

WESTLAKE CHEMICAL CORP
Form 10-Q
May 03, 2018

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
^x 1934

For the quarterly period ended March 31, 2018

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth 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
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 26, 2018 was 129,594,582.

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>27</u>
<u>3) Quantitative and Qualitative Disclosures about Market Risk</u>	<u>38</u>
<u>4) Controls and Procedures</u>	<u>39</u>
<u>PART II. OTHER INFORMATION</u>	
<u>1) Legal Proceedings</u>	<u>39</u>
<u>1A) Risk Factors</u>	<u>40</u>
<u>2) Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>6) Exhibits</u>	<u>41</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTLAKE CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2018	December 31, 2017
--	-------------------	----------------------

(in millions of dollars, except par values and share amounts)

ASSETS

Current assets

Cash and cash equivalents	\$ 851	\$ 1,531
---------------------------	--------	----------

Accounts receivable, net	1,135	1,001
--------------------------	-------	-------

Inventories	944	900
-------------	-----	-----

Prepaid expenses and other current assets	29	31
-------------------------------------------	----	----

Total current assets	2,959	3,463
----------------------	-------	-------

Property, plant and equipment, net	6,447	6,412
------------------------------------	-------	-------

Goodwill	1,010	1,012
----------	-------	-------

Customer relationships, net	594	616
-----------------------------	-----	-----

Other intangible assets, net	160	161
------------------------------	-----	-----

Other assets, net	434	412
-------------------	-----	-----

Total assets	\$ 11,604	\$ 12,076
--------------	-----------	-----------

LIABILITIES AND EQUITY

Current liabilities

Accounts payable	\$ 596	\$ 600
------------------	--------	--------

Accrued liabilities	596	657
---------------------	-----	-----

Current portion of long-term debt, net	461	710
----------------------------------------	-----	-----

Total current liabilities	1,653	1,967
---------------------------	-------	-------

Long-term debt, net	2,666	3,127
---------------------	-------	-------

Deferred income taxes	1,125	1,111
-----------------------	-------	-------

Pension and other post-retirement benefits	342	344
--------------------------------------------	-----	-----

Other liabilities	177	158
-------------------	-----	-----

Total liabilities	5,963	6,707
-------------------	-------	-------

Commitments and contingencies (Note 12)		
-----------------------------------------	--	--

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 134,651,380 shares issued at March 31, 2018 and December 31, 2017, respectively	1	1
Common stock, held in treasury, at cost; 5,057,732 and 5,232,875 shares at March 31, 2018 and December 31, 2017, respectively	(292)	(302)
Additional paid-in capital	555	555
Retained earnings	4,874	4,613
Accumulated other comprehensive income	3	7
Total Westlake Chemical Corporation stockholders' equity	5,141	4,874
Noncontrolling interests	500	495
Total equity	5,641	5,369
Total liabilities and equity	\$ 11,604	\$ 12,076

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,	
	2018	2017
	(in millions of dollars, except per share data and share amounts)	
Net sales	\$ 2,150	\$ 1,943
Cost of sales	1,608	1,577
Gross profit	542	366
Selling, general and administrative expenses	108	99
Amortization of intangibles	26	25
Transaction and integration-related costs	7	8
Income from operations	401	234
Other income (expense)		
Interest expense	(37) (40
Other income, net	22	7
Income before income taxes	386	201
Provision for income taxes	89	56
Net income	297	145
Net income attributable to noncontrolling interests	10	7
Net income attributable to Westlake Chemical Corporation	\$ 287	\$ 138
Earnings per common share attributable to Westlake Chemical Corporation:		
Basic	\$ 2.21	\$ 1.07
Diluted	\$ 2.20	\$ 1.06
Weighted average common shares outstanding:		
Basic	129,483,968	128,979,357
Diluted	130,190,892	129,692,015
Dividends per common share	\$ 0.2100	\$ 0.1906

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 March 31,	
	2018	2017
	(in millions of dollars)	
Net income	\$ 297	\$ 145
Other comprehensive income (loss), net of income taxes		
Foreign currency translation adjustments		
Foreign currency translation	(6)	19
Income tax benefit (provision) on foreign currency translation	4	(2)
Other comprehensive income (loss), net of income taxes	(2)	17
Comprehensive income	295	162
Comprehensive income attributable to noncontrolling interests, net of tax of \$1 and \$1 for the three months ended March 31, 2018 and 2017, respectively	12	6
Comprehensive income attributable to Westlake Chemical Corporation	\$ 283	\$ 156

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

Table of Contents

WESTLAKE CHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Common Stock, Held in Treasury		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Number of Shares	Amount	Number of Shares	At Cost					
(in millions of dollars, except share amounts)									
Balances at December 31, 2016	134,651,380	\$ 1	5,726,377	\$(319)	\$ 551	\$3,412	\$ (121)	\$ 368	\$3,892
Net income	—	—	—	—	—	138	—	7	145
Other comprehensive income	—	—	—	—	—	—	17	3	20
Shares issued—stock-based compensation	—	—	(118,065)	3	(2)	—	—	—	1
Stock-based compensation, net of tax on stock options exercised	—	—	—	—	3	—	—	—	3
Dividends declared	—	—	—	—	—	(24)	—	—	(24)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(4)	(4)
Balances at March 31, 2017	134,651,380	\$ 1	5,608,312	\$(316)	\$ 552	\$3,526	\$ (104)	\$ 374	\$4,033
Balances at December 31, 2017	134,651,380	\$ 1	5,232,875	\$(302)	\$ 555	\$4,613	\$ 7	\$ 495	\$5,369
Cumulative effect of accounting change	—	—	—	—	—	1	—	—	1
Net income	—	—	—	—	—	287	—	10	297
Other comprehensive income (loss)	—	—	—	—	—	—	(4)	2	(2)
Shares issued—stock-based compensation	—	—	(175,143)	10	(4)	—	—	—	6
Stock-based compensation, net of tax on stock options exercised	—	—	—	—	4	—	—	—	4
Dividends declared	—	—	—	—	—	(27)	—	—	(27)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(7)	(7)
	134,651,380	\$ 1	5,057,732	\$(292)	\$ 555	\$4,874	\$ 3	\$ 500	\$5,641

