WESTLAKE CHEMICAL CORP
Form 10-Q
May 06, 2009
Table of Contents

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, 2009

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** ¨ **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**	x
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 28, 2009 was 65,924,543.

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2009	December 31, 2008
	(in thousands of dollars, except par values and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 179,343	$ 90,239
Accounts receivable, net	281,011	347,323
Inventories, net	283,873	327,967
Prepaid expenses and other current assets	10,294	6,838
Deferred income taxes	26,617	26,622
Total current assets	781,138	798,989
Property, plant and equipment, net	1,210,748	1,197,452
Equity investment	31,870	30,107
Restricted cash	120,763	134,432
Other assets, net	143,701	126,009
Total assets	$ 2,288,220	$ 2,286,989
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 132,904	$ 112,833
Accrued liabilities	79,255	99,455
Total current liabilities	212,159	212,288
Long-term debt	510,339	510,319
Deferred income taxes	289,397	280,486
Other liabilities	45,217	44,836
Total liabilities	1,057,112	1,047,929
Commitments and Contingencies (Notes 13 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; 65,924,043 and 65,658,142 shares issued and outstanding in 2009 and 2008, respectively	659	657
Additional paid-in capital	436,902	435,581
Retained earnings	805,337	814,873
Accumulated other comprehensive income		
Benefits liability, net of tax	(12,989)	(13,339)
Cumulative translation adjustment	1,199	1,288

Total stockholders equity	1,231,108	1,239,060
Total liabilities and stockholders equity	$ 2,288,220	$ 2,286,989

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(in thousands of dollars, except per share data and share amounts)	
Net sales	$ 488,251	$ 915,061
Cost of sales	468,187	878,357
Gross profit	20,064	36,704
Selling, general and administrative expenses	20,967	22,845
(Loss) income from operations	(903)	13,859
Other income (expense)		
Interest expense	(8,596)	(8,528)
Other income, net	2,477	2,408
(Loss) income before income taxes	(7,022)	7,739
(Benefit from) provision for income taxes	(947)	2,352
Net (loss) income	$ (6,075)	$ 5,387
Basic and diluted (loss) earnings per share	$ (0.09)	$ 0.08
Weighted average shares outstanding:		
Basic	65,797,273	65,561,552
Diluted	65,797,273	65,587,292

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

4

Table of Contents

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2009	2008
	(in thousands of dollars)	
Cash flows from operating activities		
Net (loss) income	$ (6,075)	$ 5,387
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:		
Depreciation and amortization	28,987	26,001
(Recovery of) provision for bad debts	(90)	84
Amortization of debt issue costs	318	219
Stock-based compensation expense	1,309	947
Loss from disposition of fixed assets	293	2,385
Deferred income taxes	8,105	1,163
Equity in income of joint venture	(1,763)	(1,068)
Changes in operating assets and liabilities		
Accounts receivable	66,402	42,790
Inventories	44,094	(4,180)
Prepaid expenses and other current assets	(3,456)	3,244
Accounts payable	20,818	(54,893)
Accrued liabilities	(19,873)	(35,658)
Other, net	(18,766)	(14,675)
Net cash provided by (used for) operating activities	120,303	(28,254)
Cash flows from investing activities		
Additions to property, plant and equipment	(32,792)	(42,984)
Acquisition of business	(6,297)	
Proceeds from disposition of assets		214
Settlements of derivative instruments	(1,352)	319
Net cash used for investing activities	(40,441)	(42,451)
Cash flows from financing activities		
Proceeds from the exercise of stock options	14	
Dividends paid	(3,461)	(3,282)
Proceeds from borrowings		300,800
Repayment of borrowings		(257,427)
Utilization of restricted cash	14,026	13,546
Capitalized debt issuance costs	(1,337)	
Net cash provided by financing activities	9,242	53,637
Net increase (decrease) in cash and cash equivalents	89,104	(17,068)
Cash and cash equivalents at beginning of period	90,239	24,914
Cash and cash equivalents at end of period	$ 179,343	$ 7,846

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except per share data)

1. Basis of Financial Statements

The accompanying unaudited consolidated interim financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) for interim periods. Accordingly, certain information and footnotes required for complete financial statements under generally accepted accounting principles in the United States have not been included. These interim consolidated financial statements should be read in conjunction with the December 31, 2008 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, 2008, filed with the SEC on February 19, 2009. 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, 2008.

