

WESTLAKE CHEMICAL CORP
Form 10-Q
November 07, 2013

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 September 30, 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
(State or other jurisdiction of incorporation or organization)
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)

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

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 November 1, 2013 was 66,770,803.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2013	December 31, 2012
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	\$591,556	\$790,078
Marketable securities	125,597	124,873
Accounts receivable, net	433,025	400,159
Inventories	451,571	399,298
Prepaid expenses and other current assets	18,809	14,700
Deferred income taxes	22,293	22,305
Total current assets	1,642,851	1,751,413
Property, plant and equipment, net	1,952,918	1,510,048
Equity investments	65,488	43,736
Other assets, net		
Intangible assets, net	159,376	48,292
Deferred charges and other assets, net	102,816	58,707
Total other assets, net	262,192	106,999
Total assets	\$3,923,449	\$3,412,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$258,067	\$217,050
Accrued liabilities	174,619	181,460
Total current liabilities	432,686	398,510
Long-term debt	763,849	763,761
Deferred income taxes	410,166	326,290
Other liabilities	51,691	51,379
Total liabilities	1,658,392	1,539,940
Commitments and contingencies (Notes 7 and 16)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 150,000,000 shares authorized; 67,276,761 and 67,187,224 shares issued at September 30, 2013 and December 31, 2012, respectively	673	672
Common stock, held in treasury, at cost; 506,525 and 284,493 shares at September 30, 2013 and December 31, 2012, respectively	(32,711	) (13,302
Additional paid-in capital	509,295	496,254
Retained earnings	1,798,721	1,399,472
Accumulated other comprehensive loss	(10,921	) (10,840
Total stockholders' equity	2,265,057	1,872,256
Total liabilities and stockholders' equity	\$3,923,449	\$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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands of dollars, except per share data and share amounts)			
Net sales	\$1,004,165	\$821,175	\$2,807,859	\$2,770,000
Cost of sales	699,694	648,996	2,002,092	2,223,288
Gross profit	304,471	172,179	805,767	546,712
Selling, general and administrative expenses	37,869	29,662	109,883	87,592
Income from operations	266,602	142,517	695,884	459,120
Other income (expense)				
Interest expense	(3,297	) (11,934	) (14,921	) (35,682
Debt retirement costs	—	(7,082	) —	(7,082
Gain from sales of equity securities	—	477	—	16,429
Other (expense) income, net	(287	) 1,222	3,137	3,676
Income before income taxes	263,018	125,200	684,100	436,461
Provision for income taxes	92,728	38,236	244,647	146,183
Net income	\$170,290	\$86,964	\$439,453	\$290,278
Earnings per share:				
Basic	\$2.55	\$1.30	\$6.57	\$4.36
Diluted	\$2.54	\$1.30	\$6.54	\$4.33
Weighted average shares outstanding:				
Basic	66,628,747	66,311,958	66,628,027	66,240,225
Diluted	66,905,554	66,656,760	66,903,379	66,621,520
Dividends per common share	\$0.2250	\$0.1875	\$0.6000	\$0.3350

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 September		Nine Months Ended September	
	30,	2012	30,	2012
	2013		2013	
	(in thousands of dollars)			
Net income	\$170,290	\$86,964	\$439,453	\$290,278
Other comprehensive (loss) income				
Pension and other post-retirement benefits liability				
Pension and other post-retirement reserves adjustment (excluding amortization)	(489	) 72	(978	) 142
Amortization of benefits liability	695	584	2,004	1,747
Income tax provision on pension and other post-retirement benefits liability	(78	) (252	) (394	) (725
Foreign currency translation adjustments	546	865	(844	) 928
Reclassification of net cash flow hedge losses to net income, net of income tax benefit	—	521	—	—
Available-for-sale investments				
Unrealized holding gains on investments	205	339	205	14,582
Income tax provision on unrealized holding gains	(74	) (121	) (74	) (5,229
Reclassification of net realized gain to net income	—	(306	) —	(10,538
Other comprehensive income (loss)	805	1,702	(81	) 907
Comprehensive income	\$171,095	\$88,666	\$439,372	\$291,185

