated other comprehensive loss	(11,032)	(10,840)
Total stockholders' equity	1,989,791	1,872,256
Total liabilities and stockholders' equity	$3,559,225	$3,412,196

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

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WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(in thousands of dollars, except per share data and share amounts)	
Net sales	$864,647	$1,034,867
Cost of sales	636,838	862,230
Gross profit	227,809	172,637
Selling, general and administrative expenses	33,754	27,012
Income from operations	194,055	145,625
Other income (expense)		
Interest expense	(6,281)	(12,177)
Other income, net	3,519	1,347
Income before income taxes	191,293	134,795
Provision for income taxes	67,946	46,982
Net income	$123,347	$87,813
Earnings per share:		
Basic	$1.84	$1.32
Diluted	$1.84	$1.31
Weighted average shares outstanding:		
Basic	66,625,536	66,109,297
Diluted	66,908,869	66,558,517
Dividends per common share	$0.1875	$0.0738

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

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WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Net income	$123,347	$87,813
Other comprehensive income (loss)		
Pension and other post-retirement benefits liability		
Amortization of benefits liability	614	578
Income tax provision on pension and other post-retirement benefits liability	(236)	(222)
Foreign currency translation adjustments	(570)	512
Available-for-sale investments		
Unrealized holding gains on investments	—	25,473
Income tax provision on unrealized holding gains	—	(9,135)
Other comprehensive (loss) income	(192)	17,206
Comprehensive income	$123,155	$105,019

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

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WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	$123,347	$87,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,356	35,394
Provision for (recovery of) doubtful accounts	393	(155)
Amortization of debt issuance costs	365	400
Stock-based compensation expense	1,499	1,651
Loss from disposition of fixed assets	2,387	481
Deferred income taxes	29,466	791
Windfall tax benefits from share-based payment arrangements	(3,844)	(4,481)
Equity in (income) loss of joint ventures	(178)	702
Changes in operating assets and liabilities		
Accounts receivable	(7,917)	(37,720)
Inventories	(8,776)	68,372
Prepaid expenses and other current assets	(2,077)	(1,611)
Accounts payable	14,733	(28,138)
Accrued liabilities	(14,670)	(21,647)
Other, net	(53,832)	3,724
Net cash provided by operating activities	116,252	105,576
Cash flows from investing activities		
Additions to property, plant and equipment	(150,784)	(64,902)
Proceeds from disposition of assets	2	3
Proceeds from repayment of loan to affiliate	167	167
Proceeds from sales and maturities of securities	124,873	—
Purchase of securities	(94,903)	(2,961)
Settlements of derivative instruments	(679)	511
Net cash used for investing activities	(121,324)	(67,182)
Cash flows from financing activities		
Dividends paid	(12,553)	(4,914)
Proceeds from exercise of stock options	1,590	480
Utilization of restricted cash	—	30,800
Windfall tax benefits from share-based payment arrangements	3,844	4,481
Net cash (used for) provided by financing activities	(7,119)	30,847
Net (decrease) increase in cash and cash equivalents	(12,191)	69,241
Cash and cash equivalents at beginning of period	790,078	825,901
Cash and cash equivalents at end of period	$777,887	$895,142

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, 2012 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, 2012 (the "2012 Form 10-K"), filed with the SEC on February 22, 2013. 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, 2012.

In the opinion of the Company's management, the accompanying unaudited consolidated interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial position as of March 31, 2013, its results of operations for the three months ended March 31, 2013 and 2012 and the changes in its cash position for the three months ended March 31, 2013 and 2012.

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 fiscal year ending December 31, 2013 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.

Revisions

The consolidated statement of cash flows for the three months ended March 31, 2012 has been revised to correct the presentation of windfall tax benefits from share-based compensation of $4,481 in financing activities, instead of operating activities. This revision also impacts the consolidated statements of cash flows for the six months ended June 30, 2012 and nine months ended September 30, 2012 by $6,468 and $7,792, respectively, as well as the years ended December 31, 2010, 2011 and 2012 by $326, $3,361 and $11,967, respectively. The Company has determined that these revisions were immaterial to the Company's previously issued financial statements.

