

WESTLAKE CHEMICAL CORP  
Form 10-Q  
August 09, 2016

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

Form 10-Q

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

For the quarterly period ended June 30, 2016

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 (I.R.S. Employer  
incorporation or organization) Identification Number)  
2801 Post Oak Boulevard, Suite 600  
Houston, Texas 77056  
(Address of principal executive offices, including zip code)  
(713) 960-9111  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

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

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

The number of shares outstanding of the registrant's sole class of common stock as of August 2, 2016 was 128,783,338.

INDEX

Item	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>1) Financial Statements</u>	<u>1</u>
<u>2) Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<u>3) Quantitative and Qualitative Disclosures about Market Risk</u>	<u>47</u>
<u>4) Controls and Procedures</u>	<u>47</u>
<u>PART II. OTHER INFORMATION</u>	
<u>1) Legal Proceedings</u>	<u>48</u>
<u>1A) Risk Factors</u>	<u>48</u>
<u>2) Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
<u>6) Exhibits</u>	<u>51</u>

---

#### NON-GAAP FINANCIAL MEASURES

The body of accounting principles generally accepted in the United States is commonly referred to as "U.S. GAAP." For this purpose, a non-GAAP financial measure is generally defined by the Securities and Exchange Commission ("SEC") as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. In this report, we disclose so-called non-GAAP financial measures, primarily earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is calculated as net income before interest expense, income taxes, depreciation and amortization. The non-GAAP financial measures described in this Form 10-Q are not substitutes for the GAAP measures of earnings and cash flow.

EBITDA is included in this Form 10-Q because our management considers it an important supplemental measure of our performance and believes that it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry, some of which present EBITDA when reporting their results. We regularly evaluate our performance as compared to other companies in our industry that have different financing and capital structures and/or tax rates by using EBITDA. In addition, we utilize EBITDA in evaluating acquisition targets. Management also believes that EBITDA is a useful tool for measuring our ability to meet our future debt service, capital expenditures and working capital requirements, and EBITDA is commonly used by us and our investors to measure our ability to service indebtedness. EBITDA is not a substitute for the GAAP measures of earnings or of cash flow and is not necessarily a measure of our ability to fund our cash needs. In addition, it should be noted that companies calculate EBITDA differently and, therefore, EBITDA as presented for us may not be comparable to EBITDA reported by other companies. EBITDA has material limitations as a performance measure because it excludes interest expense, depreciation and amortization, and income taxes.

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## WESTLAKE CHEMICAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2016	December 31, 2015
	(in thousands of dollars, except par values and share amounts)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 770,997	\$ 662,525
Marketable securities	352,021	520,144
Accounts receivable, net	582,855	508,532
Inventories	448,526	434,060
Prepaid expenses and other current assets	35,642	14,489
Deferred income taxes	—	35,439
Total current assets	2,190,041	2,175,189
Property, plant and equipment, net	3,230,523	3,004,067
Equity investments	8,929	9,208
Other assets, net		
Intangible assets, net	208,376	213,404
Deferred charges and other assets, net	282,695	167,417
Total other assets, net	491,071	380,821
Total assets	\$ 5,920,564	\$ 5,569,285
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts and notes payable	\$ 307,116	\$ 235,329
Accrued liabilities	312,985	287,313
Total current liabilities	620,101	522,642
Long-term debt, net	758,453	758,148
Deferred income taxes	664,987	575,603
Other liabilities	139,587	150,961
Total liabilities	2,183,128	2,007,354
Commitments and contingencies (Notes 8 and 18)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 134,651,380 and 134,663,244 shares issued at June 30, 2016 and December 31, 2015, respectively	1,347	1,347
Common stock, held in treasury, at cost; 5,867,617 and 4,444,898 shares at June 30, 2016 and December 31, 2015, respectively	(322,802	) (258,312
Additional paid-in capital	545,797	542,148
Retained earnings	3,296,922	3,109,987
Accumulated other comprehensive loss	(82,101	) (129,292
Total Westlake Chemical Corporation stockholders' equity	3,439,163	3,265,878

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Noncontrolling interests	298,273	296,053
Total equity	3,737,436	3,561,931
Total liabilities and equity	\$ 5,920,564	\$ 5,569,285

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

1

---

Table of Contents

WESTLAKE CHEMICAL CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands of dollars, except per share data and share amounts)			
Net sales	\$1,086,061	\$1,185,002	\$2,061,248	\$2,288,533
Cost of sales	844,695	831,821	1,564,297	1,650,806
Gross profit	241,366	353,181	496,951	637,727
Selling, general and administrative expenses	61,428	57,807	114,737	113,073
Income from operations	179,938	295,374	382,214	524,654
Other income (expense)				
Interest expense	(5,915)	(8,958)	(12,600)	(18,549)
Other income, net	8,181	22,058	10,826	31,154
Income before income taxes	182,204	308,474	380,440	537,259
Provision for income taxes	66,584	98,413	135,884	176,791
Net income	115,620	210,061	244,556	360,468
Net income attributable to noncontrolling interests	4,496	4,966	10,304	9,031
Net income attributable to Westlake Chemical Corporation	\$111,124	\$205,095	\$234,252	\$351,437
Earnings per common share attributable to Westlake Chemical Corporation:				
Basic	\$0.85	\$1.55	\$1.80	\$2.65
Diluted	\$0.85	\$1.54	\$1.79	\$2.64
Weighted average common shares outstanding:				
Basic	129,583,224	132,538,123	129,886,594	132,625,857
Diluted	129,980,527	133,044,975	130,290,521	133,124,697
Dividends per common share	\$0.1815	\$0.1650	\$0.3630	\$0.3300