Balances at March 31,
2018

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, 2018 2017	
	(in millions of dollars)	
Cash flows from operating activities		
Net income	\$297	\$145
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	156	150
Stock-based compensation expense	6	6
Loss from disposition of property, plant and equipment	6	3
Deferred income taxes	16	(6)
Other gains, net	(7)	—
Changes in operating assets and liabilities		
Accounts receivable	(133)	(65)
Inventories	(41)	(19)
Prepaid expenses and other current assets	2	6
Accounts payable	(13)	49
Accrued liabilities	(48)	(122)
Other, net	(16)	10
Net cash provided by operating activities	225	157
Cash flows from investing activities		
Additions to property, plant and equipment	(154)	(134)
Additions to investments in unconsolidated subsidiaries	(26)	(15)
Other	2	1
Net cash used for investing activities	(178)	(148)
Cash flows from financing activities		
Dividends paid	(27)	(24)
Distributions to noncontrolling interests	(7)	(4)
Proceeds from debt issuance and drawdown of revolver	4	52
Repayment of term loan	—	(150)
Repayment of revolver	—	(125)
Repayment of notes payable	(706)	(2)
Other	5	—
Net cash used for financing activities	(731)	(253)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	4	3
Net decrease in cash, cash equivalents and restricted cash	(680)	(241)
Cash, cash equivalents and restricted cash at beginning of period	1,554	646
Cash, cash equivalents and restricted cash at end of period	\$874	\$405

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 millions 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, 2017 consolidated 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, 2017 (the "2017 Form 10-K"), filed with the SEC on February 21, 2018. These consolidated 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, 2017 with the exception of those accounting standards adopted in the first quarter of 2018 as discussed in Note 1.

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, 2018, its results of operations for the three months ended March 31, 2018 and 2017 and the changes in its cash position for the three months ended March 31, 2018 and 2017.

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, 2018 or any other interim period. The preparation of consolidated 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.

Certain reclassifications have been made to the prior-year financial statements to conform to the current-year presentation.

Recent Accounting Pronouncements

Leases (ASU No. 2016-02)

In February 2016, the Financial Accounting Standards Board ("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 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 and is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

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

Intangibles - Goodwill and Other (ASU No. 2017-04)

In January 2017, the FASB issued an accounting standards update to simplify the subsequent measurement of goodwill. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The accounting standard will be effective for reporting periods beginning after December 15, 2019 and is not expected to have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Income Statement - Reporting Comprehensive Income (ASU 2018-02)

In February 2018, the FASB issued an accounting standards update to (1) allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the "Tax Act"); and (2) require certain disclosures about stranded tax effects. The accounting standard will be effective for reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is in the process of evaluating the impact that the new accounting guidance will have on the Company's consolidated financial position, results of operations and cash flows.

Recently Adopted Accounting Standards

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

In May 2014, the FASB issued an accounting standards update on a comprehensive new revenue recognition standard that supersedes virtually all previously issued 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 are 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 "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.

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers ("ASC 606"), effective January 1, 2018. The Company applied the modified retrospective transition method to all contracts that were not completed as of the adoption date. Periods prior to January 1, 2018 were not adjusted and are reported under the accounting standards that were in place during those periods. The cumulative effects of changes to the Company's consolidated January 1, 2018 balance sheet for the adoption of this accounting standard were immaterial.

The impact of ASC 606 adoption on the financial statements for the three months ended March 31, 2017 as compared with the guidance that was in effect prior to January 1, 2018 was immaterial.

Revenue is recognized when the Company transfers control of inventories to its customers. Amounts recognized as revenues reflect the consideration to which the Company expects to be entitled in exchange for those inventories. Provisions for discounts, rebates and returns are incorporated in the estimate of variable consideration and reflected as reduction to revenue in the same period as the related sales.

Control of inventories generally transfers upon shipment for domestic sales. The Company excludes taxes collected on behalf of customers from the estimated contract price. For export contracts, the point at which control passes to the customer varies depending on the terms specified in the customer contract.

The Company generally invoices customers and recognizes revenue and accounts receivable upon transferring control of inventories. In limited circumstances, the Company transfers control of inventories shortly before it has an unconditional right to receive consideration, resulting in recognition of contract assets. The Company also receives advance payments from certain customers, resulting in recognition of contract liabilities. Contract assets and liabilities are generally settled within the period and are not material to the consolidated balance sheets.

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

The Company expenses sales commissions when incurred. These costs are recorded within selling, general and administrative expenses. The Company does not disclose the value of unsatisfied performance obligations because its contracts with customers (i) have an original expected duration of one year or less or (ii) have only variable consideration that is calculated based on market prices at specified dates and is allocated to wholly unsatisfied performance obligations.

ASC 606 requires disclosure of disaggregated revenue into categories that depict the nature of how the Company's revenue and cash flows are affected by economic factors. The Company discloses revenues by product and segment in Note 13 to this quarterly report on Form 10-Q.