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, 2009, its results of operations for the three months ended March 31, 2009 and 2008 and the changes in its cash position for the three months ended March 31, 2009 and 2008.

Results of operations and changes in cash position for the interim periods presented are not necessarily indicative of the results that will be realized for the year ending December 31, 2009 or any other interim period. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. The Company adopted SFAS 157 as of January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized on a nonrecurring basis, and the adoption of SFAS 157 did not have a material impact on the Company s financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis to November 15, 2008. The Company adopted SFAS 157 with respect to nonfinancial assets and nonfinancial liabilities that are recognized on a nonrecurring basis as of January 1, 2009, and such adoption did not have a material impact on the Company s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R), which replaces SFAS 141, Business Combinations (SFAS 141). SFAS 141R retains the fundamental requirements in SFAS 141 that the purchase method of accounting be used for all business combinations. This statement further establishes principals and requirements for how the acquiring entity recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141R as of January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 addresses the accounting and reporting for entities that consolidate a noncontrolling interest, sometimes called a minority interest. The Company adopted SFAS 160 as of January 1, 2009. This statement does not have any impact on the Company s consolidated financial statements as there are no noncontrolling interests in the Company s consolidated subsidiaries.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 (SFAS 161). This statement does not change the accounting for derivatives but requires enhanced disclosures about derivative strategies and accounting practices. The Company has complied with necessary disclosure requirements beginning with the interim financial statements included in this Quarterly Report on Form 10-Q. See Note 7 to the consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted In Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). This FSP addresses whether instruments, such as the Company s restricted stock awards, are participating securities prior to vesting for inclusion in the computation of earnings per share. The

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

guidance in this FSP concludes that unvested share-based payment awards that contain nonforfeitable rights to dividends should be included in the computation of earnings per share. The Company s unvested restricted stock awards contain rights to dividends, so this FSP applies to the Company s earnings per share computation. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. As a result, the Company has amended its computation of weighted average common shares for purposes of its basic and diluted earnings per share calculations in the interim financial statements included in this Quarterly Report on Form 10-Q. The earnings per share calculation for the three months ended March 31, 2008 has also been amended to reflect the new computation, but the change in the calculation was insignificant and did not change the originally reported earnings per basic and diluted share of $0.08 for the three months ended March 31, 2008.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1), which provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plans. This would require additional disclosures about investment policies and strategies, the reporting of fair value by asset category and other information about fair value measurements. FSP FAS 132(R)-1 is effective January 1, 2009 and early application is permitted. Upon initial application, the provisions of FSP FAS 132(R)-1 are not required for earlier periods that are presented for comparative purposes. We will expand our disclosures in accordance with FSP FAS 132(R)-1 in our annual report on Form 10-K for the year ending December 31, 2009; however, the adoption of this standard is not expected to have a significant impact on our consolidated results of operations, financial position or cash flows.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board (APB) Opinion 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). This FSP amends SFAS 107, Fair Value of Financial Instruments , to require disclosures about fair value of financial instruments for interim reporting periods in addition to the required disclosures in annual financial statements. This FSP also amends APB Opinion 28, Interim Financial Reporting , to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009.

2. Accounts Receivable

Accounts receivable consist of the following:

	March 31, 2009	December 31, 2008
Trade customers	$ 246,876	$ 293,318
Affiliates	1,270	1,226
Allowance for doubtful accounts	(13,705)	(14,438)
	234,441	280,106
Federal and state taxes	27,971	54,886
Other	18,599	12,331
Accounts receivable, net	$ 281,011	$ 347,323

3. Inventories

Inventories consist of the following:

	March 31, 2009	December 31, 2008
Finished products	$ 149,096	$ 173,982
Feedstock, additives and chemicals	98,996	119,881
Materials and supplies	43,566	42,415
	291,658	336,278
Allowance for inventory obsolescence	(7,785)	(8,311)
Inventories, net	$ 283,873	$ 327,967

4. Property, Plant and Equipment

Depreciation expense on property, plant and equipment of $24,061 and $21,954 is included in cost of sales in the consolidated statements of operations for the three months ended March 31, 2009 and 2008, respectively.

5. Other Assets

Amortization expense on other assets of $5,244 and $4,266 is included in the consolidated statements of operations for the three months ended March 31, 2009 and 2008, respectively.

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

6. 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 non-employee directors may be granted awards in the form of stock options, stock appreciation rights, stock awards or cash awards (any of which may be a performance award). The Company utilizes the fair value method to account for these awards, and the total compensation expense related to the 2004 Plan was $1,309 and $947 for the three months ended March 31, 2009 and 2008, respectively.