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in thousands of dollars)			
Net income	\$115,620	\$210,061	\$244,556	\$360,468
Other comprehensive (loss) income, net of income taxes				
Pension and other post-retirement benefits liability				
Pension and other post-retirement reserves adjustment (excluding amortization)	(206 )	(186 )	(206 )	(186 )
Amortization of benefits liability	369	675	703	1,327
Income tax provision on pension and other post-retirement benefits liability	(63 )	(164 )	(191 )	(389 )
Foreign currency translation adjustments	(13,500 )	17,872	9,305	(41,826 )
Available-for-sale investments				
Unrealized holding gains on investments	35,545	3,077	59,973	4,703
Reclassification of net realized gains to net income	(1,267 )	(3,795 )	(1,319 )	(3,795 )
Income tax (provision) benefit on available-for-sale investments	(12,316 )	259	(21,074 )	(325 )
Other comprehensive income (loss)	8,562	17,738	47,191	(40,491 )
Comprehensive income	124,182	227,799	291,747	319,977
Comprehensive income attributable to noncontrolling interests, net of tax	4,496	4,966	10,304	9,031
Comprehensive income attributable to Westlake Chemical Corporation	\$119,686	\$222,833	\$281,443	\$310,946

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(in thousands of dollars)	
Cash flows from operating activities		
Net income	\$244,556	\$360,468
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	132,964	118,981
Provision for doubtful accounts	403	228
Amortization of debt issuance costs	417	1,002
Stock-based compensation expense	5,084	4,905
Loss from disposition of property, plant and equipment	3,331	890
Gains from sales of securities	(1,319 )	(3,795 )
Gain on acquisition, net of loss on the fair value remeasurement of preexisting equity interest	—	(21,045 )
Impairment of equity method investment	—	4,925
Deferred income taxes	102,990	3,088
Windfall tax benefits from share-based payment arrangements	(319 )	(1,895 )
Loss (income) from equity method investments, net of dividends	279	(1,760 )
Other losses, net	1,210	423
Changes in operating assets and liabilities		
Accounts receivable	(72,996 )	(22,380 )
Inventories	(12,719 )	50,115
Prepaid expenses and other current assets	(12,586 )	(10,844 )
Accounts payable	54,394	(2,327 )
Accrued liabilities	(1,617 )	(40,526 )
Other, net	(74,180 )	(5,098 )
Net cash provided by operating activities	369,892	435,355
Cash flows from investing activities		
Acquisition of business, net of cash acquired	—	15,782
Additions to property, plant and equipment	(287,160 )	(203,933 )
Proceeds from disposition of assets	105	—
Proceeds from sales and maturities of securities	302,432	15,037
Purchase of securities	(138,422 )	—
Settlements of derivative instruments	(3,372 )	(1,174 )
Net cash used for investing activities	(126,417 )	(174,288 )
Cash flows from financing activities		
Debt issuance costs	(9,700 )	—
Dividends paid	(47,317 )	(43,896 )
Distributions to noncontrolling interests	(8,084 )	(7,218 )
Proceeds from exercise of stock options	481	831
Proceeds from issuance of notes payable	3,842	2,392
Repayment of notes payable	(8,626 )	(4,299 )
Repurchase of common stock for treasury	(67,404 )	(62,804 )



Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Windfall tax benefits from share-based payment arrangements	319	1,895
Net cash used for financing activities	(136,489 )	(113,099 )
Effect of exchange rate changes on cash and cash equivalents	1,486	(2,000 )
Net increase in cash and cash equivalents	108,472	145,968
Cash and cash equivalents at beginning of period	662,525	880,601
Cash and cash equivalents at end of period	\$770,997	\$1,026,569

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

Table of Contents

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, 2015 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, 2015 (the "2015 Form 10-K"), filed with the SEC on February 24, 2016. 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, 2015.

In the opinion of the Company's management, the accompanying unaudited consolidated interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial position as of June 30, 2016, its results of operations for the three and six months ended June 30, 2016 and 2015 and the changes in its cash position for the six months ended June 30, 2016 and 2015.

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, 2016 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.

Recent Accounting Pronouncements

Revenue from Contracts with Customers (ASU No. 2014-09)

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update on a comprehensive new revenue recognition standard that will supersede the existing revenue recognition guidance. The new accounting guidance creates a framework by which an entity will allocate the transaction price to separate performance obligations and recognize revenue when each performance obligation is satisfied. Under the new standard, entities will be required to use judgment and make estimates, including identifying performance obligations in a contract, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation and determining when an entity satisfies its performance obligations. The standard allows for either "full retrospective" adoption, meaning that the standard is applied to all of the periods presented with a cumulative catch-up as of the earliest period presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements with a cumulative catch-up as of the current period. In 2016, the FASB issued various additional authoritative guidance for the new revenue recognition standard. The accounting standard will be effective for reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that the new accounting standard will have on its consolidated financial position, results of operations and cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities (ASU No. 2016-01)

In January 2016, the FASB issued an accounting standards update making certain changes principally to the current guidance for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. Among other things, the guidance (1) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value, with changes in fair value recognized in net income; (2) provide entities with a policy election to record equity investments without readily determinable fair values at cost, less impairment, and subsequent adjustments for observable price changes (changes in the basis of these equity investments to be reported in net income); (3) requires an entity that has elected the fair value option for financial liabilities to recognize changes in fair

value due to instrument-specific credit risk separately in other comprehensive income; (4) clarified current guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities; and (5) requires specific disclosure pertaining to financial assets and financial liabilities in the financial statements. The accounting standard will be effective for reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that the new accounting guidance will have on its consolidated financial position, results of operations and cash flows.