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) allows entities to elect to measure equity investments without readily determinable fair values at cost, less impairment, adjusted for subsequent 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 became effective for reporting periods beginning after December 15, 2017. The Company adopted this accounting standard effective January 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows. The Company is party to a joint venture investment with Lotte Chemical USA Corporation to build an ethylene facility, LACC, LLC ("LACC"). The Company measures its investment in LACC at cost, adjusted for observable price changes, because the investment does not have a readily determinable fair value.

Cash Flows (ASU No. 2016-15)

In August 2016, the FASB issued an accounting standards update providing new guidance on the classification of certain cash receipts and payments including debt extinguishment costs, debt prepayment costs, settlement of zero-coupon debt instruments, contingent consideration payments, proceeds from the settlement of insurance claims and life insurance policies and distributions received from equity method investees in the statement of cash flows. This update is required to be applied using the retrospective transition method to each period presented unless it is impracticable to be applied retrospectively. In such situation, this guidance is to be applied prospectively. The accounting standard became effective for reporting periods beginning after December 15, 2017. The Company adopted this accounting standard effective January 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Cash Flows (ASU No. 2016-18)

In November 2016, the FASB issued an accounting standards update to clarify certain existing principles in Accounting Standards Codification ("ASC") 230, Cash flows, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The accounting standard became effective for reporting periods beginning after December 15, 2017. The Company adopted this accounting standard effective January 1, 2018. Upon adoption, the Company retrospectively adjusted its financial statements to reflect restricted cash in the beginning and ending cash and restricted cash balances within the statements of cash flows. As a result of this retrospective adoption and reclassification of restricted cash and cash equivalents, Net cash provided by (used for)

financing activities on the consolidated statement of cash flows for the three months ended March 31, 2017 has been adjusted to \$(253) from the originally reported \$(99) to reflect the retrospective application of the new accounting guidance. Previously reported Cash and cash equivalents at beginning of the period and Cash and cash equivalents at end of the period for the three months ended March 31, 2017 have been adjusted to include restricted cash of \$186 and \$32, respectively.

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

Business Combinations (ASU No. 2017-01)

In January 2017, the FASB issued an accounting standards update to assist entities with evaluating when a set of transferred assets and activities is a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the ASC 606, Revenue from contracts with customers. The accounting standard became effective for reporting periods beginning after December 15, 2017. The Company adopted the accounting standard effective January 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (ASU No. 2017-05)

In February 2017, the FASB issued an accounting standards update to clarify the scope of guidance related to other income—gains and losses from the derecognition of nonfinancial assets, and to add guidance for partial sales of nonfinancial assets. The new guidance clarifies that an in substance nonfinancial asset is an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. The guidance also outlines that when an entity transfers its controlling interest in a nonfinancial asset, but retains a noncontrolling interest, it will measure the retained interest at fair value resulting in full gain or loss recognition upon sale of the controlling interest. The accounting standard became effective for reporting periods beginning after December 15, 2017. The Company adopted this accounting standard effective January 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Compensation - Retirement Benefits (ASU No. 2017-07)

In March 2017, the FASB issued an accounting standards update to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance requires employers to disaggregate the service cost component from the other components of net periodic benefit cost and report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments also allow only the service cost component to be eligible for capitalization when applicable. The accounting standard became effective for reporting periods beginning after December 15, 2017. The Company adopted this accounting standard effective January 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Compensation - Stock Compensation (ASU No. 2017-09)

In May 2017, the FASB issued the accounting standards update to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require the application of modification accounting in Topic 718. Essentially, an entity will not have to account for the effects of a modification if: (1) the fair value of the modified award is the same immediately before and after the modification; (2) the vesting conditions of the modified award are the same immediately before and after the modification; and (3) the classification of the modified award as either an equity instrument or liability instrument is the same immediately before and after the modification. This update is to be applied prospectively to an award modified on or after the adoption date. The accounting standard became effective for reporting periods beginning after December 15, 2017. The Company adopted this accounting standard effective January 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

WESTLAKE CHEMICAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities (ASU No. 2017-12)

In August 2017, the FASB issued an accounting standards update to improve financial reporting of hedging relationships, to better portray the economic results of an entity's risk management activities in the financial statements and to simplify application of hedge accounting guidance. The accounting standard eliminates certain hedge effectiveness measurement and reporting requirements and expands the types of permissible hedging strategies. The accounting standard will be effective for reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance, to be applied retrospectively to the beginning of the fiscal year. The Company adopted this accounting standard effective January 1, 2018 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations and cash flows. In January 2018, the Company entered into cross-currency swaps to reduce the volatility in stockholders' equity from changes in currency exchange rates associated with the Company's net investments in foreign operations. These cross-currency swaps were designated in a net investment hedge relationship. See Note 7 for additional information.

2. Financial Instruments

Cash Equivalents

The Company had \$205 and \$644 of held-to-maturity securities with original maturities of three months or less, primarily consisting of corporate debt securities, classified as cash equivalents at March 31, 2018 and December 31, 2017, respectively. The Company's investments in held-to-maturity securities were held at amortized cost, which approximates fair value.

Restricted Cash and Cash Equivalents

The Company had restricted cash and cash equivalents of \$23 at March 31, 2018 and December 31, 2017. The Company's restricted cash and cash equivalents are related to balances that are restricted for payment of distributions to certain of the Company's current and former employees and are reflected primarily in other assets, net in the consolidated balance sheets.