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,	
	2013	2012
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	\$439,453	\$290,278
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	116,294	109,601
Provision for (recovery of) doubtful accounts	3,600	(536)
Amortization of debt issuance costs	1,093	1,149
Stock-based compensation expense	4,804	4,640
Loss from disposition of fixed assets	4,679	1,945
Gain from sales of equity securities	—	(16,429)
Write-off of debt issuance costs	—	1,277
Deferred income taxes	83,443	4,385
Windfall tax benefits from share-based payment arrangements	(5,056)	(7,792)
Equity in loss of joint ventures	1,586	2,567
Changes in operating assets and liabilities		
Accounts receivable	(18,874)	) 13,732
Inventories	(26,325)	) 119,240
Prepaid expenses and other current assets	(5,038)	) (1,977)
Accounts payable	19,518	(35,651)
Accrued liabilities	(15,755)	) 20,077
Other, net	(55,922)	) (13,675)
Net cash provided by operating activities	547,500	492,831
Cash flows from investing activities		
Acquisition of business	(178,309)) —
Additions to equity investments	(23,338)) —
Additions to property, plant and equipment	(498,290)	) (235,463)
Construction of assets pending sale-leaseback	(136)	) (5,484)
Proceeds from disposition of assets	78	435
Proceeds from repayment of loan to affiliate	167	763
Proceeds from sales and maturities of securities	239,764	47,655
Purchase of securities	(232,286)	) (2,961)
Settlements of derivative instruments	(2,297)	) 471
Net cash used for investing activities	(694,647)	) (194,584)
Cash flows from financing activities		
Capitalized debt issuance costs	—	(2,221)
Dividends paid	(40,204)	) (22,345)
Proceeds from debt issuance	—	248,818
Proceeds from exercise of stock options	3,182	6,627
Repayment of debt	—	(250,000)
Repurchase of common stock for treasury	(19,409)	) (10,784)
Utilization of restricted cash	—	96,433
Windfall tax benefits from share-based payment arrangements	5,056	7,792

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Net cash (used for) provided by financing activities	(51,375) 74,320
Net (decrease) increase in cash and cash equivalents	(198,522) 372,567
Cash and cash equivalents at beginning of period	790,078	825,901
Cash and cash equivalents at end of period	\$591,556	\$1,198,468

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 ("U.S. GAAP") 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 September 30, 2013, its results of operations for the three and nine months ended September 30, 2013 and 2012 and the changes in its cash position for the nine months ended September 30, 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 U.S. GAAP 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 nine months ended September 30, 2012 has been revised to correct the presentation of windfall tax benefits from share-based compensation of \$7,792 in financing activities, instead of operating activities. The Company has determined that this revision was 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.

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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)

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's investments in current marketable securities were classified as follows:

	September 30, 2013	December 31, 2012
Available-for-sale securities	\$120,602	\$—
Held-to-maturity securities	4,995	124,873
Marketable securities	\$125,597	\$124,873

Available-for-Sale Securities

The cost, gross unrealized gains, gross unrealized losses and fair value of the Company's available-for-sale securities were as follows:

	September 30, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Fair Value
Debt securities				
Corporate bonds	\$11,888	\$191	\$(21)	) \$12,058
U.S. government debt ⁽²⁾	26,400	23	(6)	) 26,417
Asset-backed securities	82,109	27	(9)	) 82,127
Total available-for-sale securities	\$120,397	\$241	\$(36)	) \$120,602

(1) All unrealized loss positions were held at a loss for less than 12 months.

(2) U.S. Treasury obligations, U.S. government agency obligations and U.S. government agency mortgage-backed securities.

As of September 30, 2013, net unrealized gains on the Company's available-for-sale securities of \$131, net of income tax expense of \$74, were recorded in accumulated other comprehensive income. See Note 10 for the fair value hierarchy of the Company's available-for-sale securities.

As of September 30, 2013, the corporate bond securities held by the Company had maturities between one to five years, U.S. government debt securities, excluding U.S. government agency mortgage-backed securities, had maturities of less than one year, U.S. government agency mortgage-backed securities had maturities between four to 26 years and asset-backed securities had maturities between two to five years.