Table of Contents

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

Leases (ASU No. 2016-02)

In February 2016, the FASB issued an accounting standards update on a new lease standard that will supersede the existing lease guidance. The standard requires a lessee to recognize assets and liabilities related to long-term leases that are classified as operating leases under current guidance on its balance sheet. An asset would be recognized related to the right to use the underlying asset and a liability would be recognized related to the obligation to make lease payments over the term of the lease. The standard also requires expanded disclosures related to leases. The accounting standard will be effective for reporting periods beginning after December 15, 2018. The Company is in the process of evaluating the impact that the new accounting guidance will have on its consolidated financial position, results of operations and cash flows.

Stock Compensation (ASU No. 2016-09)

In March 2016, the FASB issued an accounting standards update to simplify several aspects of the accounting for share-based payment transactions, including income tax consequences, classifications of awards as either equity or liabilities and certain related classifications on the statement of cash flows. In addition, the new guidance permits entities to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. The accounting standard will be effective for reporting periods beginning after December 15, 2016 and is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Credit Losses (ASU No. 2016-13)

In June 2016, the FASB issued an accounting standards update providing new guidance for the accounting for credit losses on loans and other financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. The standard also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The accounting standard will be effective for reporting periods beginning after December 15, 2019. The Company is in the process of evaluating the impact that the new accounting guidance will have on its consolidated financial position, results of operations and cash flows.

Recently Adopted Accounting Standards

Amendments to the Consolidation Analysis (ASU No. 2015-02)

In February 2015, the FASB issued an accounting standards update making certain changes to the current consolidation guidance. The amendments affect both the variable interest entity and voting interest entity consolidation models. The new standard changes the consideration of substantive rights, related party interests and fees paid to the decision maker when applying the variable interest entity consolidation model and eliminates certain guidance for limited partnerships and similar entities under the voting interest consolidation model. The accounting standard is effective for annual periods beginning after December 15, 2015. The Company adopted this accounting standard effective January 1, 2016 and the adoption did not have an impact on the Company's consolidated financial position, results of operations and cash flows.

Simplifying the Presentation of Debt Issuance Costs (ASU No. 2015-03)

In April 2015, the FASB issued an accounting standards update on simplifying the presentation of debt issuance costs, which requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The accounting standard is effective for reporting periods beginning after December 15, 2015. The Company adopted this accounting standard effective January 1, 2016. As a result, Other assets, net—Deferred charges and other assets, net and Long-term debt on the consolidated balance sheet as of December 31, 2015 have been adjusted to \$167,417 and \$758,148, respectively, from the originally reported \$173,384 and \$764,115, respectively, to reflect the retrospective application of the new accounting guidance. The adoption of this accounting standard did not have an impact on the Company's results of operations and cash flows.

Intangibles—Goodwill and Other—Internal use software (ASU No. 2015-05)

In April 2015, the FASB issued an accounting standards update to provide clarification on accounting for cloud computing arrangements which include a software license. The accounting standard is effective for annual periods beginning after December 15, 2015. The Company adopted this accounting standard, to be applied prospectively, effective January 1, 2016. Consistent with the prospective application of this accounting standard, prior period comparative information was not adjusted.

Table of Contents

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

The adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

**Simplifying the Accounting for Measurement-Period Adjustments (ASU No. 2015-16)**

In September 2015, the FASB issued an accounting standards update that requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The guidance requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The new guidance further requires specific disclosure pertaining to the measurement period adjustments. The accounting standard is effective for reporting periods beginning after December 15, 2015. The Company adopted this accounting standard effective January 1, 2016 and the adoption did not have an impact on the Company's consolidated financial position, results of operations and cash flows.

**Balance Sheet Classification of Deferred Taxes (ASU No. 2015-17)**

In November 2015, the FASB issued an accounting standards update that requires all deferred tax assets and liabilities, along with any related valuation allowance, to be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that only permits offsetting within a jurisdiction. The accounting standard is required to be adopted for reporting periods beginning after December 15, 2016; however, early adoption of this standard is permitted. The Company elected to early adopt this accounting standard, to be applied prospectively, effective January 1, 2016. Consistent with the prospective application of this accounting standard, prior period comparative information was not adjusted. The early adoption of this accounting standard did not have an impact on the Company's results of operations and cash flows.

**2. Financial Instruments**

**Cash Equivalents**

The Company had \$376,901 and \$221,918 of held-to-maturity securities with original maturities of three months or less, primarily consisting of corporate debt securities, classified as cash equivalents at June 30, 2016 and December 31, 2015, respectively. The Company's investments in held-to-maturity securities are held at amortized cost, which approximates fair value.

**Available-for-Sale Marketable Securities**

Investments in available-for-sale securities were classified as follows:

	June 30, 2016	December 31, 2015
Current	\$352,021	\$ 520,144
Non-current	109,337	48,081
Total available-for-sale securities	\$461,358	\$ 568,225

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

	June 30, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses <sup>(1)</sup>	Fair Value
Debt securities				
Corporate bonds	\$219,971	\$ 1,162	\$ (16 )	\$221,117
U.S. government debt <sup>(2)</sup>	72,702	462	—	73,164
Asset-backed securities	57,546	197	(3 )	57,740

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Equity securities	60,281	49,194	(138	)	109,337
Total available-for-sale securities	\$410,500	\$ 51,015	\$ (157	)	\$461,358

7

---

Table of Contents

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

	December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses <sup>(1)</sup>	Fair Value
Debt securities				
Corporate bonds	\$336,665	\$ 55	\$ (1,076 )	\$335,644
U.S. government debt <sup>(2)</sup>	135,226	2	(374 )	134,854
Asset-backed securities	49,759	2	(115 )	49,646
Equity securities	54,371	466	(6,756 )	48,081
Total available-for-sale securities	\$576,021	\$ 525	\$ (8,321 )	\$568,225

(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 June 30, 2016 and December 31, 2015, net unrealized gains (losses) on the Company's available-for-sale securities of \$32,585 and \$(4,995), respectively, net of income tax expense (benefit) of \$18,273 and \$(2,801), respectively, were recorded in accumulated other comprehensive loss. See Note 13 for the fair value hierarchy of the Company's available-for-sale securities.