Option activity and changes during the three months ended March 31, 2009 were as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	910,329	$ 24.72		
Granted	493,540	14.24		
Exercised	(500)	14.50		
Cancelled	(642)	25.24		
Outstanding at March 31, 2009	1,402,727	$ 21.03	8.4	$ 217
Exercisable at March 31, 2009	398,732	$ 21.54	6.7	$ 22

For options outstanding at March 31, 2009, the options had the following range of exercise prices:

Range of Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
$14.24 - $19.29	904,856	8.8
$20.83 - $27.22	98,490	7.1
$30.07 - $36.10	399,381	7.8

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the first quarter of 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2009. This amount changes based on the fair market value of the Company s common stock. The total intrinsic value of options exercised during the three months ended March 31, 2009 was $1. There were no options exercised during the three months ended March 31, 2008.

As of March 31, 2009, $6,374 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.8 years.

The Company used the Black-Scholes option pricing model to value its options. The table below presents the weighted average value and assumptions used in determining the fair value for each option granted during the first three months of 2009 and 2008. Volatility was calculated using historical trends of the Company s common stock price.

	Stock Option Grants Three Months Ended March 31,	
	2009	2008
Weighted average fair value	$ 5.48	$ 7.40
Risk-free interest rate	2.8%	5.0%
Expected life in years	6-7	6-7
Expected volatility	42.5%	34.7%
Expected dividend yield	1.5%	1.0%

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Non-vested restricted stock awards as of March 31, 2009 and changes during the three months ended March 31, 2009 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2008	363,432	$ 26.32
Granted	265,698	14.24
Vested	(6,428)	36.10
Forfeited	(297)	31.61
Non-vested at March 31, 2009	622,405	$ 21.06

As of March 31, 2009, there was $8,266 of unrecognized stock-based compensation expense related to non-vested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 2.7 years. The total fair value of shares of restricted stock that vested during the three months ended March 31, 2009 and 2008 was $83 and $89, respectively.

7. Derivative Commodity Instruments

The Company uses derivative instruments, in conjunction with certain physical commodity positions, 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. Due to the short-term nature of the commodities and associated derivatives, the Company did not designate any of its commodity derivative instruments as hedges under the provisions of SFAS 133.

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 case, 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 securities (as such improvements would accrue to the benefit of the counterparty).

Under SFAS 157, 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 table summarizes the classification of inventory held as part of a trading strategy and risk management assets and liabilities by fair value measurement level at March 31, 2009:

	Level 1	Level 2	Total
Inventory	$	$ 12,898	$ 12,898
Risk management assets	$ 7,576	$ 3,736	$ 11,312
Risk management liabilities	$ 9,697	$ 818	$ 10,515

The Company complied with the enhanced disclosures of SFAS 161 effective for the 2009 interim financial statements. The following tables reflect the fair values of derivative instruments in our consolidated balance sheets and the gain (loss) from trading activities in our consolidated statements of operations.

Fair Values of Derivative Instruments

Derivatives Not Designated as Hedging Instruments Under SFAS 133 Balance Sheet Location	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	March 31, 2009	December 31, 2008	Balance Sheet Location	March 31, 2009	December 31, 2008
Commodity contracts	Accounts receivable, net	$ 6,199	$	Current liabilities	$ 5,402	$ 5,327

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Derivatives Not Designated as Hedging Instruments Under SFAS 133	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended March 31, 2009 Gain (Loss)	2008 Gain (Loss)
Commodity contract	Cost of sales	$ 4,030	$ 492
Physical commodity	Cost of sales	(1,578)	(358)
Total		$ 2,452	$ 134

See also management s discussion and analysis of financial condition and results of operations as well as disclosures about market risk for additional discussions related to the Company s derivative instruments and risk management activities.

8. Acquisition

On March 26, 2009, the Company completed the acquisition of a Janesville, Wisconsin PVC pipe plant. The plant has an estimated pipe production capacity of 175 million pounds per year and has the ability to produce PVC pipe in sizes varying up to 24 inches for use in a variety of applications including sewer, water, plumbing and irrigation. The purchase price was $6,297, and no goodwill was recognized as a result of this acquisition. Because of the size of the acquisition, no pro forma disclosures are required.

9. Plant Closure

During the first quarter of 2008, the Company decided to permanently close the Pawling, New York facility and consolidate manufacturing of window and door components in Calgary, Canada. Asset impairments, severance and other costs recorded in the first quarter of 2008 related to this closure were $2,522.