Recent Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standards update on disclosures for offsetting assets and liabilities. The new accounting guidance requires companies to disclose both gross and net information about (1) instruments and transactions eligible for offset in the statement of financial position, and (2) instruments and transactions subject to an agreement similar to a master netting arrangement. The FASB issued another accounting standards update clarifying the scope of the assets and liabilities offset disclosure requirements in January 2013. The effective date of the disclosure requirements remains unchanged. The Company adopted the new guidance as of January 1, 2013, and the adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued an accounting standards update to simplify how entities test indefinite-lived intangible assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The new accounting guidance provides an entity with an option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test under current accounting guidance. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with current accounting guidance. Also under this new accounting guidance, an entity has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test, but may resume performing the qualitative assessment in any subsequent period. The Company adopted the new indefinite-lived intangible assets test guidance as of January 1, 2013, and the adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

(in thousands of dollars, except share amounts and per share data)

Reclassifications Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an accounting standards update on reporting items reclassified out of accumulated other comprehensive income. The new accounting guidance requires companies to present either parenthetically on the face of the financial statements or in the notes, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification, with certain exceptions. The Company adopted the new guidance as of January 1, 2013, and the adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

2. Current Marketable Securities

The Company owned current marketable securities of $94,903 and $124,873 at March 31, 2013 and December 31, 2012, respectively, consisting of short-term corporate debt securities with maturities exceeding three months at the date of acquisition. These debt securities are classified as held-to-maturity and are carried at amortized cost, which approximates their fair value.

3. Accounts Receivable

Accounts receivable consist of the following:

	March 31, 2013	December 31, 2012
Trade customers	$384,413	$388,949
Affiliates	297	258
Allowance for doubtful accounts	(11,562)	(11,172)
	373,148	378,035
Federal and state taxes	22,480	4,011
Other	11,952	18,113
Accounts receivable, net	$407,580	$400,159

4. Inventories

Inventories consist of the following:

	March 31, 2013	December 31, 2012
Finished products	$198,639	$200,940
Feedstock, additives and chemicals	154,304	143,912
Materials and supplies	55,131	54,446
Inventories	$408,074	$399,298

5. Property, Plant and Equipment

As of March 31, 2013, the Company had property, plant and equipment, net totaling $1,629,309. The Company assesses these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, including when negative conditions such as significant current or projected operating losses exist. Other factors considered by the Company when determining if an impairment assessment is necessary include significant changes or projected changes in supply and demand fundamentals (which would have a negative impact on operating rates or margins), new technological developments, new competitors with significant raw material or other cost advantages, adverse changes associated with the U.S. and world economies and uncertainties associated with governmental actions. Long-lived assets assessed for impairment are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

WESTLAKE CHEMICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)
(in thousands of dollars, except share amounts and per share data)

Depreciation expense on property, plant and equipment of $30,920 and $30,171 is included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2013 and 2012, respectively.

6. Other Assets

Amortization expense on intangible and other assets of $4,801 and $5,623 is included in the consolidated statements of operations for the three months ended March 31, 2013 and 2012, respectively.

7. Long-Term Debt

Long-term debt consists of the following:

	March 31, 2013	December 31, 2012
3.60% senior notes due 2022	$248,901	$248,872
6 ½% senior notes due 2029	100,000	100,000
6 ¾% senior notes due 2032	250,000	250,000
6 ½% senior notes due 2035 (the "6 ½% GO Zone Senior Notes Due 2035")	89,000	89,000
6 ½% senior notes due 2035 (the "6 ½% IKE Zone Senior Notes Due 2035")	65,000	65,000
Loan related to tax-exempt waste disposal revenue bonds due 2027	10,889	10,889
Long-term debt, net	$763,790	$763,761

Revolving Credit Facility

The Company has a $400,000 senior secured revolving credit facility. The facility includes a provision permitting the Company to increase the size of the facility, up to four times, in increments of at least $25,000 each (up to a maximum of $150,000) under certain circumstances if lenders agree to commit to such an increase. At March 31, 2013, the Company had no borrowings outstanding under the revolving credit facility. Any borrowings under the facility will bear interest at either LIBOR plus a spread ranging from 1.75% to 2.25% or a base rate plus a spread ranging from 0.25% to 0.75%. The revolving credit facility also requires an unused commitment fee of 0.375% per annum. All interest rates under the facility are subject to monthly grid pricing adjustments based on prior month average daily loan availability. The revolving credit facility matures on September 16, 2016. As of March 31, 2013, the Company had outstanding letters of credit totaling $16,214 and borrowing availability of $383,786 under the revolving credit facility.