As of June 30, 2016, the corporate bond securities held by the Company had maturities ranging between one month to five years; the U.S. government debt securities held by the Company, excluding U.S. government agency mortgage-backed securities, had maturities ranging between one to three years; the U.S. government agency mortgage-backed securities held by the Company had maturities of approximately five years; and the asset-backed securities held by the Company had maturities ranging between one to five years.

The proceeds from sales and maturities of available-for-sale securities included in the consolidated statements of cash flows and the gross realized gains and losses included in the consolidated statements of operations are reflected in the table below. The cost of securities sold was determined using the specific identification method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Proceeds from sales and maturities of securities	\$275,573	\$15,037	\$302,432	\$15,037
Gross realized gains	1,280	3,795	1,341	3,795
Gross realized losses	(13 )	—	(22 )	—

### 3. Accounts Receivable

Accounts receivable consist of the following:

	June 30, 2016	December 31, 2015
Trade customers	\$507,690	\$ 438,538
Allowance for doubtful accounts	(14,534 )	(14,095 )
	493,156	424,443
Federal and state taxes	69,183	60,748
Other	20,516	23,341
Accounts receivable, net	\$582,855	\$ 508,532





Table of Contents

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

## 4. Inventories

Inventories consist of the following:

	June 30, 2016	December 31, 2015
Finished products	\$253,828	\$ 253,338
Feedstock, additives and chemicals	118,262	106,435
Materials and supplies	76,436	74,287
Inventories	\$448,526	\$ 434,060

## 5. Property, Plant and Equipment

As of June 30, 2016, the Company had property, plant and equipment, net totaling \$3,230,523. 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 \$57,930 and \$51,263 is included in cost of sales in the consolidated statements of operations for the three months ended June 30, 2016 and 2015, respectively. Depreciation expense on property, plant and equipment of \$113,971 and \$100,921 is included in cost of sales in the consolidated statements of operations for the six months ended June 30, 2016 and 2015, respectively.

## 6. Other Assets

Amortization expense on intangible and other assets of \$9,394 and \$9,455 is included in the consolidated statements of operations for the three months ended June 30, 2016 and 2015, respectively. Amortization expense on intangible and other assets of \$19,164 and \$18,816 is included in the consolidated statements of operations for the six months ended June 30, 2016 and 2015, respectively.

## Goodwill

Goodwill for the Olefins segment was \$29,990 at June 30, 2016 and December 31, 2015. Goodwill for the Vinyls segment was \$32,026 at June 30, 2016 and December 31, 2015. There were no changes in the carrying amount of goodwill for either operating segment for the six months ended June 30, 2016.

## 7. Accounts and Notes Payable

Accounts and notes payable consist of the following:

	June 30, 2016	December 31, 2015
Accounts payable	\$305,853	\$ 229,219
Notes payable to banks	1,263	6,110
Accounts and notes payable	\$307,116	\$ 235,329

Table of Contents

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

## 8. Long-Term Debt

The Company adopted an accounting standards update to simplify the presentation of debt issuance costs effective January 1, 2016. The standard requires, on a retrospective basis, all costs incurred to issue debt, excluding line-of-credit arrangements, to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. As a result, Other assets, net—Deferred charges and other assets, net and Long-term debt on the consolidated balance sheet as of December 31, 2015 have been adjusted to \$167,417 and \$758,148, respectively, from the originally reported \$173,384 and \$764,115, respectively, to reflect the retrospective application of the new accounting guidance.

Long-term debt consists of the following:

	June 30, 2016			December 31, 2015		
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Net Long-term Debt	Principal Amount	Unamortized Discount and Debt Issuance Costs	Net Long-term Debt
3.60% senior notes due 2022	\$250,000	\$ (2,061)	) \$ 247,939	\$250,000	\$ (2,232)	) \$ 247,768
6 ½% senior notes due 2029	100,000	(952)	) 99,048	100,000	(989)	) 99,011
6 ¾% senior notes due 2032	250,000	(1,943)	) 248,057	250,000	(2,002)	) 247,998
6 ½% senior notes due 2035 (the "6 ½% GO Zone Senior Notes Due 2035")	89,000	(862)	) 88,138	89,000	(884)	) 88,116
6 ½% senior notes due 2035 (the "6 ½% IKE Zone Senior Notes Due 2035")	65,000	(618)	) 64,382	65,000	(634)	) 64,366
Loan related to tax-exempt waste disposal revenue bonds due 2027	10,889	—	) 10,889	10,889	—	) 10,889
Long-term debt, net	\$764,889	\$ (6,436)	) \$ 758,453	\$764,889	\$ (6,741)	) \$ 758,148

## 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 \$200,000) under certain circumstances if the lenders agree to commit to such an increase. At June 30, 2016, 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 1.25% to 1.75%, provided that so long as the Company is rated investment grade, the margin for LIBOR loans will not exceed 1.50%, or a base rate plus a spread ranging from 0.00% to 0.50%. The revolving credit facility also requires an unused commitment fee of 0.25% 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 July 17, 2019. As of June 30, 2016, the Company had outstanding letters of credit totaling \$18,545 and borrowing availability of \$369,832 under the revolving credit facility.