Held-to-Maturity Securities

The Company owned held-to-maturity securities of \$4,995 and \$124,873 at September 30, 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 carried at amortized cost, which approximates their fair value.

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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)

3. Accounts Receivable

Accounts receivable consist of the following:

	September 30, 2013	December 31, 2012
Trade customers	\$404,678	\$388,949
Affiliates	333	258
Allowance for doubtful accounts	(9,832	) (11,172
	395,179	378,035
Federal and state taxes	20,421	4,011
Other	17,425	18,113
Accounts receivable, net	\$433,025	\$400,159

4. Inventories

Inventories consist of the following:

	September 30, 2013	December 31, 2012
Finished products	\$198,762	\$200,940
Feedstock, additives and chemicals	194,558	143,912
Materials and supplies	58,251	54,446
Inventories	\$451,571	\$399,298

5. Property, Plant and Equipment

As of September 30, 2013, the Company had property, plant and equipment, net totaling \$1,952,918. 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, but are not limited to, 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. Depreciation expense on property, plant and equipment of \$32,460 and \$30,055 is included in cost of sales in the consolidated statements of operations for the three months ended September 30, 2013 and 2012, respectively. Depreciation expense on property, plant and equipment of \$95,995 and \$90,615 is included in cost of sales in the consolidated statements of operations for the nine months ended September 30, 2013 and 2012, respectively.

6. Other Assets

Amortization expense on intangible and other assets of \$8,634 and \$8,717 is included in the consolidated statements of operations for the three months ended September 30, 2013 and 2012, respectively. Amortization expense on intangible and other assets of \$21,392 and \$20,135 is included in the consolidated statements of operations for the nine months ended September 30, 2013 and 2012, respectively.

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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)

7. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2013	December 31, 2012
3.60% senior notes due 2022	\$248,960	\$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	\$763,849	\$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 September 30, 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 September 30, 2013, the Company had outstanding letters of credit totaling \$16,921 and borrowing availability of \$383,079 under the revolving credit facility.

8. Stock-Based Compensation

Under the Westlake Chemical Corporation 2013 Omnibus Incentive Plan (as amended and restated, the "2013 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 2013 Plan. At the discretion of the administrator of the 2013 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 2013 Plan was \$1,680 and \$1,515 for the three months ended September 30, 2013 and 2012, respectively, and \$4,804 and \$4,640 for the nine months ended September 30, 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 and nine months ended September 30, 2013 and 2012. As of September 30, 2013, the Company had 10,710,000 gallons of feedstock forward contracts designated as fair value hedges.

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 and nine months

ended September 30, 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

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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)

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).

Disclosures related to the Company's derivative assets and derivative liabilities subject to enforceable master netting arrangements have not been presented as they are not material to the Company's consolidated balance sheets at September 30, 2013 and December 31, 2012.

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	September 30, 2013	December 31, 2012
Designated as hedging instruments			
Commodity forward contracts	Accounts receivable, net	\$3,208	\$13,032
Not designated as hedging instruments			
Commodity forward contracts	Accounts receivable, net	2,541	1,395
Total derivative assets		\$5,749	\$14,427
		Derivative Liabilities	
		Fair Value as of	
	Balance Sheet Location	September 30, 2013	December 31, 2012
Designated as hedging instruments			
Commodity forward contracts	Accrued liabilities	\$—	\$399
Not designated as hedging instruments			
Commodity forward contracts	Accrued liabilities	2,090	13,295
Total derivative liabilities		\$2,090	\$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 and nine months ended September 30, 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		Nine Months Ended	
		September 30, 2013	2012	September 30, 2013	2012
Commodity forward contracts	Cost of sales	\$(232	) \$(515	) \$(342	) \$12,345
Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Hedged Items	Three Months Ended		Nine Months Ended	
		September 30, 2013	2012	September 30, 2013	2012
Firm commitment designated as the hedged item	Cost of sales	\$236	\$515	\$15	\$(13,546)

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	Location of Gain (Loss) Recognized in	Three Months Ended		Nine Months Ended	
		September 30,		September 30,	

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Hedging Instruments	Income on Derivative	2013	2012	2013	2012
Commodity forward contracts	Cost of sales	\$4,854	\$249	\$9,897	\$(783)