3. Accounts Receivable

Accounts receivable consist of the following:

	March 31, December 31,	
	2018	2017
Trade customers	\$ 1,116	\$ 974
Affiliates	13	9
Allowance for doubtful accounts	(24)	(22)
	1,105	961
Federal and state taxes	4	7
Other	26	33
Accounts receivable, net	\$ 1,135	\$ 1,001

4. Inventories

Inventories consist of the following:

	March 31, December 31,	
	2018	2017
Finished products	\$ 592	\$ 549
Feedstock, additives and chemicals	209	221
Materials and supplies	143	130
Inventories	\$ 944	\$ 900

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

5. Long-Term Debt

Long-term debt consists of the following:

	March 31, 2018			December 31, 2017		
	Principal Amount	Unamortized Premium, Discount and Debt Issuance Costs	Net Long-term Debt	Principal Amount	Unamortized Premium, Discount and Debt Issuance Costs	Net Long-term Debt
3.60% senior notes due 2022 (the "3.60% 2022 Senior Notes")	\$250	\$ (1)	\$ 249	\$250	\$ (1)	\$ 249
4.875% senior notes due 2023 (the "4.875% Westlake 2023 Senior Notes")	434	11	445	434	11	445
4.875% senior notes due 2023 (the "4.875% Subsidiary 2023 Senior Notes")	16	—	16	16	—	16
3.60% senior notes due 2026 (the "3.60% 2026 Senior Notes")	750	(10)	740	750	(10)	740
Loan related to tax-exempt waste disposal revenue bonds due 2027	11	—	11	11	—	11
6 ½% senior notes due 2029 (the "6 ½% 2029 GO Zone Senior Notes")	100	(1)	99	100	(1)	99
6 ½% senior notes due 2035 (the "6 ½% 2035 GO Zone Senior Notes")	89	(1)	88	89	(1)	88
6 ½% senior notes due 2035 (the "6 ½% 2035 IKE Zone Senior Notes")	65	—	65	65	—	65
5.0% senior notes due 2046 (the "5.0% 2046 Senior Notes")	700	(25)	675	700	(25)	675
4.375% senior notes due 2047 (the "4.375% 2047 Senior Notes")	500	(9)	491	500	(9)	491
3.50% senior notes due 2032 (the "3.50% 2032 GO Zone Refunding Senior Notes")	250	(2)	248	250	(2)	248
4.625% senior notes due 2021 (the "4.625% Westlake 2021 Senior Notes")	—	—	—	625	20	645
4.625% senior notes due 2021 (the "4.625% Subsidiary 2021 Senior Notes")	—	—	—	63	2	65
Total Long-term debt	3,165	(38)	3,127	3,853	(16)	3,837
Less:						

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Current portion - 4.625% Westlake 2021 Senior Notes and 4.625% Subsidiary 2021 Senior Notes	—	—	—	688	22	710
Current portion - 4.875% Westlake 2023 Senior Notes and 4.875% Subsidiary 2023 Senior Notes	450	11	461	—	—	—
Long-term debt, net of current portion	\$2,715	\$ (49)	\$ 2,666	\$3,165	\$ (38)	\$ 3,127

11

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

Credit Agreement

The Company has a \$1,000 revolving credit facility that matures on August 23, 2021 (the "Credit Agreement"). The Credit Agreement bears interest at either (a) LIBOR plus a spread ranging from 1.00% to 1.75% or (b) Alternate Base Rate plus a spread ranging from 0.00% to 0.75% in each case depending on the credit rating of the Company. At March 31, 2018, the Company had no borrowings outstanding under the Credit Agreement. As of March 31, 2018, the Company had outstanding letters of credit totaling \$5 and borrowing availability of \$995 under the Credit Agreement. The obligations of the Company under the Credit Agreement are guaranteed by current and future material domestic subsidiaries of the Company, subject to certain exceptions. The Credit Agreement contains certain affirmative and negative covenants, including a quarterly total leverage ratio financial maintenance covenant. The Credit Agreement also contains certain events of default and if and for so long as an event of default has occurred and is continuing, any amounts outstanding under the Credit Agreement will accrue interest at an increased rate, the Lenders can terminate their commitments thereunder and payments of any outstanding amounts could be accelerated by the Lenders. As of March 31, 2018, the Company was in compliance with the total leverage ratio financial maintenance covenant.

4.625% Senior Notes due 2021

In December 2017, the Company delivered irrevocable notices for the optional redemption of all of the outstanding 4.625% Westlake 2021 Senior Notes and 4.625% Subsidiary 2021 Senior Notes (collectively, the "2021 Notes"). The 2021 Notes were redeemed on February 15, 2018 at a redemption price equal to 102.313% of the principal amount of the 2021 Notes plus accrued and unpaid interest on the 2021 Notes to the redemption date. The Company recognized a \$6 gain in other income upon redemption of the 2021 Notes. The 2021 Notes were classified as a component of current liabilities in the consolidated balance sheet at December 31, 2017, based on the terms of the redemption.

4.875% Senior Notes due 2023

In March 2018, the Company delivered irrevocable notices for the optional redemption of all of the outstanding 4.875% Westlake 2023 Senior Notes and 4.875% Subsidiary 2023 Senior Notes (collectively, the "2023 Notes") for redemption on May 15, 2018 at a redemption price equal to 102.438% of the principal amount of the 2023 Notes plus accrued and unpaid interest on the 2023 Notes to the redemption date. The 2023 Notes were classified as a component of current liabilities in the consolidated balance sheet at March 31, 2018, based on the terms of the redemption.