8. Stock-Based Compensation

Under the Westlake Chemical Corporation 2004 Omnibus Incentive Plan (the "2004 Plan"), all employees and nonemployee directors of the Company, as well as certain individuals who have agreed to become the Company's employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2004 Plan. At the discretion of the administrator of the 2004 Plan, employees and nonemployee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards, restricted stock units or cash awards (any of which may be a performance award). Total stock-based compensation expense related to the 2004 Plan was $1,499 and $1,651 for the three months ended March 31, 2013 and 2012, respectively.

9. Derivative Instruments

Commodity Risk Management

The Company uses derivative instruments to reduce price volatility risk on raw materials and products as a substantial portion of its raw materials and products are commodities whose prices fluctuate as market supply and demand fundamentals change. Business strategies to protect against such instability include ethylene product feedstock flexibility and moving downstream into the olefins and vinyls products where pricing is more stable. The Company does not use derivative instruments to engage in speculative activities.

For derivative instruments that are designated and qualify as fair value hedges, the gains or losses on the derivative instruments, as well as the offsetting losses or gains on the hedged items attributable to the hedged risk, were included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2013 and 2012. As of March 31, 2013, the Company had 32,130,000 gallons of feedstock forward contracts designated as fair value hedges.

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WESTLAKE CHEMICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)
(in thousands of dollars, except share amounts and per share data)

Gains and losses from changes in the fair value of derivative instruments that are not designated as hedging instruments were included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2013 and 2012.

The exposure on commodity derivatives used for price risk management includes the risk that the counterparty will not pay if the market declines below the established fixed price. In such case, the Company would lose the benefit of the derivative differential on the volume of the commodities covered. In any event, the Company would continue to receive the market price on the actual volume hedged. The Company also bears the risk that it could lose the benefit of market improvements over the fixed derivative price for the term and volume of the derivative instruments (as such improvements would accrue to the benefit of the counterparty).

The fair values of derivative instruments in the Company's consolidated balance sheets were as follows:

	Derivative Assets		
		Fair Value as of	
	Balance Sheet Location	March 31, 2013	December 31, 2012
Designated as hedging instruments			
Commodity forward contracts	Accounts receivable, net	$8,299	$13,032
Not designated as hedging instruments			
Commodity forward contracts	Accounts receivable, net	1,903	1,395
Total derivative assets		$10,202	$14,427

	Derivative Liabilities		
		Fair Value as of	
	Balance Sheet Location	March 31, 2013	December 31, 2012
Designated as hedging instruments			
Commodity forward contracts	Accrued liabilities	$—	$399
Not designated as hedging instruments			
Commodity forward contracts	Accrued liabilities	9,843	13,295
Total derivative liabilities		$9,843	$13,694

The following tables reflect the impact of derivative instruments designated as fair value hedges and the related hedged item on the Company's consolidated statements of operations. For the three months ended March 31, 2013 and 2012, there was no material ineffectiveness with regard to the Company's qualifying fair value hedges.

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended March 31, 2013	2012
Commodity forward contracts	Cost of sales	$(1,643)	$10,463

Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Hedged Items	Three Months Ended March 31, 2013	2012
Firm commitment designated as the hedged item	Cost of sales	$1,395	$(11,664)

The impact of derivative instruments that have not been designated as hedges on the Company's consolidated statements of operations were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended March 31, 2013	2012

Commodity forward contracts	Cost of sales	$7,335	$560

See Note 10 for the fair value of the Company's derivative instruments.