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)

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:

	September 30, 2013		
	Level 1	Level 2	Total
Derivative instruments			
Risk management assets - Commodity forward contracts	\$1,808	\$3,941	\$5,749
Risk management liabilities - Commodity forward contracts	(74	) (2,016	) (2,090
Firm commitments			
Hedged portion of firm commitment	—	(3,208	) (3,208
Marketable securities			
Available-for-sale securities	14,998	105,604	120,602
	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 for the Company's commodity contracts are derived using forward curves supplied by industry-recognized and unrelated third-party services. The Level 2 measurements for the Company's available-for-sale securities are derived using market-based pricing provided by unrelated third-party services. There were no transfers in and out of Levels 1 and 2 of the fair value hierarchy for the nine months ended September 30, 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. The amounts reported in the consolidated balance sheets for cash and cash equivalents, 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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	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.60% senior notes due 2022	\$248,960	\$238,228	\$248,872	\$251,125
6 ½% senior notes due 2029	100,000	107,800	100,000	119,738
6 ¾% senior notes due 2032	250,000	267,465	250,000	283,168
6 ½% GO Zone Senior Notes Due 2035	89,000	94,209	89,000	102,095
6 ½% IKE Zone Senior Notes Due 2035	65,000	68,804	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 35.8% for the nine months ended September 30, 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 33.5% for the nine months ended September 30, 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, partially offset by state income taxes.

There was no material change to the total gross unrecognized tax benefits for the nine months ended September 30, 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 September 30, 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$170,290	\$86,964	\$439,453	\$290,278
Less:				
Net income attributable to participating securities	(587	) (452	) (1,691	) (1,682
Net income attributable to common shareholders	\$169,703	\$86,512	\$437,762	\$288,596

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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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average common shares—basic	66,628,747	66,311,958	66,628,027	66,240,225
Plus incremental shares from:				
Assumed exercise of options	276,807	344,802	275,352	381,295
Weighted average common shares—diluted	66,905,554	66,656,760	66,903,379	66,621,520
Earnings per share:				
Basic	\$2.55	\$1.30	\$6.57	\$4.36
Diluted	\$2.54	\$1.30	\$6.54	\$4.33

Excluded from the computation of diluted earnings per share are options to purchase 68,662 and 168,362 shares of common stock for the three months ended September 30, 2013 and 2012, respectively, and 57,759 and 293,062 shares of common stock for the nine months ended September 30, 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 September 30,				Nine Months Ended September 30,			
	Pension		Post-retirement Healthcare		Pension		Post-retirement Healthcare	
	2013	2012	2013	2012	2013	2012	2013	2012
Service cost	\$275	\$250	\$2	\$2	\$815	\$754	\$7	\$7
Interest cost	515	645	147	185	1,531	1,936	442	555
Expected return on plan assets	(713)	(623)	—	—	(2,140)	(1,867)	—	—
Amortization of prior service cost	74	74	21	21	223	223	63	63
Amortization of net loss	510	445	90	44	1,449	1,329	269	132
Net periodic benefit cost	\$661	\$791	\$260	\$252	\$1,878	\$2,375	\$781	\$757

The Company contributed \$776 and \$2,283 to the Salaried pension plan in the first nine months of 2013 and 2012, respectively, and contributed \$640 and \$1,542 to the Wage pension plan in the first nine months of 2013 and 2012, respectively. The Company expects to make additional contributions of \$388 to the Salaried pension plan and \$290 to the Wage pension plan during the fiscal year ending December 31, 2013.

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14. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2013 were as follows:

	Benefits Liability, Net of Tax	Cumulative Foreign Currency Exchange	Net Unrealized Holding Gains on Investments, Net of Tax	Total
Balances at December 31, 2012	\$(16,351)	\$5,511	\$—	\$(10,840)
Other comprehensive (loss) income before reclassifications	(601)	(844)	131	(1,314)
Amounts reclassified from accumulated other comprehensive loss	1,233	—	—	1,233
Net other comprehensive income (loss) for the period	632	(844)	131	(81)
Balances at September 30, 2013	\$(15,719)	\$4,667	\$131	\$(10,921)