As of March 31, 2018, the Company was in compliance with all of the covenants with respect to the 3.60% 2022 Senior Notes, the 4.875% Westlake 2023 Senior Notes, the 4.875% Subsidiary 2023 Senior Notes, the 3.60% 2026 Senior Notes, the 5.0% 2046 Senior Notes, the 4.375% 2047 Senior Notes, the 6 ½% 2029 GO Zone Senior Notes, the 3.50% 2032 GO Zone Refunding Senior Notes, the 6 ½% 2035 GO Zone Senior Notes, the 6 ½% 2035 IKE Zone Senior Notes, the Credit Agreement and the waste disposal revenue bonds.

Unamortized debt issuance costs on long-term debt were \$26 at March 31, 2018 and December 31, 2017.

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

6. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2018 and 2017 were as follows:

	Benefits Liability, Net of Tax	Cumulative Foreign Currency Exchange, Net of Tax	Total
Balances at December 31, 2016	\$ 29	\$ (150)	\$(121)
Other comprehensive income before reclassifications	—	17	17
Net other comprehensive income attributable to Westlake Chemical Corporation	—	17	17
Balances at March 31, 2017	\$ 29	\$ (133)	\$(104)
Balances at December 31, 2017	\$ 43	\$ (36)	\$7
Other comprehensive loss before reclassifications	—	(4)	(4)
Net other comprehensive loss attributable to Westlake Chemical Corporation	—	(4)	(4)
Balances at March 31, 2018	\$ 43	\$ (40)	\$3

7. Derivative Instruments

In January 2018, the Company entered into cross-currency swaps with an aggregate notional value of 220 million euros to reduce the volatility in stockholders' equity from changes in currency exchange rates associated with the Company's net investments in foreign operations. These cross-currency swaps were designated in a net investment hedge relationship. The Company assesses hedge effectiveness of these cross-currency swaps by comparing the spot rate change in the swaps to the spot rate change in the designated net investment. For the three months ended March 31, 2018, there was no ineffectiveness recorded with regard to the Company's qualifying net investment hedges. The fair values of derivatives designated as hedging instruments in the Company's consolidated balance sheets were as follows:

Derivatives in Net Investment Hedging Relationships	Derivative Liabilities	
	Balance Sheet Location	Fair Value as of
		March 31, 2018
		December 31, 2017
Foreign exchange contracts	Other liabilities	\$ 18
		\$ —

The following table summarizes the effect of foreign exchange derivative instruments designated as net investment hedges in the consolidated statements of operations.

Gain (Loss)
 Recognized
 in Income
 and Excluded
 from Hedge
 Effectiveness
 Three
 Months
 Ended March
 31,

Edgar Filing: WESTLAKE CHEMICAL CORP - Form 10-Q

Derivatives in Net Investment Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	2018	2017
Foreign exchange contracts	Other income, net	\$ 1	\$ —

13

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

The following table summarizes the effect of foreign exchange derivative instruments designated as net investment hedges on accumulated other comprehensive income.

	Gain (Loss) Recognized in Other Comprehensive Income Three Months Ended March 31,	
Derivatives in Net Investment Hedging Relationships	2018	2017
Foreign exchange contracts	\$ (14)	\$ —

8. 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 Company has financial assets and liabilities subject to fair value measures. These financial assets and liabilities include cash and cash equivalents, accounts receivable, net, accounts payable and long-term debt, all of which are recorded at carrying value. The amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, net and accounts payable approximate their fair value due to the short maturities of these instruments. The Company has cross-currency swaps that are measured at fair value on a recurring basis. The future cash flows associated with these cross-currency swaps are discounted to present value using observable market-based inputs and published foreign exchange rates. The inputs used to measure the Company's cross-currency swaps are classified as Level 2 inputs within the fair value hierarchy. See Note 7 for the fair value of the Company's cross-currency swaps.

The carrying and fair values of the Company's long-term debt (including the current portion of 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.

WESTLAKE CHEMICAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

	March 31, 2018		December 31, 2017	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
3.60% 2022 Senior Notes	\$249	\$250	\$249	\$255
4.875% Westlake 2023 Senior Notes ⁽¹⁾	445	445	445	449
4.875% Subsidiary 2023 Senior Notes ⁽¹⁾	16	17	16	16
3.60% 2026 Senior Notes	740	727	740	757
Loan related to tax-exempt waste disposal revenue bonds due 2027	11	11	11	11
6 ½% 2029 GO Zone Senior Notes	99	109	99	111
6 ½% 2035 GO Zone Senior Notes	88	97	88	99
6 ½% 2035 IKE Zone Senior Notes	65	71	65	74
5.0% 2046 Senior Notes	675	740	675	787
4.375% 2047 Senior Notes	491	484	491	518
3.50% 2032 GO Zone Refunding Senior Notes	248	246	248	256
4.625% Westlake 2021 Senior Notes ⁽²⁾	—	—	645	639
4.625% Subsidiary 2021 Senior Notes ⁽²⁾	—	—	65	65

The 4.875% Westlake 2023 Senior Notes and 4.875% Subsidiary 2023 Senior Notes were classified as a (1) component of current liabilities in the consolidated balance sheet at March 31, 2018. For additional information, see Note 5.

The 4.625% Westlake 2021 Senior Notes and 4.625% Subsidiary 2021 Senior Notes were classified as a (2) component of current liabilities in the consolidated balance sheet at December 31, 2017. For additional information, see Note 5.