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WESTLAKE CHEMICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)
(in thousands of dollars, except share amounts and per share data)

Disclosure about Offsetting Asset and Liability Derivatives

Certain of the Company's derivative instruments are executed under an International Swaps and Derivatives Association ("ISDA") Master Agreement, which permit the Company and a counterparty to aggregate the amounts owed by each party under multiple transactions and replace them with a single net amount payable by one party to the other. The following tables present the Company's derivative assets and derivative liabilities reported on the consolidated balance sheets and derivative assets and derivative liabilities subject to enforceable master netting arrangements.

	Derivative Assets	
	March 31, 2013	December 31, 2012
Derivative assets subject to enforceable master netting arrangements	$—	$—
Derivative assets not subject to enforceable master netting arrangements	9,057	13,032
Total derivative assets	$9,057	$13,032

	March 31, 2013			December 31, 2012		
Offsetting of Derivative Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
Commodity forward contracts	$1,145	$ (1,145)	$ —	$1,395	$ (1,395)	$ —

	Derivative Liabilities	
	March 31, 2013	December 31, 2012
Derivative liabilities subject to enforceable master netting arrangements	$697	$1,774
Derivative liabilities not subject to enforceable master netting arrangements	8,001	10,525
Total derivative liabilities	$8,698	$12,299

	March 31, 2013			December 31, 2012		
Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet
Commodity forward contracts	$1,842	$ (1,145)	$ 697	$3,169	$ (1,395)	$ 1,774

	March 31, 2013			December 31, 2012		
Derivative Liabilities by Counterparty	Net Amounts of Liabilities Presented	Gross Amounts Not Offset in the Consolidated	Net Amount	Net Amounts of Liabilities Presented	Gross Amounts Not Offset in the Consolidated	Net Amount

	in the Consolidated Balance Sheet	Balance Sheet		in the Consolidated Balance Sheet	Balance Sheet	
Counterparty A	$463	$ —	$463	$1,128	$ —	$1,128
Counterparty B	234	—	234	646	—	646
Total	$697	$ —	$697	$1,774	$ —	$1,774

WESTLAKE CHEMICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)
(in thousands of dollars, except share amounts and per share data)

10. Fair Value Measurements
The Company reports certain assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Under the accounting guidance for fair value measurements, inputs used to measure fair value are classified in one of three levels:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.
The following tables summarize, by level within the fair value hierarchy, the Company's assets and liabilities that were accounted for at fair value on a recurring basis:

	March 31, 2013		
	Level 1	Level 2	Total
Derivative instruments			
Risk management assets - Commodity forward contracts	$1,145	$9,057	$10,202
Risk management liabilities - Commodity forward contracts	—	(9,843)	(9,843)
Firm commitments			
Hedged portion of firm commitment	—	(8,299)	(8,299)

	December 31, 2012		
	Level 1	Level 2	Total
Derivative instruments			
Risk management assets - Commodity forward contracts	$1,395	$13,032	$14,427
Risk management liabilities - Commodity forward contracts	—	(13,694)	(13,694)
Firm commitments			
Hedged portion of firm commitment	—	399	399
Hedged portion of firm commitment	—	(13,032)	(13,032)

The Level 2 measurements are derived using forward curves supplied by industry recognized and unrelated third-party services. There were no transfers in and out of Levels 1 and 2 of the fair value hierarchy for the three months ended March 31, 2013 and 2012.
In addition to the financial assets and liabilities above, the Company has other financial assets and liabilities subject to fair value measures. These financial assets and liabilities include cash and cash equivalents, accounts receivable, net, accounts payable and long-term debt, all of which are recorded at carrying value. Further, the Company has current marketable securities that are carried at amortized cost. The amounts reported in the consolidated balance sheets for cash and cash equivalents, current marketable securities, accounts receivable, net and accounts payable approximate their fair value due to the short maturities of these instruments. The carrying and fair values of the Company's long-term debt are summarized in the table below. The Company's long-term debt instruments are publicly-traded. A market approach, based upon quotes from financial reporting services, is used to measure the fair value of the Company's long-term debt. Because the Company's long-term debt instruments may not be actively traded, the inputs used to measure the fair value of the Company's long-term debt are classified as Level 2 inputs within the fair value hierarchy.