10. Income Taxes

There was no material change to the total gross unrecognized tax benefits for the three months ended March 31, 2009. Management anticipates reductions to the total amount of unrecognized tax benefits of an additional $1,570 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 January 1, 2009, the Company had $1,082 of accrued interest and penalties related to uncertain tax positions. The Company increased the accrued interest and penalties by approximately $41 during the three months ended March 31, 2009.

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 2001. During the second quarter of 2008, the Internal Revenue Service completed the audit of the Company for the tax years 2005 and 2006.

The effective income tax benefit rate was 13.5% for the three months ended March 31, 2009. The 2009 tax rate is below the statutory rate of 35% primarily due to the loss of the domestic manufacturing deduction due to the carry back of the year-to-date taxable loss and state income taxes, partially offset by state tax credits. The effective tax rate was 30.4% for the three months ended March 31, 2008. The 2008 tax rate was below the statutory rate of 35% primarily due to state tax credits, tax exempt interest income and the domestic manufacturing deduction, partially offset by state income taxes.

11. (Loss) Earnings per Share

Effective for the 2009 interim financial statements, the Company implemented FSP EITF 03-6-1, which requires that the Company s restricted stock be included in the computation of basic earnings per share. As a result, the weighted average common shares for the three months ended March 31, 2008 have been restated to reflect this implementation. The earnings per share calculation for the three months ended March 31, 2008 has also been amended to reflect the new computation, but the change in the calculation was insignificant and did not change the originally reported basic and diluted earnings per share of $0.08 for the three months ended March 31, 2008.

There are no adjustments to Net (loss) income for the diluted earnings per share computations.

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

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,	
	2009	2008
	(in thousands)	
Weighted average common shares basic	65,797	65,562
Plus incremental shares from:		
Assumed exercise of options	0	25
Weighted average common shares diluted	65,797	65,587

All potentially dilutive instruments in 2009 are considered to be antidilutive as the Company has recognized a net loss for the three months ended March 31, 2009.

12. Pension and Post-Retirement Benefit Costs

Components of Net periodic benefit cost are as follows:

	Three Months Ended March 31,			
	Pension		Post-retirement Healthcare	
	2009	2008	2009	2008
Service cost	$ 246	$ 246	$ 20	$ 24
Interest cost	623	593	280	275
Expected return on plan assets	(470)	(615)		
Amortization of transition obligation			29	28
Amortization of prior service cost	80	80	53	53
Amortization of net loss	351	135	26	42
Net periodic benefit cost	$ 830	$ 439	$ 408	$ 422

In the first quarters of 2009 and 2008, the Company made no contributions to the Salaried and Wage pension plans. The Company expects to make contributions of $1,377 to the Salaried plan and $151 to the Wage plan during the fiscal year ending December 31, 2009.

13. Commitments and Contingencies

The Company is subject to environmental laws and regulations that can impose civil and criminal sanctions and that may require it to mitigate the effects of contamination caused by the release or disposal of hazardous substances into the environment. Under one law, an owner or operator of property may be held strictly liable for remediating contamination without regard to whether that person caused the contamination, and without regard to whether the practices that resulted in the contamination were legal at the time they occurred. Because several of the Company s production sites have a history of industrial use, it is impossible to predict precisely what effect these requirements will have on the Company.

Contract 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 by 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. PolyOne is now coordinating the investigation and remediation of contamination at the complex.

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

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Company or PolyOne might, from time to time in the future (but not more than once every five years), institute a 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 PolyOne to provide the environmental remediation services were $3,790 in 2008.

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 (Cabinet) re-issued Goodrich s Resource Conservation and Recovery Act, or RCRA, permit which requires Goodrich to remediate contamination at the Calvert City manufacturing complex. Both Goodrich and PolyOne challenged various terms of the permit in an attempt to shift Goodrich s clean-up obligations under the permit to the Company.

In January 2004, the Cabinet notified the Company that the Company s ownership of a closed landfill (known as former Pond 4) requires it to submit an application for its own permit under RCRA. This could require the Company to bear the cost of performing remediation work at former Pond 4 and adjacent areas at the complex. The Company challenged the Cabinet s January 2004 order and has obtained several extensions to submit the required permit application. In October 2006, the Cabinet notified Goodrich and the Company that both were operators of former Pond 4 under RCRA, and ordered them to jointly submit an application for a RCRA permit. Goodrich and the Company have both challenged the Cabinet s October 2006 order.