9. Income Taxes

The effective income tax rate was 22.9% for the first quarter of 2018 as compared to the effective income tax rate of 27.9% for the first quarter of 2017. The lower tax rate in the first quarter of 2018 as compared to the first quarter of 2017 was a result of the changes enacted under the Tax Act, which was signed into law on December 22, 2017. The effective income tax rate for the first quarter of 2018 was above the U.S. federal statutory rate of 21.0% primarily due to state and foreign taxes. The effective income tax rate for the first quarter of 2017 was below the U.S. federal statutory rate of 35.0% primarily due to certain discrete adjustments, a higher domestic manufacturing deduction, depletion deductions, income attributable to noncontrolling interests, research and development credits and the foreign earnings rate differential, partially offset by state income taxes.

The Tax Act, among other changes, reduced U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018, and also required a one-time deemed repatriation of foreign earnings at specified rates. The accounting guidance on income taxes requires that the effect on deferred tax assets and liabilities of a change in tax rates be recognized in the period the tax rate change was enacted. The SEC staff guidance allows registrants to record provisional amounts during a measurement period when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. The corporate income tax rate change resulted in a revaluation of the Company's deferred tax assets and liabilities. At December 31, 2017, under the above guidance, the Company made a provisional adjustment of \$591 of income tax benefit in the 2017 consolidated financial statements for items that the Company could reasonably estimate such as revaluation of deferred tax assets and liabilities and a one-time U.S. tax on the

mandatory deemed repatriation of the Company's post-1986 foreign earnings. The Company will continue to assess the income tax effects of the Tax Act based on further standard setting activities, any transition provisions, and changes in the facts and circumstances of the Company's tax position, during the measurement period. No measurement period adjustment was made for the three months ended March 31, 2018.

15

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

10. Earnings per Share

The Company has unvested 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 includes the effect of certain stock options.

	Three Months Ended March 31,	
	2018	2017
Net income attributable to Westlake Chemical Corporation	\$287	\$138
Less:		
Net income attributable to participating securities	(2)	(1)
Net income attributable to common shareholders	\$285	\$137

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,	
	2018	2017
Weighted average common shares—basic	129,483,269	129,357,357
Plus incremental shares from:		
Assumed exercise of options	706,924	12,658
Weighted average common shares—diluted	130,190,193	129,370,015

Earnings per common share attributable to Westlake Chemical Corporation:

Basic	\$2.21	\$ 1.07
Diluted	\$2.20	\$ 1.06

Excluded from the computation of diluted earnings per share are options to purchase 84,673 and 437,787 shares of common stock for the three months ended March 31, 2018 and 2017, respectively. These options were outstanding during the periods reported but were excluded because the effect of including them would have been antidilutive.

11. Supplemental Information

Accrued Liabilities

Accrued liabilities were \$596 and \$657 at March 31, 2018 and December 31, 2017, respectively. Accrued rebates and accrued income taxes, which are components of accrued liabilities, were \$108 and \$130, respectively, at December 31, 2017. No other component of accrued liabilities was more than five percent of total current liabilities at March 31, 2018 and December 31, 2017. Accrued liabilities with affiliates were \$31 and \$37 at March 31, 2018 and December 31, 2017, respectively.

Non-cash Investing Activity

The change in capital expenditure accrual increasing additions to property, plant and equipment was \$10 and \$8 for the three months ended March 31, 2018 and 2017, respectively.

Other Income, net

For the three months ended March 31, 2018, other income, net included income from unconsolidated subsidiaries, gain on redemption of the 2021 Notes and interest income on cash and cash equivalents of \$9, \$6 and \$4, respectively. For the three months ended March 31, 2017, other income, net included income from unconsolidated subsidiaries of \$4.

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

12. Commitments and Contingencies

The Company is involved in a number of legal and regulatory matters, principally environmental in nature, that are incidental to the normal conduct of its business, including lawsuits, investigations and claims. The outcomes of these matters are inherently unpredictable. The Company believes that, in the aggregate, the outcome of all known legal and regulatory matters will not have a material adverse effect on its consolidated financial statements; however, specific outcomes with respect to such matters may be material to the Company's consolidated statements of operations in any particular period in which costs, if any, are recognized. The Company's assessment of the potential impact of environmental matters, in particular, is subject to uncertainty due to the complex, ongoing and evolving process of investigation and remediation of such environmental matters, and the potential for technological and regulatory developments. In addition, the impact of evolving claims and programs, such as natural resource damage claims, industrial site reuse initiatives and state remediation programs creates further uncertainty of the ultimate resolution of these matters. The Company anticipates that the resolution of many legal and regulatory matters, and in particular environmental matters, will occur over an extended period of time.

Environmental. As of March 31, 2018 and December 31, 2017, the Company had reserves for environmental contingencies totaling approximately \$49 and \$49, respectively, most of which was classified as noncurrent liabilities. The Company's assessment of the potential impact of these environmental contingencies is subject to considerable uncertainty due to the complex, ongoing and evolving process of investigation and remediation, if necessary, of such environmental contingencies, and the potential for technological and regulatory developments.