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WESTLAKE CHEMICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)
(in thousands of dollars, except share amounts and per share data)

	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.60% senior notes due 2022	$248,901	$252,273	$248,872	$251,125
6 ½% senior notes due 2029	100,000	115,999	100,000	119,738
6 ¾% senior notes due 2032	250,000	286,235	250,000	283,168
6 ½% GO Zone Senior Notes Due 2035	89,000	100,367	89,000	102,095
6 ½% IKE Zone Senior Notes Due 2035	65,000	73,302	65,000	74,564
Loan related to tax-exempt waste disposal revenue bonds due 2027	10,889	10,889	10,889	10,889

11. Income Taxes

The effective income tax rate was 35.5% for the three months ended March 31, 2013. The effective income tax rate for the 2013 period was above the U.S. federal statutory rate of 35.0% primarily due to state income taxes, partially offset by the domestic manufacturing deduction. The effective income tax rate was 34.9% for the three months ended March 31, 2012. The effective income tax rate for the 2012 period was below the U.S. federal statutory rate of 35.0% primarily due to state tax credits and the domestic manufacturing deduction, mostly offset by state income taxes.

There was no material change to the total gross unrecognized tax benefits for the three months ended March 31, 2013. Management anticipates reductions to the total amount of unrecognized tax benefits of an additional $621 within the next twelve months due to expiring statutes of limitations.

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of March 31, 2013, the Company had no material accrued interest and penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is no longer subject to examinations by tax authorities before the year 2007.

12. Earnings per Share

The Company has unvested shares of restricted stock and restricted stock units outstanding that are considered participating securities and, therefore, computes basic and diluted earnings per share under the two-class method. Basic earnings per share for the periods are based upon the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share include the effect of certain stock options.

	Three Months Ended March 31,	
	2013	2012
Net income	$123,347	$87,813
Less:		
Net income attributable to participating securities	(568)	(610)
Net income attributable to common shareholders	$122,779	$87,203

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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 March 31,	
	2013	2012
Weighted average common shares—basic	66,625,536	66,109,297
Plus incremental shares from:		
Assumed exercise of options	283,333	449,220
Weighted average common shares—diluted	66,908,869	66,558,517
Earnings per share:		
Basic	$1.84	$1.32
Diluted	$1.84	$1.31

Excluded from the computation of diluted earnings per share are options to purchase 36,388 and 67,098 shares of common stock for the three months ended March 31, 2013 and 2012, respectively. These options were outstanding during the periods reported but were excluded because the effect of including them would have been antidilutive.

13. Pension and Post-Retirement Benefit Costs

Components of net periodic benefit cost are as follows:

	Three Months Ended March 31,			
	Pension		Post-retirement Healthcare	
	2013	2012	2013	2012
Service cost	$264	$254	$2	$2
Interest cost	501	647	147	185
Expected return on plan assets	(714)	(620)	—	—
Amortization of prior service cost	74	74	21	21
Amortization of net loss	429	439	90	44
Net periodic benefit cost	$554	$794	$260	$252

The Company contributed $442 to the Salaried pension plan in the first three months of 2012, and contributed $60 and $278 to the Wage pension plan in the first three months of 2013 and 2012, respectively. The Company did not contribute to the Salaried pension plan in the first three months of 2013. The Company expects to make additional contributions of $1,164 to the Salaried pension plan and $870 to the Wage pension plan during the fiscal year ending December 31, 2013.

14. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2013 were as follows:

	Benefits Liability, Net of Tax	Cumulative Foreign Currency Exchange	Total
Balances at December 31, 2012	$(16,351)	$5,511	$(10,840)
Other comprehensive loss before reclassifications	—	(570)	(570)
Amounts reclassified from accumulated other comprehensive loss	378	—	378
Net other comprehensive income (loss) for the period	378	(570)	(192)
Balances at March 31, 2013	$(15,973)	$4,941	$(11,032)

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The following table provides the details of the amounts reclassified from accumulated other comprehensive income (loss) into net income in the consolidated statements of operations for the three months ended March 31, 2013:

Details about Accumulated Other Comprehensive Income (Loss) Components	Location of Reclassification (Income (Expense)) in Consolidated Statements of Operations	Three Months Ended March 31, 2013
Amortization of pension and other post-retirement items		
Prior service costs	(1)	$(95)
Net loss	(1)	(519)
		(614)
	Provision for income taxes	236
Total reclassifications for the period		$(378)

(1) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost. For additional information, please read Note 8 (Employee Benefits) to the financial statements included in the 2012 Form 10-K.