## Bridge Financing of Pending Acquisition

In connection with the recent announcement of the definitive agreement under which the Company will acquire all of the issued and outstanding shares of common stock of Axiall Corporation, the Company has entered into a commitment letter, dated June 10, 2016, with various lenders pursuant to which such lenders have agreed to provide for a senior unsecured bridge loan facility of up to \$1,765,000 in the aggregate. Any amounts borrowed under the senior unsecured bridge loan facility would mature 364 days following the closing of the transaction. The Company paid structuring and other fees of approximately \$9,700 during the three months ended June 30, 2016 in connection with the senior unsecured bridge loan facility, which were deferred in prepaid expenses and other current assets on the

consolidated balance sheet and are being amortized over the term of the facility to other income, net in the consolidated statement of operations. As of June 30, 2016, there were no outstanding borrowings on the senior unsecured bridge loan facility. See Note 20 for further details regarding the pending acquisition.

Table of Contents

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

## 9. Stockholders' Equity

Changes in stockholders' equity for the six months ended June 30, 2016 and 2015 were as follows:

	Common Stock	Common Stock, Held in Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balances at December 31, 2015	\$ 1,347	\$(258,312)	\$542,148	\$3,109,987	\$(129,292 )	\$ 296,053	\$3,561,931
Net income	—	—	—	234,252	—	10,304	244,556
Other comprehensive income, net of income taxes:							
Pension and other post- retirement benefits liability	—	—	—	—	306	—	306
Foreign currency translation adjustments	—	—	—	—	9,305	—	9,305
Net unrealized holding gains on investments	—	—	—	—	37,580	—	37,580
Common stock repurchased	—	(66,725 )	—	—	—	—	(66,725 )
Shares issued—stock- based compensation	—	2,235	(1,754 )	—	—	—	481
Stock-based compensation, net of tax on stock options exercised	—	—	5,403	—	—	—	5,403
Dividends paid	—	—	—	(47,317 )	—	—	(47,317 )
Distributions to noncontrolling interests	—	—	—	—	—	(8,084 )	(8,084 )
Balances at June 30, 2016	\$ 1,347	\$(322,802)	\$545,797	\$3,296,922	\$(82,101 )	\$ 298,273	\$3,737,436
	Common Stock	Common Stock, Held in Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balances at December 31, 2014	\$ 1,347	\$(96,372 )	\$530,441	\$2,555,528	\$(79,433 )	\$ 290,377	\$3,201,888
Net income	—	—	—	351,437	—	9,031	360,468
Other comprehensive income (loss), net of income taxes							
Pension and other post-	—	—	—	—	752	—	752

retirement benefits liability							
Foreign currency translation adjustments	—	—	—	—	(41,826 )	—	(41,826 )
Net unrealized holding gains on investments	—	—	—	—	583	—	583
Common stock repurchased	—	(62,804 )	—	—	—	—	(62,804 )
Shares issued—stock-based compensation	—	704	127	—	—	—	831
Stock-based compensation, net of tax on stock options exercised	—	—	6,800	—	—	—	6,800
Dividends paid	—	—	—	(43,896 )	—	—	(43,896 )
Distributions to noncontrolling interests	—	—	—	—	—	(7,218 )	(7,218 )
Noncontrolling interest in acquired business	—	—	—	—	—	1,597	1,597
Balances at June 30, 2015	\$ 1,347	\$(158,472)	\$ 537,368	\$ 2,863,069	\$(119,924 )	\$ 293,787	\$ 3,417,175

Table of Contents

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

## Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) by component for the six months ended June 30, 2016 and 2015 were as follows:

	Benefits Liability, Net of Tax	Cumulative Foreign Currency Exchange	Net Unrealized Holding Gains (Losses) on Investments, Net of Tax	Total
Balances at December 31, 2015	\$ (8,607 )	\$ (115,690 )	\$ (4,995 )	\$ (129,292 )
Other comprehensive (loss) income before reclassifications	(127 )	9,305	38,425	47,603
Amounts reclassified from accumulated other comprehensive loss (income)	433	—	(845 )	(412 )
Net other comprehensive income for the period	306	9,305	37,580	47,191
Balances at June 30, 2016	\$ (8,301 )	\$ (106,385 )	\$ 32,585	\$ (82,101 )

  

	Benefits Liability, Net of Tax	Cumulative Foreign Currency Exchange	Net Unrealized Holding Gains on Investments, Net of Tax	Total
Balances at December 31, 2014	\$ (23,442 )	\$ (56,224 )	\$ 233	\$ (79,433 )
Other comprehensive (loss) income before reclassifications	(115 )	(41,826 )	3,015	(38,926 )
Amounts reclassified from accumulated other comprehensive loss (income)	867	—	(2,432 )	(1,565 )
Net other comprehensive income (loss) for the period	752	(41,826 )	583	(40,491 )
Balances at June 30, 2015	\$ (22,690 )	\$ (98,050 )	\$ 816	\$ (119,924 )

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 six months ended June 30, 2016 and 2015:

Details about Accumulated Other Comprehensive Income (Loss) Components	Location of Reclassification (Income (Expense)) in Consolidated Statements of Operations	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Amortization of pension and other post-retirement items	(1)	\$ (369 )	\$ (675 )	\$ (703 )	\$ (1,327 )
Net loss	Provision for income taxes	142	235	270	460
		(227 )	(440 )	(433 )	(867 )
Net unrealized gains on available-for-sale					

investments					
Realized gain on available-for-sale investments	Other income, net	1,267	3,795	1,319	3,795
	Provision for income taxes	(455 )	(1,363 )	(474 )	(1,363 )
		812	2,432	845	2,432
Total reclassifications for the period		\$585	\$1,992	\$412	\$1,565

12

---



Table of Contents

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

These accumulated other comprehensive loss components are included in the computation of net periodic benefit (1)cost. For additional information, please read Note 11 (Employee Benefits) to the financial statements included in the 2015 Form 10-K.