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 and nine months ended September 30, 2013:

Details about Accumulated Other Comprehensive Income (Loss) Components	Location of Reclassification (Income (Expense)) in Consolidated Statements of Operations	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Amortization of pension and other post-retirement items			
Prior service costs	(1)	\$(95)	\$(286)
Net loss	(1)	(600)	(1,718)
		(695)	(2,004)
	Provision for income taxes	267	771
Total reclassifications for the period		\$(428)	\$(1,233)

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

15. Acquisitions

On May 1, 2013, the Company acquired assets comprising CertainTeed Corporation's Pipe and Foundation Group ("PFG") business and accounted for the asset acquisition as a business combination. The PFG acquisition includes the PVC pipe, fittings, profiles and foundation business and associated facilities in Lodi, California and McPherson, Kansas with production capacity of approximately 150 million pounds per year. The Company also acquired technologies and intellectual property for the production of a number of specialized products, including Certa-Lok® restrained joint pipe and Yelomine™ branded products for a variety of end-market applications. The Company's management believes that this acquisition will enhance the Company's building products portfolio by adding new specialty product lines and supporting technology.

The closing date purchase price of \$178,309 was paid with available cash on hand. This amount is subject to a post-closing working capital adjustment. The acquisition is being accounted for under the acquisition method of

accounting. The assets acquired and liabilities assumed and the results of operations of this acquired business are included in the Vinyls segment. The revenue and earnings of the PFG business included in the consolidated statement of operations since the acquisition date have not been presented separately as they are not material to the Company's consolidated statements of operations for the three and nine months ended September 30, 2013. The pro forma impact of this business combination has not been presented as it is not material to the Company's consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012.

For the nine months ended September 30, 2013, the Company recognized \$1,124 of acquisition-related costs. These costs are included in selling, general and administrative expenses in the consolidated statement of operations for the nine months ended September 30, 2013.

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The following table summarizes the consideration transferred and the estimated fair value of identified assets acquired and liabilities assumed at the date of acquisition. The final determination of fair value for certain assets and liabilities will be completed as soon as the information necessary to complete the analysis is obtained. These amounts will be finalized as soon as possible, but no later than one year from the acquisition date.

Fair value of consideration transferred:

Cash	\$ 178,309
Preliminary allocation of consideration transferred to net assets acquired:	
Accounts receivable ⁽¹⁾	\$ 17,695
Inventories	25,948
Property, plant and equipment	31,261
Intangible assets:	
Customer relationships (weighted average life of 15 years)	57,600
Trademarks	5,200
Developed technology (weighted average life of 15 years)	18,900
Other intangibles (weighted average life of two years)	300
Current liabilities	(10,595)
Other liabilities	(26)
Total identifiable net assets	146,283
Goodwill ⁽²⁾	32,026
Consideration transferred	\$ 178,309

(1) The fair value of accounts receivable acquired is \$17,695, with the gross contractual amount being \$17,772. The Company expects \$77 to be uncollectible.

(2) The goodwill recognized is primarily attributable to synergies from the Company's vinyls integration strategy expected to arise from the Company's PFG acquisition, as well as intangible assets that do not qualify for separate recognition. The goodwill is expected to be deductible for income tax purposes. The Company has not yet completed the process of assigning the goodwill to its reporting units.

Supplemental Noncash Investing Cash Flow Information

In conjunction with the acquisition, liabilities assumed consist of the following:

Fair value of assets acquired	\$ 188,930
Cash paid	(178,309)
Liabilities assumed	\$ 10,621

16. 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,

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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. 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. On July 12, 2013, the parties submitted separate draft RIFS reports to the EPA.

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.