15. 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 legal requirements will have on the Company.

Contract Disputes with Goodrich and PolyOne. In connection with the 1990 and 1997 acquisitions of the Goodrich Corporation ("Goodrich") 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 under Goodrich's operations. In 1993, Goodrich spun off the predecessor of PolyOne Corporation ("PolyOne"), and that predecessor assumed Goodrich's indemnification obligations relating to preexisting contamination.

In 2003, litigation arose among the Company, Goodrich and PolyOne with respect to the allocation of the cost of remediating contamination at the site. The parties settled this litigation in December 2007 and the case was dismissed. In the settlement the parties agreed that, among other things: (1) PolyOne would pay 100% of the costs (with specified exceptions), net of recoveries or credits from third parties, incurred with respect to environmental issues at the Calvert City site from August 1, 2007 forward; (2) either the Company or PolyOne might, from time to time in the future (but not more than once every five years), institute an arbitration proceeding to adjust that percentage; and (3) the Company and PolyOne would negotiate a new environmental remediation utilities and services agreement to cover the Company's provision to or on behalf of PolyOne of certain environmental remediation services at the site. The current environmental remediation activities at the Calvert City complex do not have a specified termination date but are expected to last for the foreseeable future. The costs incurred by the Company that have been invoiced to PolyOne to provide the environmental remediation services were $2,687 in 2012. By letter dated March 16, 2010, PolyOne notified the Company that it was initiating an arbitration proceeding under the settlement agreement. In this proceeding, PolyOne seeks to readjust the percentage allocation of costs and to recover approximately $1,400 from

the Company in reimbursement of previously paid remediation costs. The arbitration is currently stayed.
Administrative Proceedings. There are several administrative proceedings in Kentucky involving the Company, Goodrich and PolyOne related to the same manufacturing complex in Calvert City. In 2003, the Kentucky Environmental and Public Protection Cabinet (the "Cabinet") re-issued Goodrich's Resource Conservation and Recovery Act ("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.

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The Company intervened in the proceedings. The Cabinet has suspended all corrective action under the RCRA permit in deference to a remedial investigation and feasibility study ("RIFS") being conducted pursuant to an Administrative Settlement Agreement ("AOC"), which became effective on December 9, 2009. See "Change in Regulatory Regime" below. The proceedings have been postponed. Periodic status conferences will be held to evaluate whether additional proceedings will be required.

Change in Regulatory Regime. In May 2009, the Cabinet sent a letter to the U.S. Environmental Protection Agency ("EPA") requesting the EPA's assistance in addressing contamination at the Calvert City site under the U.S. Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). In its response to the Cabinet also in May 2009, the EPA stated that it concurred with the Cabinet's request and would incorporate work previously conducted under the Cabinet's RCRA authority into the EPA's cleanup efforts under CERCLA. Since 1983, the EPA has been addressing contamination at an abandoned landfill adjacent to the Company's plant which had been operated by Goodrich and which was being remediated pursuant to CERCLA. During the past two years, the EPA has directed Goodrich and PolyOne to conduct additional investigation activities at the landfill and at the Company's plant. In June 2009, the EPA notified the Company that the Company may have potential liability under section 107(a) of CERCLA at its plant site. Liability under section 107(a) of CERCLA is strict and joint and several. The EPA also identified Goodrich and PolyOne, among others, as potentially responsible parties at the plant site. The Company negotiated, in conjunction with the other potentially responsible parties, the AOC and an order to conduct the RIFS. The parties submitted and received EPA approval for a RIFS work plan to implement the AOC. The parties are currently conducting the RIFS.