## 10. Pension and Post-Retirement Benefit Costs

## Defined Benefit Plans

Components of net periodic benefit cost for the Company's pension plans are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	\$—	\$ 137	\$1	\$ 414	\$—	\$ 462	\$29	\$ 835
Interest cost	493	582	489	525	1,060	1,149	1,032	1,061
Expected return on plan assets	(658 )	—	(705 )	—	(1,460)	—	(1,524)	—
Amortization of net loss	337	—	318	261	640	—	609	526
Net periodic benefit cost	\$172	\$ 719	\$103	\$ 1,200	\$240	\$ 1,611	\$146	\$ 2,422

The Company made no contribution to the U.S. salaried pension plan in the first six months of 2016 and 2015. The Company made no contribution to the U.S. wage pension plan in the first six months of 2016. The Company contributed \$349 to the U.S. wage pension plan in the first six months of 2015. The Company's funding policy for its U.S. plans is consistent with the minimum funding requirements of federal law and regulations, and based on preliminary estimates, the Company does not expect to make contributions to either the salaried or wage pension plans for the fiscal year ending December 31, 2016.

## Other Post-retirement Benefits

Components of net periodic benefit cost for the Company's other post-retirement benefits are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	U.S. Plans	U.S. Plans	U.S. Plans	U.S. Plans
Service cost	\$5	\$ 6	\$10	\$ 11
Interest cost	145	149	290	299
Amortization of net loss	32	96	63	192
Net periodic benefit cost	\$182	\$ 251	\$363	\$ 502

## 11. Stock-Based Compensation

Under the Westlake Chemical Corporation 2013 Omnibus Incentive Plan (as amended and restated, the "2013 Plan"), all employees and non-employee directors of the Company, as well as certain individuals who have agreed to become the Company's employees, are eligible for awards. Shares of common stock may be issued as authorized in the 2013 Plan. At the discretion of the administrator of the 2013 Plan, employees and non-employee 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 \$2,781 and \$2,565 for the three months ended June 30, 2016 and 2015, respectively, and \$5,084 and \$4,905 for the six months ended June 30, 2016 and 2015, respectively.



Table of Contents

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

## 12. 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.

Gains and losses from changes in the fair value of derivative instruments that are not designated as hedging instruments were included in gross profit in the consolidated statements of operations for the three and six months ended June 30, 2016 and 2015.

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

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

	Derivative Assets	Fair Value as of		
		Balance Sheet Location	June 30, 2016	December 31, 2015
Not designated as hedging instruments				
Commodity forward contracts	Accounts receivable, net	\$4,491	\$ 3,465	
Commodity forward contracts	Deferred charges and other assets, net	5,517	2,088	
Total derivative assets		\$10,008	\$ 5,553	
	Derivative Liabilities			
		Fair Value as of		
	Balance Sheet Location	June 30, 2016	December 31, 2015	
Not designated as hedging instruments				
Commodity forward contracts	Accrued liabilities	\$2,215	\$ 9,325	
Commodity forward contracts	Other liabilities	5,506	12,437	
Total derivative liabilities		\$7,721	\$ 21,762	

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
Commodity forward contracts	Gross profit	\$ 11,567	\$ 595	\$ 15,624	\$ 4,836

See Note 13 for the fair value of the Company's derivative instruments.





Derivative liabilities  
not subject to  
enforceable master  
netting  
arrangements

3,700 10,868

Total derivative  
liabilities

\$ 3,990 \$ 16,671

June 30, 2016

December 31, 2015

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet
Offsetting of Derivative Liabilities						
Commodity forward contracts	\$4,021	\$ (3,731 )	\$ 290	\$10,894	\$ (5,091 )	\$ 5,803

Table of Contents

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

Derivative Liabilities by Counterparty	June 30, 2016			December 31, 2015		
	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Net Amount	Net Amount	Gross Amounts Not Offset in the Consolidated Balance Sheet	Net Amount
Counterparty A	\$290	\$	—\$ 290	\$5,564	\$	—\$ 5,564
Counterparty B	—	—	—	239	—	239
Total	\$290	\$	—\$ 290	\$5,803	\$	—\$ 5,803

## 13. 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:

	June 30, 2016			December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative instruments						
Risk management assets—Commodity forward contracts	\$ 1,607	\$ 8,401	\$ 10,008	\$ 5,553	\$ —	\$ 5,553
Risk management liabilities—Commodity forward contracts	(7,348)	(373)	(7,721)	(11,648)	(10,114)	(21,762)
Marketable securities						
Available-for-sale securities	109,337	352,021	461,358	48,081	520,144	568,225

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 or out of Levels 1 and 2 of the fair value hierarchy for the six months ended June 30, 2016 and 2015.





Table of ContentsWESTLAKE CHEMICAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

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 and notes 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 and notes 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.

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.60% senior notes due 2022	\$247,939	\$251,523	\$247,768	\$244,828
6 ½% senior notes due 2029	99,048	120,125	99,011	117,153
6 ¾% senior notes due 2032	248,057	268,790	247,998	268,490
6 ½% GO Zone Senior Notes Due 2035	88,138	107,025	88,116	106,491
6 ½% IKE Zone Senior Notes Due 2035	64,382	78,127	64,366	76,741
Loan related to tax-exempt waste disposal revenue bonds due 2027	10,889	10,889	10,889	10,889

The carrying values of the Company's long-term debt as of December 31, 2015 have been adjusted to reflect the retrospective application of the accounting standards update on simplifying the presentation of debt issuance costs discussed in Note 8.