All of these administrative proceedings have been consolidated, and the case is pending before the Cabinet.

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

Monetary Relief. Except as noted above, with respect to the settlement of the contract litigation among the Company, Goodrich and PolyOne, neither the court nor the Cabinet has established any allocation of the costs of remediation among the various parties that are involved in the judicial and administrative proceedings discussed above. The Company is not in a position at this time to state what effect, if any, the resolution of these proceedings could have on the Company s financial condition, results of operations or cash flows in 2009 and later years. Any cash expenditures that the Company might incur in the future with respect to the remediation of contamination at the complex would likely be spread out over an extended period. As a result, the Company believes it is unlikely that any remediation costs allocable to it will be material in terms of expenditures made in any individual reporting period.

Environmental Investigations. In 2002, the National Enforcement Investigations Center, or NEIC, of the U.S. Environmental Protection Agency, or EPA, investigated the Company s manufacturing complex in Calvert City. In early 2004, the NEIC investigated the Company s nearby PVC plant. The EPA subsequently submitted information requests to the Company under the Clean Air Act and RCRA. The Company and the EPA met in 2004 to attempt to voluntarily resolve the notices of violation that were issued to the Company for the 2002 investigation and to voluntarily resolve any issues raised at the PVC plant in the 2004 investigation. Since then, the parties have continued to engage in settlement discussions. The EPA has indicated that it will impose monetary penalties and require plant modifications that will involve capital expenditures. The Company has recorded an accrual for a probable loss related to monetary penalties and other items to be expensed. Although the ultimate amount of liability is not ascertainable, the Company believes that any amounts exceeding the recorded accruals should not materially affect the Company s financial condition. It is possible, however, that the ultimate resolution of this matter could result in a material adverse effect on the Company s results of operations or cash flows for a particular reporting period.

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, or LDAR. In January 2008, the U.S. Department of Justice, or DOJ, notified the Company that the EPA had referred the matter to the DOJ to bring a civil case against the Company alleging violations of various environmental laws and regulations. The DOJ informed the Company that it would seek monetary penalties and require the Company to implement an enhanced LDAR program for the ethylene units. The Company s representatives met with the

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

EPA in February 2008 to conduct initial settlement discussions. While the Company can offer no assurance as to an outcome, the Company believes that the resolution of this matter will not have a material adverse effect on the Company s financial condition, cash flows or results of operations.

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.

14. 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, 2009	2008
Net external sales		
Olefins		
Polyethylene	$ 256,374	$ 444,163
Ethylene, styrene and other	66,395	216,658
Total olefins	322,769	660,821
Vinyls		
Fabricated finished products	62,428	91,606
VCM, PVC and other	103,054	162,634
Total vinyls	165,482	254,240
	$ 488,251	$ 915,061
Intersegment sales		
Olefins	$ 7,047	$ 16,766
Vinyls	464	381
	$ 7,511	$ 17,147
(Loss) income from operations		
Olefins	$ 16,074	$ 20,152
Vinyls	(15,381)	(3,085)
Corporate and other	(1,596)	(3,208)
	$ (903)	$ 13,859

Depreciation and amortization		
Olefins	$ 19,724	$ 17,661
Vinyls	9,188	8,298
Corporate and other	75	42
	$ 28,987	$ 26,001
Other income, net		
Olefins	$ 130	$ 16
Vinyls	4	100
Corporate and other	2,343	2,292
	$ 2,477	$ 2,408
Capital expenditures		
Olefins	$ 17,430	$ 15,468
Vinyls	15,313	26,762
Corporate and other	49	754
	$ 32,792	$ 42,984

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

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

	Three Months Ended March 31,	
	2009	2008
(Loss) income from operations	$ (903)	$ 13,859
Interest expense	(8,596)	(8,528)
Other income, net	2,477	2,408
(Loss) income before income taxes	$ (7,022)	$ 7,739

	March 31, 2009	December 31, 2008
Total assets		
Olefins	$ 1,254,730	$ 1,275,762
Vinyls	621,755	651,678
Corporate and other	411,735	359,549
	$ 2,288,220	$ 2,286,989

15. Comprehensive (Loss) Income Information

	Three Months Ended March 31,	
	2009	2008
Net (loss) income	$ (6,075)	$ 5,387
Other comprehensive income:		
Amortization of benefits liability, net of tax	350	220
Change in cumulative translation adjustment	(89)	(1,063)
Comprehensive (loss) income	$ (5,814)	$ 4,544