Monetary Relief. Except as noted above with respect to the settlement of the contract litigation among the Company, Goodrich and PolyOne, none of the court, the Cabinet nor the EPA has established any allocation of the costs of remediation among the various parties that are involved in the judicial and administrative proceedings discussed above. At this time, the Company is not able to estimate the loss or reasonable possible loss, if any, on the Company's financial statements that could result from the resolution of these proceedings. 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.

EPA Audit of Ethylene Units in Lake Charles. During 2007, the EPA conducted an audit of the Company's ethylene units in Lake Charles, Louisiana, with a focus on leak detection and repair ("LDAR"). As a result of the audit, the EPA brought allegations that the Company had violated certain environmental laws and regulations pertaining to LDAR. The Company has agreed to settle this matter, subject to court approval, by paying a cash penalty of $500 and has recorded an accrual in such amount.

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

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16. Segment Information
The Company operates in two principal business segments: Olefins and Vinyls. These segments are strategic business units that offer a variety of different products. The Company manages each segment separately as each business requires different technology and marketing strategies.

	Three Months Ended March 31,	
	2013	2012
Net external sales		
Olefins		
Polyethylene	$420,768	$445,420
Styrene, feedstock and other	162,077	286,851
Total Olefins	582,845	732,271
Vinyls		
PVC, caustic soda and other	195,246	214,383
Building products	86,556	88,213
Total Vinyls	281,802	302,596
	$864,647	$1,034,867
Intersegment sales		
Olefins	$70,283	$101,457
Vinyls	264	388
	$70,547	$101,845
Income (loss) from operations		
Olefins	$161,058	$129,207
Vinyls	43,663	21,082
Corporate and other	(10,666)	(4,664)
	$194,055	$145,625
Depreciation and amortization		
Olefins	$23,346	$23,763
Vinyls	11,884	11,509
Corporate and other	126	122
	$35,356	$35,394
Other income (expense), net		
Olefins	$4,010	$956
Vinyls	(425)	240
Corporate and other	(66)	151
	$3,519	$1,347
Provision for (benefit from) income taxes		
Olefins	$55,477	$42,175
Vinyls	13,720	6,016
Corporate and other	(1,251)	(1,209)
	$67,946	$46,982

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	Three Months Ended March 31,	
	2013	2012
Capital expenditures		
Olefins	$50,040	$17,480
Vinyls	100,317	46,841
Corporate and other	427	581
	$150,784	$64,902

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

	Three Months Ended March 31,	
	2013	2012
Income from operations	$194,055	$145,625
Interest expense	(6,281)	(12,177)
Other income, net	3,519	1,347
Income before income taxes	$191,293	$134,795

	March 31, 2013	December 31, 2012
Total assets		
Olefins	$1,534,996	$1,439,308
Vinyls	1,106,500	1,030,912
Corporate and other	917,729	941,976
	$3,559,225	$3,412,196

17. Subsequent Events

In March 2013, the Company announced that it had entered into a definitive agreement with CertainTeed Corporation, a subsidiary of the French public company, Compagnie de Saint-Gobain, to purchase its Pipe and Foundation Group business, a leading producer of PVC pipe and fittings for municipal, water well, mining, agriculture and irrigation applications, with an annual production capacity of approximately 150 million pounds, for a cash purchase price of $175,000, including working capital, subject to post-closing adjustments. This transaction closed on May 1, 2013. No pro forma financial information has been provided as the purchase is not significant to the Company's consolidated financial position or results of operations.

Subsequent events were evaluated through the date on which the financial statements were issued.

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18. Guarantor Disclosures
The Company's payment obligations under the 3.60% senior notes due 2022 are fully and unconditionally guaranteed by each of its current and future domestic subsidiaries that guarantee other debt of the Company or of another guarantor of the 3.60% senior notes due 2022 in excess of $5,000 (the "Guarantor Subsidiaries"). Each Guarantor Subsidiary is 100% owned by Westlake Chemical Corporation. 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 3.60% senior notes due 2022 (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 March 31, 2013