## 14. Income Taxes

The Company elected to early adopt an accounting standards update requiring the noncurrent classification of all deferred tax assets and liabilities, along with any related valuation allowance, effective January 1, 2016. As a result, the Company's deferred tax assets and liabilities have been classified, by jurisdiction, as a net noncurrent deferred tax asset or liability on the consolidated balance sheet. Consistent with the prospective application of this accounting standard, prior period comparative information was not adjusted.

The effective income tax rate was 36.5% for the three months ended June 30, 2016. The effective tax rate for the 2016 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 and income attributable to noncontrolling interests. The effective income tax rate was 31.9% for the three months ended June 30, 2015. The effective income tax rate for the 2015 period was below the U.S. federal statutory rate of 35.0% primarily due to the benefit of state tax credits, the domestic manufacturing deduction, income attributable to noncontrolling interests, the non-recognition of tax related to the bargain purchase of a controlling interest in Suzhou Huasu Plastics Co., Ltd. ("Huasu") and the foreign earnings rate differential, partially offset by state income taxes.

The effective income tax rate was 35.7% for the six months ended June 30, 2016. The effective tax rate for the 2016 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, income attributable to noncontrolling interests and the foreign earnings rate differential. The effective income tax rate was 32.9% for the six months ended June 30, 2015. The effective income tax rate for the 2015 period was below the U.S. federal statutory rate of 35.0% primarily due to the benefit of state tax credits, the domestic manufacturing deduction, income attributable to noncontrolling interests, the non-recognition of tax related to the bargain purchase of a controlling interest in Huasu and the foreign earnings rate differential, partially offset by state income taxes.

There were no unrecognized tax benefits for the six months ended June 30, 2016. The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. As of June 30, 2016, the Company had no 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 2010.

Table of Contents

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

For the six months ended June 30, 2016, the Company is in a deferred tax asset position related to outside basis differences in its foreign subsidiaries. The Company will assess whether it will permanently reinvest its foreign subsidiaries' undistributed earnings in connection with the recent announcement of the definitive agreement under which the Company will acquire all of the issued and outstanding shares of common stock of Axiall Corporation. See Note 20 for further details regarding the pending acquisition.

#### 15. 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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income attributable to Westlake Chemical Corporation	\$ 111,124	\$ 205,095	\$ 234,252	\$ 351,437

Less:

Net income attributable to participating securities	(504 )	(253 )	(1,054 )	(457 )
Net income attributable to common shareholders	\$ 110,620	\$ 204,842	\$ 233,198	\$ 350,980

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average common shares—basic	129,583,322	138,123	129,886,329	142,857
Plus incremental shares from:				
Assumed exercise of options	397,303	306,852	403,927	298,840
Weighted average common shares—diluted	129,980,625	138,429,975	130,290,256	143,146,697

Earnings per common share attributable to Westlake Chemical Corporation:

Basic	\$ 0.85	\$ 1.55	\$ 1.80	\$ 2.65
Diluted	\$ 0.85	\$ 1.54	\$ 1.79	\$ 2.64

Excluded from the computation of diluted earnings per share are options to purchase 695,040 and 330,315 shares of common stock for the three months ended June 30, 2016 and 2015, respectively, and 625,494 and 285,933 shares of common stock for the six months ended June 30, 2016 and 2015, respectively. These options were outstanding during the periods reported but were excluded because the effect of including them would have been antidilutive.

#### 16. Supplemental Information

##### Accrued Liabilities

Accrued liabilities were \$312,985 and \$287,313 at June 30, 2016 and December 31, 2015, respectively. Accrued capital expenditures, accrued incentive compensation and accrued rebates, which are components of accrued liabilities, were \$52,171, \$34,813 and \$31,691 at June 30, 2016, respectively, and \$21,597, \$41,168 and \$46,460 at December 31, 2015, respectively. No other component of accrued liabilities was more than five percent of total current liabilities.

##### Other Liabilities

Other liabilities were \$139,587 and \$150,961 at June 30, 2016 and December 31, 2015, respectively. Non-current pension obligation, which is a component of other liabilities, was \$105,554 and \$106,250 at June 30, 2016 and December 31, 2015, respectively. No other component of other liabilities was more than five percent of total liabilities.

Table of ContentsWESTLAKE CHEMICAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

## Other Income, Net

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Interest income	\$3,084	\$866	\$6,363	\$1,751
Dividend income	3,845	1,357	4,274	3,329
Foreign exchange currency gains (losses), net	400	(500 )	(1,154 )	1,871
Income (loss) from equity method investments	988	(350 )	2,389	4,613
Impairment of equity method investment	—	(4,925 )	—	(4,925 )
Gain on acquisition and related expenses, net	—	20,430	—	20,430
Gains from sales of securities, net	1,267	3,795	1,319	3,795
Other	(1,403 )	1,385	(2,365 )	290
Other income, net	\$8,181	\$22,058	\$10,826	\$31,154

## 17. Insurance Recovery

During the second and third quarters of 2015, the Company's production rates and operating costs at its Knapsack, Germany and Cologne, Germany facilities were negatively impacted due to an interruption of feedstock supply as a result of a fire at a third-party supplier's ethylene production facility. During the six months ended June 30, 2016, the Company received a final insurance recovery of approximately \$2,670 related to business interruption costs. The insurance recovery is included in cost of sales in the consolidated statement of operations. The Company had received and recognized approximately \$7,809 as a partial insurance recovery during the year ended December 31, 2015.

## 18. 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, the U.S. Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), 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.

European Regulations. Under the Industrial Emission Directive ("IED"), European Union member state governments are expected to adopt rules and implement environmental permitting programs relating to air, water and waste for industrial facilities. In this context, concepts such as BAT ("best available technique") are being explored. Future implementation of these concepts may result in technical modifications in the Company's European facilities. In addition, under the Environmental Liability Directive, European Union member states can require the remediation of soil and groundwater contamination in certain circumstances, under the "polluter pays principle." The Company is unable to predict the impact these requirements and concepts may have on its future costs of compliance.