16. Long-Term Debt

Long-term indebtedness consists of the following:

	March 31, 2009	December 31, 2008
6 5/8% senior notes due 2016	$ 249,450	$ 249,430
6 3/4% senior notes due 2032	250,000	250,000
Loan related to tax-exempt waste disposal revenue bonds due 2027	10,889	10,889
Long-term debt	$ 510,339	$ 510,319

On February 5, 2009, the Company amended its revolving credit facility to allow the Company to make specified distributions when the fixed charge coverage ratio falls below 1.0 if the Company maintains at least $125 million to $200 million (depending on the amount of distributions) of borrowing availability, including cash, under the credit facility. As of March 31, 2009, the Company had no borrowings under the revolving credit facility. Any borrowings under the facility would bear interest at either LIBOR plus a spread ranging from 2.75% to 3.50% or a base rate plus a spread ranging from 1.25% to 2.0%. The revolving credit facility also requires an unused commitment fee ranging from 0.75% to 0.875%, depending on the average daily borrowings. 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 8, 2013.

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

17. Guarantor Disclosures

The Company s payment obligations under its 6 5/8% senior notes and 6 3/4% senior notes are fully and unconditionally guaranteed by each of its current and future domestic restricted subsidiaries that guarantee other debt of the Company or of another guarantor of the 6 5/8% senior notes or the 6 3/4% senior notes 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 notes (the Non-Guarantor Subsidiaries), together with consolidating adjustments necessary to present the Company s results on a consolidated basis.

Condensed Consolidating Financial Information as of March 31, 2009

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	$ 177,384	$ 111	$ 1,848	$	$ 179,343
Accounts receivable, net	55,973	248,800	(2,520)	(21,242)	281,011
Inventories, net		273,778	10,095		283,873
Prepaid expenses and other current assets	876	9,210	208		10,294
Deferred income taxes	26,388		229		26,617
Total current assets	260,621	531,899	9,860	(21,242)	781,138
Property, plant and equipment, net		1,198,307	12,441		1,210,748
Equity investment	1,620,354	23,250	31,870	(1,643,604)	31,870
Restricted cash	120,763				120,763
Other assets, net	45,755	127,420	6,558	(36,032)	143,701
Total assets	$ 2,047,493	$ 1,880,876	$ 60,729	$ (1,700,878)	$ 2,288,220
Current liabilities					
Accounts payable	$ 11,324	$ 120,249	$ 1,331	$	$ 132,904
Accrued liabilities	9,741	68,559	972	(17)	79,255
Total current liabilities	21,065	188,808	2,303	(17)	212,159
Long-term debt	499,450	66,100	2,048	(57,259)	510,339
Deferred income taxes	289,301		96		289,397
Other liabilities	6,569	38,648			45,217
Stockholders equity	1,231,108	1,587,320	56,282	(1,643,602)	1,231,108

Total liabilities and stockholders equity	$ 2,047,493	$ 1,880,876	$ 60,729	$ (1,700,878)	$ 2,288,220

15

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Condensed Consolidating Financial Information as of December 31, 2008

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	$ 88,368	$ 69	$ 1,802	$	$ 90,239
Accounts receivable, net	145,598	286,941	(2,241)	(82,975)	347,323
Inventories, net		317,312	10,655		327,967
Prepaid expenses and other current assets	763	5,830	245		6,838
Deferred income taxes	26,388		234		26,622
Total current assets	261,117	610,152	10,695	(82,975)	798,989
Property, plant and equipment, net		1,184,078	13,374		1,197,452
Equity investment	1,621,068	23,250	30,107	(1,644,318)	30,107
Restricted cash	134,432				134,432
Other assets, net	44,735	111,332	5,971	(36,029)	126,009
Total assets	$ 2,061,352	$ 1,928,812	$ 60,147	$ (1,763,322)	$ 2,286,989
Current liabilities					
Accounts payable	$ 20,052	$ 91,626	$ 1,155	$	$ 112,833
Accrued liabilities	15,872	83,263	324	(4)	99,455
Total current liabilities	35,924	174,889	1,479	(4)	212,288
Long-term debt	499,430	127,798	2,094	(119,003)	510,319
Deferred income taxes	280,395		91		280,486
Other liabilities	6,543	38,293			44,836
Stockholders equity	1,239,060	1,587,832	56,483	(1,644,315)	1,239,060
Total liabilities and stockholders equity	$ 2,061,352	$ 1,928,812	$ 60,147	$ (1,763,322)	$ 2,286,989