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	$742,898	$7,648	$27,341	$—	$777,887
Marketable securities	94,903	—	—	—	94,903
Accounts receivable, net	12,629	1,644,221	4,575	(1,253,845)	407,580
Inventories	—	393,260	14,814	—	408,074
Prepaid expenses and other current assets	223	12,588	1,725	—	14,536
Deferred income taxes	431	21,581	286	—	22,298
Total current assets	851,084	2,079,298	48,741	(1,253,845)	1,725,278
Property, plant and equipment, net	—	1,621,290	8,019	—	1,629,309
Equity investments	3,143,697	65,868	32,711	(3,198,362)	43,914
Other assets, net	16,692	148,886	1,132	(5,986)	160,724
Total assets	$4,011,473	$3,915,342	$90,603	$(4,458,193)	$3,559,225
Current liabilities					
Accounts payable	$1,252,908	$221,992	$15,382	$(1,258,221)	$232,061
Accrued liabilities	15,873	146,546	959	4,376	167,754
Total current liabilities	1,268,781	368,538	16,341	(1,253,845)	399,815
Long-term debt	752,901	10,889	—	—	763,790
Deferred income taxes	—	361,450	511	(5,986)	355,975
Other liabilities	—	49,823	31	—	49,854
Stockholders' equity	1,989,791	3,124,642	73,720	(3,198,362)	1,989,791
Total liabilities and stockholders' equity	$4,011,473	$3,915,342	$90,603	$(4,458,193)	$3,559,225

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Condensed Consolidating Financial Information as of December 31, 2012

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	$753,881	$6,973	$ 29,224	$—	$790,078
Marketable securities	124,873	—	—	—	124,873
Accounts receivable, net	7,933	1,675,274	2,959	(1,286,007)	400,159
Inventories	—	385,140	14,158	—	399,298
Prepaid expenses and other current assets	389	11,386	2,925	—	14,700
Deferred income taxes	431	21,581	293	—	22,305
Total current assets	887,507	2,100,354	49,559	(1,286,007)	1,751,413
Property, plant and equipment, net	—	1,502,902	7,146	—	1,510,048
Equity investments	3,018,926	65,448	32,923	(3,073,561)	43,736
Other assets, net	17,033	94,678	1,252	(5,964)	106,999
Total assets	$3,923,466	$3,763,382	$ 90,880	$(4,365,532)	$3,412,196
Current liabilities					
Accounts payable	$1,285,530	$192,443	$ 13,969	$(1,274,892)	$217,050
Accrued liabilities	12,808	178,915	852	(11,115)	181,460
Total current liabilities	1,298,338	371,358	14,821	(1,286,007)	398,510
Long-term debt	752,872	10,889	—	—	763,761
Deferred income taxes	—	331,320	934	(5,964)	326,290
Other liabilities	—	51,312	67	—	51,379
Stockholders' equity	1,872,256	2,998,503	75,058	(3,073,561)	1,872,256
Total liabilities and stockholders' equity	$3,923,466	$3,763,382	$ 90,880	$(4,365,532)	$3,412,196

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	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Statement of Operations					
Net sales	$—	$856,085	$10,540	$(1,978)	$864,647
Cost of sales	—	629,286	9,530	(1,978)	636,838
Gross profit	—	226,799	1,010	—	227,809
Selling, general and administrative expenses	510	31,709	1,535	—	33,754
(Loss) income from operations	(510)	195,090	(525)	—	194,055
Interest expense	(6,258)	(23)	—	—	(6,281)
Other income (expense), net	4,309	(290)	(500)	—	3,519
(Loss) income before income taxes	(2,459)	194,777	(1,025)	—	191,293
(Benefit from) provision for income taxes	(874)	69,051	(231)	—	67,946
Equity in net income of subsidiaries	124,932	—	—	(124,932)	—
Net income (loss)	$123,347	$125,726	$(794)	$(124,932)	$123,347
Comprehensive income (loss)	$123,155	$126,104	$(1,364)	$(124,740)	$123,155

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2012

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Statement of Operations					
Net sales	$—	$1,026,332	$9,843	$(1,308)	$1,034,867
Cost of sales	—	854,987	8,551	(1,308)	862,230
Gross profit	—	171,345	1,292	—	172,637
Selling, general and administrative expenses	505	24,756	1,751		