Calvert City Proceedings. For several years, the Environmental Protection Agency (the "EPA") has been conducting remedial investigation and feasibility studies at the Company's Calvert City, Kentucky facility pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). As the current owner of the Calvert City facility, the Company was named by the EPA as a potentially responsible party ("PRP") along with Goodrich Corporation ("Goodrich") and its successor-in-interest, PolyOne Corporation ("PolyOne"). On November 30, 2017, the EPA published a draft Proposed Plan, incorporating by reference an August 2015 draft Remedial Investigation (RI) report, an October 2017 draft Feasibility Study (FS) report and a new Technical Impracticability Waiver document dated December 19, 2017. The draft Proposed Plan describes a preferred remedy that includes a containment wall with targeted treatment and supplemental hydraulic containment, as well as active treatment of historical groundwater contamination under the Tennessee River. The EPA has estimated that the total remedy will cost \$200 to \$250 with an estimated \$1 to \$3 in annual operation and maintenance (O&M) costs. Each PRP, including the Company, submitted comments to the Proposed Plan and associated documents. The Company's comments also proposed alternative removal options for the groundwater contamination under the Tennessee River. EPA is reviewing all comments and developing its response to comments. The Company's allocation of liability for remedial or O&M costs, if any, will be determined by the outcome of the contractual dispute with Goodrich/PolyOne, which is the subject of a pending arbitration proceeding as described below.

In connection with the 1990 and 1997 acquisitions of the Goodrich chemical manufacturing complex in Calvert City, 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, 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; and (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. In May 2017, PolyOne filed a demand for arbitration. In this proceeding, PolyOne seeks to readjust the percentage allocation of costs and to recover approximately \$17 from the Company in reimbursement of previously paid remediation costs. The Company has filed a cross demand for arbitration seeking unreimbursed remediation costs incurred during the relevant period.

WESTLAKE CHEMICAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(Unaudited)

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

On October 6, 2017, PolyOne filed suit against the Company in the U.S. District Court for the Western District of Kentucky seeking for the court — instead of the arbitration panel — to resolve claims asserted by the Company in the arbitration proceedings related to reimbursement of costs incurred by the Company at the Calvert City complex. PolyOne is seeking a declaratory judgment from the court that costs claimed by the Company in the arbitration are not covered under the 2007 settlement agreement and thus are not within the jurisdiction of the arbitration panel. In response, the Company has filed a motion to dismiss asserting that PolyOne's jurisdictional claims are unfounded and that the arbitration panel has jurisdiction over Westlake's claims for cost reimbursement under the arbitration agreement contained within the 2007 settlement agreement.

At this time, since the proceedings are in an early stage, the Company is not able to estimate the impact, if any, that the arbitration proceeding could have on the Company's consolidated financial statements in three months ended March 31, 2018 and later years. Any cash expenditures that the Company might incur in the future with respect to the remediation of contamination at the Calvert City 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 Remediation: Reasonably Possible Matters. The Company's assessment of the potential impact of environmental contingencies is subject to considerable uncertainty due to the complex, ongoing and evolving process of investigation and remediation, if necessary, of such environmental contingencies, and the potential for technological and regulatory developments. As such, in addition to the amounts currently reserved, the Company may be subject to reasonably possible loss contingencies related to environmental matters in the range of \$55 to \$110.

Commitments. The Company became a party to a joint venture investment with Lotte Chemical USA Corporation to build an ethylene facility, LACC. The ethylene facility is located adjacent to the Company's vinyls facility in Lake Charles. Pursuant to the contribution and subscription agreement, the Company agreed to make a maximum capital commitment to LACC of up to \$225 to fund the construction costs of the ethylene plant, which represents approximately 10% of the interests in LACC. The construction of the ethylene plant commenced in January 2016, with an anticipated start-up in 2019. As of March 31, 2018, the Company had funded approximately \$141 of the Company's portion of the construction costs of the ethylene plant.

13. 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 March 31,	
	2018	2017
Net external sales		
Olefins		
Polyethylene	\$369	\$386
Styrene, feedstock and other	134	157
Total Olefins	503	543
Vinyls		
PVC, caustic soda and other	1,358	1,131
Building products	289	269
Total Vinyls	1,647	1,400
	\$2,150	\$1,943

Intersegment sales		
Olefins	\$120	\$86
Vinyls	—	—
	\$120	\$86

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

	Three Months Ended March 31, 2018 2017	
Income (loss) from operations		
Olefins	\$163	\$180
Vinyls	266	70
Corporate and other	(28)	(16)
	\$401	\$234
Depreciation and amortization		
Olefins	\$34	\$41
Vinyls	118	107
Corporate and other	4	2
	\$156	\$150
Other income, net		
Olefins	\$2	\$1
Vinyls	12	6
Corporate and other	8	—
	\$22	\$7
Provision for (benefit from) income taxes		
Olefins	\$37	\$58
Vinyls	61	15
Corporate and other	(9)	(17)
	\$89	\$56
Capital expenditures		
Olefins	\$22	\$25
Vinyls	130	108
Corporate and other	2	1
	\$154	\$134

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

	Three Months Ended March 31, 2018 2017	
Income from operations	\$401	\$234
Interest expense	(37)	(40)
Other income, net	22	7
Income before income taxes	\$386	\$201

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

	March 31, 2018	December 31, 2017
Total assets		
Olefins	\$ 1,986	\$ 2,006
Vinyls	9,081	8,853
Corporate and other	537	1,217
	\$ 11,604	\$ 12,076

14. Guarantor Disclosures

The Company's payment obligations under the 4.375% 2047 Senior Notes, the 3.60% 2022 Senior Notes, the 3.60% 2026 Senior Notes, the 5.0% 2046 Senior Notes and the 4.875% Westlake 2023 Senior Notes are fully and unconditionally guaranteed by each of its current and future domestic subsidiaries that guarantee other debt of the Company or of another guarantor of those notes in excess of \$5 (the "Guarantor Subsidiaries"). Each Guarantor Subsidiary is 100% owned by Westlake Chemical Corporation (the "100% Owned Guarantor Subsidiaries"). During 2016 and 2017, the Company executed a Joinder Agreement with the Administrative Agent of the Credit Agreement, whereby certain subsidiaries of the Company were added as Guarantor Subsidiaries. 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 100% Owned Guarantor Subsidiaries, and the remaining subsidiaries that do not guarantee the 4.375% 2047 Senior Notes, the 3.60% 2022 Senior Notes, the 3.60% 2026 Senior Notes, the 5.0% 2046 Senior Notes and the 4.875% Westlake 2023 Senior Notes (the "Non-Guarantor Subsidiaries"), together with consolidating eliminations necessary to present the Company's results on a consolidated basis.