16

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2009

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Statement of Operations					
Net sales	$	$ 482,996	$ 5,729	$ (474)	$ 488,251
Cost of sales		461,775	6,886	(474)	468,187
Gross profit (loss)		21,221	(1,157)		20,064
Selling, general and administrative expenses	1,058	18,667	1,242		20,967
(Loss) income from operations	(1,058)	2,554	(2,399)		(903)
Interest expense	(5,044)	(3,544)	(8)		(8,596)
Other (expense) income, net	(657)	314	1,847	973	2,477
(Loss) income before income taxes	(6,759)	(676)	(560)	973	(7,022)
(Benefit from) provision for income taxes	(684)	832	(1,095)		(947)
Net (loss) income	$ (6,075)	$ (1,508)	$ 535	$ 973	$ (6,075)

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2008

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Statement of Operations					
Net sales	$	$ 907,504	$ 9,589	$ (2,032)	$ 915,061
Cost of sales		871,574	8,815	(2,032)	878,357
Gross profit		35,930	774		36,704
Selling, general and administrative expenses	780	21,084	981		22,845
Income (loss) from operations	(780)	14,846	(207)		13,859
Interest expense	(5,037)	(3,423)	(68)		(8,528)
Other income (expense), net	10,708	140	1,240	(9,680)	2,408
Income (loss) before income taxes	4,891	11,563	965	(9,680)	7,739
(Benefit from) provision for income taxes	(496)	2,783	65		2,352

Net income (loss)	$ 5,387	$ 8,780	$ 900	$ (9,680)	$ 5,387

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2009

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Statement of Cash Flows					
Cash flows from operating activities					
Net (loss) income	$ (6,075)	$ (1,508)	$ 535	$ 973	$ (6,075)
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities					
Depreciation and amortization	318	27,993	994		29,305
(Recovery of) provision for bad debts		(130)	40		(90)
Stock-based compensation expense		1,269	40		1,309
Loss from disposition of fixed assets		293			293
Deferred income taxes	8,717		(612)		8,105
Equity in income of joint venture			(1,763)		(1,763)
Net changes in working capital and other	52,725	36,499	968	(973)	89,219
Net cash provided by operating activities	55,685	64,416	202		120,303
Cash flows from investing activities					
Additions to property, plant and equipment		(32,636)	(156)		(32,792)
Acquisition of business		(6,297)			(6,297)
Settlements of derivative instruments		(1,352)			(1,352)
Net cash used for investing activities		(40,285)	(156)		(40,441)
Cash flows from financing activities					
Intercompany financing	24,089	(24,089)			
Proceeds from exercise of stock options	14				14
Dividends paid	(3,461)				(3,461)
Utilization of restricted cash	14,026				14,026
Capitalized debt issuance costs	(1,337)				(1,337)
Net cash provided by (used for) financing activities	33,331	(24,089)			9,242
Net increase in cash and cash equivalents	89,016	42	46		89,104
Cash and cash equivalents at beginning of period	88,368	69	1,802		90,239
Cash and cash equivalents at end of period	$ 177,384	$ 111	$ 1,848	$	$ 179,343

Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except per share data)

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2008

	Westlake Chemical Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Statement of Cash Flows					
Cash flows from operating activities					
Net income (loss)	$ 5,387	$ 8,780	$ 900	$ (9,680)	$ 5,387
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities					
Depreciation and amortization	219	25,225	776		26,220
(Recovery of) provision for bad debts		182	(98)		84
Stock-based compensation expense		914	33		947
Gain from disposition of fixed assets		2,385			2,385
Deferred tax expense	1,164		(1)		1,163
Equity in income of joint venture			(1,068)		(1,068)
Net changes in working capital and other	(28,198)	(42,466)	(2,388)	9,680	(63,372)
Net cash used for operating activities	(21,428)	(4,980)	(1,846)		(28,254)
Cash flows from investing activities					
Additions to property, plant and equipment		(42,733)	(251)		(42,984)
Settlements of futures contracts		319			319
Proceeds from disposition of assets		214			214
Net cash used for investing activities		(42,200)	(251)		(42,451)
Cash flows from financing activities					
Intercompany financing	(47,288)	47,183	105		
Dividends paid	(3,282)				(3,282)
Proceeds from borrowings	300,800				300,800
Repayments of borrowings	(257,427)				(257,427)
Utilization of restricted cash	13,546				13,546
Net cash provided by financing activities	6,349	47,183	105		53,637
Net (decrease) increase in cash and cash equivalents	(15,079)	3	(1,992)		(17,068)
Cash and cash equivalents at beginning of period	16,173	96	8,645		24,914
Cash and cash equivalents at end of period	$ 1,094	$ 99	$ 6,653	$	$ 7,846