Contract Disputes with Goodrich and PolyOne. In connection with the 1990 and 1997 acquisitions of the Goodrich Corporation ("Goodrich") chemical manufacturing facility in Calvert City, Kentucky, Goodrich agreed to indemnify the Company for any liabilities related to preexisting contamination at the site. 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 site, which does not include the Company's nearby polyvinyl chloride ("PVC") facility, had been extensively contaminated under Goodrich's operations. In 1993, Goodrich spun off the predecessor of PolyOne Corporation ("PolyOne"), and that predecessor assumed Goodrich's indemnification obligations relating to preexisting contamination.

In 2003, litigation arose among the Company, Goodrich and PolyOne with respect to the allocation of the cost of remediating contamination at the site. The parties settled this litigation in December 2007 and the case was dismissed. In the settlement the parties agreed that, among other things: (1) PolyOne would pay 100% of the costs (with specified exceptions), net of recoveries or credits from third parties, incurred with respect to environmental issues at the Calvert City site from August 1, 2007 forward; (2) either the Company or PolyOne might, from time to time in the future (but not more than once every five years), institute an arbitration proceeding to adjust that percentage; and (3) the Company and PolyOne would

Table of Contents

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

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 site 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 \$2,210 in 2015. 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 sought to readjust the percentage allocation of costs and to recover approximately \$1,400 from the Company in reimbursement of previously paid remediation costs. In December 2015, the arbitration panel dismissed the proceeding with prejudice. In a separate proceeding in Ohio state court, the Company is seeking certain insurance documents from PolyOne.

**State Administrative Proceedings.** There are several administrative proceedings in Kentucky involving the Company, Goodrich and PolyOne related to the same manufacturing site 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 site. 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, under the auspices of the U.S. Environmental Protection Agency ("EPA"), pursuant to an Administrative Settlement Agreement ("AOC"), which became effective on December 9, 2009. See "Federal Administrative Proceedings" below. The proceedings have been postponed. Periodic status conferences will be held to evaluate whether additional proceedings will be required.

**Federal Administrative Proceedings.** In May 2009, the Cabinet sent a letter to the EPA requesting the EPA's assistance in addressing contamination at the Calvert City site under 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. 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, an AOC and an order to conduct a RIFS. On July 12, 2013, the parties submitted separate draft RIFS reports to the EPA. The EPA has hired a contractor to complete the remedial investigation report.

**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 site 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.

**Potential Flare Modifications.** For several years, the EPA has been conducting an enforcement initiative against petroleum refineries and petrochemical plants with respect to emissions from flares. A number of companies have entered into consent agreements with the EPA requiring both modifications to reduce flare emissions and the installation of additional equipment to better track flare operations and emissions. On April 21, 2014, the Company

received a Clean Air Act Section 114 Information Request from the EPA which sought information regarding flares at the Calvert City and Lake Charles, Louisiana facilities. The EPA has informed the Company that the information provided leads the EPA to believe that some of the flares are out of compliance with applicable standards. The EPA has demanded that the Company conduct additional flare sampling and provide supplemental information. The Company is currently in negotiations with the EPA regarding these demands. The EPA has indicated that it is seeking a consent decree that would obligate the Company to take corrective actions relating to the alleged noncompliance. The Company has not agreed that any flares are out of compliance or that any corrective actions are warranted. Depending on the outcome of the Company's negotiations with the EPA, additional controls on emissions from its flares may be required and these could result in increased capital and operating costs.



Table of Contents

## WESTLAKE CHEMICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

Louisiana Notice of Violations. The Louisiana Department of Environmental Quality ("LDEQ") has issued notices of violations ("NOVs") regarding the Company's assets for various air compliance issues. The Company is working with LDEQ to settle these claims, and a global settlement of all claims is being discussed. The Company has reached a verbal agreement with the LDEQ to settle certain of the NOVs in two separate settlements for a combined \$192 in civil penalties. The Company does not believe that any settlements for the remaining NOVs will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

## 19. Segment Information

The Company operates in two principal operating 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 June		Six Months Ended June	
	30,		30,	
	2016	2015	2016	2015
Net external sales				
Olefins				
Polyethylene	\$371,658	\$450,482	\$717,690	\$859,914
Styrene, feedstock and other	122,826	170,396	207,814	344,041
Total Olefins	494,484	620,878	925,504	1,203,955
Vinyls				
PVC, caustic soda and other	462,472	429,878	893,374	846,866
Building products	129,105	134,246	242,370	237,712
Total Vinyls	591,577	564,124	1,135,744	1,084,578
	\$1,086,061	\$1,185,002	\$2,061,248	\$2,288,533
Intersegment sales				
Olefins	\$27,293	\$26,641	\$55,242	\$50,103
Vinyls	225	387	589	757
	\$27,518	\$27,028	\$55,831	\$50,860
Income (loss) from operations				
Olefins	\$140,564	\$220,938	\$289,799	\$412,041
Vinyls	52,208	87,966	114,324	135,052
Corporate and other	(12,834 )	(13,530 )	(21,909 )	(22,439 )
	\$179,938	\$295,374	\$382,214	\$524,654
Depreciation and amortization				
Olefins	\$30,236	\$27,623	\$58,933	\$54,562
Vinyls	36,268	32,599	72,555	64,183
Corporate and other	746	118	1,476	236
	\$67,250	\$60,340	\$132,964	\$118,981



Table of Contents

WESTLAKE CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

Three	Six
Months	Months
Ended June	Ended
30,	June 30,
2016	2015 2016