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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17. 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 September		Nine Months Ended September	
	30,		30,	
	2013	2012	2013	2012
Net external sales				
Olefins				
Polyethylene	\$460,105	\$431,614	\$1,294,566	\$1,275,057
Styrene, feedstock and other	219,234	108,171	590,959	669,718
Total Olefins	679,339	539,785	1,885,525	1,944,775
Vinyls				
PVC, caustic soda and other	212,041	191,310	612,391	569,316
Building products	112,785	90,080	309,943	255,909
Total Vinyls	324,826	281,390	922,334	825,225
	\$1,004,165	\$821,175	\$2,807,859	\$2,770,000
Intersegment sales				
Olefins	\$85,454	\$76,771	\$230,607	\$247,671
Vinyls	403	391	1,111	1,167
	\$85,857	\$77,162	\$231,718	\$248,838
Income (loss) from operations				
Olefins	\$237,239	\$124,452	\$585,958	\$409,550
Vinyls	39,554	24,059	136,123	67,724
Corporate and other	(10,191)	) (5,994	) (26,197	) (18,154
	\$266,602	\$142,517	\$695,884	\$459,120
Depreciation and amortization				
Olefins	\$26,515	\$27,070	\$76,415	\$74,903
Vinyls	14,089	11,232	39,507	34,330
Corporate and other	124	122	372	368
	\$40,728	\$38,424	\$116,294	\$109,601
Other income (expense), net				
Olefins	\$728	\$806	\$5,889	\$2,764
Vinyls	(742)	) 146	(1,687	) 115
Corporate and other	(273)	) 270	(1,065	) 797
	\$(287)	) \$1,222	\$3,137	\$3,676
Provision for (benefit from) income taxes				
Olefins	\$82,553	\$36,092	\$208,170	\$130,612
Vinyls	10,710	6,556	44,120	18,989
Corporate and other	(535)) (4,412) (7,643) (3,418

\$92,728

\$38,236

\$244,647

\$146,183

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Capital expenditures				
Olefins	\$27,577	\$46,867	\$105,656	\$92,168
Vinyls	172,565	47,001	391,864	139,836
Corporate and other	276	1,027	770	3,459
	\$200,418	\$94,895	\$498,290	\$235,463

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income from operations	\$266,602	\$142,517	\$695,884	\$459,120
Interest expense	(3,297)	(11,934)	(14,921)	(35,682)
Debt retirement costs	—	(7,082)	—	(7,082)
Gain from sales of equity securities	—	477	—	16,429
Other (expense) income, net	(287)	1,222	3,137	3,676
Income before income taxes	\$263,018	\$125,200	\$684,100	\$436,461

Total assets

Olefins		\$1,560,303	\$1,439,308
Vinyls		1,577,549	1,030,912
Corporate and other		785,597	941,976
		\$3,923,449	\$3,412,196

18. Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2013 were as follows:

	Olefins Segment	Vinyls Segment	Total
Balance at December 31, 2012	\$29,990	\$—	\$29,990
Goodwill acquired during the period	—	32,026	32,026
Balance at September 30, 2013	\$29,990	\$32,026	\$62,016

19. Subsequent Events

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

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20. 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 September 30, 2013

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	\$560,261	\$4,494	\$26,801	\$—	\$591,556
Marketable securities	125,597	—	—	—	125,597
Accounts receivable, net	5,373	694,473	5,489	(272,310)	433,025
Inventories	—	435,540	16,031	—	451,571
Prepaid expenses and other current assets	468	15,931	2,410	—	18,809
Deferred income taxes	431	21,744	118	—	22,293
Total current assets	692,130	1,172,182	50,849	(272,310)	1,642,851
Property, plant and equipment, net	—	1,945,405	7,513	—	1,952,918
Equity investments	2,635,954	98,823	31,634	(2,700,923)	65,488
Other assets, net	16,969	251,703	506	(6,986)	262,192
Total assets	\$3,345,053	\$3,468,113	\$90,502	\$(2,980,219)	\$3,923,449
Current liabilities					
Accounts payable	\$311,357	\$220,106	\$4,322	\$(277,718)	\$258,067
Accrued liabilities	15,679	151,654	1,878	5,408	174,619
Total current liabilities	327,036	371,760	6,200	(272,310)	432,686
Long-term debt	752,960	10,889	—	—	763,849
Deferred income taxes	—	416,404	748	(6,986)	410,166
Other liabilities	—	51,640	51	—	51,691
Stockholders' equity	2,265,057	2,617,420	83,503	(2,700,923)	2,265,057
Total liabilities and stockholders' equity	\$3,345,053	\$3,468,113	\$90,502	\$(2,980,219)	\$3,923,449

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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			