Table of Contents

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

This discussion and analysis should be read in conjunction with information contained in the accompanying unaudited consolidated interim financial statements of Westlake Chemical Corporation and the notes thereto and the consolidated financial statements and notes thereto of Westlake Chemical Corporation included in Westlake Chemical Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The following discussion contains forward-looking statements. Please read Forward-Looking Statements for a discussion of limitations inherent in such statements.

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

Recent Developments

In March 2009, we acquired a PVC pipe plant in Janesville, Wisconsin for $6.3 million. The plant has the ability to produce PVC pipe in sizes up to 24 inches for use in a variety of applications including sewer, water, plumbing and irrigation. We began operating the plant in April 2009 with limited production, but the plant is designed to produce up to 175 million pounds of PVC pipe annually at full capacity.

In the first quarter of 2009, we began operating a new PVC pipe plant in Yucca, Arizona built to produce pipe for water, sewer, irrigation and related industrial and residential markets in the Western United States. The new plant has the capacity to produce approximately 120 million pounds of PVC pipe annually. Also in the first quarter of 2009, we completed our PVC resin plant expansion in Calvert City and increased our capacity by 300 million pounds per year, bringing our total PVC capacity to 1.7 billion pounds annually.

In late January 2009, our Calvert City, Kentucky complex experienced an ice storm that caused a power failure at the facility and resulted in damage to a compressor for our ethylene unit. The power outage caused the complex to be down for eight days and the ethylene unit compressor damage resulted in reduced production rates for all major products produced at the facility.

One of our ethylene units in Lake Charles, Louisiana was idled during December 2008 due to significant customer inventory destocking and resulting weakened demand. A maintenance turnaround for this unit initially scheduled for the first half of 2009 was brought forward and performed during this down time. The unit was shut down for a total of 86 days (71 days during the first quarter of 2009), and the turnaround was completed in March 2009. During a turnaround, production at the unit is suspended while work on the unit is performed, but sales from inventory can continue during the turnaround period. The cost of this turnaround was approximately $23.1 million, which was capitalized.

In August 2008, we announced that we intend to construct a new chlor-alkali plant to be located at our vinyls manufacturing complex in Geismar, Louisiana. The new chlor-alkali unit would be expected to produce 250,000 ECUs annually upon completion, bringing our total ECU capacity to 525,000 per year. The new plant would be expected to improve the vertical integration of our vinyls business from chlorine downstream into VCM and PVC, and increase caustic soda sales. The project is currently estimated to cost between $250 million and $300 million. At present we are evaluating a start date for construction of this plant in light of current economic and business conditions. The project is expected to take about 36 months to complete. We expect the project would be partially funded with funds drawn from the proceeds of the issuance of the 6 $^{3}/4$% revenue bonds of the Louisiana Local Government Environmental Facility and Community Development Authority (the Authority), issued in December 2007 for our benefit, which are currently held as restricted cash. We expect the remaining funding would come from our revolving credit facility, cash flow from operations, and, possibly, our ability to obtain additional financing.

Table of Contents

Results of Operations

	Three Months Ended March 31, 2009	2008
	(dollars in thousands)	
Net external sales		
Olefins		
Polyethylene	$ 256,374	$ 444,163
Ethylene, styrene and other	66,395	216,658
Total olefins	322,769	660,821
Vinyls		
Fabricated finished products	62,428	91,606
VCM, PVC, and other	103,054	162,634
Total vinyls	165,482	254,240
Total	$ 488,251	$ 915,061
(Loss) income from operations		
Olefins	16,074	20,152
Vinyls	(15,381)	(3,085)
Corporate and other	(1,596)	(3,208)
Total (loss) income from operations	(903)	13,859
Interest expense	(8,596)	(8,528)
Other income, net	2,477	2,408
(Benefit from) provision for income taxes	(947)	2,352
Net (loss) income	$ (6,075)	$ 5,387
Diluted (loss) earnings per share	$ (0.09)	$ 0.08

	Three Months Ended March 31, 2009
	Average Sales Price