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

Condensed Consolidating Financial Information as of March 31, 2018

	Westlake Chemical Corporation	100% Owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	\$ 412	\$ 59	\$ 380	\$ —	\$ 851
Accounts receivable, net	4,076	4,651	633	(8,225)	1,135
Inventories	—	678	266	—	944
Prepaid expenses and other current assets	88	25	19	(103)	29
Total current assets	4,576	5,413	1,298	(8,328)	2,959
Property, plant and equipment, net	—	4,407	2,040	—	6,447
Goodwill	—	855	155	—	1,010
Customer relationships, net	—	463	131	—	594
Other intangible assets, net	—	87	73	—	160
Other assets, net	11,003	793	1,304	(12,666)	434
Total assets	\$ 15,579	\$ 12,018	\$ 5,001	\$ (20,994)	\$ 11,604
Current liabilities					
Accounts payable	\$ 7,142	\$ 1,246	\$ 232	\$ (8,024)	\$ 596
Accrued liabilities	173	488	238	(303)	596
Current portion of long-term debt, net	445	16	—	—	461
Total current liabilities	7,760	1,750	470	(8,327)	1,653
Long-term debt, net	2,655	4,183	224	(4,396)	2,666
Deferred income taxes	—	1,042	97	(14)	1,125
Pension and other liabilities	23	340	156	—	519
Total liabilities	10,438	7,315	947	(12,737)	5,963
Total Westlake Chemical Corporation stockholders' equity	5,141	4,703	3,554	(8,257)	5,141
Noncontrolling interests	—	—	500	—	500
Total equity	5,141	4,703	4,054	(8,257)	5,641
Total liabilities and equity	\$ 15,579	\$ 12,018	\$ 5,001	\$ (20,994)	\$ 11,604

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

Condensed Consolidating Financial Information as of December 31, 2017

	Westlake Chemical Corporation	100% Owned Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheet					
Current assets					
Cash and cash equivalents	\$ 1,089	\$ 57	\$ 385	\$ —	\$ 1,531
Accounts receivable, net	3,331	4,128	580	(7,038)	1,001
Inventories	—	654	246	—	900
Prepaid expenses and other current assets	52	27	31	(79)	31
Total current assets	4,472	4,866	1,242	(7,117)	3,463
Property, plant and equipment, net	—	4,374	2,038	—	6,412
Goodwill	—	855	157	—	1,012
Customer relationships, net	—	479	137	—	616
Other intangible assets, net	—	88	73	—	161
Other assets, net	10,706	798	1,271	(12,363)	412
Total assets	\$ 15,178	\$ 11,460	\$ 4,918	\$ (19,480)	\$ 12,076
Current liabilities					
Accounts payable	\$ 6,367	\$ 864	\$ 224	\$ (6,855)	\$ 600
Accrued liabilities	189	484	246	(262)	657
Current portion of long-term debt, net	710	—	—	—	710
Total current liabilities	7,266	1,348	470	(7,117)	1,967
Long-term debt, net	3,034	4,242	220	(4,369)	3,127
Deferred income taxes	—	1,026	92	(7)	1,111
Pension and other liabilities	4	347	151	—	502
Total liabilities	10,304	6,963	933	(11,493)	6,707
Total Westlake Chemical Corporation stockholders' equity	4,874	4,497	3,490	(7,987)	4,874
Noncontrolling interests	—	—	495	—	495
Total equity	4,874	4,497	3,985	(7,987)	5,369
Total liabilities and equity	\$ 15,178	\$ 11,460	\$ 4,918	\$ (19,480)	\$ 12,076

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

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2018

	Westlake Chemical Corporation	100% Owned Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Statement of Operations					
Net sales	\$ —	\$ 1,746	\$ 839	\$ (435)	\$ 2,150
Cost of sales	—	1,405	632	(429)	1,608
Gross profit	—	341	207	(6)	542
Selling, general and administrative expenses	—	77	37	(6)	108
Amortization of intangibles	—	19	7	—	26
Transaction and integration-related costs	—	7	—	—	7
Income from operations	—	238	163	—	401
Other income (expense)					
Interest expense	(38)	(32)	(11)	44	(37)
Other income (expense), net	45	(8)	29	(44)	22
Income before income taxes	7	198	181	—	386
Provision for income taxes	2	63	24	—	89
Equity in net income of subsidiaries	282	—	—	(282)	—
Net income	287	135	157	(282)	297
Net income attributable to noncontrolling interests	—	—	10	—	10
Net income attributable to Westlake Chemical Corporation	\$ 287	\$ 135	\$ 147	\$ (282)	\$ 287
Comprehensive income attributable to Westlake Chemical Corporation	\$ 283	\$ 135	\$ 145	\$ (280)	\$ 283

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

Condensed Consolidating Financial Information for the Three Months Ended March 31, 2017
Westlake
Chemical
Corporation